STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FARMERS & TRADERS LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT: NOVEMBER 1, 2002

EXAMINER: MARK MCLEOD

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

November 1, 2002

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

Sir:

In accordance with instructions contained in Appointment No. 21872, dated May 30, 2002 and annexed hereto, an examination has been made into the condition and affairs of Farmers & Traders Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 960 James Street, Syracuse, New York 13203.

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 which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2001 filed annual statement. (See item 5 of this report)

The Company received approval for and issued a surplus note in the amount of $4 million on May 31, 2000. (See item 3A of this report)

This report contains violations of, and comments relating to, Department Regulation No. 34-A regarding misleading advertisements. (See item 6A of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 2001. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2001 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, 2001 to determine whether the Company's 2001 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 comments contained in the prior report on examination. The results of the examiner's review are contained in item 7 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 as a stock life insurance company under the laws of New York on July 3, 1912, was licensed and commenced business on July 7, 1914, with the name Farmers National Insurance Company. The present name was adopted on September 17, 1914.

On October 8, 1953, the board of directors of the Company recommended a plan of mutualization of the Company pursuant to Section 199 of the New York Insurance Law (now Section 7302). The plan provided for the purchase of all outstanding shares of stock at $1,000 per share. The Company became a mutual life insurance company on December 20, 1974.

Pursuant to Section 1307 of the New York Insurance Law, the Company received approval for, and issued a surplus note in the amount of $4 million on May 31, 2000. The surplus note is scheduled to mature in ten years with interest payable semi-annually.

B. Subsidiaries

The Company owns 100% of Production Partners Inc., an inactive insurance marketing and sales company.

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 25 directors. Within one year following the end of the calendar year in which the Company exceeds one and one half billion dollars in admitted assets, the Company will increase the size of the board of directors to a minimum of 13 directors. The directors are divided into three classes, as nearly equal as may be, and are elected annually in consecutive years for a term of three years. The annual election of directors is held in December of each year. As of December 31, 2001, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The 13 board members and their principal business affiliation, as of December 31, 2001, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Sarah S. Barclay * Pulaski, NY	Housewife	1983
Robert J. Bennett * Fayetteville, NY	Retired Vice Chairman M&T Bank Corporation	1995
Richard S. Corriero * Manlius, NY	Retired Managing Partner KPMG Peat Marwick	1996
Paul W. de Lima * Syracuse, NY	Chief Executive Officer Paul de Lima Coffee Company, Inc.	1999
Roger J. Halbert * Gilbertsville, NY	Chief Executive Officer Chase Memorial Nursing Home	1999
Jerry L. Harris * Hilton Head, SC	Retired President and Chief Executive Officer CGH Health Services	1976
William R. Hess Fayetteville, NY	Chairman of the Board, President, Chief Operating Officer and Chief Executive Officer Farmers & Traders Life Insurance Company	1996
Darlene D. Kerr * Syracuse, NY	President National Grid USA Service Co., Inc.	1997
John F. Luchsinger Fayetteville, NY	Vice President, General Counsel, and Secretary Farmers & Traders Life Insurance Company	1987
J. Kemper Matt * Syracuse, NY	President Dupli Graphics Corp.	1999
Mary P. Oliker * Manlius, NY	Human Resources Officer SUNY Health Science Center	1986
Alfred W. Popkess * Marcellus, NY	Partner MacKenzie Hughes LLP	1999
F. Philip Prelli * Winstead, CT	President Tangarone & Prelli LLC	1995

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

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, 2001:

Name	Title
William R. Hess	President, Chief Operating Officer and Chief Executive Officer
Terence M. Mawhinney	Senior Vice President and Chief Actuary
John F. Luchsinger*	Vice President, General Counsel and Secretary
Donald G. Cook	Vice President and Treasurer
Frank J. D'Onofrio, Jr.	Vice President – Investments
Arnold N. Pechler III	Vice President – Sales and Marketing
Barbara F. Stepien	Vice President – Administrative Services
Scott A. Claflin	Vice President – Actuary

* 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 ceased writing accident and health insurance in November 1986.

