



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SECURITY MUTUAL LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2010

DATE OF REPORT:

JUNE 29, 2012

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EXAMINER:

JEFFREY GOOD

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

June 29, 2012

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 30698, dated March 17, 2011 and annexed hereto, an examination has been made into the condition and affairs of Security Mutual Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 100 Court Street, Binghamton, New York 13901.

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

On October 3, 2011, the Insurance Department merged with the Banking Department to create 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, 2010 Edition (the “Handbook”). The examination covers the five-year period from January 1, 2006 to December 31, 2010. 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, 2010 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The results of this review are contained in item 6 of this report.

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.

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 2006 through 2010, by the accounting firm of PricewaterhouseCoopers (“PwC”). The Company received an unqualified opinion in all the applicable years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company has an internal audit department consisting of one person, plus an external audit consulting budget. The Company determined that utilizing consultants, along with PwC, is the most cost effective model and brings highly skilled third parties to work with internal resources.

The examiner reviewed the corrective actions taken by the Company with respect to the violations 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.

2. DESCRIPTION OF COMPANY

A. History

The Company was originally incorporated as a mutual assessment association under the name Security Mutual Life Association on November 6, 1886 and commenced business on January 3, 1887. The Company re-incorporated as Security Mutual Life Insurance Company, a stipulated premium company, on May 31, 1898. The Company reorganized on December 28, 1899 as a legal reserve mutual company. The Company changed its name to Security Mutual Life Insurance Company of New York in 1960. The Company is a mutual life insurance company owned by its policyholders, and operates primarily in the Northeast.

In February 2004, the Company announced the signing of a Stock Purchase Agreement (“Agreement”) dated February 9, 2004 with the Ohio National Life Insurance Company. Such Agreement called for Ohio National to acquire the Company through a sponsored demutualization. Under the terms of the Agreement, the Company was to convert to a stock company and then sell all of its stock to Ohio National. The Department officially disapproved the Agreement on December 30, 2004.

Total costs incurred for the attempted demutualization was \$10,176,000 during 2004. Upon the withdrawal from the transaction the Company expensed \$9,295,000 and capitalized \$881,000. The capitalized portion of the transaction costs represents the costs incurred related to the implementation of a new software system.

The Company issued a \$15 million surplus note at $9\frac{3}{8}\%$ to Chase Securities on December 27, 1996, scheduled to mature on December 15, 2016. The surplus note is not redeemable and there is no provision for a sinking fund. The \$15 million surplus note has no call option.

On December 30, 2004, the Company issued a \$10 million surplus note, scheduled to mature on December 30, 2034, to Credit Suisse First Boston for \$9,694,000 in cash, through a private placement transaction. Interest accrued on the surplus note at 6.96% per annum from December 30, 2004 to December 30, 2009. Beginning December 31, 2009, the rate of interest on the surplus note changed to the sum of LIBOR plus 2.90%.

Pursuant to the provisions of Section 1307 of the New York Insurance Law, both surplus notes were filed with and approved by the Department prior to issuance.

B. Subsidiaries

Non-insurance entities within the Company's holding company group include the Company's 100% ownership in SML Agency Services, Inc. ("SAS"), Security Administrators, Inc. ("SAI"), and Archway Technology Services, Inc. ("ATS"). In addition, the Company has a 19% ownership interest in National Security Life and Annuity Company.

SAS was created in 1994 to function as a corporate general agency to permit the Company's agents to offer insurance products not issued by the Company. SAS primarily sells disability income insurance. During 2004 and 2005, the Company contributed \$250,000 of additional capital to SAS for a marketing services agreement between the Company, SAS and Schmitt Sussman Enterprises, Inc., a Delaware Corporation. The agreement permits the agents to market and write life insurance products through employers, employer-sponsored credit unions, and selected financial services providers. On December 15, 2005 the board of directors approved a resolution authorizing an additional capital contribution to SAS, to be paid on or before December 31, 2006, in an aggregate amount not to exceed \$600,000. Currently, SAS offers clients both individual disability insurance and long-term care insurance products.

