



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
AMERICAN FAMILY LIFE ASSURANCE COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

MARCH 13, 2016

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

MARY B. PACKARD, CPA, CFE

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	4
	A. History	4
	B. Holding company	4
	C. Organizational chart	5
	D. Service agreements	6
	E. Management	8
3.	Territory and plan of operations	10
	A. Statutory and special deposits	10
	B. Direct operations	10
	C. Reinsurance	10
4.	Significant operating results	12
5.	Financial statements	14
	A. Independent accountants	14
	B. Net admitted assets	14
	C. Liabilities, capital and surplus	15
	D. Condensed summary of operations	16
	E. Capital and surplus account	17



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

March 20, 2017

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31499, dated June 27, 2016 and annexed hereto, an examination has been made into the condition and affairs of American Family Life Assurance Company of New York, hereinafter referred to as "the Company" at its administrative office located at 1932 Wynnton Road, Columbus, GA 31999. The Company's home office is located at 22 Corporate Woods Boulevard, Albany, NY 12211.

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

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

1. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2016 Edition* (the Handbook). The examination covers the four year period from January 1, 2012 to December 31, 2015. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2015 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners (NAIC). The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the insurer's operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management's compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

The examination was conducted as a group examination in conjunction with the examinations of American Family Life Assurance Company of Columbus (Aflac Columbus), a Nebraska domestic insurer. The examination was called by the Nebraska Department of Insurance ("Nebraska") in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System ("FEETS"). Nebraska served as the lead with New York participating. In addition, South Carolina will be relying on work performed during the examination when its examination of Continental American Insurance Company commences.

Since the lead and participating states are all accredited by the NAIC, the states deemed it appropriate to rely on each other's work.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and

management activities were evaluated incorporating the NAIC's nine branded risk categories.

These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2012 through 2015, by the accounting firm of KPMG, LLP. The Company received an unqualified opinion in all years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. Aflac Columbus has an internal audit department and a separate internal control department which was given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 (SOX) for both Aflac Columbus and the Company. Where applicable, SOX workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

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.

2. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on March 31, 1964, and was licensed and commenced business on December 18, 1964 as the American Health and Life Insurance Company of New York, a wholly-owned subsidiary of American Health and Life Insurance Company, which in turn was owned by Commercial Credit Company.

On April 2, 1984, the Company, then known as, American Health and Life Insurance Company of New York was acquired and became a wholly-owned subsidiary of Aflac Columbus. On December 11, 1984, the Company changed its name to its present name, American Family Life Assurance Company of New York.

