

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

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

MAY 15, 2017

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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AS OF

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EXAMINER:

EDMUND TAGOE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

October 25, 2017

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

Madam:

In accordance with instructions contained in Appointment No. 31514, dated July 26, 2016, and annexed hereto, an examination has been made into the condition and affairs of Lombard International Life Assurance Company of New York, hereinafter referred to as “the Company,” at the Department’s office located at One State Street, New York, NY 10004. The Company’s administrative office is located at 1650 Market Street, 54th 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. 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 three-year period from January 1, 2013, through 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 called by the Pennsylvania Insurance Department (“Pennsylvania”) in accordance with the Handbook guidelines, through the NAIC’s Financial Examination Electronic Tracking System. Pennsylvania served as the lead state with New York participating. 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 2013 through 2015, by the accounting firm of KPMG LLP (“KPMG”). 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. The Company, in the absence of an internal audit department, has an enterprise risk framework and has engaged various external consultants over the years to assess internal controls. The examiner performed substantive testing and did not rely upon the work performed by the external consultants for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the 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 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 (“PFLAC”), a Pennsylvania company. On October 28, 2010, the name of the Company was changed from Phoenix Life and Reassurance Company of New York to Philadelphia Financial Life Assurance Company of New York.

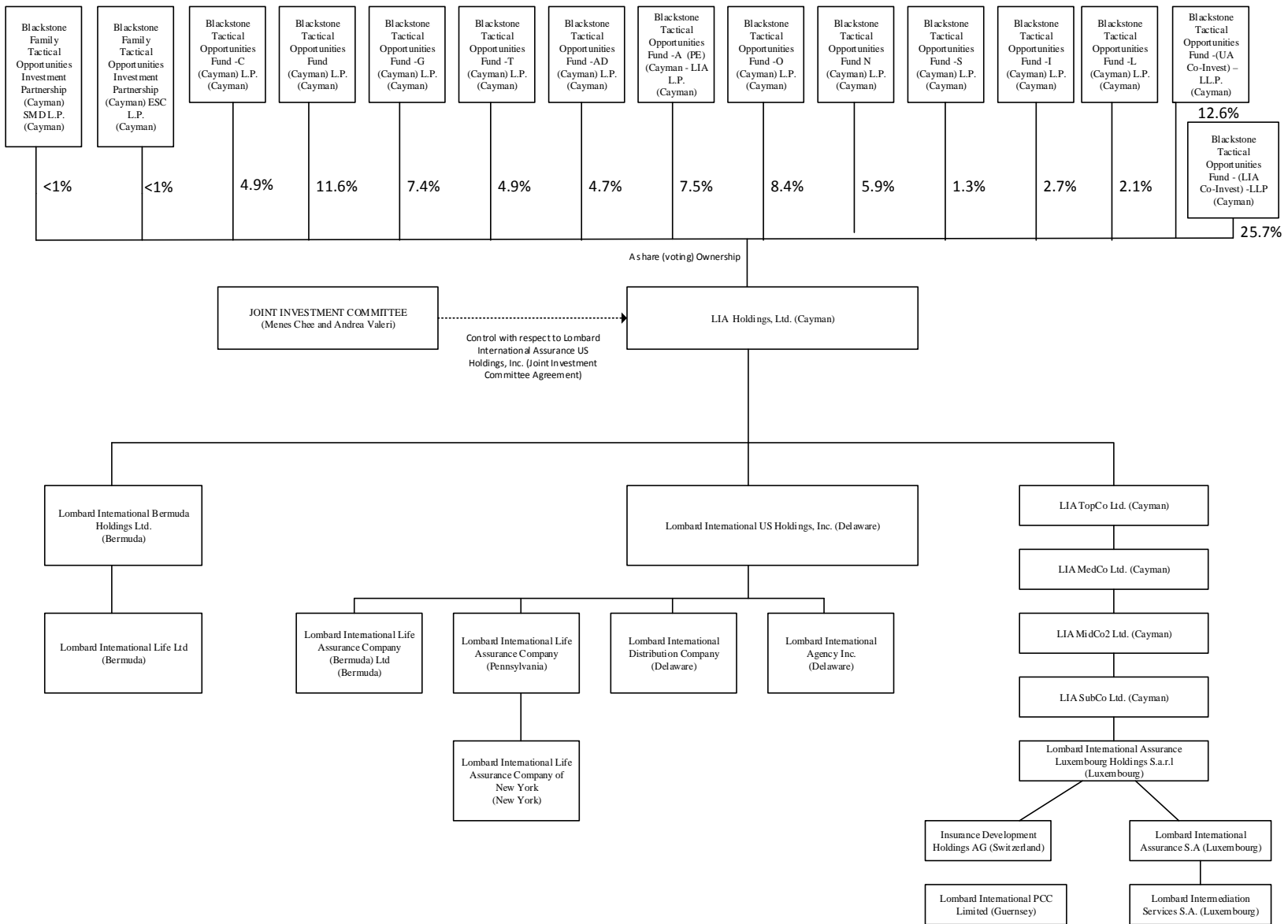
On June 30, 2015, the Company along with its parent, PFLAC were acquired by PFG Acquisition Corp., an affiliate of The Blackstone Group, L.P. (“PFGAC”). Contemporaneously with such acquisition, PFGAC transferred the stock of PFLAC and the Company to Lombard International Assurance US Holdings, Inc. (“HoldCo”), an affiliate of The Blackstone Group, L.P. On September 28, 2015, HoldCo changed its name to Lombard International US Holdings, Inc., PFLAC changed its name to Lombard International Life Assurance Company (“LILAC”) and the Company changed its name to Lombard International Life Assurance Company of New York.

