

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
AMERICAN PROGRESSIVE LIFE AND HEALTH INSURANCE COMPANY OF
NEW YORK
AS OF
DECEMBER 31, 2000

DATE OF REPORT:

MARCH 1, 2002

EXAMINER:

KAREN GARD

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

March 1, 2002

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21771, dated September 10, 2001 and annexed hereto, an examination has been made into the condition and affairs of American Progressive Life and Health Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 6 International Drive, Rye Brook, New York 10573-1068.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences that materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement. (See item 5 of this report)

The examiner's review of the Company's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Company. (See item 6 of this report)

On July 26, 1996, the Company entered into an "unstacking" agreement to sell, within a five year period, its interest in its subsidiary, American Pioneer Life Insurance Company ("AmPio"), to its parent, Universal American Financial Corp. ("UAFC"). The purchase price totaled \$15.8 million, of which the Company received \$7.9 million cash and \$7.9 million of secured debentures. As of May 30, 1998, the Company had completely divested its interest in AmPio. (See item 3A of this report)

On July 30, 1999, the Company's affiliate, American Exchange Life Insurance Company ("AmExch"), a wholly-owned subsidiary of UAFC, completed an acquisition of various subsidiaries of PennCorp Financial Group, Inc. ("PennCorp"). Upon acquisition, AmExch became the insurance holding company of six newly acquired insurance companies. Concurrent with the acquisition, UAFC issued approximately 29.4 million shares of its common stock and obtained an \$80 million credit facility from a syndicate of lenders. As security for this loan, UAFC pledged 100% of its shares of the Company, as well as shares of other affiliates. (See item 3B of this report)

The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent of its participation in two service agreements with affiliates. (See item 3B of this report)

The Company does not have an internal audit department. The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 through December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2000 to determine whether the Company's 2000 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Company history
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to violations, recommendations and/or comments contained in the prior report on examination. The results of the examiner's review are contained in item 8 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated under the laws of the State of New York as a for-profit health insurance company on September 22, 1945 under the name American Progressive Health Insurance Company of New York. It was licensed and commenced business on March 26, 1946. On January 25, 1979, its charter was amended to include the writing of life insurance and annuities. The Company's present name was adopted at that time.

Initial resources of \$151,800, consisting of common capital stock of \$101,200 and paid in and contributed surplus of \$50,600 were provided through the sale of 1,012 shares of common stock (with a par value of \$100 each) for \$150 per share. Its present authorized capital is \$2,500,050, consisting of 16,667 shares of common stock with a par value of \$150 per share and paid-in and contributed surplus of \$15,257,233.

In 1990, Reserve Life Insurance Company ("Reserve"), a former parent of the Company, merged with Midland National Life Insurance Company ("MNLIC"), a member of Reserve's holding company system. The surviving company, MNLIC, became the Company's parent. In May 1991, John Adams Life Insurance Company of New York ("John Adams"), a New York domiciled life insurance company, acquired 100% of the Company's outstanding stock from MNLIC. At the same time, John Adams's parent, Universal Holding Corp. ("UHCo"), contributed \$5,100,000 to the paid-in and contributed surplus of the Company. A merger of the Company with John Adams was completed on July 27, 1991, with the Company being the survivor. On June 20, 1996, UHCo's shareholders approved a corporate name change to Universal American Financial Corp.

