

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

CONDITION:

DECEMBER 31, 2012

DATE OF REPORT:

MARCH 06, 2014

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

PHILADELPHIA FINANCIAL LIFE ASSURANCE COMPANY OF NEW YORK

AS OF

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EXAMINER:

FLORA EGBUCHULAM

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

November 12, 2014

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
New York, New York 10004

Sir:

In accordance with instructions contained in Appointment No. 30984, dated February 6, 2014, and annexed hereto, an examination has been made into the condition and affairs of Philadelphia Financial Life Assurance Company of New York hereinafter referred to as “the Company,” at the Department’s office located at One State Street, 11<sup>th</sup> Floor, New York, NY 10004. The Company’s home office is located at 1650 Market Street, 54<sup>th</sup> Floor, Philadelphia, PA 19103.

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. EXECUTIVE SUMMARY

The material finding contained in this report is summarized below.

- The examiner recommends that the Company establish procedures to ensure that its books of account are maintained in a durable medium, at all times, in its principal office in New York. (See item 3C of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2012. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2012, 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, 2012, to determine whether the Company's 2012 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
- 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 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.

### 3. DESCRIPTION OF COMPANY

#### A. History

The Company was incorporated as a stock life insurance company under the laws of New York on April 15, 1988, under the name Maximum Life Insurance Company, was licensed on May 20, 1988, and commenced business on May 20, 1988. Initial resources of \$7,502,427, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$5,502,427, were provided through the sale of 2,000 shares of common stock (with a par value of \$1,000 each) for \$3,751.21 per share.

On December 31, 1995, the Company was acquired by American Phoenix Life and Reassurance Company (“APLAR”), and the name of the Company was changed to Phoenix Life and Reassurance Company of New York.

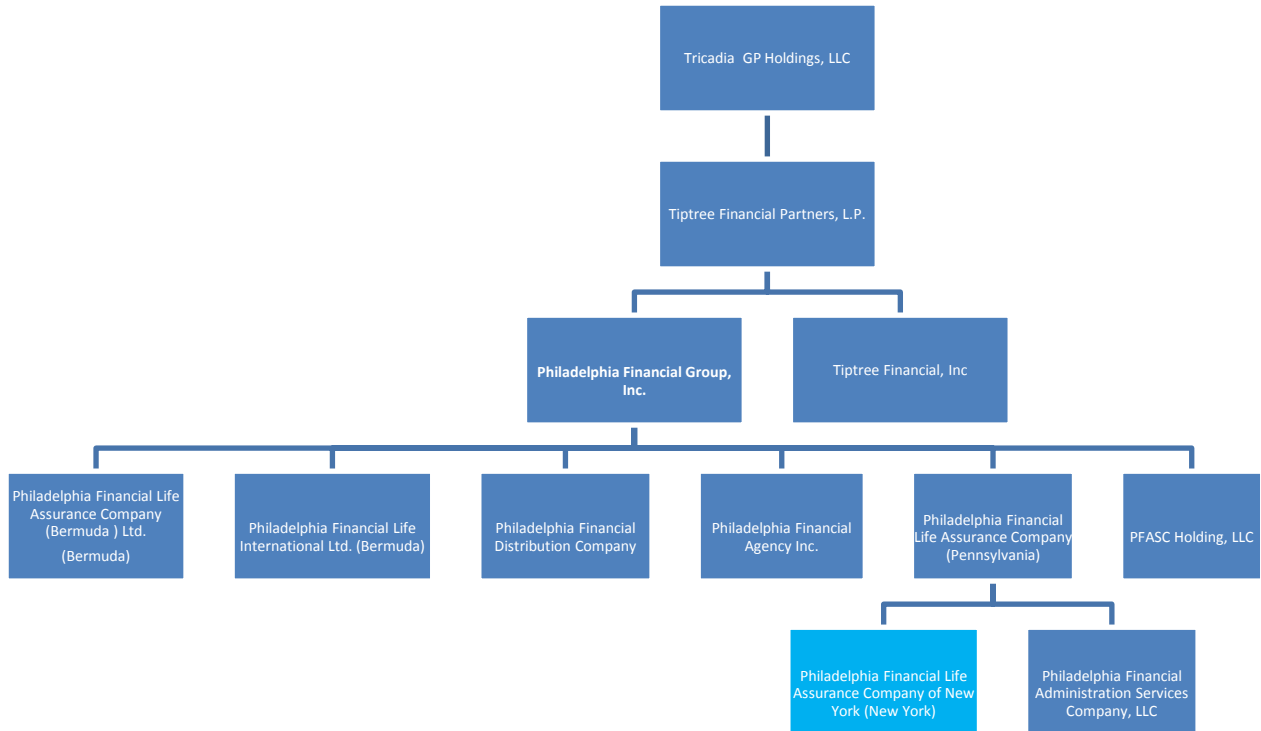
On October 6, 2010, the Company was acquired from the Phoenix Companies by Philadelphia Financial Life Assurance Company, a Pennsylvania company. On October 28, 2010, the name of the Company was changed from Phoenix Life and Reassurance Company of New York to its current name, Philadelphia Financial Life Assurance Company of New York.

