STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

PREFERRED LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2001

DATE OF REPORT:	FEBRUARY 7, 2003
EXAMINER:	JOSHUA WEISS

TABLE OF CONTENTS

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

February 7, 2003

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

Sir:

In accordance with instructions contained in Appointment No. 21915, dated July 3, 2002 and annexed hereto, an examination has been made into the condition and affairs of the Preferred Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 152 West 57th Street, New York, New York 10019.

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 changed its name to Allianz Life Insurance Company of New York effective January 1, 2003. (See item 3A of this report)

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 violated Section 2112(a) of the New York Insurance Law when it failed to appoint agents who sold insurance for the Company. This violation is repeated from the prior three reports on examination. (See item 7A of this report)

The Company violated Section 2108(a)(4) of the New York Insurance Law when it paid compensation to unlicensed third party administrators for adjusting and paying claims. This violation is repeated from the two prior reports on examination. (See item 7B 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 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

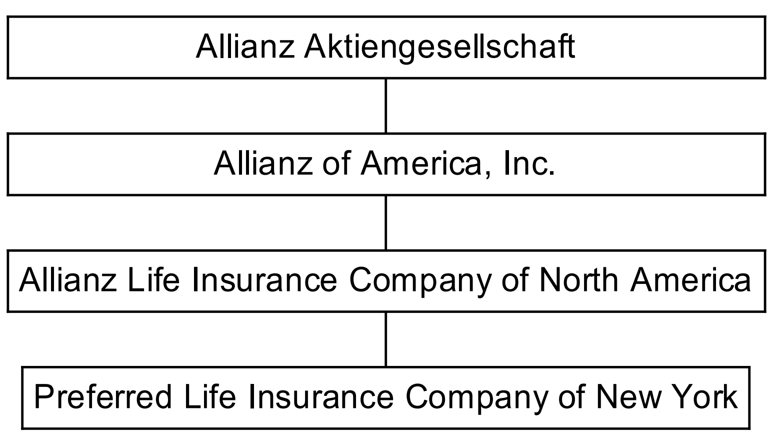
The Company was incorporated as a stock life insurance company under the laws of New York under the name of Preferred Life Insurance Company of New York on September 21, 1982, was licensed on April 11, 1984 and commenced business on September 1, 1984. Initial resources of $6,000,000, consisting of common capital stock of $2,000,000 and paid in and contributed surplus of $4,000,000, were provided through the sale of 200,000 shares of common stock (with a par value of $10 each) for $30 per share. The Company received surplus contributions from its parent of $5,000,000 in 1993 and $6,500,000 in 1994 resulting in paid in and contributed surplus of $15,500,000 as of December 31, 2001.

The Company changed its name to Allianz Life Insurance Company of New York effective January 1, 2003.

B. Holding Company

The Company is a wholly owned subsidiary of Allianz Life Insurance Company of North America ("Allianz"), a Minnesota insurance company. Allianz is in turn a wholly owned subsidiary of Allianz of America, Inc. ("AZOA"), a Delaware holding company. The ultimate parent of the Company is Allianz Aktiengesellschaft, a German property and casualty company.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2001 follows:



The Company had two service agreements in effect as of December 31, 2001. One service agreement with Allianz covers such services as agency marketing and support, claims services, policy/contract owner services and premium billing and collection services. The second agreement is an investment advisory agreement with Allianz Investment Corporation, an affiliate, to manage the Company's investment portfolio. There is also a federal tax allocation agreement in effect with AZOA.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 23 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2001, the board of directors consisted of 13 members. Meetings of the board are held three times a year.

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
Denise M. Blizil Maple Lake, MN	Senior Vice President and Chief Administrative Officer Allianz Life Insurance Company of North America	2001
Edward J. Bonach Plymouth, MN	Chairman of the Board and President Preferred Life Insurance Company of New York Chief Financial Officer Allianz Life Insurance Company of North America	1989
Stephen R. Herbert* Pound Ridge, NY	Attorney Locke and Herbert	1997
Robert S. James Wayzata, MN	President – Individual Marketing Allianz Life Insurance Company of North America	1993
Charles M. Kavitsky Edina, MN	President and Chief Marketing Officer Allianz Life Insurance Company of North America	2000
Eugene K. Long Elmsford, NY	Vice President – Operations Preferred Life Insurance Company of New York	1995