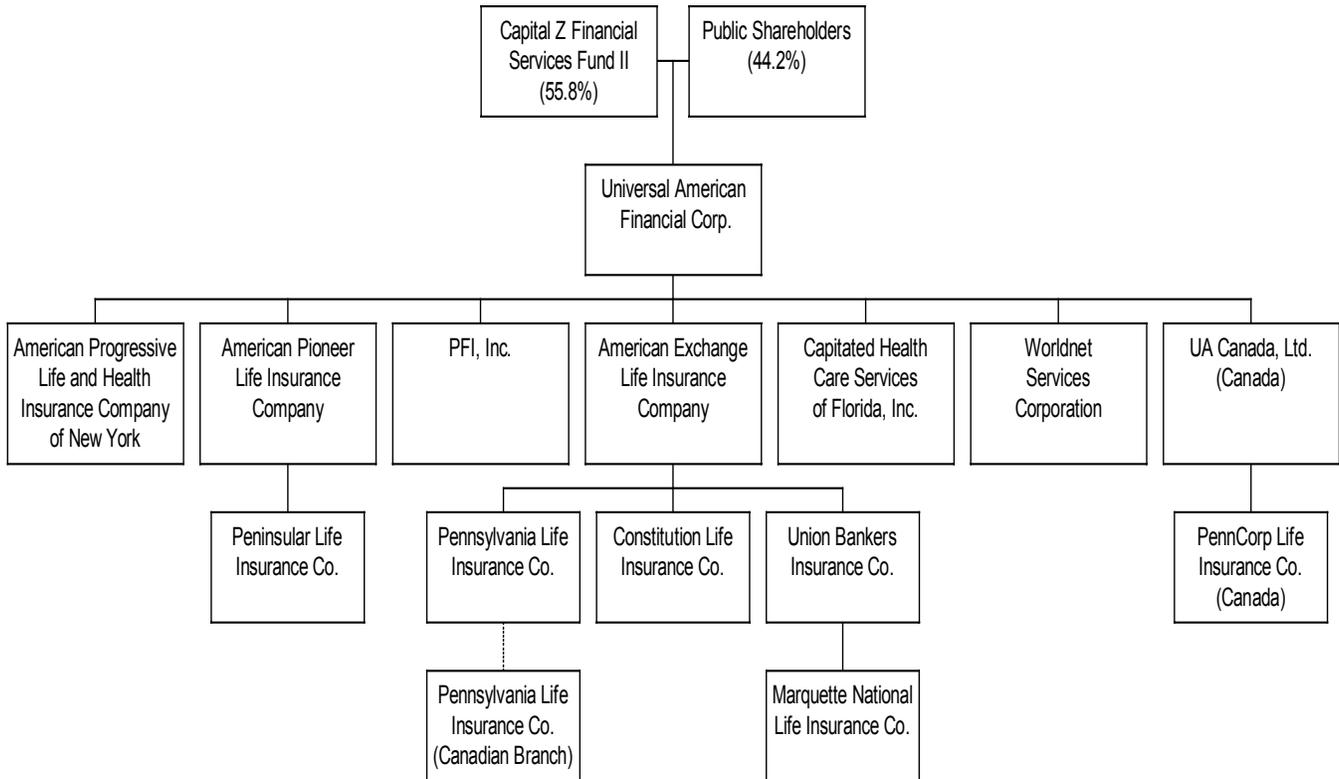
On May 26, 1993, the Company acquired 100% of the outstanding common stock of AmPio, a Florida domiciled life and health insurance company, for \$6,623,308 from the Resolution Trust Company at an auction sale. On July 26, 1996, the Company entered into an agreement to sell, within a five year period, its interest in AmPio to UAFC. The purchase price totaled \$15.8 million, of which the Company received \$7.9 million cash and \$7.9 million of secured debentures. As of May 30, 1998, the Company had completely divested its interest in AmPio. As of December 31, 2000, the Company continued to hold the \$7.9 million in secured debt. In 2001, UAFC paid down the debentures by \$5.4 million. The remaining debentures

totaling \$2.5 million are secured by 100% of AmPio's common stock held in trust by Chase Manhattan Bank, in accordance with the terms of the sale agreement.