SAI provides certain actuarial and pension services to the Company and other non-affiliates. In May 1998, SAI issued 3,019 common shares to American Annuity Group, Inc., a Delaware corporation, for \$500,000. The Company retained a 51% majority ownership in SAI during this reporting period. Through the diversification of ownership, SAI acquired needed capital to expand its pension and actuarial administrative services. In March 2004, SAI purchased all of the shares of the minority interest and is now a wholly-owned subsidiary of the Company. On December 31, 2005, the Company received a cash dividend of \$400,000 from SAI.

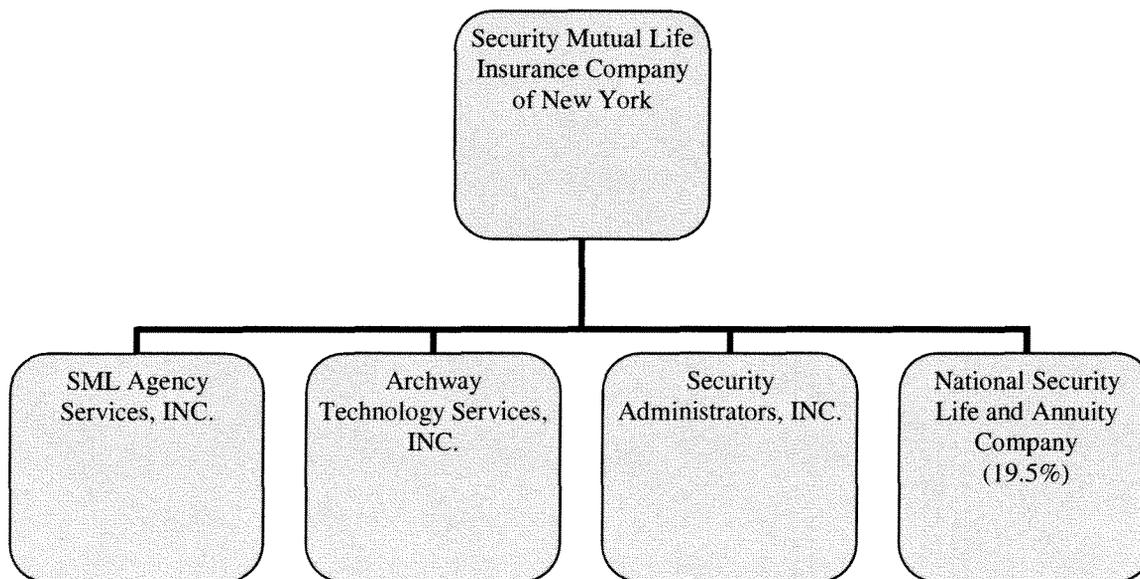
In 2001, the Company formed SMON Holdings, Inc. ("SMON") jointly with Ohio National Financial Services, Inc. ("Ohio National"). The Company made capital contributions aggregating \$12,867,000 in 2001 and 2002, to attain 48.8% ownership in SMON. In January 2002, SMON purchased a variable life insurance company, First ING Life Insurance Company of New York, and re-named it National Security Life and Annuity Company ("NSLAC), for the purchase price of \$23,350,000. In December 2002, the Company contributed additional paid-in-capital of \$650,000 to SMON, which contributed a like amount to NSLAC in the same month. NSLAC began writing business in 2003. Effective March 30, 2007, the Company and Ohio

National entered into a Stock Purchase Agreement pursuant to which SMON was dissolved and its assets were distributed to its sole shareholders, namely the Company and Ohio National. The proceeds were used to purchase shares in NSLAC, which resulted in the Company holding 19.5 percent of NSLAC and a surplus note from Ohio National. Effective December 15, 2011, the remaining ownership shareholder ascribed to the Company was completely taken over by Ohio National; thus bringing its control to 100%.