The Company is licensed to transact business in 29 states, and the District of Columbia. In 2001, approximately 57.8% of life premiums and 69.9% of annuity considerations were received from New York. Policies have been written on a participating basis since January 1, 1955. Prior to 1955, policies were issued on a non-participating basis.

The Company offers whole life and term insurance, universal life insurance, as well as flexible and single premium fixed annuity products. The Company's portfolio of products is targeted towards middle-income families, small businesses, and the estate market.

In 1994, the Company received approval to market its payroll deduction product through employer-sponsored programs. The product is written on a simplified issue or a guaranteed issue basis but was not actively marketed until 1996. The product targets the small business marketplace.

In 1996, the Company introduced a new guaranteed issue modified benefit whole life policy for insureds aged 50 to 75. The new guaranteed issue product replaced the Company's simplified issue senior life product.

The Company's agency operations are conducted on a general agency basis.

E. Reinsurance

As of December 31, 2001, the Company had reinsurance treaties in effect with eight companies, all of which were authorized or accredited. The Company's ordinary life business is reinsured on a yearly renewable term basis while accident and health business is reinsured on a coinsurance basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $250,000. The total face amount of life insurance ceded as of December 31, 2001, was $106,084,000, which represents 5.7% of the total face amount of life insurance in force.

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:

	December 31, 1998	December 31, 2001	Increase
Admitted assets	$380,629,543	$424,262,317	$43,632,774
Liabilities	$359,497,443	$396,968,904	$37,471,461
Surplus notes	$ 0	$ 4,000,000	$ 4,000,000
Unassigned funds (surplus)	21,132,100	23,293,413	2,161,313
Total surplus	$ 21,132,100	$ 27,293,413	$ 6,161,313
Total liabilities and surplus	$380,629,543	$424,262,317	$43,632,774

The Company's invested assets, as of December 31, 2001, were mainly comprised of bonds (88%), policy loans (6%), and cash and short-term investments (5%).

The majority (96.7%) of the Company's bond portfolio, as of December 31, 2001, was comprised of investment grade obligations.

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:

	1999	2000	2001
Ordinary:			
Life insurance	$(464,759)	$ (87,288)	$1,537,440
Individual annuities	837,710	627,416	699,128
Supplementary contracts	(404,931)	7,816	(385,223)
Total ordinary	$ (31,980)	$547,944	$1,851,345
Group annuities	$ 329,781	$220,358	$ 302,459
Accident and health – other	$(105,905)	$ (96,946)	$ (81,667)
Total	$ 191,896	$671,356	$2,072,137

The improvement in ordinary life between 1999 and 2000 was caused by a $291,000 reduction in general expenses. The improvement in ordinary life gains between 2000 and 2001 was caused by an $850,000 reduction in the Company's dividend scale and improved mortality.

The decline in individual annuity gains between 1999 and 2000 was caused by declining interest rates. The improvement in individual annuity gains between 2000 and 2001 was caused by a reduction in general expenses and a lower federal income tax rate.

The improvement in supplementary contracts between 1999 and 2000 was caused by $338,000 of group annuity benefits that were incorrectly reported as payments on supplementary contracts with life contingencies in 1999. The decline in supplementary contracts gains between 2000 and 2001 was caused by a one-time reserve adjustment in 2001 and the interest strain of new considerations caused by the change in interest rates on a withdrawal from group annuities.

The Company's accident and health business is a closed block of business. Losses will continue until the book of business runs off, because the cost of administering the policies is more than the revenue generated by premiums.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds as of December 31, 2001, as contained in the Company's 2001 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2001 filed annual statement.

A. ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2001

Admitted Assets

Bonds	$362,498,595
Preferred stocks	743,820
Mortgage loans:	
First liens	378,697
Real estate:	
Properties occupied by the company	677,964
Properties held for the production of income	783,456
Policy loans	23,470,608
Cash and short term investments	22,194,557
Reinsurance ceded:	
Amounts recoverable from reinsurers	1,894
Commissions and expense allowances due	169
Electronic data processing equipment and software	150,454
Life insurance premiums and annuity considerations deferred and uncollected on in force business	5,690,187
Accident and health premiums due and unpaid	(1,027)
Investment income due and accrued	6,998,942
Life insurance receivables	674,000
Total admitted assets	$424,262,316

Liabilities, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$365,336,812
Aggregate reserve for accident and health policies	231,258
Liability for deposit-type contracts	20,010,088
Policy and contract claims:	
Life	1,423,573
Accident and health	11,757
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts:	
Dividends apportioned for payment	4,550,000
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	165,094
Interest maintenance reserve	1,732,378
General expenses due or accrued	635,758
Taxes, licenses and fees due or accrued	(6,148)
Federal and foreign income taxes	(110,000)
Amounts withheld or retained by company as agent or trustee	501,509
Amounts held for agents' account	10,079
Remittances and items not allocated	388,241
Liability for benefits for employees and agents	149,667
Asset valuation reserve	1,761,503
Reserve for excess interest on life insurance	39,100
Reserve for excess interest on supplementary contracts	64,009
Uncashed checks pending escheatment	74,227
Total liabilities	$396,968,904
Surplus notes	$ 4,000,000
Unassigned funds (surplus)	23,293,413
Total surplus and other funds	$ 27,293,413
Total liabilities, surplus and other funds	$424,262,317

B. CONDENSED SUMMARY OF OPERATIONS

	1999	2000	2001
Premiums and considerations	$42,915,571	$45,089,670	$51,151,695
Investment income	28,972,954	27,411,875	27,720,779
Commissions and reserve adjustments on reinsurance ceded	1,134	988	822
Miscellaneous income	0	1,624,025	0
Total income	$71,889,658	$74,126,558	$78,873,296
Benefit payments	$39,656,532	$40,210,140	$40,181,303
Increase in reserves	12,214,814	10,500,901	16,922,572
Commissions	3,456,576	3,542,802	4,024,354
General expenses and taxes	10,891,630	10,627,154	10,606,387
Increase in loading on deferred and uncollected premium	332,163	427,136	116,707
Miscellaneous deductions	6,165	2,576,445	26,000
Total deductions	$66,557,880	$67,884,580	$71,877,323
Net gain (loss)	$ 5,331,778	$ 6,241,979	$ 6,995,973
Dividends	4,712,795	5,042,191	4,453,835
Federal and foreign income taxes incurred	427,089	528,430	470,000
Net gain (loss) from operations before net realized capital gains	$ 191,894	$ 671,357	$ 2,072,138
Net realized capital gains (losses)	(658,969)	238,948	(624,354)
Net income	$ (467,075)	$ 910,305	$ 1,447,784

The change in increase in reserves between 2000 and 2001 was caused by a $1.1 million increase in annuity premiums, a $2.5 million reduction in annuity surrenders and a $2.6 million increase in supplementary contracts with life contingencies.

The increase in commissions between 2000 and 2001 was caused by an increase in new life business.

C. SURPLUS ACCOUNT

	1999	2000	2001
Surplus, December 31, prior year	$21,132,100	$21,421,321	$25,782,684
Net income	$ (467,075)	$ 910,305	$ 1,447,784
Change in net unrealized capital gains (losses)	(564,849)	(615,726)	(48,028)
Change in non-admitted assets and related items	266,795	438,327	58,163
Change in reserve valuation basis	0	(438,936)	0
Change in asset valuation reserve	215,635	352,746	466,992
Change in surplus notes	0	4,000,000	0
Cumulative effect of changes in accounting principles	0	0	(414,181)
Prior period adjustment for reserves and related taxes	838,715	0	0
Conversion adjustment	0	495,262	0
Capitalized software write-off	0	(780,616)	0
Net change in surplus	$ 289,221	$ 4,361,363	$ 1,510,729
Surplus, December 31, current year	$21,421,321	$25,782,684	$27,293,414

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.