On July 30, 1999, the Company's affiliate, AmExch, a wholly-owned subsidiary of UAFC, completed an acquisition of various subsidiaries of PennCorp. Upon acquisition, AmExch became the insurance holding company of the newly acquired insurance companies. The following six insurers were acquired: Pennsylvania Life Insurance Company; Constitution Life Insurance Company; Union Bankers Insurance Company ("Union Bankers"); Marquette National Life Insurance Company; PennCorp Life Insurance Company (Canada); and Peninsular Life Insurance Company. These six insurers are collectively referred to as Penn Union. AmExch paid \$130.5 million in cash to PennCorp, and Union Bankers paid a \$6.5 million dividend to a PennCorp subsidiary not included in the acquisition. To finance the acquisition of Penn Union, AmExch issued a \$70 million surplus note to UAFC, and received an additional cash contribution of \$46.3 million from UAFC. Additionally, to help finance the acquisition of Penn Union, UAFC entered into a Share Purchase Agreement ("SPA") with Capital Z Financial Services Fund II ("Capital Z"), dated December 31, 1998. Concurrent with AmExch's acquisition of Penn Union, UAFC issued approximately 29.4 million shares of its common stock. In accordance with the SPA, Capital Z purchased a majority of UAFC shares, investing approximately \$81 million, and acquiring an approximate 59.7% controlling interest in UAFC. Additionally, as part of the Penn Union transaction, UAFC obtained an \$80 million credit facility (comprised of a \$70 million term loan and a \$10 million revolving loan facility) from a syndicate of lenders. As security for the credit facility, UAFC pledged 100% of its shares of the Company, as well as shares of other affiliates.

B. Holding Company

The Company is a wholly owned subsidiary of UAFC, a life and accident and health insurance holding company domiciled in the State of New York. UAFC is a publicly traded company (Nasdaq ticker symbol UHCO). As of December 31, 2000, Capital Z, a Bermuda limited partnership based in New York, held a 55.8% interest in UAFC. Capital Z is managed by Capital Z Partners, LP, a New York-based global alternative asset management firm. An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2000 follows:



The Company had two service agreements in effect as of December 31, 2000.

1) A service agreement, effective April 13, 1998, among the Company, AmPio, AmExch, WorldNet Service Corp (“WorldNet”), UAFC, Pennsylvania Life Insurance Company, Peninsular Life Insurance Company, PennCorp Life Insurance Company, Constitution Life Insurance Company, Union Bankers and Marquette National Life Insurance Company provides for the following:

- the Company makes available the services of its executive officers to the aforementioned affiliates;
- WorldNet provides the Company with application verification services via telephone;
- with respect to the Company’s health business, WorldNet provides policy owner, premium billing (except commission check and report preparation services), and claims services;

- AmPio provides the Company with underwriting, actuarial, accounting, marketing, compliance, and policy issue services; and
 - AmPio provides policy owner, premium billing, and claims services for the Company's life and annuity business, as well as commission check and report preparation services for the Company's health business.
- 2) A Service Expense Reimbursement and Cost Sharing Agreement, effective October 1, 1996, between PFI, Inc., and the insurance company affiliates. Amendment #2 to this agreement, effective January 1, 2000, includes the Company as an insurance company affiliate. Under this agreement, PFI, Inc. provides the insurance company affiliates with the following: advice and assistance with tax, actuarial, and investment compliance matters; government relations support services; strategic planning and general management services; and office and systems support.

Section 1505(d) of the New York Insurance Law states, in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period . . .

(3) rendering of services on a regular or systematic basis . . . ”

The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent of its participation in the Service Expense Reimbursement and Cost Sharing Agreement with its affiliate, PFI, Inc. The Company became party to this agreement on January 1, 2000, subsequent to the Penn Union acquisition by AmExch in July 1999.

Additionally, Capitated Health Care Services of Florida, Inc., (“CHCS”), a third party administrator, was acquired by UAFC in August 2000. CHCS took over certain functions previously performed by WorldNet under the terms of the aforementioned service agreement dated April 13, 1998.

The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent of its agreement with CHCS, whereby CHCS renders services on behalf of the Company on a regular or systematic basis.

Section 308(a) of the New York Insurance Law states, in part:

“The superintendent may also address to . . . any authorized insurer or its officers any inquiry in relation to its transactions or condition or any matter connected therewith. Every corporation or person so addressed shall reply in writing to such inquiry promptly . . . ”

Department Circular Letter No. 33 (1979) advises that:

“ . . . Any domestic insurer which currently does not participate in a consolidated tax return shall file a copy of its tax allocation agreement with this Department within 30 days of electing to do so. . . . ”

The Company files its federal income tax return on a consolidated basis with other members of its holding company system. In connection therewith, the Company participates in a written federal tax allocation agreement, effective January 1, 2000, with its parent, UAFC. The Department was not provided a copy of the agreement.