On March 28, 2011, the Company received a cash contribution of \$245,000 from its parent, Philadelphia Financial Life Assurance Company (“PFLAC”), primarily to increase the Company’s capital and surplus to approximately \$4.1 million.

#### B. Holding Company

The Company is a wholly owned subsidiary of PFLAC, a Pennsylvania life insurance company. PFLAC is in turn a wholly owned subsidiary of Philadelphia Financial Group, Inc., a Pennsylvania financial services company. The ultimate parent of the Company is Tricadia GP Holdings, LLC (“GP Holdings”) a limited liability company organized under the laws of the state of Delaware with its principal place of business in New York.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2012, follows:





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

Type of Agreement and Dept. File No.	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Administrative Services (File No. 40837)	11/01/08 Terminated 10/06/10 and replaced with Agreement No. 44454	AG Life Assurance Company	The Company	On-going Administrative Services, including accounts, data processing and personnel management	2008 \$(73,393) 2009 \$(83,558) 2010 \$ 0 2011 \$ 0 2012 \$ 0
Administrative Agreement (File No. 44454)	10/06/10	Philadelphia Financial Life Assurance Company ("PFLAC")	The Company	On-going administrative services, including accounts, data processing and personnel management	2008 \$ 0 2009 \$ 0 2010 \$(30,680) 2011** \$ 0 2012** \$ 0

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

\*\* The Company indicated that virtually no services were provided during the years 2011 and 2012 to justify allocating any expenses.

### C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in March of each year. As of December 31, 2012, the board of directors consisted of seven members. Meetings of the board are held annually in March of each year, immediately after the meeting of the shareholders, or as soon as practicable after the annual meeting of the shareholders.

The seven board members and their principal business affiliation, as of December 31, 2012, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Michael G. Barnes New York, NY	Managing Partner Tricadia Holdings, L.P.	2010
John K. Hillman Philadelphia, PA	President, Chief Executive Officer Philadelphia Financial Life Assurance Company of New York	2010
Robert H. Kanner* Cleveland, OH	President Pubco Corporation and Subsidiaries	2010
Geoffrey N. Kauffman New York, NY	President and Chief Executive Officer Tiptree Financial, Inc.	2010
Paul L. Schaye* New York, NY	Managing Partner Chestnut Hill Partners	2010
Stuart J. Schlesinger* Scarsdale, NY	Managing Director Sycamore Fyld Holdings, Inc.	2010
Neal C. Schneider* Devon, PA	Partner (Retired) Smart and Associates, LLP	2011

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

In August 2013, Robert H. Kanner resigned from the board and was replaced by Joseph A. Phillip, Jr.

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, 2012:

<u>Name</u>	<u>Title</u>
John K. Hillman	President and Chief Executive Officer
Joseph A. Phillip, Jr.	Executive VP, General Counsel, and Assistant Secretary
John T. Fischer	Executive VP and Chief Marketing Officer
James Hom	Executive VP, Chief Financial Officer and Treasurer
Kent C. Keim	Executive VP and Chief Operating Officer
Susan M. Oberlies*	VP, Corporate Counsel and Secretary

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

Section 325(a) of New York Insurance Law states, in part:

“Every domestic insurer . . . shall, . . . keep and maintain at its principal office in this state its charter and by-laws . . . and its books of account, and if a domestic stock corporation a record containing the names and addresses of its shareholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof, and if a domestic corporation the minutes of any meetings of its shareholders, policyholders, board of directors and committees thereof. . . .”