1. Section 219.4 of Department Regulation No. 34-A states, in part:

> "(a)(1) Advertisements shall be truthful and not misleading in fact or in implication. The format and content of an advertisement of a life insurance policy or annuity contract shall be sufficiently complete and clear so that it is neither misleading nor deceptive, nor has the capacity or tendency to mislead or deceive. Statements made should not cloud or misdirect the consideration of the purchaser. The use of statistics, illustrations and statements which may be factually correct will not be acceptable if their impact misleads or deceives. The use of technical insurance terminology should be held to a minimum and be appropriate within the context of the advertisement . . .
>
> (3) Whether an advertisement has the tendency or capacity to mislead or deceive shall be determined by the superintendent from the overall impression that the advertisement may be reasonably expected to create upon a person not knowledgeable in insurance matters . . .
>
> (x) An advertisement shall not emphasize investment or tax features and omit or minimize insurance features. . . . "

a) Five Company advertisements (Form No. 20-103 MS 3/01, Form No. 20-240 3/01, Form No. 20-240 2/01, Form No. 20-103 MS 12/99 and Form No. 20-240 3/99) were referred to as 'Mortgage Acceleration Plans.' The advertisements state that the insured could 'accelerate' the payment of his/her mortgage using the cash value, if the insured lives. There are variables, such as the insured's health and age, which would increase premium and reduce the funds available to pay off the mortgage early, which are left out of these advertisements and cause them to be misleading.

b) One advertisement (Form No. 20-100 CF 3/99) contained the following statements about college funding:

- "Meeting Rising Costs With a Guaranteed Plan"
- "Farmers & Traders Life contracts can be tailored to meet your specific objectives and financial capacity. They will guarantee a specific amount of money if you should die before completing the plan while simultaneously building a growing cash account to cover your child's eventual college bills. In this way your child's education can be funded by you even if you do not live long enough to complete the plan."

It is difficult to project what college expenses will be in the future. It would be just as difficult to guarantee that the death benefit or future cash values of a life insurance policy would provide enough funds to pay for college expenses. The statements that this is a guaranteed plan or that the plan will guarantee a specific amount of money to cover your child's eventual college bills has the tendency to be misleading.

c) The Company's advertisement 'Your Key to Greater Retirement Income' (Form No. 20-275) compares the benefits of the Life Income Option with the Joint and ½ Survivor Option with the benefits of the Joint and Equal Survivor Option in conjunction with the purchase of life insurance. These comparisons have the tendency to be misleading without factoring in the premium expense incurred by the insured. The purchase of a whole life policy would be a significant immediate expense for someone who is close to retirement or a significant long-term expense for someone who is not close to retirement. The omission of the premium expense in the comparison of the retirement options is misleading.

d) Nine advertisements (Form No. 20-103 MS 3/01, Form No. 20-202 1/02, Form No. 20-240 3/01, Form No. 20-275, Form No. 20-100, Form No. 20-103 MS 12/99, Form 20-190 3/99, Form 20-190 6/99 and Form 20-240 3/99) emphasize the investment and/or tax features over the life insurance features of the products. These advertisements refer to the Company's products as Tax-Sheltered Life Insurance, Pension Maximization Plans, Mortgage Acceleration Plans and College Funding Plans rather than as life insurance plans.

Advertisements used by the Company can be deemed misleading by emphasizing the investment and tax features rather than the insurance features. The examiner recommends that the advertisements be rewritten to emphasize the life insurance features of the Company's products.

2. Section 219.4(k) of Department Regulation No. 34-A states:

> "Any limitations in the policy which would reduce or eliminate the payment of the face or stated amount should be clearly stated, together with the amount of, or formula for, determining any reduced payment. The return of premium, with or without interest, in lieu of the face amount, shall be designated as a limited benefit and be clearly described."