The Company violated Section 308(a) of the New York Insurance Law when it failed to file a copy of its tax allocation agreement with the Department within 30 days of its effective date, as advised by Department Circular Letter No. 33 (1979).

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 21 members, provided that within one year following the end of the calendar year in which the Company exceeds \$500,000,000 in admitted assets, the number of directors shall be increased to not less than 13 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in March or April of each year. As of December 31, 2000, the board of directors consisted of nine members. Meetings of the board are held in March or April, June, August and December of each year.

The nine board members and their principal business affiliation, as of December 31, 2000, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Michael A. Barasch New York, NY	Partner Barasch & McGarry	1999
Richard A. Barasch New York, NY	Chairman of the Board, President and Chief Executive Officer American Progressive Life and Health Insurance Company of New York	1991
David F. Bolger* Ridgewood, NJ	President Bolger & Company	1999
Gary W. Bryant Longwood, FL	President American Pioneer Life Insurance Company	2000
Walter L. Harris* New York, NY	President Tanenbaum-Harber Co.	1991
Harry B. Henshel* Scarsdale, NY	Vice Chairman Bulova Corporation	1999
Jeffrey Laikind* New York, NY	Managing Director Shikiar Asset Management	1995
Stephen Stillerman* Greenwich, CT	Chairman Westfield Capital Corp.	1996
Robert A. Waegelein Pawling, NY	Senior Vice President and Chief Financial Officer American Progressive Life and Health Insurance Company of New York	1991

* Not affiliated with the Company or any other company in the holding company system

In March 2001, Stephen Stillerman resigned from the board and was replaced by William Cushman.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2000:

<u>Name</u>	<u>Title</u>
Richard A. Barasch	President and Chief Executive Officer
Robert A. Waegelein	Senior Vice President and Chief Financial Officer
William E. Wehner Jr.	Executive Vice President and Chief Operating Officer
Richard M. Cannone	Vice President and Treasurer
Joan M. Ferrarone	Corporate Secretary
Bradley D. Leonard	Senior Vice President and Chief Actuary
Jordan P. Kusev	Senior Vice President, Legal and Compliance
Donald M. Gray	Senior Vice President, Finance

Judy M. Borrell, Vice President of Administration, is the designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in 23 states and the District of Columbia. In 2000, 86% of life premiums, 93% of accident and health premiums, and 100% of annuity considerations were received from New York. Policies are written on a non-participating basis.

The Company markets accident and health insurance products on both an individual and group basis through general agents. The accident and health products focus on the senior market and include Medicare supplement, hospital indemnity, nursing home, home health care, and comprehensive long-term care insurance. In 2000, the Company began marketing the New York State Partnership Program for Long-Term Care Insurance (“Partnership”). The Partnership is a program that combines private long-term care insurance and Medicaid to help New Yorkers prepare financially for the possibility of needing nursing home or home care. The program allows residents of New York State to protect their assets while remaining eligible for Medicaid if their long-term care needs exceed the period covered by their private insurance policy.

In addition to the above-mentioned products, the Company offers a simplified issue graded death benefit whole life product, and a simplified issue whole life product both targeted

towards the senior market. The Company also sells qualified and non-qualified tax deferred annuity plans.

The Company's agency operations are conducted on a general agency basis. The composition of the agency force for each of the three years under review is as follows:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
General Agents ("GAs")	624	640	578
Agents/Brokers	1,857	1,974	2,016

All GAs received expense allowance payments during the years under examination. One GA received an additional development allowance. The Company does not pay training allowances.

E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with 19 companies, of which 16 were authorized or accredited. The Company's life insurance and accident and health insurance are ceded on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$50,000. The total face amount of life insurance ceded as of December 31, 2000, was \$208,213,844, which represents 55% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$2,377,674 was supported by letters of credit and funds withheld.