A review of records maintained by the Company at its principal office in New York for the examination period revealed that records were not maintained in accordance with the requirements of Sections 325(a) of the New York Insurance Law. Records were available by logging in to the Company’s server.

Best practices as well as the intent of the law require that the Company maintain all corporate records in a durable medium at its principal office in New York. This would facilitate immediate access to Department examiners in the event of any necessary regulatory action. Further, all such records should be physically brought to, and maintained in, the Company’s principal office in New York no less frequently than quarterly.

The examiner recommends that the Company establish procedures to ensure that its books of account are maintained in a durable medium, at all times, in its principal office in New York.

#### D. 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 currently licensed to transact business only in New York State. The Company ceased marketing all direct insurance products in 1998, and the remaining block of insurance (three life policies) is in run off. In 2012, all life premiums were received from New York (57%) and Connecticut (43%).

Policies were written on a non-participating basis.

#### E. Reinsurance

As of December 31, 2012, the Company had one reinsurance treaty in effect with Optimum Re, an unauthorized insurer. The Company's life business is reinsured on a yearly renewable term basis. Reinsurance is provided on an automatic and 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, 2012, was \$475,000 which represents 76% of the total face amount of life insurance in force. Reserve liability for reinsurance ceded to unauthorized companies, totaled \$1,754.

The Company had no life insurance assumed as of December 31, 2012.

#### 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>2007</u>	December 31, <u>2012</u>	Increase (Decrease)
Admitted assets	\$ <u>13,256,634</u>	\$ <u>4,575,551</u>	\$( <u>8,681,083</u> )
Liabilities	\$ <u>155,880</u>	\$ <u>361,164</u>	\$ <u>205,284</u>
Common capital stock	\$ 2,000,000	\$2,000,000	\$ 0
Gross paid in and contributed surplus	15,502,427	5,631,266	(9,871,161)
Unassigned funds (surplus)	<u>(4,401,673)</u>	<u>(3,416,879)</u>	<u>984,794</u>
Total capital and surplus	\$ <u>13,100,754</u>	\$ <u>4,214,387</u>	\$( <u>8,886,367</u> )
Total liabilities, capital and surplus	\$ <u>13,256,634</u>	\$ <u>4,575,551</u>	\$( <u>8,681,083</u> )

The Company's invested assets as of December 31, 2012, were mainly comprised of bonds (91%) and cash and short-term investments (9%). The Company's entire bond portfolio, as of December 31, 2012, was comprised of investment grade obligations.

The decrease in assets and surplus was attributed primarily to the 2010 distribution of excess capital to the Company's former parent, Phoenix Life Reassurance Company in order to position the Company for sale to its current parent, PFLAC. The Company's entire bond portfolio was sold in 2010, with the exception of U.S. Treasury Bonds that were on deposit with the State of New York.

The following is the net gain from operations by line of business after federal income taxes but before realized capital gains reported for each of the years under examination in the Company's filed annual statements:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Ordinary:					
Life insurance	<u>\$375,532</u>	<u>\$276,749</u>	<u>\$276,772</u>	<u>\$64,040</u>	<u>\$60,040</u>
Total	<u>\$375,532</u>	<u>\$276,749</u>	<u>\$276,772</u>	<u>\$64,040</u>	<u>\$60,040</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 2012 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, 2012, filed annual statement.

### A. Independent Accountants

The firm of PriceWaterHouseCoopers, LLP was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company as of December 31, 2009. The firm of KPMG was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company as of December 31<sup>st</sup> of the years 2010 through 2011, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

Both PriceWaterHouseCoopers, LLP and KPMG 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. Assets

Bonds	\$4,132,822
Cash, cash equivalents and short term investments	389,366
Receivable for securities	20,502
Investment income due and accrued	32,688
Net deferred tax asset	<u>173</u>
Total admitted assets	<u>\$4,575,551</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 1,602
Interest maintenance reserve	292,651
General expenses due or accrued	10,808
Current federal and foreign income taxes	49,318
Asset valuation reserve	5,032
Reinsurance in unauthorized companies	<u>1,754</u>
 Total liabilities	 \$ <u>361,164</u>
 Common capital stock	 \$ 2,000,000
 Gross paid in and contributed surplus	 \$ 5,631,266
Unassigned funds (surplus)	<u>(3,416,879)</u>
 Surplus	 \$ <u>2,214,387</u>
 Total capital and surplus	 \$ <u>4,214,387</u>
 Total liabilities, capital and surplus	 \$ <u>4,575,551</u>