During 2003, ATS was established and is primarily responsible for the development and maintenance of computer systems used by the Company to sell its worksite insurance product.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2010 follows:



D. Service Agreements

The Company had 11 service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Services Agreement	06/01/94	The Company	SAS	Management and administrative support and related services	2006 - \$217,539 2007 - \$ 67,238
Amendment No. 1	01/01/97				
Agreement Terminated	12/31/07				
Services Agreement	06/13/94	The Company	SAS	Leased employees	2006 - \$251,619 2007 - \$224,678
Agreement Terminated	12/31/07				
Amended and Restated Administrative Services Agreement	12/31/07	The Company	SAS	The Company provides administrative services and leases employees to SAS.	2008 - \$338,162 2009 - \$297,401 2010 - \$319,516
Lease Agreement	03/01/98	The Company	SAS	Leased space	2006 - \$15,264 2007 - \$ 5,862 2008 - \$14,392 2009 - \$14,383 2010 - \$14,962
Marketing Service Agreement	07/17/98	SAS	The Company	The Company receives marketing services from SML Marketing Company, a division of SAS	2006 - \$(595,447)
Agreement Terminated	12/31/06				
Services Agreement	01/01/86	The Company	SAI	Management support services	2006 - \$52,917 2007 - \$51,428
Agreement Terminated	12/31/07				

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Service Agreement for the Company's Retirement Plans Agreement Terminated	10/25/99 12/31/07	SAI	The Company	Actuarial and benefit consulting services for the Company retirement and benefit plans	2006 - \$(101,789) 2007 - \$ (63,428)
Technology Services Agreement Agreement Terminated	03/01/98 12/31/07	The Company	SAI	Technology support, maintenance and related services and computer equipment	2006 - \$15,000 2007 - \$15,000
Amended and Restated Administrative Services Agreement	12/31/07	The Company/ SAI	The Company/ SAI	The Company performs administrative and other services for SAI and SAI performs actuarial and benefit consulting services for the Company	2008 - \$10,416 2009 - \$ (4,778) 2010 - \$13,997
Administrative Services Agreement	02/14/03	The Company	ATS	Corporate management, technical personnel and support staff, accounting and audit functions, investment management, general operations support and administration, and computer software and hardware	2006 - \$15,396 2007 - \$17,372 2008 - \$21,418 2009 - \$30,303 2010 - \$75,715
Administrative Services Agreement	01/04/02	The Company	NSLAC	Administrative support services	2006 - \$92,556 2007 - \$39,083 2008 - \$15,483 2009 - \$13,275 2010 - \$14,044

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

The Company participates in a federal income tax allocation agreement with its affiliates.

E. 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 three years at the annual meeting of the policyholders held in February of each year. Meetings of the board are held quarterly. As of December 31, 2010, the board of directors consisted of 14 members.

The 14 board members and their principal business affiliation, as of December 31, 2010, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Willard N. Archie* New York, NY	Former Chief Executive Officer Mitchell & Titus, LLP	1996
Ray F. Barnard* Bonita Springs, FL	Executive Vice President & Chief Information Officer Fluor Corporation	2008
Carson E. Beadle* Naples, FL	Former President & Chief Executive Officer Carson E. Beadle, Inc.	1996
Bruce W. Boyea Binghamton, NY	Chairman, President and Chief Executive Officer Security Mutual Life Insurance Company of New York	1996
Daryl R. Forsythe* Norwich, NY	Chairman of the Board NBT Bancorp, Inc.	1995
Maxine Frank* New York, NY	Senior Vice President, Chief Legal Officer & General Counsel New York Presbyterian Hospital	2000
Hugh A. Johnson, Jr.* Albany, NY	Chairman Hugh Johnson Advisors LLC	2001
Robert H. Linn* Manlius, NY	Former Managing Partner Ernst & Young	2010
Alan C. Marcus* Saddle River, NJ	President The Marcus Group, Inc.	2008
James W. Orband* Endicott, NY	Managing Partner Hinman, Howard & Kattell, LLP	2006
Howell M. Palmer Vestal, NY	Chief Operating Officer and Chief Financial Officer Security Mutual Life Insurance Company of New York	2006