The maximum retention for accident and health insurance policies varies with the type of coverage provided.

The total face amount of life insurance assumed as of December 31, 2000, was \$19,202,975, from one insurer, American Life Insurance Company of New York.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	<u>December 31,</u> <u>1997</u>	<u>December 31,</u> <u>2000</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	\$ <u>104,061,387</u>	\$ <u>99,693,275</u>	\$(<u>4,368,112</u>)
Liabilities	\$ <u>94,716,337</u>	\$ <u>90,134,036</u>	\$(<u>4,582,301</u>)
Common capital stock	\$ 2,500,050	\$ 2,500,050	\$ 0
Gross paid in and contributed surplus	15,257,233	15,257,233	0
Unassigned funds (surplus)	<u>(8,412,233)</u>	<u>(8,198,044)</u>	<u>214,189</u>
Total capital and surplus	\$ <u>9,345,050</u>	\$ <u>9,559,239</u>	\$ <u>214,189</u>
Total liabilities, capital and surplus	\$ <u>104,061,387</u>	\$ <u>99,693,275</u>	\$(<u>4,368,112</u>)

The Company's invested assets as of December 31, 2000 were mainly comprised of bonds (96.6%). The majority (87.9%) of the Company's bond portfolio, as of December 31, 2000, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

<u>Year</u>	<u>Individual</u> <u>Whole Life</u>		<u>Individual</u> <u>Term</u>	
	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>
1998	\$17,755	\$282,710	\$28,385	\$207,551
1999	\$4,970	\$264,125	\$75	\$149,788
2000	\$8,670	\$253,881	\$304	\$124,795

The Company had previously issued an array of traditional individual life insurance products, ranging from universal life to mortgage decreasing term insurance. Effective

March 31, 1998, in an effort to focus on the senior market, the Company stopped issuing these products.

As of December 31, 2000, the Company only offered its graded death benefit whole life product, and its senior life simplified issue whole life product.

The ordinary lapse ratio for each of the examination years was 17.3% in 1998, 10.3% in 1999 and 9.5% in 2000. The Company experienced a higher lapse ratio in 1998 because the Company discontinued writing its term and universal life products in that year. In 1999 and 2000, the Company experienced better retention of its policies.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	<u>Ordinary Annuities</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Outstanding, end of previous year	3,162	3,541	2,002
Issued during the year	898	82	91
Other net changes during the year	<u>(519)</u>	<u>(1,621)</u>	<u>(348)</u>
Outstanding, end of current year	<u>3,541</u>	<u>2,002</u>	<u>1,745</u>

The Company experienced a decline in new annuity issues due to an increasingly competitive market environment. The amounts reflected as “other net changes during the year” are attributable to surrenders. In 1999, the surrender charge period on a large percentage of contracts expired resulting in increased surrenders.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Ordinary:			
Life insurance	\$ 362,350	\$ 853,018	\$ 758,178
Individual annuities	<u>437,330</u>	<u>1,140,301</u>	<u>1,236,741</u>
Total ordinary	\$ <u>799,680</u>	\$ <u>1,993,319</u>	\$ <u>1,994,919</u>
Accident and health:			
Group	\$(249,959)	\$ (12,988)	\$ 13,360
Other	<u>(446,438)</u>	<u>(843,812)</u>	<u>(1,645,269)</u>
Total accident and health	\$ <u>(696,397)</u>	\$ <u>(856,800)</u>	\$ <u>(1,631,909)</u>
Total	\$ <u>103,283</u>	\$ <u>1,136,519</u>	\$ <u>363,010</u>