B. Holding Company

The Company is a wholly owned subsidiary of LILAC, a Pennsylvania life insurance company. LILAC is in turn a wholly owned subsidiary of HoldCo, a Delaware corporation. The ultimate parent of the Company is LIA Holdings Ltd., a holding company which in turn is owned by affiliates of The Blackstone Group L.P.

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 one service agreement in effect with an affiliate during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider of Services	Recipient of Services	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Service Agreement File No. 44454	10/06/2010	LILAC	The Company	On-Going Administrative Services; Financial Reporting; Accounting; Separate Account Administration; Underwriting; Personal Contact and Communication with Policyholders; Claim Processing; Legal; Data Processing; Information Center; Human Resources; Actuarial; Tax Accounting; Banking; Marketing; Communications/Creative Services; Travel/Convention; Purchasing; Telecommunications; and General Management	2013 \$0.00** 2014 \$0.00** 2015 \$0.00**

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

** The Company indicated that expenses allocated under the service agreement are tied to sales and to date there have been no sales; therefore, expenses have not been allocated to the Company.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 7 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, 2015, 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, 2015, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Patrick S. Baird* Cedar Rapids, IA	Self-Employed Consultant Retired Former President AEGON USA	2015
Norbert R. Becker* Luxembourg	Retired Former Managing Partner Arthur Andersen LLP	2015
Menes O. Chee New York, NY	Managing Director Blackstone Tactical Opportunities Group	2015
John K. Hillman Blue Bell, PA	President and Chief Executive Officer Lombard International Life Assurance Company of New York	2010
Marshall J. Lux * New York, NY	Self-Employed Consultant	2015
David J. Miller Wayne, PA	Senior Advisor The Blackstone Group L.P.	2015
Neal C. Schneider* Gladwyne, PA	Retired Former Partner Arthur Andersen LLP	2011

* 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>
John K. Hillman	President and Chief Executive Officer
James Hom	Executive VP, Chief Financial Officer and Treasurer
Joseph A. Phillip, Jr.	Executive VP, General Counsel and Secretary
Kent C. Keim	Executive VP and Chief Operating Officer
Kenneth P. Kilbane	Executive VP, Global Distribution
Adam D. Sandahl	Executive VP, Head of Individual Sales
John R. Tyers	Executive VP, Institutional Sales
Brent A. Dooley	Executive VP, Chief Actuary and Appointed Actuary

* Michelle J. Ross, Chief Compliance Officer, is designated consumer services officer per Insurance Regulation No. 64, 11 NYCRR Section 216.4(c)

In February 2016, John R. Tyers resigned as Executive Vice President, Institutional Sales. In May 2016, Michael J. Gordon replaced John K. Hillman as President and Chief Executive Officer. In July 2016, Brent A. Dooley resigned as Executive Vice President, Chief Actuary and Appointed Actuary. In November 2016, Scott Hedgepeth was appointed as Senior Vice President, Chief Actuary and Appointed Actuary. In April 2017, Adam Sandahl resigned as Executive Vice President, Head of Individual Sales.

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 currently licensed to transact business only in New York State. In 2015, all life premiums were received from New York (66.7%) and Connecticut (33.3%).

A. Statutory and Special Deposits

As of December 31, 2015, the Company had \$400,000 (par value) of United States Treasury Bonds 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 Company ceased marketing all direct insurance products in 1998, and currently has three term policies in force. The traditional products in this block are no longer issued by the Company. Policies were written on a non-participating basis.

The Company has shifted its focus to non-guaranteed separate accounts products for the high-net-worth and institutional markets. These products are only made available to individuals and entities that qualify as “qualified purchasers” or “accredited investors” under applicable securities laws. Consequently, these products qualify as private placement under applicable securities laws and are exempt from registration with the Securities and Exchange Commission. However, no contracts were issued during the examination period.

C. Reinsurance

As of December 31, 2015, 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.

The maximum retention limit for individual life contracts is \$50,000. The total face amount of life insurance ceded as of December 31, 2015, was \$375,000, which represents 71% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaled \$2,425.