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Thomas A. Pearson* Pittsford, NY	Albert D. Kaiser Professor Senior Associate Dean for Clinical Research University of Rochester Medical Center	2002
Maria Ramirez* Far Hills, NJ	President Maria Fiorini Ramirez, Inc.	2006
Robert E. Sadler, Jr.* Buffalo, NY	Former Vice Chairman of the Board M & T Bank Corporation	1994

*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, 2010:

<u>Name</u>	<u>Title</u>
Bruce W. Boyea	Chairman, President and Chief Executive Officer
Howell M. Palmer	Chief Operating Officer and Chief Financial Officer
James J. Kerwin	Executive Vice President, Chief Marketing Officer
F. David Mistretta	Executive Vice President, General Counsel and Secretary
Gary W. Scofield	Executive Vice President, Corporate Actuary
Frederick L. Wortman	Executive Vice President, Administration and Chief Compliance Officer
George B. Kozol	Senior Vice President
Gregory W. Simonelli, Jr.	Senior Vice President

The Company's designated consumer services officer per Section 216.4(c) of Department Regulation No. 64 is Vincent J. Montelione, Vice President, Client Services, Reinsurance Administration, Claims and Customer Relations.

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 all 50 states, the District of Columbia and the Virgin Islands. On June 30, 2010, the Company failed to submit the required documents to Puerto Rico; thereby not renewing their license. Effective March 24, 2011, the Company formally withdrew from doing business in Puerto Rico.

In 2010, the Company received direct premiums, annuity consideration and accident and health insurance premiums mainly from New York (61.1%), New Jersey (10.9%), Florida (3.9%), Pennsylvania (3.5%) and Maryland (2.4%). No state, other than New York and New Jersey, received more than 10% of the premiums and annuity considerations. The Company issues participating life insurance policies.

The following tables show the percentage of direct premiums received, by state, and by major lines of business at December 31, 2010:

<u>Life Insurance Premiums</u>		<u>Annuity Considerations</u>	
New York	60.2%	New York	75.0%
New Jersey	10.4	New Jersey	7.3
Florida	4.4	Pennsylvania	6.0
Maryland	3.8	Florida	3.7
Connecticut	<u>2.9</u>	Texas	<u>2.5</u>
Subtotal	81.7%	Total	94.5%
All others	<u>18.3</u>	All others	<u>5.5</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

A. Statutory and Special Deposits

As of December 31, 2010, the Company had \$1,750,000 (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. In addition, the Company had \$30,000 (par value) of United States Treasury Note on special deposit with the State of New York pursuant to the New York State Disability Benefits Law. The Company also had \$2,435,000 (par value) of special deposits held by the states of Arkansas, Florida, Georgia, New Mexico, North Carolina and U.S. Virgin Islands.

B. Direct Operations

The Company primarily markets individual life (whole life products, universal life and term) and individual annuities (single premium deferred annuities and single premium immediate annuities) with emphasis on the personal and estate planning needs of business owners and professional individuals. The Company also markets group life and group disability products. In addition, the Company is expanding its sales of products and services at the worksite, with an emphasis on marketing its individual life and annuity products through the traditional employer channel and providing specialized deposit fund investment and administration services to qualified retirement plans.

Ancillary product lines include variable life and annuity products sold through NSLAC.

The Company's agency operations are conducted on a general agency basis which includes career agents and brokers and specialized group and worksite insurance agents.

The Company is organized within two major divisions; 1) individual insurance division, and 2) benefits division. Within the individual insurance division, products are marketed through an independent distribution force. The Company's distribution efforts are largely concentrated in the states of New York, New Jersey and Pennsylvania. The Company's general agents have a strong geographic presence within the Northeast, metro New York and Mid-Atlantic region, which in the aggregate accounts for almost 75% of life insurance sales. Over 52% of the Company's agents are located in New York State, with approximately 25% focusing their efforts in the five boroughs of New York City. The benefits division consists of the Company's voluntary worksite marketing and group business lines. Within this division, the Company primarily offers traditional individual life products and to a lesser extent, group life and disability products for small to mid-sized employers

through four regional vice presidents, who recruit and provide services to a select network of group general agencies that market the Company's products. The Company continues to successfully expand its core expertise into the worksite/voluntary payroll deduction market.