Name and Residence	Principal Business Affiliation	Year First Elected
Dennis J. Marion* Wayne, NJ	President RMS Development	1984
Reinhard W. Obermueller* New York, NY	Senior Vice President American Reinsurance Company	1996
Suzanne J. Pepin Minneapolis, MN	Secretary Preferred Life Insurance Company of New York Senior Vice President and Secretary Allianz Life Insurance Company of North America	2000
Christopher H. Pinkerton Mendota Heights, MN	Senior Vice President Allianz Life Insurance Company of North America	1999
Jack F. Rockett* New York, NY	Broker	1997
Eugene T. Wilkinson* Edison, NJ	President The Wilkinson Group, LLC	1984
Mark A. Zesbaugh Eagan, MN	Senior Vice President Allianz Life Insurance Company of North America	1999

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

In April 2002, Edward J. Bonach, Robert S. James and Mark A. Zesbaugh resigned from the board and were replaced by Stephen P. Blaske, Gabrielle M. Matzdorff and Kevin E. Walker.

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
Edward J. Bonach	Chairman of the Board and President
Eugene K. Long*	Vice President-Operations
Kevin E. Walker	Treasurer
Suzanne J. Pepin	Secretary
Stephen P. Blaske	Actuary

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

In April 2002, Charles M. Kavitsky replaced Edward J. Bonach as Chairman of the Board and President.

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 the District of Columbia and six states, namely Connecticut, Illinois, Minnesota, Missouri, New York and North Dakota. In 2001, 92% of life premiums were received from New York (72%) and Connecticut (20%), 93% of accident and health premiums were received from New York (59%) and Connecticut (34%), and 100% of annuity considerations were received from New York. Policies are written on a non-participating basis.

During the examination period, the Company marketed variable annuities and group life and accident and health policies. In 2000, the Company stopped writing direct group business except for some stop-loss insurance. The Company also terminated a significant portion of its group accident and health reinsurance assumed business. The Company intends to shift its focus to asset accumulation products (i.e., individual fixed annuities) and long-term care products.

The Company's agency operations are conducted on a general agency basis. The Company's field force consists of agents who administer and solicit group business and brokers who solicit the Company's variable annuity business through licensed agents. Stirling &

Stirling, Inc., an agent and third party administrator, accounted for 34% of the direct group life and accident and health premiums written in 2001.

E. Reinsurance

As of December 31, 2001, the Company had reinsurance treaties in effect with 35 companies, of which 22 were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance and/or yearly renewable term basis. Reinsurance is provided on an automatic and/or 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, 2001, was $106,245,000, which represents 24% of the total face amount of life insurance in force. The Company reported reserve credit taken for reinsurance ceded to unauthorized companies and reinsurance recoverable from unauthorized companies totaling $1,485,218, which were partially supported by trust agreements and funds withheld totaling $1,333,128. A liability for reinsurance in unauthorized companies of $152,090 was also reported.

The examiner noted that the Company failed to list five unauthorized reinsurers in Schedule S – Part 4 of its 2001 filed annual statement. The total reserve credit taken by the Company for these unauthorized reinsurers, with no corresponding letters of credit or trust agreements, was $176,070. In addition, a $75,223 miscellaneous balance taken as a credit was unrecoverable due to a liquidation proceeding. The liability for reinsurance in unauthorized companies should have been reported in the amount of $403,383 for 2001. As a result, the liability was understated by $251,293.

The examiner recommends that the Company include all unauthorized reinsurance as a liability in future years.

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 (Decrease)
Admitted assets	$794,948,434	$457,416,030	$(337,532,404)
Liabilities	$762,081,864	$409,475,939	$(352,605,925)
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	15,500,000	15,500,000	0
Group contingency life reserve	1,779,207	2,004,186	224,979
Annuitant mortality reserve	294,023	526,191	232,168
Unassigned funds (surplus)	13,293,340	27,909,714	14,616,374
Total capital and surplus	$ 32,866,570	$ 47,940,091	$ 15,073,521
Total liabilities, capital and surplus	$794,948,434	$457,416,030	$(337,532,404)

The decrease in assets is due to a large decrease in Separate Account assets. This decrease reflects surrender activity and decreased sales in the variable annuity business connected with the drop in the stock market.

The majority (80%) of the Company's admitted assets, as of December 31, 2001, was derived from Separate Accounts.