Seven Senior Protector Life Advertisements (Form 20-252, Form No. 20-263, Form No. 20-282, Form No. 20-323, Form No. 302 and Form No. 99-105) fail to mention that if the insured dies from sickness during the first two years of the policy the premiums will be returned in lieu of the face amount.

The Company violated Section 219.4(k) of Department Regulation No. 34-A by using advertisements that do not state the policy's limited benefit.

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.

The Company's response to the Supplement was not filed as required by August 15, 2000. The Department notified the Company of the failure to file with a letter dated August 24, 2000. The Company's response, which included the Company's report of its findings of its review of past and present underwriting practices regarding race-based underwriting, was received by the Department on August 30, 2000.

The Company indicated that their review consisted of examining available policies, procedure manuals, applications, rate books, underwriting guidelines, reinsurance guidelines, agency commission contracts and dividend statements. The Company reported that their review of past and present underwriting practices indicated that they "have not engaged in race-based underwriting based solely on an insured's race, color, creed or national origin." The Company further stated that they have not: refused to continue to insure; placed limits on the amount of insurance; limited the kind and extent of coverage; charged or collected higher premiums or rates; required any rebates; credited lower dividends; assigned substandard risk classifications; offered lower benefits or nonforfeiture values; made any distinctions as to policy terms or conditions; imposed greater underwriting requirements; or fixed any fees or commissions in a manner as to encourage or discourage the writing or renewing of a specific type of policy based solely on an insured's race, color, creed or national origin.

A review was made into the affairs of the Company with respect to race-based underwriting and the findings reported pursuant to the Supplement. The examiner's review included, but was not limited to, a review of the Company's Rate and Agent Manuals (dated 1924 through 1963) and a review of a sample of application files for polices issued between 1924 and 1968. The examination revealed that the instructions to agents detailing the rules governing insurance without medical examination (which are printed on the back of the Company's application, part two, "Declaration of insurability in lieu of medical examination") contained the following statement regarding the issuance of non-medical insurance:

> "2. Only white men and women between the ages of 15 and 45 living on the farm, in small rural towns and villages, cities of 25,000 and under or engaged in earning a livelihood on the farm or in rural towns or villages will be considered for this plan."

These instructions to agents were noted in the Company's non-medical application files from 1924 until 1943. For this time period, the examiner was unable to identify any policies issued to non-Caucasians. The examiner did identify one policy issued to an African-American in 1957. The policy required a medical examination in compliance with the then effective medical underwriting requirements regardless of race. The examiner's review did not identify any current or past policyholder affected by any race-based policy or practice.

7. 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:

Item	Description
A	The Company violated Section 1202(b)(2) of the New York Insurance Law for having a committee comprised of directors, who are officers of the Company, approve an incentive compensation plan for its principal officers. There are no officers of the Company serving on the Office Selection and Compensation Committee that approves the incentive compensation plan for its principal officers.
B	The Company violated Section 4230(c) of the New York Insurance Law by failing to submit an incentive compensation plan for its principal officers to the board of directors for approval. All principal officer incentive compensation plans are recommended by the Officer Selection and Compensation Committee and approved by the board of directors.
C	The Company violated Section 307(b)(1) of the New York Insurance Law by failing to file the certified public accountant's evaluation of the accounting procedures and internal control systems (management letter) with the Department in a timely manner. The Company filed the certified public accountant's evaluation of the accounting procedures and internal control systems (management letter) with the Department in a timely manner during the examination period.
D	The examiner commented that the Department has not certified, as to the accuracy or adequacy, the Company's reserves for any of the years examined. The reserves were subsequently certified for the years 1996, 1997 and 1998.