The increase in net gain in ordinary life insurance from 1998 to 1999 is primarily the result of reserve decreases on the universal life and term business that was discontinued, coupled with better mortality, and a lower administrative expense base. The increase in net gain in individual annuities in 1999 and 2000 is attributable to a decrease in annuity benefits paid during those years as compared with 1998. The decrease in losses in the group accident and health line of business is mainly attributable to administrative cost savings due to consolidation of operations, as well as a concerted effort to raise premium rates, whenever possible. The increasing losses from the other accident and health line is a result of various factors. In 2000, the Company introduced its accident and health products in several new states (namely, Maine, Vermont, Pennsylvania and Connecticut). The related costs associated with new markets (e.g., additional expense associated with product filings, publishing of marketing materials), and the expected surplus strain from growing new business contributed to the losses in the other accident and health line of business. Additionally, there were higher losses related to the more mature block of discontinued accident and health business that was written in the 1980's.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	64.7%	72.1%	73.2%
Commissions	12.3	11.5	11.9
Expenses	<u>35.4</u>	<u>30.4</u>	<u>33.8</u>
	<u>112.4%</u>	<u>114.0%</u>	<u>118.9%</u>
Underwriting results	<u>(12.4)%</u>	<u>(14.0)%</u>	<u>(18.9)%</u>

The accident and health line of business continues to experience increasing losses due to higher losses on the more mature block of accident and health business, and the normal expected strain of growing new business in new marketplaces, as noted above. The Company anticipates achieving profitability through growing new business, achieving economies of scale, and by a continued focus on expense and risk management and proper product pricing.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2000, as contained in the Company's 2000 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences that materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

Admitted Assets

Bonds	\$92,806,581
Stocks:	
Preferred stocks	448,514
Common stocks	13,987
Policy loans	2,271,925
Cash and short term investments	543,539
Reinsurance ceded:	
Amounts recoverable from reinsurers	428,530
Commissions and expense allowances due	208,352
Electronic data processing equipment	105,599
Life insurance premiums and annuity considerations deferred and uncollected on in force business	425,329
Accident and health premiums due and unpaid	144,657
Investment income due and accrued	1,407,239
Receivable from parent, subsidiaries and affiliates	<u>889,023</u>
 Total admitted assets	 <u>\$99,693,275</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$73,120,770
Aggregate reserve for accident and health policies	8,320,371
Policy and contract claims:	
Life	723,878
Accident and health	2,551,824
Premiums and annuity considerations received in advance	416,788
Policy and contract liabilities	
Interest maintenance reserve	895,789
General expenses due or accrued	685,178
Taxes, licenses and fees due or accrued	106,861
Amounts withheld or retained by company as agent or trustee	212,793
Amounts held for agents' account	35,134
Remittances and items not allocated	389,298
Miscellaneous liabilities:	
Asset valuation reserve	901,018
Funds held under reinsurance treaties with unauthorized reinsurers	151,961
Payable to parent, subsidiaries and affiliates	351,749
Due to reinsurer	856,400
Due to NAIU	273,737
Miscellaneous contingent reserve	<u>140,487</u>
 Total liabilities	 <u>\$90,134,036</u>
 Common capital stock	 \$ 2,500,050
Gross paid in and contributed surplus	15,257,233
Unassigned funds (surplus)	<u>(8,198,044)</u>
 Total capital, surplus and other funds	 <u>\$ 9,559,239</u>
 Total liabilities, capital, surplus and other funds	 <u>\$99,693,275</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$17,397,547	\$17,625,711	\$19,677,250
Investment income	6,662,605	6,934,809	7,076,726
Commissions and reserve adjustments on reinsurance ceded	2,655,455	3,609,009	4,379,065
Miscellaneous income	<u>237,909</u>	<u>405,789</u>	<u>308,262</u>
Total income	<u>\$26,953,516</u>	<u>\$28,575,318</u>	<u>\$31,441,303</u>
Benefit payments	\$19,799,575	\$19,406,216	\$25,571,287
Increase in reserves	(799,055)	(1,174,840)	(5,629,533)
Commissions	4,232,631	5,041,555	6,076,922
General expenses and taxes	3,790,678	4,129,592	5,090,273
Increase in loading and cost of collection	<u>(173,596)</u>	<u>6,064</u>	<u>152,715</u>
Total deductions	<u>\$26,850,233</u>	<u>\$27,408,587</u>	<u>\$31,261,664</u>
Net gain (loss)	\$ 103,283	\$ 1,166,731	\$ 179,639
Federal income taxes	<u>0</u>	<u>30,214</u>	<u>(183,371)</u>
Net gain (loss) from operations before net realized capital gains	\$ 103,283	\$ 1,136,517	\$ 363,010
Net realized capital gains (losses)	<u>1,160,592</u>	<u>13,323</u>	<u>61,979</u>
Net income	<u>\$ 1,263,875</u>	<u>\$ 1,149,840</u>	<u>\$ 424,989</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	<u>\$ 9,345,050</u>	<u>\$8,922,500</u>	<u>\$9,190,856</u>
Net income	\$ 1,263,875	\$1,149,840	\$ 424,989
Change in net unrealized capital gains (losses)	(1,171,211)	(578,601)	(7,522)
Change in nonadmitted assets and related items	(166,864)	(17,931)	(219,740)
Change in asset valuation reserve	<u>(348,350)</u>	<u>(284,952)</u>	<u>170,656</u>
Net change in capital and surplus	<u>\$ (422,550)</u>	<u>\$ 268,356</u>	<u>\$ 368,383</u>
Capital and surplus, December 31, current year	<u>\$ 8,922,500</u>	<u>\$9,190,856</u>	<u>\$9,559,239</u>