D. CONDENSED SUMMARY OF OPERATIONS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Premiums and considerations	\$ 4,227	\$ (832)	\$ 1,416	\$ 2,486	\$ 1,750
Investment income	<u>626,980</u>	<u>497,740</u>	<u>233,163</u>	<u>132,660</u>	<u>129,097</u>
Total income	<u>\$631,207</u>	<u>\$496,908</u>	<u>\$467,742</u>	<u>\$135,147</u>	<u>\$130,847</u>
Increase in reserves	45	50	52	836	30
General expenses and taxes	<u>59,578</u>	<u>68,502</u>	<u>54,594</u>	<u>33,197</u>	<u>44,401</u>
Total deductions	<u>\$ 59,623</u>	<u>\$ 68,552</u>	<u>\$ 54,646</u>	<u>\$ 34,033</u>	<u>\$ 44,431</u>
Net gain (loss)	\$571,584	\$428,356	\$413,096	\$101,114	\$ 86,419
Federal and foreign income taxes incurred	<u>196,052</u>	<u>151,607</u>	<u>136,324</u>	<u>37,074</u>	<u>26,376</u>
Net gain (loss) from operations before net realized capital gains	\$375,532	\$276,749	\$276,772	\$ 64,040	\$ 60,040
Net realized capital gains (losses)	<u>(2,074)</u>	<u>(940)</u>	<u>(79,292)</u>	<u>(1,341)</u>	<u>0</u>
Net income	<u>\$373,458</u>	<u>\$275,809</u>	<u>\$197,480</u>	<u>\$ 62,699</u>	<u>\$ 60,040</u>

E. CAPITAL AND SURPLUS ACCOUNT

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital and surplus, December 31, prior year	<u>\$13,100,754</u>	<u>\$13,433,815</u>	<u>\$13,700,675</u>	<u>\$3,852,027</u>	<u>\$4,155,962</u>
Net income	\$ 373,458	\$ 275,809	\$ 197,480	\$ 62,699	\$ 60,040
Change in net deferred income tax	321	2,258	1,818	66,673	8,918
Change in non-admitted assets and related items	(29,075)	3,550	17,929	(69,417)	(6,733)
Change in liability for reinsurance in unauthorized companies	0	(2,648)	692	322	(120)
Change in asset valuation reserve	(11,643)	(12,109)	49,513	(1,351)	(3,680)
Cumulative effect of changes in accounting principles	0	0	0	0	90
Surplus adjustments:					
Paid in	0	0	0	245,000	0
Dividends to stockholders	0	0	(10,116,161)	0	0
Increase in Non-Admitted Deferred Tax Assets From SSAP No. 10R	<u>0</u>	<u>0</u>	<u>81</u>	<u>9</u>	<u>(90)</u>
Net change in capital and surplus for the year	<u>\$ 333,061</u>	<u>\$ 266,860</u>	<u>\$(9,848,648)</u>	<u>\$ 303,935</u>	<u>\$ 58,425</u>
Capital and surplus, December 31, current year	<u>\$13,433,815</u>	<u>\$13,700,675</u>	<u>\$ 3,852,027</u>	<u>\$4,155,962</u>	<u>\$4,214,387</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 Company did not conduct any advertising or sales activities during the period under examination.

### B. Underwriting and Policy Forms

The Company did not underwrite any new business or replace any existing policies during the period under examination.

### C. Treatment of Policyholders

The Company had no policyholder activities during the period under review. No death claims or surrenders were reported or paid, and no complaints were logged against the Company during the examination period.

7. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Company establish procedures to ensure that its books of account are maintained in a durable medium, at all times, in its principal office in New York.	8

Respectfully submitted,

\_\_\_\_\_  
/s/

Flora Egbuchulam  
Senior Insurance Examiner

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

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

\_\_\_\_\_  
/s/

Flora Egbuchulam

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_

APPOINTMENT NO. 30984

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, BENJAMIN M. LAWSKY, 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:

**FLORA EGBUCHULAM**

as a proper person to examine the affairs of the

**PHILADELPHIA FINANCIAL 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 6th day of February, 2014

BENJAMIN M. LAWSKY  
Superintendent of Financial Services

By:

  
MICHAEL MAFFEI

ASSISTANT DEPUTY SUPERINTENDENT  
AND CHIEF OF THE LIFE BUREAU