During the period under examination, sales of the Company's products at the worksite have experienced favorable growth trends via the traditional employer channel. More recently, the Company has expanded its platform into credit union sales. The Company offers traditional and voluntary group life and disability products for small to mid-sized employers through four regional vice presidents, who recruit and provide services to a select network of group general agencies that market the Company's products. The Company continues to successfully expand its core expertise into the worksite/voluntary payroll deduction market.

C. Reinsurance

As of December 31, 2010, the Company had reinsurance treaties in effect with twenty companies of which seventeen were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance, modified-coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$500,000. The total face amount of life insurance ceded as of December 31, 2010, was \$20,706,468,480, which represents 67.9% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies and reinsurance recoverable from unauthorized companies, totaling \$2,202,016, was supported by letters of credit and trust agreements.

The total face amount of life insurance assumed as of December 31, 2010 was \$61,841,655.

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 (decline) during the period under review:

	December 31, <u>2006</u>	December 31, <u>2010</u>	Increase (Decrease)
Admitted assets	<u>\$2,041,281,483</u>	<u>\$2,497,363,798</u>	\$456,082,315
Liabilities	<u>\$1,934,453,086</u>	<u>\$2,381,157,833</u>	<u>\$446,704,747</u>
Surplus Notes	25,000,000	25,000,000	0
Separate account contingency reserve	812,205	750,000	(62,205)
Group life contingency reserve	4,120,801	0	(4,120,801)
Incremental deferred taxes	0	4,753,530	4,753,530
Unassigned funds (surplus)	<u>76,895,391</u>	<u>85,702,435</u>	<u>8,807,044</u>
Total surplus	<u>\$ 106,828,397</u>	<u>\$ 116,205,965</u>	<u>\$ 9,377,568</u>
Total liabilities and surplus	<u>\$2,041,281,483</u>	<u>\$2,497,363,798</u>	<u>\$456,082,315</u>

The Company's invested assets as of December 31, 2010, exclusive of separate accounts, were mainly comprised of bonds (80.8%), contract loans (10.8%) and mortgage loans (7.4%).

The majority (99.56 %) of the Company's bond portfolio, as of December 31, 2010, 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Ordinary:					
Life insurance	\$4,609,887	\$5,154,571	\$4,791,683	\$4,713,697	\$4,774,499
Individual annuities	377,529	1,115,317	(808,917)	(375,382)	1,641,061
Supplementary contracts	<u>107,082</u>	<u>(29,592)</u>	<u>126,328</u>	<u>15,394</u>	<u>(125,128)</u>
Total ordinary	<u>\$5,094,498</u>	<u>\$6,240,296</u>	<u>\$4,109,094</u>	<u>\$4,353,709</u>	<u>\$6,290,432</u>
Credit life	\$ <u>12,309</u>	\$ <u>465</u>	\$ <u>(3,361)</u>	\$ <u>(4,255)</u>	\$ <u>(3,133)</u>
Group:					
Life	\$ 736,597	\$ 302,941	\$ (113,816)	\$ 21,864	\$ 231,665
Annuities	<u>(174,362)</u>	<u>(130,232)</u>	<u>(213,682)</u>	<u>(321,007)</u>	<u>(351,469)</u>
Total group	\$ <u>562,235</u>	\$ <u>172,709</u>	\$ <u>(327,498)</u>	\$ <u>(299,143)</u>	\$ <u>(119,804)</u>
Accident and health:					
Group	\$ 733,678	\$ 509,275	\$ 111,887	\$ 119,365	\$ (16,304)
Other	<u>177,032</u>	<u>197,268</u>	<u>160,841</u>	<u>128,205</u>	<u>74,158</u>
Total accident and health	\$ <u>910,710</u>	\$ <u>706,543</u>	\$ <u>272,728</u>	\$ <u>247,570</u>	\$ <u>57,854</u>
Total	<u>\$6,579,752</u>	<u>\$7,120,013</u>	<u>\$4,050,963</u>	<u>\$4,297,881</u>	<u>\$6,225,349</u>

The significant increase in net gain from individual annuities in 2010 as compared to 2009 is primarily due to significantly lower single premium deferred annuity sales in 2010 and significantly wider spreads between earned and credited rates in 2010 as compared to 2009.