The Company's invested assets as of December 31, 2001, exclusive of Separate Accounts, were mainly comprised of bonds (86.2%), and cash and short-term investments (12.2%).

The majority (99.8%) of the Company's bond portfolio, as of December 31, 2001, was comprised of investment grade obligations.

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

Ordinary Annuities

	1999	2000	2001
Outstanding, end of previous year	15,437	12,871	10,483
Issued during the year	241	59	146
Other net changes during the year	(2,807)	(2,447)	(1,626)
Outstanding, end of current year	12,871	10,483	9,003

The decrease in the number of annuities outstanding is due to increased surrender activity and decreasing variable annuity sales due to a major drop in the stock market.

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	$ 853,927	$ (37,871)	$ (115,593)
Individual annuities	2,717,437	4,545,974	645,756
Supplementary contracts	5,491	(159,151)	(147,431)
Total ordinary	$3,576,855	$4,348,952	$ 382,732
Group life	$1,808,574	$ 571,172	$ 469,990
Accident and health:			
Group	$ (123,918)	$2,310,693	$2,254,655
Other	21,887	(31,179)	28,783
Total accident and health	$ (102,031)	$2,279,514	$2,283,438
Total	$5,283,399	$7,199,638	$3,136,160

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, 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 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 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, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2001

Admitted Assets

Bonds	$ 75,415,113
Common stocks	1,436,969
Cash and short term investments	10,654,629
Reinsurance ceded:	
Amounts recoverable from reinsurers	548,628
Commissions and expense allowances due	16,835
Life insurance premiums and annuity considerations deferred and uncollected on in force business	416,238
Accident and health premiums due and unpaid	940,036
Investment income due and accrued	872,358
Miscellaneous receivables	394,413
Due from administrators	384,324
From Separate Accounts statement	366,336,487
Total admitted assets	$457,416,030

<u>Liabilities, Capital, Surplus and Other Funds</u>

Aggregate reserve for life policies and contracts	$ 17,027,632
Aggregate reserve for accident and health policies	1,962,168
Liability for deposit-type contracts	451,857
Policy and contract claims:	
Life	860,987
Accident and health	8,834,604
Policy and contract liabilities not included elsewhere:	
Interest maintenance reserve	931,921
Commissions to agents due or accrued	303,941
Commissions and expense allowances payable on reinsurance assumed	62,155
General expenses due or accrued	123,748
Transfers to Separate Accounts due or accrued	(1,265,514)
Taxes, licenses and fees due or accrued	208,026
Federal and foreign income taxes	979,963
Amounts withheld or retained by company as agent or trustee	53,909
Remittances and items not allocated	223,332
Borrowed money and interest thereon	10,586,563
Miscellaneous liabilities:	
Asset valuation reserve	187,378
Reinsurance in unauthorized companies	152,090
Payable to parent, subsidiaries and affiliates	1,180,441
Drafts outstanding	180,939
Other accounts payable	91,952
Group and reinsurance contingent liability	1,361
From Separate Accounts statement	366,336,486
Total liabilities	$409,475,939
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	15,500,000
Group contingency life reserve	2,004,186
Annuitant mortality reserve	526,191
Unassigned funds (surplus)	27,909,714
Total capital, surplus and other funds	$ 47,940,091
Total liabilities, capital, surplus and other funds	$457,416,030

B. CONDENSED SUMMARY OF OPERATIONS

	1999	2000	2001
Premiums and considerations	$ 31,423,634	$ 17,261,058	$ 19,746,143
Investment income	2,764,464	3,542,142	3,895,121
Commissions and reserve adjustments on reinsurance ceded	1,052,295	617,139	561,617
Miscellaneous income	9,525,447	7,847,605	5,483,456
Total income	$ 44,765,840	$ 29,267,944	$ 29,686,337
Benefit payments	$ 201,052,984	$ 152,692,017	$ 91,426,954
Increase in reserves	(3,502,025)	2,092,097	6,850,718
Commissions	5,642,334	2,564,370	2,509,959
General expenses and taxes	4,872,092	5,569,615	6,467,705
Net transfers to (from) Separate Accounts	(169,752,983)	(142,378,587)	(82,416,586)
Miscellaneous deductions	(722,898)	85,367	395,318
Total deductions	$ 37,589,504	$ 20,624,879	$ 25,234,068
Net gain (loss)	$ 7,176,335	$ 8,643,064	$ 4,452,270
Federal and foreign income taxes incurred	1,892,938	1,443,425	1,316,110
Net gain (loss) from operations before net realized capital gains	$ 5,283,397	$ 7,199,639	$ 3,136,160
Net realized capital gains (losses)	67,464	39,256	(746,919)
Net income	$ 5,350,861	$ 7,238,895	$ 2,389,241

