NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

FIDELITY SECURITY LIFE INSURANCE COMPANY OF NEW YORK

CONDITION: DECEMBER 31, 2016

DATE OF REPORT: MAY 1, 2018

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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AS OF

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EXAMINER:	ERIC C. DERCHER, CFE

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

May 10, 2018

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

Madam:

In accordance with instructions contained in Appointment No. 31671, dated September 11, 2017, and annexed hereto, an examination has been made into the condition and affairs of Fidelity Security Life Insurance Company of New York, hereinafter referred to as “the Company,” at its main administrative office located at 3130 Broadway, Kansas City, MO 64111. The Company’s statutory home office is located at 162 Prospect Hill Road, Suite 101A, Brewster NY 10509.

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 financial examination as defined in the NAIC *Financial Condition Examiners Handbook, 2017 Edition* (the "Handbook"). The examination covers the five-year period from January 1, 2012, to December 31, 2016. 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, 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 coordinated and conducted in conjunction with the examination of the Company's parent, Fidelity Security Life Insurance Company ("FSL"), a Missouri domestic stock life insurance company. The coordinated examination was led by the State of Missouri, with participation from New York. Since the lead and participating state are accredited by the NAIC, both 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 2016, by the accounting firm of RSM US 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. FSL, the Company's parent, has an internal audit department which is given the task of assessing the internal control structure of its subsidiaries, business partners, third-party administrators, and managing general agents and underwriters, and assessing compliance with the NAIC Model Audit Rule ("MAR"). MAR documentation and related testing workpapers were reviewed. However, the examiner relied on neither the internal audit, nor MAR testing-related workpapers.

The examiner reviewed the corrective actions taken by the Company with respect to the violations and recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 6 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 incorporated as a stock life insurance company under the laws of New York on December 23, 1963, under the name of Old Republic Life Insurance Company of New York. The Company was licensed and commenced business on April 30, 1964. Initial resources of $750,000, consisting of common capital stock of $500,000 and paid in and contributed surplus of $250,000, were provided through the sale of 100,000 shares of common stock (with a par value of $5 each) for $7.50 per share.

In 1971, the Company increased its capital from $500,000 to $600,000 through the issuance of a stock dividend of 20,000 shares with a par value of $5 per share. In 1993, the Company increased its capital from $600,000 to $2,000,000 through the issuance of a stock dividend of 280,000 shares with a par value of $5 per share.

The Company was acquired in February 1999 by Great American Life Insurance Company, and on April 2, 1999, the Company's name was changed to Great American Life Insurance Company of New York.