The significant decrease in net gain from individual annuities in 2008 as compared to 2007 is primarily due to the significant increase in sales of a new single premium deferred annuity product that generated earnings strain of approximately \$2.3 million.

The group life line of business earnings declined during 2007 primarily from a smaller reinsurance experience refund and higher expenses. The decline during 2008 was primarily due

to higher dividends, higher expenses and higher group conversion costs. The earnings improved during 2009 and 2010 primarily due to better mortality.

The group annuity line of business contains only the Company's home office pension plan ("HOPP") and the Utica Mutual Pension Plan ("UMPP"). The funding of the HOPP is maintained in the Company's separate account. The UMPP is a closed block of retired lives valued as individual immediate annuities with an average valuation rate of over 9%. There are two factors driving the declining trend in earnings for this line of business. The first factor is the loss from interest on the UMPP block due to a valuation rate in excess of the current portfolio rate. The second factor is the funding of the HOPP via prepaid contributions to the separate account. Invested assets were transferred to the separate account on behalf of the HOPP and the net investment income on those assets was reported there instead of in the general account, thus producing negative interest in the general account group annuity line of business.

The significant decrease in net income in the group accident and health line was a result of a 10% decrease in net premium over the examination period, coupled with increased claim experience and expenses. In addition, an additional strain on earnings resulted from the Company developing an individual accident policy.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, and surplus as of December 31, 2010, as contained in the Company's 2010 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, 2010 filed annual statement.

A. Independent Accountants

The firm of PwC was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company 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.

PwC 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	\$1,914,290,038
Stocks:	
Common stocks	5,230,490
Mortgage loans on real estate:	
First liens	175,193,549
Real estate:	
Properties occupied by the company	5,224,379
Cash, cash equivalents and short term investments	5,485,736
Contract loans	256,372,397
Other invested assets	6,040,000
Investment income due and accrued	32,458,334
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	(3,377,764)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	24,951,043
Reinsurance:	
Amounts recoverable from reinsurers	3,415,172
Other amounts receivable under reinsurance contracts	3,943,821
Current federal and foreign income tax recoverable and interest thereon	198,830
Net deferred tax asset	20,692,362
Guaranty funds receivable or on deposit	1,762,433
Electronic data processing equipment and software	1,129,355
Receivables from parent, subsidiaries and affiliates	26,618
Health care and other amounts receivable	5,175
General Agents Supplemental Retirement Plan Investments	2,186,154
Pension plan auxiliary fund deposits	4,882,097
Voluntary Deferred Compensation Trust	1,466,077
Taxes receivable	117,228
Prepaid Reinsurance Premium Asset	589,372
From separate accounts, segregated accounts and protected cell accounts	<u>35,080,902</u>
Total admitted assets	<u>\$2,497,363,798</u>

C. Liabilities and Surplus

Aggregate reserve for life policies and contracts	\$2,034,079,286
Aggregate reserve for accident and health contracts	2,108,541
Liability for deposit-type contracts	124,842,854
Contract claims:	
Life	10,543,405
Accident and health	288,123
Policyholders' dividends and coupons due and unpaid	(6,598)
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	20,174,600
Premiums and annuity considerations for life and accident and health contracts received in advance	807,361
Contract liabilities not included elsewhere:	
Interest maintenance reserve	22,399,737
Commissions to agents due or accrued	2,574,254
Commissions and expense allowances payable on reinsurance assumed	203
General expenses due or accrued	7,410,994
Taxes, licenses and fees due or accrued, excluding federal income taxes	591,936
Amounts withheld or retained by company as agent or trustee	88,209
Amounts held for agents' account	34,752
Remittances and items not allocated	5,245,159
Liability for benefits for employees and agents if not included above	23,971,795
Miscellaneous liabilities:	
Asset valuation reserve	8,670,266
Reinsurance in unauthorized companies	133,788
Funds held under coinsurance	76,372,166
Interest on policy and contract funds	220,957
Liability for voluntary deferred compensation	1,466,077
Uncashed drafts and checks that are pending escheatment to a state	1,200,891
Liability for future Guaranty Fund payments	2,400,000
Liability for bank for Agents' balances collected	215,240
Liability for modco reinsurance adjustment	3,234
Liability for interest due on reinsurance ceded	239,701
From Separate Accounts statement	<u>35,080,902</u>
Total liabilities	<u>\$2,381,157,833</u>
Surplus notes	25,000,000
Separate account contingency reserve	750,000
Incremental deferred taxes	4,753,530
Unassigned funds (surplus)	<u>85,702,435</u>
Surplus	<u>\$ 116,205,965</u>
Total liabilities and surplus	<u>\$2,497,363,798</u>