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>2012</u>	December 31, <u>2015</u>	Increase <u>(Decrease)</u>
Admitted assets	\$ <u>4,575,551</u>	\$ <u>4,712,138</u>	\$ <u>136,587</u>
Liabilities	\$ <u>361,164</u>	\$ <u>309,226</u>	\$ <u>(51,938)</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	5,631,266	5,631,266	0
Unassigned funds (surplus)	<u>(3,416,879)</u>	<u>(3,228,354)</u>	<u>188,525</u>
Total capital and surplus	\$ <u>4,214,387</u>	\$ <u>4,402,912</u>	\$ <u>188,525</u>
Total liabilities, capital and surplus	\$ <u>4,575,551</u>	\$ <u>4,712,138</u>	\$ <u>136,587</u>

The Company's invested assets as of December 31, 2015, were mainly comprised of bonds (96%) and cash and short-term investments (4%). The Company's entire 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>2013</u>	<u>2014</u>	<u>2015</u>
Ordinary:			
Life insurance	\$73,430	\$73,870	\$50,896
Total	<u>\$73,430</u>	<u>\$73,870</u>	<u>\$50,896</u>

The decrease in ordinary life net gain from operations in 2015 relative to 2014 was mainly due to income tax expense of \$20,442 in 2015 compared to income tax benefit of \$22,771 in 2014, partially offset by lower total expenses in 2015 relative to 2014 due to the release of an excess expense accrual for audit/examination fees.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2015, 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 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 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	\$4,510,953
Cash, cash equivalents and short term investments	173,250
Investment income due and accrued	27,822
Net deferred tax asset	<u>113</u>
 Total admitted assets	 <u>\$4,712,138</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 1,529
Interest maintenance reserve	227,297
General expenses due or accrued	3,483
Taxes, licenses and fees due or accrued, excluding federal income taxes	36,000
Current federal and foreign income taxes	25,520
Miscellaneous liabilities:	
Asset valuation reserve	12,972
Reinsurance in unauthorized companies	<u>2,425</u>
 Total liabilities	 \$ <u>309,226</u>
 Common capital stock	 2,000,000
Gross paid in and contributed surplus	5,631,266
Unassigned funds (surplus)	(3,228,354)
Surplus	\$ <u>2,402,912</u>
Total capital and surplus	\$ <u>4,402,912</u>
 Total liabilities, capital and surplus	 \$ <u>4,712,138</u>

D. Condensed Summary of Operations

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Premiums and considerations	\$ 1,895	\$ 1,627	\$ 3,188
Investment income	<u>121,864</u>	<u>119,778</u>	<u>121,382</u>
Total income	\$ <u>123,759</u>	\$ <u>121,405</u>	\$ <u>124,570</u>
Increase in reserves	141	(72)	(142)
General expenses and taxes	<u>98,767</u>	<u>70,378</u>	<u>53,374</u>
Total deductions	\$ <u>98,908</u>	\$ <u>70,306</u>	\$ <u>53,232</u>
Net gain (loss)	\$ 24,851	\$ 51,099	\$ 71,338
Federal and foreign income taxes incurred	<u>(48,581)</u>	<u>(22,771)</u>	<u>20,442</u>
Net gain (loss) from operations before net realized capital gains	\$ <u>73,432</u>	\$ <u>73,870</u>	\$ <u>50,896</u>
Net income	\$ <u>73,430</u>	\$ <u>73,870</u>	\$ <u>50,896</u>

E. Capital and Surplus Account

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Capital and surplus, December 31, prior year	\$ <u>4,214,387</u>	\$ <u>4,284,432</u>	\$ <u>4,354,886</u>
Net income	\$ 73,430	\$ 73,870	\$ 50,896
Change in net deferred income tax	(43,721)	(18,941)	6,545
Change in non-admitted assets and related items	44,224	18,398	(7,565)
Change in liability for reinsurance in unauthorized companies	(798)	(192)	319
Change in asset valuation reserve	<u>(3,090)</u>	<u>(2,681)</u>	<u>(2,169)</u>
Net change in capital and surplus for the year	<u>70,045</u>	<u>70,454</u>	<u>48,026</u>
Capital and surplus, December 31, current year	\$ <u>4,284,432</u>	\$ <u>4,354,886</u>	\$ <u>4,402,912</u>

6. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the recommendation contained in the prior report on examination and the subsequent action taken by the Company in response to the citation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommended 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.</p> <p>A physical inspection at the home office in New York indicated that the Company maintains its books of account in a durable medium (password protected thumb drives and binders).</p>

Respectfully submitted,

/s/

Edmund Tagoe
Senior Insurance Examiner

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

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

/s/

Edmund Tagoe

Subscribed and sworn to before me

this _____ day of _____

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:

EDMUND TAGOE

as a proper person to examine the affairs of the

LOMBARD INTERNATIONAL 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 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 26th day of July, 2016

MARIA T. VULLO
Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