Item	Description
E	The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain a complete advertising file of all advertisements printed, published, or prepared for dissemination in New York. A complete advertising file is now maintained in New York.
F	The Company violated Section 219.4(p) of Department Regulation No. 34-A by failing to include the name of the city, town, or village in which the Company has its home office and by failing to indicate the policy form or series number on advertisements. The Company included the name of the city, town, or village in which the Company has its home office and indicated the policy form or series number on all advertisements reviewed.
G	The Company violated Section 2611 of the New York Insurance Law by failing to use a form that included the required items and by failing to obtain written informed consent prior to performing HIV related tests. The Company used forms that included the required items and obtained written informed consent prior to performing HIV related tests.
H	The Company violated Section 3201(b)(1) of the New York Insurance Law for failing to abide by the conditions of approval set forth by the Superintendent with respect to policy forms. The Company abided by the conditions of approval set forth by the Superintendent with respect to policy forms.
I	The Company violated Section 4224(a)(1) of the New York Insurance Law by using different underwriting criteria for individuals of the same class, at the agent's discretion. The Company did not use different underwriting criteria for individuals of the same class, at the agent's discretion.

Item	Description
J	The Company violated Section 3207(c) of the New York Insurance Law by knowingly issuing policies on minors in excess of the limits set forth therein. The Company did not issue policies on minors in excess of the limits set by Section 3207(c) of the New York Insurance Law.
K	The Company violated Section 3209(e) of the New York Insurance Law by failing to include the required information in its policy summary provided to applicants. The Company included the required information in its policy summary provided to applicants.
L	The Company violated Sections 53-2.3(a)(1) and (b)(2) of Department Regulation No. 74 by failing to provide required disclosure notices in the application, the preliminary information provided to applicants, and the policy summary document provided to policyholders. The Company provided required disclosure notices in the application, the preliminary information provided to applicants, and the policy summary document provided to policyholders.
M	The Company violated Section 3211(g) of the New York Insurance Law by failing to provide the required annual cash surrender value notice to policyholders. The Company provided the required annual cash surrender value notice to policyholders.
N	The Company violated Section 3227(a) of the New York Insurance Law by failing to pay the required interest on policies surrendered for cash value. The Company paid the required interest on policies surrendered for cash value.

Item	Description
O	The examiner recommended that the Company pay the required interest on the 12 surrender cases found and establish procedures to pay interest in the future. The examiner also recommends that the Company review its records to determine whether any other policyholders are owed interest and make payment to such policyholders. The Company paid the required interest on nine of the 12 surrender cases found. The other three cases were not paid until discovery during the current examination. The Company established procedures to pay interest in the future. The Company also reviewed its records to determine whether any other policyholders were owed interest and made payments to such policyholders.
P	The examiner commented that the Company's computer system incorrectly calculated extended term insurance benefits. The Company's computer system now correctly calculates extended term insurance benefits.
Q	The Company violated Section 1301(a)(18) of the New York Insurance Law by including consulting costs associated with its new policy administration system in the cost of its electronic data processing equipment. The Company expensed the consulting costs associated with its new policy administration system in 2000.
R	The examiner commented that the Company had significant problems converting to its new computer system, PolicyLink. The Company has completed its conversion to its new computer system, PolicyLink.

8. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No(s).
A	Advertisements that were used by the Company can be deemed misleading by emphasizing the investment and tax features rather than the insurance features of its products. The examiner recommends that the advertisements be rewritten to emphasize the life insurance features of the Company's products.	14 – 16
B	The Company violated Section 219.4(k) of Department Regulation No. 34-A by failing to mention that if the insured dies from sickness during the first two years of the policy that the premiums would be returned in lieu of the face amount.	16

Respectfully submitted,

/s/
Mark McLeod
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Mark McLeod, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/
Mark McLeod

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 21872

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:

MARK MCLEOD

as a proper person to examine into the affairs of the

FARMERS AND TRADERS LIFE INSURANCE COMPANY

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 30th day of May, 2002

GREGORY V. SERIO
Superintendent of Insurance

Superintendent