D. Condensed Summary of Operations

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Premiums and considerations	\$227,697,628	\$220,994,616	\$290,707,330	\$319,508,799	\$205,755,370
Investment income	109,663,318	113,591,307	114,419,601	118,919,473	128,423,291
Commissions and reserve adjustments on reinsurance ceded	28,229,190	29,203,977	32,250,684	34,546,947	18,122,149
Miscellaneous income	<u>341,297</u>	<u>350,555</u>	<u>171,653</u>	<u>(123,378)</u>	<u>17,124</u>
Total income	<u>\$365,931,433</u>	<u>\$364,140,455</u>	<u>\$437,549,268</u>	<u>\$472,851,841</u>	<u>\$352,317,934</u>
Benefit payments	\$163,773,723	\$164,161,043	\$192,671,236	\$174,035,079	\$164,001,463
Increase in reserves	77,538,295	67,473,252	115,778,182	111,877,075	63,647,054
Commissions	41,648,651	41,652,463	44,976,733	44,149,265	39,129,327
General expenses and taxes	49,949,900	53,105,188	56,297,440	59,119,999	58,716,397
Increase in loading on deferred and uncollected premiums	(383,513)	(461,144)	(168,918)	(622,902)	537,370
Net transfers to (from) separate accounts	(562,614)	906,153	191,064	24,532	1,841,040
Miscellaneous deductions	<u>72,772</u>	<u>337,303</u>	<u>192,232</u>	<u>60,008,527</u>	<u>3,950,322</u>
Total deductions	<u>\$332,037,214</u>	<u>\$327,174,258</u>	<u>\$409,937,969</u>	<u>\$448,591,575</u>	<u>\$331,822,973</u>
Net gain (loss)	\$ 33,894,219	\$ 36,966,197	\$ 27,611,299	\$ 24,260,266	\$ 20,494,961
Dividends	22,356,467	23,490,184	22,372,336	20,186,725	11,732,064
Federal and foreign income taxes Incurred	<u>4,958,000</u>	<u>6,356,000</u>	<u>1,188,000</u>	<u>(224,340)</u>	<u>2,537,548</u>
Net gain (loss) from operations before net realized capital gains	\$ 6,579,752	\$ 7,120,013	\$ 4,050,963	\$ 4,297,881	\$ 6,225,349
Net realized capital gains (losses)	<u>449,344</u>	<u>(1,403,488)</u>	<u>(12,834,966)</u>	<u>2,922,480</u>	<u>679,349</u>
Net income	<u>\$ 7,029,096</u>	<u>\$ 5,716,525</u>	<u>\$ (8,784,003)</u>	<u>\$ 7,220,361</u>	<u>\$ 6,904,698</u>

