

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF

NEUMA, INC.

AS OF

DECEMBER 31, 2003

DATE OF REPORT:

AUGUST 20, 2004

EXAMINER:

DENNIS G. BENSEN

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

August 20, 2004

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

Sir:

In accordance with instructions contained in Appointment No. 22227, dated May 3, 2004 and annexed hereto, an examination has been made into the condition and affairs of Neuma, Inc., hereinafter referred to as "the Company," at its home office located at 7366 Lincoln Avenue, Suite 202, Lincolnwood, Illinois 60712.

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 Company violated Section 380.6(a) of Department Regulation No. 148 by using application forms that were not filed with and approved by the Superintendent. (See item 5B of this report)

The Company violated Section 380.9(a) of Department Regulation No. 148 by accepting policies for settlement where the viator was not the insured under the policy as required. (See item 5B of this report)

The Company no longer actively solicits viatical settlements in New York.

2. SCOPE OF EXAMINATION

The prior examination of the Company was conducted as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 2003. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2003 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a review of policy forms, advertising, corporate structure, broker licensing, and treatment of viators. The examiner 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 aforementioned items.

This report on examination is confined to 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 as a stock company under the laws of Illinois on July 3, 1991 and commenced business on the same day. The Department promulgated Regulation No. 148 on July 6, 1994, which requires viatical settlement companies doing business in the State of New York to acquire a license from the superintendent. The Company applied for a viatical settlement company license on October 4, 1994 and was issued such license by the superintendent on March 20, 1996.

B. Management

The Company's by-laws provide that the board of directors shall be comprised of two directors. As of December 31, 2003, the two directors were also the shareholders who owned all of the Company's shares of common capital stock. Meetings of the board are held annually in May.

The two board members and their principal business affiliation, as of December 31, 2003, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
David I. Binter Skokie, Illinois	President Neuma, Inc.	1991
Ruth F. Binter Skokie, Illinois	Secretary Neuma, Inc.	1996

The examiner's review of the minutes of the meetings of the board of directors indicated that each director attended all meetings.

The following is a listing of the principal officers of the Company as of December 31, 2003:

<u>Name</u>	<u>Title</u>
David I. Binter	President
Ruth F. Binter	Secretary

C. Territory and Plan of Operation

The Company is authorized to purchase life insurance policies as defined in Section 7801(a) of the New York Insurance Law.

The Company is licensed as a viatical settlement company in ten states, namely New York, California, Connecticut, Illinois, Minnesota, North Carolina, Oregon, Texas, Washington, and Wisconsin. The Company also transacts such business nationwide, in jurisdictions where no license is required. The Company is no longer actively soliciting viatical settlements in New York.

The Company acquires its business through independent viatical settlement brokers and by direct contact with viators. In 1998, the Company started to accept monies from individual investors as a means to fund its life insurance policy purchases.

D. Financial Growth

The following table indicates the Company's financial growth during the period under review. These amounts have not been audited by the examiner and are for presentation purposes only.

	December 31, <u>1998</u>	December 31, <u>2003</u>	Increase (Decrease)
Assets	\$ <u>2,404,303</u>	\$ <u>2,372,573</u>	\$ <u>(31,730)</u>
Liabilities	\$ <u>5,552,870</u>	\$ <u>2,182,356</u>	\$ <u>(3,370,514)</u>
Common capital stock	\$ 1,500	\$ 1,500	\$ 0
Retained earnings	(3,150,037)	<u>188,717</u>	<u>2,961,320</u>
Total stockholders' equity	\$ <u>(3,148,537)</u>	\$ <u>190,217</u>	\$ <u>3,338,754</u>
Total liabilities and stockholders' equity	\$ <u>2,404,303</u>	\$ <u>2,372,573</u>	\$ <u>(31,730)</u>

4. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and stockholders' equity as of December 31, 2003, as contained in the Company's filed 2003 annual statement, and a condensed summary of operations for each of the years under review. These statements have not been audited by the examiner and are for presentation purposes only.

A. ASSETS, LIABILITIES, CAPITAL AND STOCKHOLDERS' EQUITY AS OF DECEMBER 31, 2003

Assets

Cash	\$ 47,784
Common stocks	23,578
Cost of purchased insurance policies	431,254
Furniture and equipment	31,810
Accounts receivables	1,498,774
Notes receivable	300,000
Prepaid expenses	<u>39,373</u>
 Total assets	 <u>\$2,372,573</u>