C. CAPITAL AND SURPLUS ACCOUNT

	1999	2000	2001
Capital and surplus, December 31, prior year	$32,707,215	$38,135,775	$45,459,909
Net income	$ 5,350,861	$ 7,238,895	$ 2,389,241
Change in net unrealized capital gains (losses)	288,647	(317,886)	(97,297)
Change in non-admitted assets and related items	36,142	(373)	2,602
Change in liability for reinsurance in unauthorized companies	136,988	223,017	(113,486)
Change in asset valuation reserve	(384,078)	180,481	299,123
Net change in capital and surplus	$ 5,428,560	$ 7,324,134	$ 2,480,182
Capital and surplus, December 31, current year	$38,135,775	$45,459,909	$47,940,091

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.

Section 3201(b)(1) of the New York Insurance Law states, in part:

> "No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent . . . "

The Company issued six policies using an unapproved application form for its individual life conversion policies.

The Company violated Section 3201(b)(1) of the New York Insurance Law by using an unapproved application form.

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 policy forms and underwriting manuals and analyzed the underwriting practices used for each line of business. In summary, the Company's findings were that there were no findings from their review that would indicate any race-based practices.

An analysis of the Company's response to the Supplement and other factors indicated that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

7. AGENCY OPERATIONS

A. Agents' Licensing

Section 2112(a) of the New York Insurance Law states, in part:

> "Every insurer . . . doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer . . . "

During the period under review, there were 12 unappointed agents who wrote 29 annuity contracts and received commissions for the contracts written.

The Company violated Section 2112(a) when it failed to appoint agents who sold insurance for the Company.

The above violation is repeated from the prior three reports on examination.

B. Adjusters' Licensing

Section 2108(a)(4) of the New York Insurance Law states, in part:

> "No insurer . . . shall pay any fees or other compensation to any person, firm, association or corporation, for acting as an independent adjuster except to a licensed independent adjuster . . . "

The Company compensated two unlicensed third party administrators for adjusting and paying accident and health claims.

The Company violated Section 2108(a)(4) of the New York Insurance Law when it compensated two unlicensed third party administrators.

This violation is repeated from the two prior reports on examination.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations 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 3214(c) of the New York Insurance Law when it failed to pay interest on 43 death claims. The Company paid interest on all death claims during the current examination period.
B	The Company violated Section 2112(a) of the New York Insurance Law when it failed to appoint agents who sold insurance for the Company. This violation is repeated from the prior two reports on examination. The Company again violated Section 2112(a) of the New York Insurance Law when it failed to appoint agents who sold insurance for the Company.
C	The Company violated Sections 2114(a)(1) and (a)(3) of the New York Insurance Law when it paid commissions to agents who were not appointed by the Company. This violation is repeated from the prior two reports on examination. The Company paid commissions to agents who were not appointed by the Company.
D	The Company violated Section 2108(a)(4) of the New York Insurance Law when it paid compensation to three unlicensed third party administrators for adjusting and paying claims. This violation is repeated from the prior report on examination. The Company again violated Section 2108(a)(4) of the New York Insurance Law when it paid compensation to two unlicensed third party administrators for adjusting and paying claims.

9. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No(s).
A	The examiner recommends that the Company include all unauthorized reinsurance as a liability in future years.	8
B	The Company violated Section 3201(b)(1) of the New York Insurance Law by using an unapproved application form.	15
C	The Company violated Section 2112(a) of the New York Insurance Law when it failed to appoint agents who sold insurance for the Company.	17
D	The Company violated Section 2108(a)(4) of the New York Insurance Law when it paid compensation to two unlicensed third party administrators for adjusting and paying claims.	17

Respectfully submitted,

/s/
Joshua Weiss
Associate Insurance Examiner

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

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

/s/
Joshua Weiss

Subscribed and sworn to before me

this__________ day of __________________________

APPOINTMENT NO. 21915

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:

JOSHUA WEISS

as a proper person to examine into the affairs of the

PREFERRED LIFE 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 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 July, 2002

GREGORY V. SERIO
Superintendent of Insurance

Superintendent