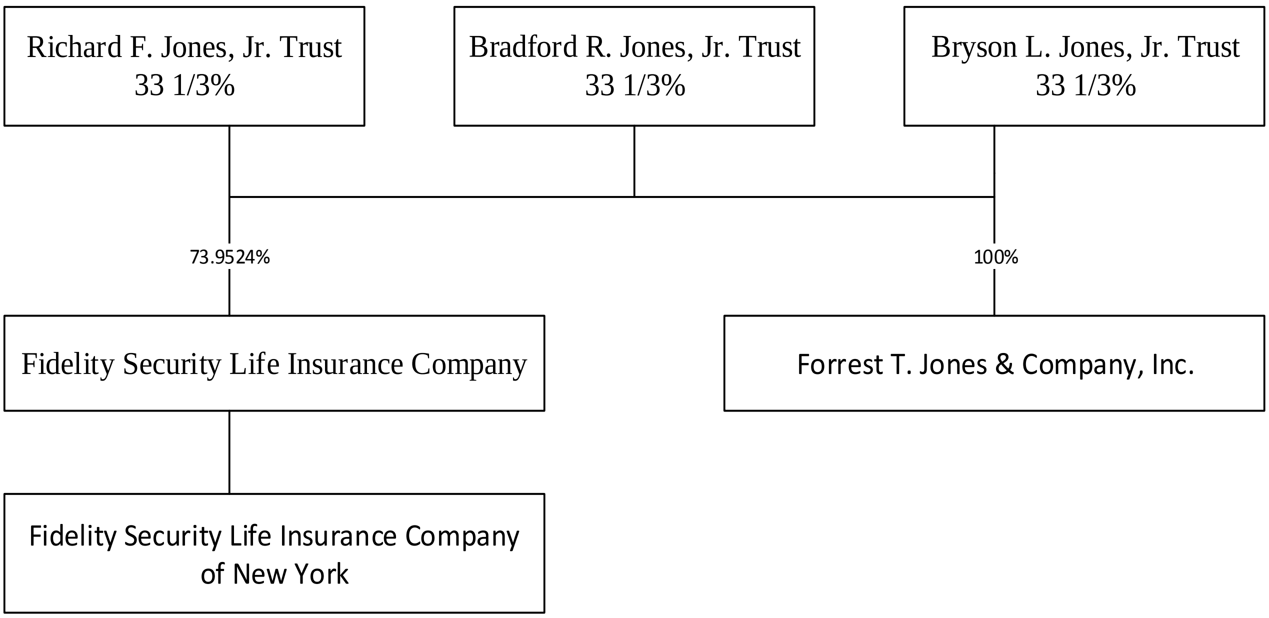
On December 30, 2011, the Company was acquired by FSL in a 100% stock purchase transaction, and the Company's current name was adopted.

B. Holding Company

The Company is a wholly owned subsidiary of FSL , a Missouri life insurance company. FSL's ownership consists of three trusts, each with a one-third interest.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2016, follows:



D. Service Agreements

The Company had two 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 Service(s) Covered	(Expense)* For Each Year of the Examination
Administrative Service Agreement File No. 45072	12/30/2011	Forrest T. Jones & Company, Inc.	The Company	Facilities and Personnel, Licensing and Insurance, Administrative and Functional Duties, Marketing, Underwriting and/or Verifying Eligibility, Billing and Collecting, and Adjusting Claims	2012 $(606,369) 2013 $(519,540) 2014 $(759,144) 2015 $(992,393) 2016 $(992,422)
Investment Services Agreement** File No. 45072	01/01/12	FSL	The Company	Investment Management Services	2012 $0 2013 $0 2014 $0 2015 $0 2016 $0

*Amount of Expense Incurred by the Company
**FSL and the Company agreed to place a moratorium on the amounts due to FSL, pursuant to the agreement.

The Company participates in a federal income tax allocation agreement and has a Letter of Guarantee with its parent.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 7 and not more than13 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2016, the board of directors consisted of eight members. Meetings of the board are held quarterly.

The eight board members and their principal business affiliation, as of December 31, 2016, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Billy B. Hill, Jr.* Austin, TX	Director of Special Projects AmeriLife Group, LLC	2011
William R Hobbs Leawood, KS	Retired VP and Controller Fidelity Security Life Insurance Company	2012
Kathryn A. Howell * Pelham, NY	Counsel CareConnect Insurance Company, Inc.	2012
Richard F. Jones Mission Hills, KS	Chairman, President and Chief Executive Officer Fidelity Security Life Insurance Company of New York	2012
Steven C. Krueger* Blue Springs, MO	Self Employed Steven C. Krueger Legal Services LLC	2011
Peter A. Lindquist Wheaton, Il	Treasurer and Vice President Fidelity Security Life Insurance Company of New York	2016
Martha E. Madden Prairie Village, KS	Vice President and Secretary Fidelity Security Life Insurance Company of New York	2012
David J. Smith Stilwell, KS	Retired President Fidelity Security Life Insurance Company of New York	2012

*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, 2016:

Name	Title
Richard F. Jones	Chairman, President and Chief Executive Officer
Martha E. Madden*	Vice President and Secretary
Peter A. Lindquist	Vice President and Treasurer
James M. Merwald, Jr.	Actuary
Bryson L. Jones	Vice President and Assistant Secretary
Bradford R. Jones	Vice President and Assistant Treasurer
Richard F. Jones Jr.	Vice President

*Designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 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 two states, namely Mississippi and New York. In 2016, 100% of premiums (accident and health premiums, annuity considerations, deposit type funds) were received from New York.