Liabilities, Capital and Stockholders' Equity

General expenses due or accrued	\$ 457,968
Borrowed money	1,741,118
Unrealized (loss) on marketable securities	<u>(16,730)</u>
 Total liabilities	 <u>\$2,182,356</u>
 Common capital stock	 \$ 1,500
Retained earnings	<u>188,717</u>
 Total capital and stockholders' equity	 <u>\$ 190,217</u>
 Total liabilities, capital and stockholders' equity	 <u>\$2,372,573</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenues from matured or sold life insurance policies	\$12,435,823	\$1,876,044	\$ 24,600	\$ 330,517	\$ 280,000
Adjustments prior year accruals	0	0	102,750	0	0
Interest income	35,351	32,634	17,401	7,706	2,848
Miscellaneous income	<u>167,710</u>	<u>(7,787)</u>	<u>3,115,093</u>	<u>287,681</u>	<u>41,296</u>
Total income	<u>\$12,638,884</u>	<u>\$1,900,891</u>	<u>\$3,259,844</u>	<u>\$ 625,904</u>	<u>\$ 324,144</u>
Viatical settlements	\$12,394,514	\$1,841,885	\$ 11,732	\$ 114,831	\$ 157,314
Interest expense	94,486	60,486	6,984	1,080	115
General expenses	1,017,672	704,120	440,223	688,437	645,614
Administrative fees	<u>(1,817,148)</u>	<u>(290,507)</u>	<u>0</u>	<u>(180,725)</u>	<u>(480,200)</u>
Total deductions	<u>\$11,689,524</u>	<u>\$2,315,984</u>	<u>\$ 458,939</u>	<u>\$ 623,623</u>	<u>\$ 322,843</u>
Net income (loss)	<u>\$ 949,360</u>	<u>\$ (415,093)</u>	<u>\$2,800,905</u>	<u>\$ 2,281</u>	<u>\$ 1,301</u>

5. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

The examiner reviewed the Company's advertising files and its solicitation of viators. Based upon the advertising materials reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of New York viatical settlements and the policy forms utilized.

Section 7804(a) of the New York Insurance Law states, in part:

"No viatical settlement company may use any agreement for a viatical settlement in this state unless it is in writing and has been filed with and approved by the superintendent. . . ."

Section 380.6(a) of Department Regulation No. 148 states, in part:

"Viatical settlement forms filing requirements:

(2) two specimen copies of every application for a viatical settlement shall be filed with and approved by the superintendent prior to use in New York . . ."

The examiner's review of a sample of viatical settlement files indicated that in all cases, the Company did not use the application form that had been filed with and approved by the Department. In all of the files reviewed the various application forms of the broker's who brought the case to the Company were utilized. The application forms utilized by these brokers were neither filed with nor approved by the Superintendent.

The Company violated Section 380.6(a) of Department Regulation No. 148 by using application forms that were not filed with and approved by the Superintendent.

Section 7801(b) of the New York Insurance Law states, in part:

“ “Viator” means the owner of a life insurance policy insuring the life of a person who has a catastrophic or life threatening illness or condition, who enters into an agreement under which the viatical settlement company will pay compensation or anything of value, which compensation or value is less than the expected death benefit of the insurance policy, in return for the viator’s assignment, transfer, sale, devise, or bequest of the death benefit or ownership of the insurance policy to the viatical settlement company. Viator may also include a person insured under a group life insurance policy who is not prohibited from assigning his or her rights or benefits and who assigns those rights or benefits by a viatical settlement.”

Section 380.9(a) of Department Regulation No. 148 states, in part:

"A viator may not assign, transfer, sell, devise, or bequeath to a viatical settlement company
(1) a death benefit for any insured other than the viator . . . ”

The examiner’s review of a sample of viatical settlement files indicated that the Company entered into two settlement agreements where the viator was not the insured under the policy as required.

The Company violated Section 380.9(a) of Department Regulation No. 148 by accepting policies for settlement where the viator was not the insured under the policy.

C. Treatment of Viators

The examiner reviewed a sample of New York viator files. 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.

6. SUMMARY AND CONCLUSIONS

Following are the violations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 380.6(a) of Department Regulation No. 148 by using application forms that were not filed with and approved by the Superintendent.	8
B	The Company violated Section 380.9(a) of Department Regulation No. 148 by accepting policies for settlement where the viator was not the insured under the policy as required.	9

APPOINTMENT NO. 22227

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:

DENNIS BENSEN

as a proper person to examine into the affairs of

NEUMA, INC.

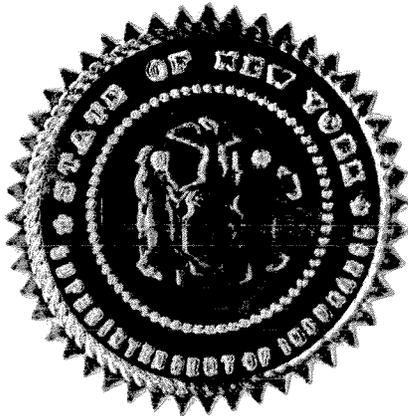
and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he 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 3rd day of May, 2004



GREGORY V. SERIO

Superintendent of Insurance

[Handwritten Signature]

Superintendent