E. Surplus Account

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Surplus, December 31, prior year	\$ <u>99,751,425</u>	\$ <u>106,828,397</u>	\$ <u>114,730,013</u>	\$ <u>107,896,414</u>	\$ <u>112,992,892</u>
Net income	\$ 7,029,096	\$ 5,716,525	\$ (8,784,003)	\$ 7,220,361	\$ 6,904,698
Change in net unrealized capital gains (losses)	(634,333)	2,713,318	(247,968)	1,070,537	(563,610)
Change in net deferred income tax	615,857	(88,912)	4,813,602	(10,021,084)	699,090
Change in non-admitted assets and related items	1,137,247	579,852	(6,568,970)	4,958,419	(3,050,473)
Change in liability for reinsurance in unauthorized companies	0	(301,583)	301,583	0	(133,788)
Change in reserve valuation basis	0	0	1,826,526	2,621,830	646,273
Change in asset valuation reserve	(1,613,650)	(2,148,463)	8,229,411	(4,238,841)	(2,469,986)
Change in minimum pension liabilities	542,755	2,103,097	(10,742,148)	(941,633)	1,982,292
Incremental deferred taxes	0	0	0	4,426,889	326,641
Net deferred reinsurance premium adjustment	0	0	0	0	(807,583)
Change in due & deferred premium from term valuation basis change	0	0	0	0	(320,481)
Change in method of policy reserves	0	0	4,718,654	0	0
Correction of error in amortization of bond premium	0	0	(380,286)	0	0
Correction of error in policy reserves net of federal income tax	0	(672,218)	0	0	0
Net change in capital and surplus for the year	\$ <u>7,076,972</u>	\$ <u>7,901,616</u>	\$ <u>(6,833,599)</u>	\$ <u>5,096,478</u>	\$ <u>3,213,073</u>
Surplus, December 31, current year	\$ <u>106,828,397</u>	\$ <u>114,730,013</u>	\$ <u>107,896,414</u>	\$ <u>112,992,892</u>	\$ <u>116,205,965</u>

6. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

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

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

B. Underwriting and Policy Forms

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

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

C. Treatment of Policyholders

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

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

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

The prior report on examination was bifurcated into two reports; financial and market conduct. Following are the violations contained in the prior market conduct report on examination and the subsequent actions taken by the Company in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The Company violated 2108(a)(3) of the New York Insurance Law by having an unlicensed independent adjuster adjust its individual health claims.</p> <p>The examination revealed that the Company requests and retains as part of its files a copy of each renewed Independent Adjusters License.</p>
B	<p>The Company violated Section 2108(a)(4) of the New York Insurance Law by paying fees to an unlicensed independent adjuster.</p> <p>The examination revealed that the Company is no longer paying fees to any unlicensed independent adjuster.</p>
C	<p>The Company violated Section 3209(d)(7) of the New York Insurance Law by failing to disclose to applicants in writing that when the policy is issued, a complete policy summary, including cost data, based on the benefits, premiums and dividends of the policy as issued, will be furnished; and that, following the receipt of the policy and policy summary, there will be a period of not less than ten days within which the applicant may return the policy for an unconditional refund of the premiums paid.</p> <p>The examination revealed that the Company revised the preliminary information delivered at time of application and is now in compliance with Section 3209(d)(7) of the New York Insurance Law.</p>
D	<p>The Company violated Section 2611(a) of the New York Insurance Law by requiring an individual proposed for insurance coverage to be the subject of an HIV related test without receiving the written informed consent of such individual prior to such testing.</p> <p>The examination revealed that the Company's underwriting and new business procedures require that when an application is received, underwriting support checks whether or not the consent form has been received as well as the date the consent form was signed. The Company is now in compliance with Section 2611(a) of the New York Insurance Law</p>
E	<p>The Company violated Section 216.6(c) of Department Regulation No. 64 by failing to include in the respective denial letters the applicable long-term disability policy provision limiting the claimants' right to sue the Company.</p>

The examination revealed that denial letters applicable to long-term disability contain the appropriate language and is now in compliance with Section 216.6(c) of Department Regulation No. 64.

Respectfully submitted,

_____/s/_____
Jeffrey Good
Consultant

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

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

_____/s/_____
Jeffrey Good

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 30698

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, JAMES J. WRYNN, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

JEFF GOOD

as a proper person to examine into the affairs of the

SECURITY MUTUAL 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 17th day of March, 2011



JAMES J. WRYNN
Superintendent of Insurance

James J. Wrynn
Superintendent