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the "Supplement"), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company reported that it reviewed all available rate charts, mortality tables, agent and broker contracts, compensation schedules, underwriting and agent manuals, applications, policy form filings, board of directors (and committee) minutes and internal memoranda regarding directly issued business and business acquired through assumption, merger, acquisition, consolidation and purchase, and the Company questioned all long term employees who might have knowledge of any such practices. In summary, the Company found that there was no evidence of race-based underwriting.

The Company did not prepare formal working papers to support its report on race-based underwriting. As a result, the Company's report could not be verified.

7. INTERNAL AUDIT

Internal audit is an integral part of corporate governance that also includes the audit committee, the board of directors, senior management and the external auditors. In particular, internal auditors and audit committees are mutually supportive. Consideration of the work of internal auditors is essential for the audit committee to gain a complete understanding of the Company's operations. Internal audit identifies strategic, operational and financial risks facing the organization and assesses controls put in place by management to mitigate those risks.

The Company does not have an internal audit department. The Company maintains that members of senior management are included in assessing, reviewing, and monitoring the internal control processes of the organization. In addition, the Company maintains that senior management is accountable for the review of the efficiency and effectiveness of their respective areas of responsibility, and is responsible for proper communication to their subordinates of adherence to compliance issues regarding applicable law and regulations. The Company also maintains that issues relating to compliance and to the organization's efficiency and effectiveness are addressed annually by senior management to the Chairman of the board.

Based on the information provided by the Company, it appears that senior management has the dual charge of managing their areas of responsibility and performing the internal audit function for those same areas. As a result of the lack of independence and segregation of duties, senior management may not be objective in its evaluations and in performing the internal audit function. In addition, the internal audit function appeared to be conducted informally and was not well documented.

The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently-staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 1505(d)(1) of the New York Insurance Law when it entered into loan transactions with an entity in its holding company system that exceeded one-half of one percent of the Company's admitted assets at last year end without giving prior written notice to the Superintendent.</p> <p>The Company settled all loan transactions that were in violation of Section 1505(d)(1) of the New York Insurance Law as of the last examination. The Company has in effect a loan with its parent, in an amount that does not exceed one-half of one percent of the Company's admitted assets.</p>
B	<p>The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to notify the Superintendent of its intention to render services to an affiliate on a regular or systematic basis.</p> <p>The Company had engaged in providing and receiving services from affiliates on a regular basis during the prior examination period. The Company entered into a service agreement with affiliates that was filed with the Department on April 3, 1998, subsequent to the date of the prior report on examination. A similar violation appears in this report on examination.</p>
C	<p>The Company violated Section 1411(a) of the New York Insurance Law when it entered into loan transactions without obtaining board authorization or approval.</p> <p>The Company's procedures are now in compliance with Section 1411(a) of the New York Insurance Law as evidenced by board authorization and approval for a loan transaction which transpired during the examination period.</p>
D	<p>The Company did not adhere to the terms of the "unstacking" agreement as filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.</p> <p>On July 1, 2001, the Company became compliant with the terms of its "unstacking" agreement, effectuated by UAFC's \$5.4 million paydown of its bond obligation to the Company.</p>