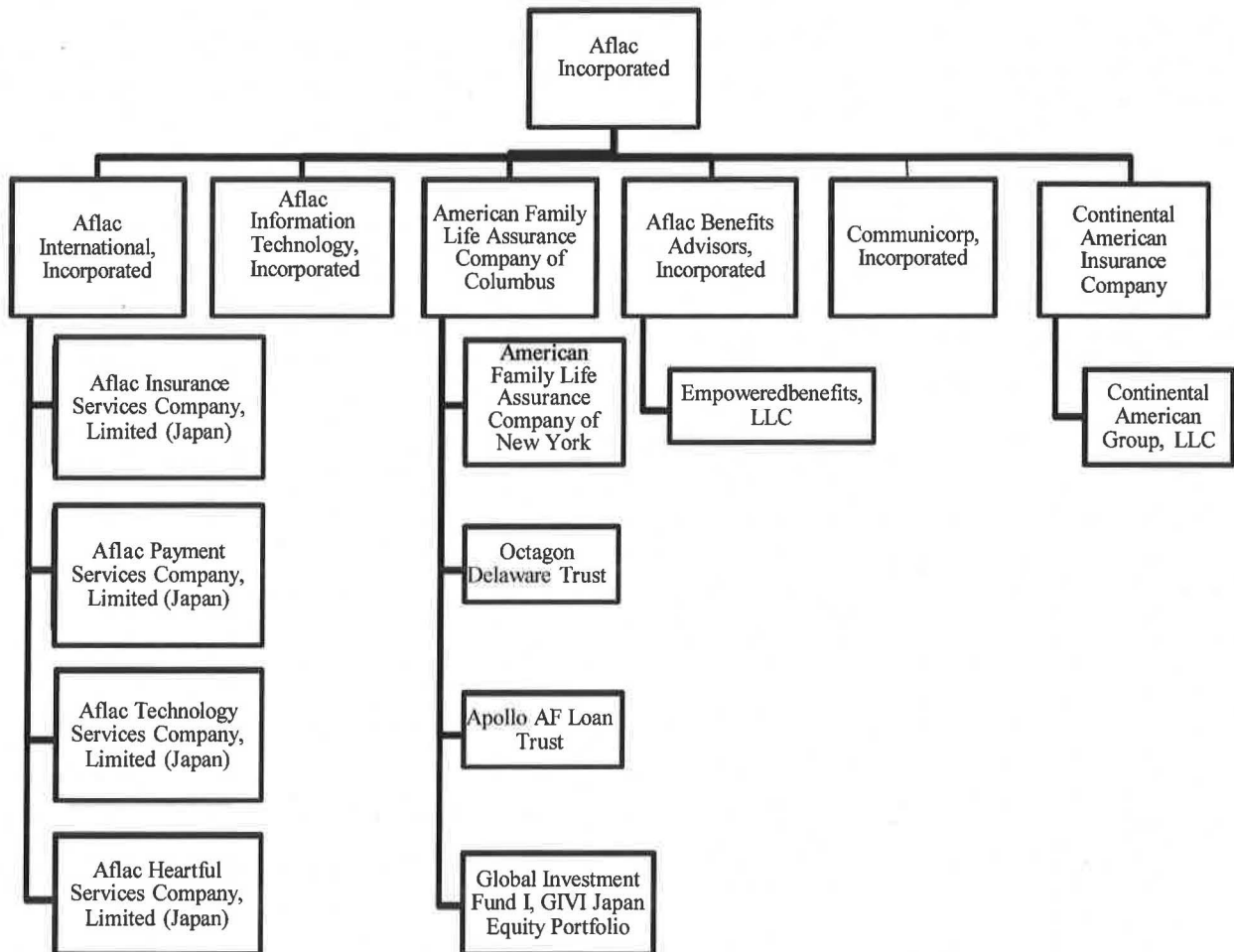
As of December 31, 2015, the Company reported paid-in capital in the amount of \$2,000,000, consisting of 10,000 shares common stock (with a par value of \$200 each), and paid in and contributed surplus of \$33,331,688.

B. Holding Company

The Company is a wholly owned subsidiary of Aflac Columbus, a Nebraska domestic supplemental life and health insurance company. Aflac Columbus is in turn a wholly owned subsidiary of Aflac Incorporated ("Aflac, Inc."), a Georgia supplemental life and health insurance company. The ultimate parent of the Company is Aflac, Inc.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2015 follows:



D. Service Agreements

The Company had five service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider of Services	Recipient of Services	Specific Services Covered	Income/(Expense)* For Each Year of the Examination
Administrative Services Agreement (IT Services) File No. 16125	06/01/1989	Aflac Columbus	The Company	IT services including conversions, technical support, running of cycles, software support, and programming services.	2012 – (\$550,932) 2013 – (\$606,024) 2014 – (\$666,626) 2015 – (\$733,286)
Sales and Marketing Agreement File No. 25285	09/03/1993 Amended 01/07/1998 01/01/2000 01/01/2004	The Company	Aflac Columbus	Sales & marketing planning, recruiting, training, and supervision of sales force for specific states.	2012 – \$368,832 2013 – \$374,012 2014 – \$431,721 2015 – \$654,757
Administrative Services Agreement File No. 25398	11/01/2002	Aflac Columbus	The Company	Accounting, auditing, tax, claims, actuarial, legal, compliance, governmental relations, personnel services, travel & meeting services, outbound services, agents licensing and compensation, marketing, investments, call center, and remittance processing services.	2012 – (\$3,908,923) 2013 – (\$4,414,165) 2014 – (\$4,664,153) 2015 – (\$4,413,600)

Type of Agreement and Department File Number	Effective Date	Providers of Services	Recipients of Services	Specific Services Covered	Income/(Expenses)* for Each Year of the Examination
Administrative Services Agreement	11/01/2004	The Company	Aflac Columbus	Underwriting, policyholder and payroll account services, and marketing.	2012 – \$509,956 2013 – \$335,265 2014 – \$382,327 2015 – \$298,265
Administrative Agreement File No. 42704	09/01/2010	Continental American Insurance Company	The Company	Underwriting, claims settlement, policyholder services, premium remittance processing, actuarial services, outbound services, agent compensation services, marketing Services, call center services.	2012 – (\$0) 2013 – (\$0) 2014 – (\$111,824) 2015 – (\$189,546)

* Amount of Income or (Expense) Incurred by the Company

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven and not more than seventeen directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in June of each year. As of December 31, 2015, the board of directors consisted of eight members. Meetings of the board are held annually in June of each year.