A. Statutory and Special Deposits

As of December 31, 2016, the Company had $ 300,000.00 (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.

B. Direct Operations

The principal line of business marketed during the examination period was group accident and health insurance. The Company markets two products, a limited benefit health vision product and a traditional stop-loss health coverage plan. Both products are reinsured to minimize loss exposure.

The Company markets its products through a number of distribution channels that include individual sales representatives, brokers, managing general agents and third-party administrators. In 2016, 95% of the Company’s business was produced by First American Administrators, Inc.

C. Reinsurance

As of December 31, 2016, the Company had accident and health reinsurance treaties with five companies, of which four were authorized or accredited. The Company’s accident and health business is reinsured on a quota share and coinsurance basis. Reinsurance is provided on an automatic and facultative basis.

The Company did not assume any insurance business during the examination period.

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, 2011	December 31, 2016	Increase (Decrease)
Admitted assets	$42,555,250	$39,369,083	$ (3,186,167)
Liabilities	$33,996,556	$28,781,266	$ (5,215,290)
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	5,350,000	5,350,000	0
Group contingency life reserves	1,081,983	0	(1,081,983)
SSAP 10R election 10.e.	52,643	0	(52,643)
Unassigned funds (surplus)	74,067	3,237,817	3,163,750
Total capital and surplus	$ 8,558,693	$10,587,817	$ 2,029,124
Total liabilities, capital and surplus	$42,555,250	$39,369,083	$ (3,186,167)

The Company's invested assets as of December 31, 2016, were mainly comprised of bonds (96%), stocks (3%), and cash and short-term investments (1%).

The majority (99.5%) of the Company's bond portfolio, as of December 31, 2016, was comprised of investment grade obligations.

The following has been extracted from the Exhibits of Accident and Health Insurance in the filed annual statements for each of the years under review:

	Certificates				
	2012	2013	2014	2015	2016
Outstanding, end of previous year	0	0	37,149	100,754	119,673
Issued during the year	0	37,149	68,934	49,647	52,317
Other net changes during the year	(0)	(0)	(5,329)	(30,728)	(37,504)
Outstanding, end of current year	0	37,149	100,754	119,673	134,486

In 2013, the Company began marketing its group vision product through its network provider, EyeMed Vision Care, LLC ("EyeMed"). The year-over-year fluctuation of the group accident and health insurance issued was largely driven by the varied efforts of EyeMed's marketing. The increase in 2014 was the result of the high priority placed by EyeMed on New York markets during the year. In subsequent years, a higher priority was placed on other markets.

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:

	2012	2013	2014	2015	2016
Ordinary:					
Life insurance	$ (941)	$ (251)	$ 89	$ 89	$ 99
Individual annuities	92,404	438,473	319,504	320,328	460,631
Supplementary contracts	(10,503)	(67,669)	(42,209)	115,918	4,372
Total ordinary	$ 80,960	$370,553	$277,384	$436,335	$465,102
Accident and health:					
Group	$ 0	$(55,207)	$166,686	$100,219	$260,854
Credit	0	0	0	0	0
Other	0	0	(53,335)	(26,888)	(18,846)
Total accident and health	$ 0	$(55,207)	$113,351	$ 73,331	$242,008
All other lines	$ 24,472	$ 7,653	$ 6,830	$ 2,529	$ 5,992
Total	$105,433	$322,999	$397,565	$512,195	$713,103

The Company's annuity business is in run-off. The increase in net gain from individual annuities in 2013, compared with 2012, was primarily due to decreases in reserves and general expenses in 2013. The decrease in 2014 was primarily attributed to the decrease in annuity considerations, and the increase in 2016, compared with 2015, resulted primarily from decreases in reserves and annuity benefits.