<u>Item</u>	<u>Description</u>
E	<p>The examiner recommends that the Company settle the intercompany balances due from its affiliates immediately.</p> <p>A review of inter-company transactions revealed that the Company settles inter-company balances within 30 days. There were no long-term outstanding balances at year end 2000.</p>
F	<p>The examiner recommends that in future statutory filings, any inter-company balances which are over 90 days past due be deducted as not admitted assets.</p> <p>A review of inter-company transactions revealed that the Company settles inter-company balances within 30 days. There were no long-term outstanding balances at year end 2000.</p>
G	<p>The Company violated Section 215.17(a) of Department Regulation No. 34 when it did not include a notation attached to each advertisement indicating the manner, extent of distribution and form number of the policy advertised.</p> <p>The Company currently adheres to the terms of Department Regulation No. 34 by including a notation attached to each advertisement indicating the manner, extent of distribution and form number of the policy advertised.</p>
H	<p>The Company violated Section 215.5(c)(8) of Department Regulation No. 34 when it distributed Medicare supplement insurance advertisements that did not contain in a prominent place and style the appropriate statement for the coverage provided.</p> <p>The Company is currently in compliance with Section 215.5(c)(8) of Department Regulation No. 34 by including in a prominent place and style the appropriate statement for the coverage provided in its Medicare supplement insurance advertisements.</p>

<u>Item</u>	<u>Description</u>
I	<p>The Company violated Section 215.5(d) of Department Regulation No. 34 when it failed to file Medicare supplement insurance advertisements with the Superintendent prior to their use.</p> <p>The Company is currently in compliance with Section 215.5(d) of Department Regulation No. 34. During the examination period, the Company received approval from the Department regarding its Medicare supplement insurance advertisements prior to distribution.</p>
J	<p>The Company violated Section 3201(b)(1) of the New York Insurance Law when it used a policy form that was not filed with and approved by the Superintendent.</p> <p>Effective March 31, 1998, the Company discontinued the use of the aforementioned policy form. The examination did not reveal any instances where the form was used subsequent to March 31, 1998.</p>
K	<p>The Company violated Section 3204 of the New York Insurance Law by assessing a service fee that was not disclosed in the contract.</p> <p>As a result of the examination finding, the Company halted the practice of assessing a service fee that was not disclosed in the contract. The examination did not reveal any instances where the Company assessed a service fee that was not disclosed in the contract.</p>
L	<p>The examiner recommended that the Company recalculate the ending account value and monthly benefit payments, and reimburse all annuitants affected by the \$70 service fee. Subsequent to the examination, the Company complied with this recommendation.</p> <p>In 1999, the Company reimbursed the \$70 service fee to all annuitants who were assessed the fee. The examination did not reveal any instances where the Company re-initiated the practice of assessing the service fee.</p>

9. SUMMARY AND CONCLUSIONS

Following are the violations and the recommendation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent of its participation in the Service Expense Reimbursement and Cost Sharing Agreement with its affiliate, PFI, Inc.	7
B	The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent of its agreement with CHCS, whereby CHCS renders services on behalf of the Company on a regular or systematic basis.	7 – 8
C	The Company violated Section 308(a) of the New York Insurance Law when it failed to file a copy of its tax allocation agreement with the Department within 30 days of its effective date, as advised by Department Circular Letter No. 33 (1979).	8
D	The examiner recommends that the Company establish and maintain an independent, adequately-resourced, and competently-staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control.	21

APPOINTMENT NO. 21771

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

KAREN GARD

as a proper person to examine into the affairs of the

**AMERICAN PROGRESSIVE LIFE AND HEALTH
INSURANCE COMPANY OF NEW YORK**

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 10th day of September, 2001



GREGORY V. SERIO
Superintendent of Insurance


Superintendent