The eight board members and their principal business affiliation, as of December 31, 2015, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Daniel P. Amos Columbus, GA	Chairman of the Board Aflac Incorporated	1984
Paul S. Amos, II Columbus, GA	President American Family Life Assurance Company of Columbus	2007
Kriss Cloninger, III Columbus, GA	President Aflac Incorporated	2001
June P. Howard Cataula, GA	Senior Vice President and Chief Accounting Officer Aflac Incorporated	2012
Elizabeth J. Hudson* McLean, VA	EVP, Chief Communications Officer National Geographic Society	1991
Douglas W. Johnson* Atlanta, GA	Retired CPA, Former Audit Partner Ernst & Young LLP	2005
Melvin T. Stith* Jamesville, NY	Dean Emeritus Martin J. Whitman School of Management Syracuse University	2012
Teresa L. White Columbus, GA	President, Aflac US American Family Life Assurance Company of Columbus	2013

* 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, 2015:

<u>Name</u>	<u>Title</u>
Daniel P. Amos	Chairman of the Board
Paul S. Amos II	President
Frederick J. Crawford	Executive Vice President, Chief Financial Officer
Audrey B. Tillman	Executive Vice President, General Counsel
Phillip J. Friou	Executive Vice President, Government Relations
Eric M. Kirsch	Executive Vice President, Global Chief Investment Officer
Kenneth S. Janke	Executive Vice President, Treasurer
Teresa L. White	Executive Vice President; President Aflac US
Kriss Cloninger, III	Executive Vice President
June P. Howard	Senior Vice President, Chief Accounting Officer
Rebecca Y. Wilson	Vice President, Appointed Actuary
Joseph M. Loudermilk	Vice President, Secretary

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

3. TERRITORY AND PLAN OF OPERATIONS

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 six states, namely Connecticut, Massachusetts, New Jersey, New York, North Dakota and Vermont. In 2015, all life premiums and annuity considerations, and 97.9% of accident and health premiums were received from New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2015, the Company had \$300,000 (par value) of United States Treasury Notes on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. As per the confirmation received from the following state which was reported in Schedule E of the 2015 filed annual statement, an additional, \$500,000 was being held by the state of Massachusetts.

B. Direct Operations

The Company's agency operations are conducted on a general agency/branch office basis. The Company's primary business is supplemental health insurance. Most of the Company's policies are individually underwritten and marketed through independent agents and brokers. The Company markets its products principally in New York. The majority of policies sold in 2014 and 2015 were accident/short-term disability and specific disease insurance plans. The Company also has run off blocks of annuity and Medicare Supplement business. The Company started selling a group hospital indemnity product in 2012 that is administered by its affiliate, Continental American Insurance Company, in an effort to broaden its product portfolio and reach a new line of customers.

C. Reinsurance

As of December 31, 2015, the Company had an automatic reinsurance agreement effective July 1, 2006, with Swiss Re Life & Health America, Inc. ("SRLHA"), an authorized reinsurer. Under the terms of the agreement, SRLHA assumes 100% of the in-force accidental death benefit and group accidental death, injury and/or dismemberment issued or administered as supplementary

benefits or riders of individual life contracts. The maximum reinsured amount is \$500,000 per insured individual.

Also, the reinsurance agreement with SRLHA provides for 100% reinsurance of the Company's run-off common carrier accidental death benefits, in excess of \$100,000. The maximum reinsured amount is \$100,000 per insured individual. The common carrier accidental death benefits belong to an old block of accident policies that the Company stopped writing in May 2001.