The increase in net loss from supplementary contracts in 2013, compared with 2012, was primarily driven by increases in interest and adjustment on contract or deposit-type contract funds and payments on supplementary contracts with life contingencies in 2013. The increase net gain in 2015 resulted primarily from considerations from supplementary contracts of $89,493 in 2015, compared with zero in 2014. Additionally, interest and adjustment on contract or deposit-type contract funds and payments on supplementary contracts with life contingencies decreased in 2015, as compared with 2014. Th net gain in 2016 decrease because there were no considerations for supplementary contracts, and there was a low decrease in reserves in 2016, as compared with 2015.

The increase in net gain in 2014 from group accident and health was due to a significant increase in production during the year. Direct premiums written increased from $6.7 million in 2013 to $15.2 million in 2014, largely driven by the EyeMed business. Approximately 90% of the group accident and health business is ceded; therefore, commissions on reinsurance ceded is comprised of a large component of the profit. The decrease in net gain in 2015 was largely driven by an increase in operating expenses related to the EyeMed business, which was offset by an increase in premiums collected. The increase in net gains in 2016 resulted from the continued growth in production related to the EyeMed business.

The group accident and health other consists of the Company's stop-loss business, which the Company began writing in 2014. The net loss from this line of business in 2014 resulted from the expenses associated with the development of the new business, and the decrease in net loss in 2015 and 2016 resulted from improved underwriting.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2016, as contained in the Company's 2016 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, 2016, filed annual statement.

A. Independent Accountants

The firm of RSM US 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.

RSM US 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	$37,257,939
Stocks:	
Common stocks	358,874
Cash, cash equivalents and short term investments	1,012,744
Investment income due and accrued	396,940
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	11,177
Reinsurance:	
Other amounts receivable under reinsurance contracts	16,298
Current federal and foreign income tax recoverable and interest thereon	28,763
Net deferred tax asset	207,717
Receivables from parent, subsidiaries and affiliates	78,633
Total admitted assets	$39,369,084

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$25,392,849
Aggregate reserve for accident and health contracts	11,085
Liability for deposit-type contracts	1,787,334
Contract claims:	
Accident and health	429,783
Premiums and annuity considerations for life and accident and health:	
contracts received in advance	58
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	310,780
Interest maintenance reserve	456,346
General expenses due or accrued	26,281
Amounts withheld or retained by company as agent or trustee	(15,394)
Amounts held for agents' account	63,256
Remittances and items not allocated	3,972
Miscellaneous liabilities:	
Asset valuation reserve	261,219
Funds held under reinsurance treaties with unauthorized reinsurers	6,469
Payable for Securities	1,826
Liability for Unclaimed funds	45,402
Total liabilities	$28,781,266
Common capital stock	2,000,000
Gross paid in and contributed surplus	5,350,000
Unassigned funds (surplus)	3,237,817
Surplus	$ 8,587,817
Total capital and surplus	$10,587,817
Total liabilities, capital and surplus	$39,369,083