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, <u>2011</u>	December 31, <u>2015</u>	<u>Increase</u>
Admitted assets	\$ <u>453,991,935</u>	\$ <u>817,948,518</u>	\$ <u>363,956,583</u>
Liabilities	\$ <u>330,629,305</u>	\$ <u>519,492,579</u>	\$ <u>188,863,274</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	33,331,688	33,331,688	0
Affordable Care Act fee special surplus	0	204,612	204,612
Unassigned funds (surplus)	<u>88,030,942</u>	<u>262,919,639</u>	<u>174,888,697</u>
Total capital and surplus	\$ <u>123,362,630</u>	\$ <u>298,455,939</u>	\$ <u>175,093,309</u>
Total liabilities, capital and surplus	\$ <u>453,991,935</u>	\$ <u>817,948,518</u>	\$ <u>363,956,583</u>

The Company's invested assets, as of December 31, 2015, were mainly comprised of bonds (95.9%), and cash and short-term investments (3.8%).

The majority (98.8%) of the Company's bond portfolio, as of December 31, 2015, 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:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Ordinary:				
Life insurance	\$ 885,857	\$ 1,397,627	\$ 1,369,469	\$ 1,234,986
Individual annuities	<u>(18,790)</u>	<u>9,032</u>	<u>17,017</u>	<u>21,859</u>
Total ordinary	\$ <u>867,067</u>	\$ <u>1,406,659</u>	\$ <u>1,386,486</u>	\$ <u>1,256,845</u>
Accident and health:				
Group	\$ 1,031,570	\$ 828,754	\$ 973,354	\$ 875,472
Other	<u>32,838,564</u>	<u>37,102,091</u>	<u>37,421,987</u>	<u>40,732,054</u>
Total accident and health	\$ <u>33,870,134</u>	\$ <u>37,930,845</u>	\$ <u>38,395,341</u>	\$ <u>41,607,526</u>
All other lines	\$ <u>5,213,386</u>	\$ <u>6,027,919</u>	\$ <u>4,254,365</u>	\$ <u>4,516,480</u>
Total	\$ <u>39,950,587</u>	\$ <u>45,365,423</u>	\$ <u>44,036,192</u>	\$ <u>47,380,851</u>

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2012, as contained in the Company's 2015 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, 2015 filed annual statement.

A. Independent Accountants

The firm of KPMG LLP was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

KPMG LLP concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	\$ 723,218,382
Cash, cash equivalents and short term investments	28,785,181
Contract loans	453,181
Other invested assets (Schedule BA)	2,068,826
Investment income due and accrued	9,413,119
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	26,427,024
Deferred premiums, agents' balances and installments booked but deferred and not yet due	292,042
Net deferred tax asset	26,269,635
Receivable from parent, subsidiaries and affiliates	<u>1,021,128</u>
Total admitted assets	<u>\$ 817,948,518</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life contracts	\$ 28,447,108
Aggregate reserve for accident and health contracts	342,880,679
Liability for deposit-type contracts	15,669
Contract claims:	
Life	800,000
Accident and health	76,690,584
Premiums and annuity considerations for life and accident and health contracts received in advance	2,328,837
Contract liabilities not included elsewhere:	
Interest maintenance reserve	3,376,531
Commissions to agents due or accrued – life and annuity contracts	9,091,879
General expenses due or accrued	7,381,764
Taxes, licenses and fees due or accrued, excluding federal income taxes	681,441
Current federal and foreign income taxes	27,961,376
Amounts held for agents' account	1,340,963
Remittances and items not allocated	12,939,358
Miscellaneous liabilities:	
Asset valuation reserve	3,066,936
Payable to parent, subsidiaries and affiliates	1,412,357
Funds held for escheat	1,055,911
Other liabilities	<u>21,186</u>
Total liabilities	\$ <u>519,492,579</u>
Common capital stock	\$ 2,000,000
Gross paid in and contributed surplus	33,331,688
Affordable Care Act fee special surplus	204,612
Unassigned funds (surplus)	<u>262,919,639</u>
Surplus	<u>296,455,939</u>
Total capital and surplus	\$ <u>298,455,939</u>
Total liabilities, capital and surplus	\$ <u>817,948,518</u>

D. Condensed Summary of Operations

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Premiums and annuity considerations	\$ 271,112,096	\$ 285,546,248	\$ 293,451,804	\$ 304,221,778
Net investment income	26,215,574	29,136,819	32,547,406	35,957,725
Amortization of Interest Maintenance Reserve (IMR)	138,136	242,978	265,986	256,445
Interest on agents' balances	42,677	42,375	46,469	35,519
Other income	<u>5,153</u>	<u>12,860</u>	<u>371</u>	<u>6,391</u>
Total income	\$ <u>297,513,636</u>	\$ <u>314,981,280</u>	\$ <u>326,312,036</u>	\$ <u>340,477,858</u>
Benefit payments	\$ 119,668,607	\$ 125,100,294	\$ 135,821,709	\$ 139,205,156
Increase in aggregate reserves for life and A&H contracts	35,650,253	37,390,358	37,291,834	39,305,223
Commissions on premiums, annuity considerations and deposit-type contract funds (direct business only)	51,171,984	52,314,675	51,992,350	51,591,673
General expenses and taxes	24,741,398	27,337,321	30,769,716	35,978,771
Increase in loading on deferred and uncollected premiums	<u>150,999</u>	<u>7,291</u>	<u>(16,872)</u>	<u>(21,126)</u>
Total deductions	\$ <u>231,383,241</u>	\$ <u>242,149,939</u>	\$ <u>255,858,737</u>	\$ <u>266,059,697</u>
Net gain from operations	\$ 66,130,395	\$ 72,831,341	\$ 70,453,299	\$ 74,418,161
Dividends	0	0	0	0
Federal and foreign income taxes incurred	26,179,808	27,465,918	26,417,108	27,037,307
Net gain (loss) from operations before net realized capital gains	\$ 39,950,578	\$ 45,365,423	\$ 44,036,191	\$ 47,380,854
Net realized capital gains (losses)	<u>20,539</u>	<u>0</u>	<u>(17,267,723)</u>	<u>1,638</u>
Net income	\$ <u>39,971,126</u>	\$ <u>45,365,423</u>	\$ <u>26,768,468</u>	\$ <u>47,382,492</u>

E. Capital and Surplus Account

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Capital and surplus, December 31, prior year	\$ <u>123,362,630</u>	\$ <u>176,150,499</u>	\$ <u>221,758,652</u>	\$ <u>250,145,812</u>
Net income	\$ 39,971,126	\$ 45,365,423	\$ 26,768,468	\$ 47,382,492
Change in net unrealized capital gains (losses)	0	0	(1,908,135)	0
Change in net deferred income tax	6,926,967	754,079	19,619,896	922,748
Change in non-admitted assets and related items	(951,024)	(368,635)	(11,036,194)	605,217
Change in asset valuation reserve	(613,796)	(637,177)	(607,050)	(674,932)
Cumulative effect of changes in accounting principles	7,454,596	0	0	0
Minimum pension liability	0	494,463	(4,825)	74,602
Deferred tax adjustment	<u>0</u>	<u>0</u>	<u>(4,445,000)</u>	<u>0</u>
Net change in capital and surplus for the year	\$ <u>52,787,869</u>	\$ <u>45,608,153</u>	\$ <u>28,387,160</u>	\$ <u>48,310,127</u>
Capital and surplus, December 31, current year	\$ <u>176,150,499</u>	\$ <u>221,758,652</u>	\$ <u>250,145,812</u>	\$ <u>298,455,939</u>

Respectfully submitted,

Mary B. Packard

Mary B. Packard, CPA, CFE

Examiner-in-Charge

INS Regulatory Insurance Services, Inc.

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

Mary B. Packard, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

Mary B. Packard

Mary B. Packard, CPA, CFE

Subscribed and sworn to before me

this 19th day of APRIL, 2017

Charles T. Lovejoy

Charles T. Lovejoy
Notary Public, State of New York
No. 01LO4798952
Qualified in New York County
Commission Expires 1-26-18

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **MARIA T. VULLO**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

MARY B. PACKARD
(INS REGULATORY INSURANCE SERVICES, INC.)

as a proper person to examine the affairs of the

AMERICAN FAMILY LIFE ASSURANCE COMPANY OF NEW YORK

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

COMPANY

with such other information as she shall deem requisite.

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

this 27th day of June, 2016

MARIA T. VULLO
Superintendent of Financial Services

By:

mark mcleod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