D. Condensed Summary of Operations

	2012	2013	2014	2015	2016
Premiums and considerations	$ 150,094	$ 803,051	$1,547,671	$2,176,163	$2,308,809
Investment income	2,044,599	1,897,900	1,830,307	1,877,570	2,079,905
Commissions and reserve adjustments on reinsurance ceded	0	1,263,880	2,730,977	3,508,344	4,152,537
Miscellaneous income	6,890	7,890	7,415	6,575	25
Total income	$2,201,583	$3,972,721	$6,116,370	$7,568,652	$8,541,276
Benefit payments	$2,637,170	$3,705,315	$2,969,288	$4,060,626	$3,084,292
Increase in reserves	(1,025,946)	(1,761,171)	(634,165)	(1,395,489)	(191,795)
Commissions	0	1,122,811	2,348,833	2,863,218	3,376,743
General expenses and taxes	502,144	581,401	954,046	1,319,361	1,307,960
Total deductions	$2,113,368	$3,648,356	$5,638,002	$6,847,716	$7,577,200
Net gain (loss)	$ 88,215	$ 324,365	$ 478,368	$ 720,936	$ 964,076
Federal and foreign income taxes incurred	(17,218)	1,367	80,803	208,741	250,973
Net gain (loss) from operations before net realized capital gains	$ 105,433	$ 322,998	$ 397,565	$ 512,195	$ 713,103
Net realized capital gains (losses)	138,737	(3,976)	(3,533)	(6,077)	432
Net income	$ 244,170	$ 319,020	$ 394,031	$ 506,118	$ 713,535

E. Capital and Surplus Account

	2012	2013	2014	2015	2016
Capital and surplus, December 31, prior year	$8,558,693	$8,614,569	$9,005,882	$9,387,516	$ 9,850,275
Net income	$ 244,170	$ 319,020	$ 394,031	$ 506,118	$ 713,535
Change in net unrealized capital gains (losses)	11,059	15,840	(88,217)	(33,472)	17,561
Change in net deferred income tax	(172,068)	(73,257)	(30,565)	(26,882)	(101,265)
Change in non-admitted assets and related items	62,736	182,481	68,930	39,745	105,903
Change in asset valuation reserve	(90,021)	(52,772)	37,455	(22,750)	1,808
Net change in capital and surplus for the year	$ 55,876	$ 391,312	$ 381,634	$ 462,759	$ 737,541
Capital and surplus, December 31, current year	$8,614,569	$9,005,882	$9,387,516	$9,850,275	$10,587,817

6. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the financial condition violations and recommendation 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 by failing to establish a committee comprised solely of directors who are not officers or employees of the company to recommend the selection of independent certified public accountants, nominate candidates for director for election by shareholders or policyholders, evaluate the performance of officers deemed by such committee to be principal officers of the company and recommend to the board of directors the selection and compensation of such principal officers. On May 12, 2012, the board established several independent committees with the requisite authority to ensure compliance with Section 1202(b)(2) of the New York Insurance Law.
B	The examiner recommended that the board establishes an independent committee with the requisite authority to ensure compliance with Section 1202(b)(2) of the New York Insurance Law. On May 12, 2012, the board established several independent committees with the requisite authority to ensure compliance with Section 1202(b)(2) of the New York Insurance Law.
C	The Company violated Section 243.3(a)(4) of Department Regulation No. 152 by failing to maintain a duplicate or back-up system sufficient to permit reconstruction of the record at a separate location in those instances where the insurer did not retain the original paper record. The Company's current record keeping system has been integrated into FSL's recordkeeping system, which maintains duplicate or back-up system. Additionally, the Company has adopted policies and procedures that are aligned with or are more rigorous than those contained in Regulation 152. The current examination did not reveal any records retention issues.

Respectfully submitted,

Eric C. Dercher

Eric C. Dercher CFE
Noble Consulting Services, Inc.

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

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

Eric C. Dercher

Eric C. Dercher CFE
Noble Consulting Services, Inc.

Subscribed and sworn to before me

this 23RD day of MAY, 2018

Charles T. Lovejoy

CHARLES T LOVEJOY
NOTARY PUBLIC, STATE OF NEW YORK
Registration No. 01LO4798952
Qualified in New York County
Commission Expires January 26, 2022

APPOINTMENT NO. 31671

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:

ERIC C. DERCHER
(NOBLE CONSULTING SERVICES, INC.)

as a proper person to examine the affairs of the

FIDELITY SECURITY LIFE INSURANCE COMPANY OF NEW YORK

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

COMPANY

with such other information as he 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 11th day of September, 2017

MARIA T. VULLO
Superintendent of Financial Services

By:

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU