NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

PAVONIA LIFE INSURANCE COMPANY OF NEW YORK

CONDITION: DECEMBER 31, 2013

DATE OF REPORT: APRIL 15, 2015

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EXAMINER: CHONG KIM

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June 8, 2015

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

Sir:

In accordance with instructions contained in Appointment No. 31104, dated March 7, 2014, and annexed hereto, an examination has been made into the condition and affairs of Pavonia Life Insurance Company of New York, hereinafter referred to as "the Company," at its administrative office located at 180 Mount Airy Rd., Suite 101, Basking Ridge, New Jersey 07920. The Company's home office is located at 411 5th Avenue, New York, New York, 10016.

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 and violations contained in this report are summarized below.

- On March 31, 2013, The Company was acquired by Pavonia Holdings (US), Inc., which is a subsidiary of Enstar Group Limited. (See item 3A of this report)
- The Company violated Section 1411(a) of the New York Insurance Law when the board of directors did not authorize or approve purchases and sales of investments for the year 2013. (See item 3E of this report)
- The Company violated Section 3211(a)(1) of the New York Insurance Law when it terminated term life insurance policies less than one year after the default in the premiums without mailing the premium due notices to the policyholders at least fifteen and not more than forty-five days prior to the day when such payment became due. (See item 7C of this report)
- The Company violated various sections of Department Regulation No. 95 when it used alternate fraud warning statements that were not approved by the Department's Criminal Investigations Unit, and did not place the fraud warning statement in the space provided above the signature of the person executing the claim. (See item 7C of this report)
- The Company violated Section 4228(h) of the New York Insurance Law by failing to have a qualified actuary sign and date the policy demonstrations. (See item 7D of this report)
- The Company violated Section 243.2(b)(8) of Department Regulation No. 152 by failing to maintain records in accordance with the provisions of the Regulation. (See item 10 of this report)

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2014 Edition* (the "Handbook"). The examination covers the four-year period from January 1, 2010, to December 31, 2013. 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, 2013, 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 number 7 of this report.

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

The examination was conducted in conjunction with the coordinated examination of the Company's parent and affiliates. The examination was led by the State of New Jersey with the State of Delaware as the Lead Facilitator, and participation from Arizona, Michigan, and New York. Since the lead and participating states are accredited by the NAIC, all 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 2010 through 2013, by the accounting firm of KPMG LLP. The Company received an unqualified opinion in all four years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination. Enstar Group Limited, the holding company, has an internal audit department and a separate internal control department which was given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX") of the Company. Where applicable, SOX work papers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the violation and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item number 11 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.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on September 30, 1971, under the name of American Republic Life Insurance Company of New York and was licensed and commenced business on November 9, 1971. Initial resources of $3,000,000, consisting of common capital stock of $1,000,000 and paid-in and contributed surplus of $2,000,000, were provided through the sale of 10,000 shares of common stock (with a par value of $100 each) for $300 per share.

On November 9, 1981, Penn Mutual Life Insurance Company of Philadelphia acquired the Company. On November 18, 1986, Western National Life Holding Company Inc. ("Western National"), whose ultimate parent was Beneficial Corporation ("Beneficial"), acquired the Company. On December 11, 1986, the Company changed its name to American Western National Life Insurance Company.

On March 19, 1990, Western National was dissolved and the ownership of the Company was transferred to The Central National Life Insurance Company of Omaha. On January 6, 1992, the Company's name was changed to First Central National Life Insurance Company of New York.

On June 30, 1998, Household International, Inc. ("HI") acquired Beneficial. In December 1999, HI sold The Central National Life Insurance Company of Omaha, and transferred the ownership of the Company to Household Life Insurance Company ("HLIC"), a life insurance subsidiary of HI domiciled in Michigan.

On March 28, 2003, HI was acquired by HSBC Holdings, plc ("HSBC"). HSBC became the ultimate parent of the Company. On December 15, 2005, HI merged with Household Finance Corporation ("HFC") and its name was change to HSBC Finance Corporation ("HSBC Finance").

On December 7, 2012, the Department's approval was given to the Company to declare and pay an extraordinary dividend up to $12.0 million to its parent companies. The purpose of the dividend was to distribute excess capital to the Company's upstream parent companies. On February 15, 2013, the Company paid a dividend of $9.0 million to HLIC.

On March 31, 2013, Pavonia Holdings (US), Inc. ("Pavonia Holdings") acquired all of the shares of Pavonia Life Insurance Company of Delaware ("PLIC DE"), previously known Household Life Insurance Company of Delaware ("Household DE") a subsidiary of HSBC. Household DE owned all the shares of stock of HLIC, which in turn owned all of the shares of stock of the Company. Pavonia Holdings is a Delaware corporation and is a member of Enstar Group Limited ("Enstar"). Enstar is a Bermuda company that acquires and manages insurance and reinsurance companies in run-off, and provide management, consulting, and other services to the global insurance and reinsurance industry.

In September 2013, HLIC changed its name to Pavonia Life Insurance Company of Michigan ("PLIC MI").

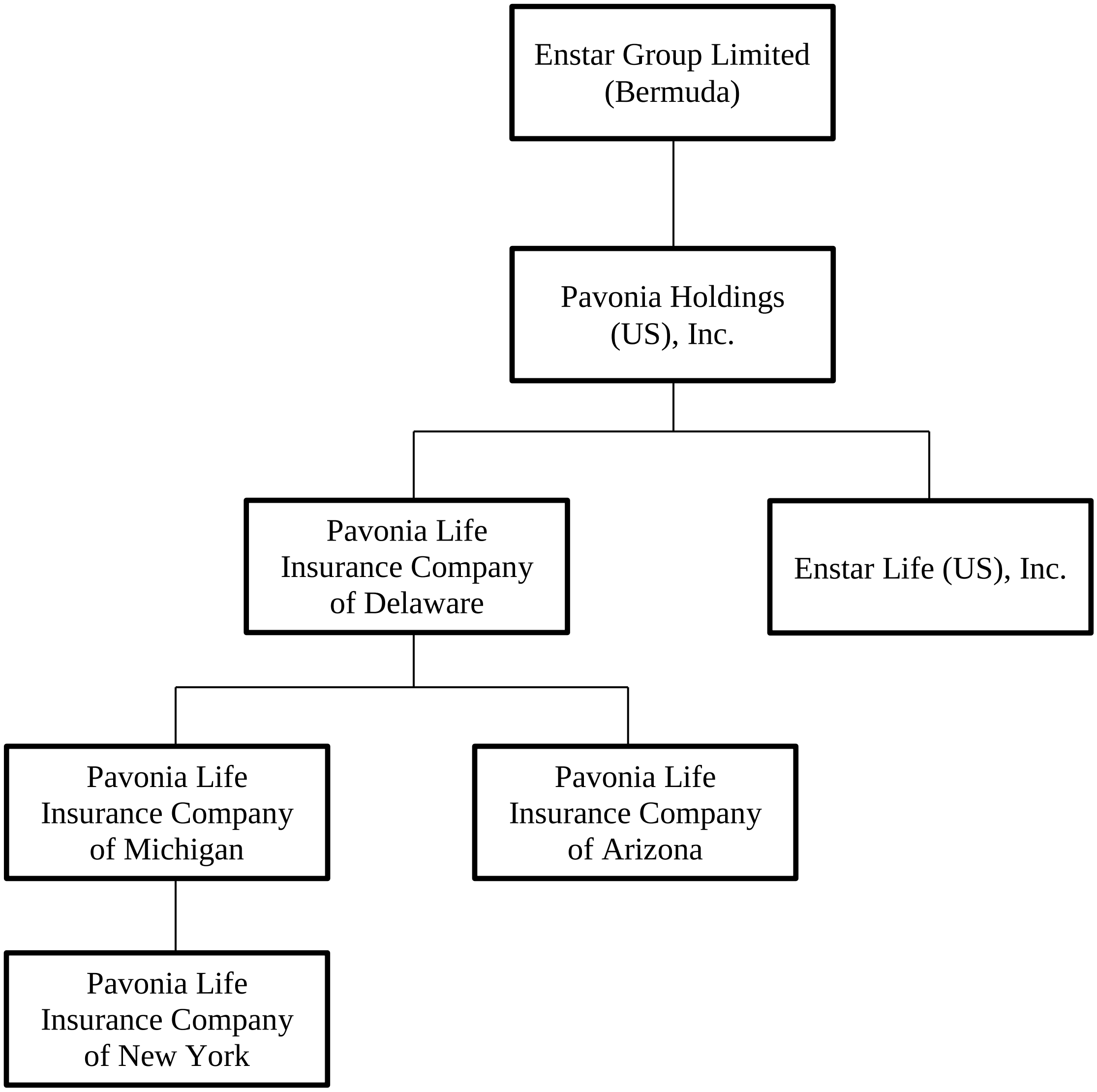
In December 2013, the Company changed its name from First Central National Life Insurance Company of New York to Pavonia Life Insurance Company of New York.

B. Holding Company

As of December 31, 2013, the Company is a wholly owned subsidiary of PLIC MI domiciled in Michigan, which in turn a wholly owned subsidiary of PLIC DE. PLIC DE is a subsidiary of Pavonia Holdings US, Inc. The ultimate parent of the Company is Enstar.

C. <u>Organizational Chart</u>

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2013 follows:



D. Service Agreements

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

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Investment Management Agreement Department File No. 29505 Amended File No. 40506	08/31/2001 Amended 06/10/2008 Terminated 03/31/2013	HSBC Finance Corporation	The Company	Investment advisory services to the investment portfolio maintained by the insurer.	2010 $(11,470) 2011 $(12,098) 2012 $(21,612) 2013 $ 0
General Agent Contract Department File No. 37811 Amended Department File No. 38311	06/01/2007 Amended 05/08/2008 Terminated 03/31/2013	HSBC Insurance Agency	The Company	General agent agreement to procure applications through agents, brokers, or employed by HSBC Insurance Agency for term life products.	2010 $(905,021) 2011 $(799,643) 2012 $(157,771) 2013 $ 0
Service Agreement Department File No. 40873	04/09/2009 Terminated 03/31/2013	HSBC Finance Corporation	The Company	Perform certain services including collection and transfer of insurance premiums and matters.	2010$(4,962,907) 2011$(5,231,622) 2012$(4,325,915) 2013$ 0
Service Agreement Department File No. 40874	04/09/2009 Terminated 03/31/2013	BFC Insurance Agency of Nevada	The Company	Perform certain services including facilitation of premium collection, account reimbursement for claim payments, etc.	2010$ (124,500) 2011$ (74,500) 2012$ (74,500) 2013$ 0

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 Department File No. 46686	04/01/2013	Enstar Life (US) Inc.	The Company	Provide or arrange for the provision of all services necessary or appropriate in connection with the management and operation of the Company and the Insurance Business including without limitation: Legal, Data Processing, Treasury, Corporate Secretarial, Premium Collection and Refunds, Claims, Investment Management, Record Keeping and Reporting and Other Services	2013 $(560,157)

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

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

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in February of each year. As of December 31, 2013, the board of directors consisted of nine members. Meetings of the board are held as requested by the board of directors, and at least annually in the first calendar quarter.

The nine board members and their principal business affiliation, as of December 31, 2013, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Orla Gregory Hamilton, Bermuda	Executive Enstar Group Limited	2013
Richard Harris Hamilton, Bermuda	Chief Financial Officer Enstar Group Limited	2013
Kieran Hayes Basking Ridge, NJ	Executive Vice President Pavonia Life Insurance Company of New York	2013
William Latza* New York, NY	Partner Stroock & Stroock & Lavan, LLP	1987
John Moran Basking Ridge, NJ	Chief Financial Officer and Treasurer Pavonia Life Insurance Company of New York	2013
Daniel O'Brien* Naples, FL	Retired President and Chief Executive Officer First Central National Life Insurance Company	1987
Robert Redpath Weston, CT	Vice President Pavonia Life Insurance Company of New York	2013
Phillip Toohey* Orchard Park, NY	Retired Senior Executive VP and Secretary HSBC USA, Inc.	2006
Karl Wall Miami Beach, FL	President and Chief Executive Officer Pavonia Life Insurance Company of New York	2013

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

In March 2014, Karl Wall resigned from the board and was not replaced.

The examiner's review of the minutes of the meetings of the board and its committees indicate that the meetings were well attended and that each director attended a majority of meetings.

Section 1411(a) of the New York Insurance Law states:

> "No domestic insurer shall make any loan or investment . . . unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investments or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting."

Since the Company's acquisition by Pavonia Holdings, the directors have not appointed an investment committee and the directors did not authorize or approve purchases and sales of investments for the year 2013.

The Company violated Section 1411(a) of the New York Insurance Law when the board of directors did not authorize or approve purchases and sales of investments for the year 2013.

The following is a listing of the principal officers of the Company as of December 31, 2013:

Name	Title
Karl Wall	President and Chief Executive Officer
Kieran Hayes*	Executive Vice President
John Moran	Treasurer and Chief Executive Officer
Robert Redpath	Vice President
Jeanne Mitchell	Vice President
Gregg Schneider	Vice President
Joseph McNally	Vice President
Thomas Balkan	Secretary
Nadja Stavenhagen	Assistant Secretary

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

In March 2014, Karl Wall resigned as President and Chief Executive Officer of the Company and was replaced by Kieran Hayes.

In May 2014, Gregg Schneider resigned as Vice President of the Company and was replaced by Richard Zebleckas.

4. 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, New York and Delaware**.** In 2013, 97.2% of life premiums and 100.0% of accident and health premiums were received from New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2013, the Company had $250,000 (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.

B. Direct Operations

The Company has been in run-off since its acquisition by Pavonia Holdings in March 2013.

Until March 2009, the Company wrote credit life and accident and health insurance on loans originated in New York through its parent's distribution network. In March 2009, the company's parent, HSBC Finance, announced the closure of its consumer finance division which offered credit life and accident and health insurance products. Since the closure, all new loan originations have ceased.

In March 2007, the Company started issuing a simplified issue term life product, and in May 2010, the Company started issuing a term life product using data driven underwriting. For the data driven underwriting, the Company leveraged the data it gathered through databases, such as motor vehicle registration and pharmaceutical, so that the Company could validate the information on the insurance application.

For 2010 and 2011, applications for the term life products were accepted via internet or inbound telesales. Customers completed applications on its website or through one of the third party partner-hosted websites. Sales were made by 3rd party general agents and HSBC agents in HSBC bank operations by logging onto the internet site with a unique Agent ID. Its telesales vendor, QBE First, had 14 licensed agents that received inbound calls from people interested in Term Life. Third party distributors selling the term life products included: E-financial, with 131 direct agents and 28 sub-producers with 110 agents; Spectrum Direct, with 6 direct agents and 30 sub-producers with 342 agents; SASid with one direct agent and 16 sub-producers with 30 agents; and SegurAmerica (2010 only) with 11 direct agents. In addition, term life products were sold by HSBC’s 2,500 licensed agents through its 475 bank locations.

In January 2012, the Company discontinued writing term life business and no new business has been issued since.

C. Reinsurance

As of December 31, 2013, the Company had reinsurance treaties in effect with four companies, of which three were authorized or accredited. The Company’s life and long term care businesses are reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and/or 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, 2013, was $316,438,629, which represents 24.3% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies totaled $420,315. The Company established a liability for the amount since it was not supported a letter of credit or funds withheld

5. 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 decline during the period under review:

	December 31, 2009	December 31, 2013	Increase (Decrease)
Admitted assets	$53,985,871	$36,174,910	$(17,810,961)
Liabilities	$30,397,436	$23,012,475	$ (7,384,961)
Common capital stock	$ 1,000,000	$ 1,000,000	$ 0
Gross paid in and contributed surplus	9,200,000	9,200,000	0
Unassigned funds (surplus)	13,388,435	2,962,435	(10,426,000)
Total capital and surplus	$23,588,435	$13,162,435	$(10,426,000)
Total liabilities, capital and surplus	$53,985,871	$36,174,910	$(17,810,961)

The Company's invested assets as of December 31, 2013, were mainly comprised of bonds (84.7%) and cash and short-term investments (15.3%).

The Company's entire bond portfolio, as of December 31, 2013, was comprised of investment grade obligations.

The ordinary lapse ratio for each of the examination years was 24.6% in 2010, 19.5% in 2011, 15.1% in 2012, and 16.0% in 2013. These ratios are due to the type of term life products sold by the Company, which did not require full medical underwriting. In 2007, the Company initially sold a simplified issue term life product via the internet based on basic health questions with price differentiators for male/female and smoker/non-smoker. In 2010, the Company began offering the data driven underwriting products, which increased the number of risk classes for the simplified term product and offered a more competitive price to the healthier applicants, but still not equating to a full medical underwriting.

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:

	2010	2011	2012	2013
Ordinary:				
Life insurance	$ (876,264)	$(7,098,650)	$(5,942,273)	$6,047,843
Individual annuities	(8,070)	(86,179)	1,381	(5,727)
Total ordinary	$ (884,334)	$(7,184,829)	$(5,940,892)	$6,042,116
Credit life	$ 603,643	$ (812,875)	$ 1,433,791	$ 244,659
Group:				
Life	$ 0	$ (3,168)	$ (4,240)	$ 0
Annuities	0	134,122	0	0
Total group	$ 0	$ 130,954	$ (4,240)	$ 0
Accident and health:				
Credit	$1,206,415	$ 625,849	$ (363,139)	$ 165,912
Other	85,774	246,550	(12,383)	0
Total accident and health	$1,292,189	$ 872,399	$ (375,522)	$ 165,912
Total	$1,011,498	$(6,994,351)	$(4,886,863)	$6,452,687

In 2011, the loss on ordinary life insurance was due to an increase in reserve of $5.0 million following cash flow testing, and a net operating loss of $2.0 million due to increased benefits paid on the term life insurance product.

In 2012, the loss on the ordinary life insurance was due to an additional $6.6 million deficiency reserve on the term life insurance due to the higher than expected mortality on the enhanced term product..

In 2013, the ordinary life insurance gain resulted from the reversal of the $5.0 million reserve established following the cash flow testing in 2011 and the reduction of general expenses.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2013, as contained in the Company's 2013 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, 2013 filed annual statement.

A. Independent Accountants

The firm of KPMG, LLP was retained by the Company to audit its 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.

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

B. Net Admitted Assets

Bonds	$27,419,146
Stocks:	
Common stocks	994
Cash, cash equivalents and short term investments	4,962,048
Investment income due and accrued	282,487
Premiums and considerations:	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,079,732
Reinsurance:	
Amounts recoverable from reinsurers	319,346
Net deferred tax asset	952,796
Receivables from parent, subsidiaries and affiliates	158,361
Total admitted assets	$36,174,910

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$16,259,169
Aggregate reserve for accident and health contracts	243,383
Contract claims:	
Life	3,033,747
Accident and health	533,153
Other amounts payable on reinsurance	190,569
Interest maintenance reserve	918,664
General expenses due or accrued	641,640
Current federal and foreign income taxes	404,833
Remittances and items not allocated	116,899
Miscellaneous liabilities:	
Asset valuation reserve	85,386
Reinsurance in unauthorized companies	463,702
Payable to parent, subsidiaries and affiliates	121,330
Total liabilities	$23,012,475
Common capital stock	$ 1,000,000
Gross paid in and contributed surplus	$ 9,200,000
Unassigned funds (surplus)	2,962,435
Surplus	$12,162,435
Total capital and surplus	$13,162,435
Total liabilities, capital and surplus	$36,174,910

D. Condensed Summary of Operations

	2010	2011	2012	2013
Premiums and considerations	$11,193,636	$10,541,524	$ 1,246,546	$ 6,256,938
Investment income	2,248,100	2,046,948	1,646,969	1,215,275
Commissions and reserve adjustments on reinsurance ceded	533,086	221,081	191,223	167,054
Miscellaneous income	128	199	189	66
Total income	$13,974,950	$12,809,752	$ 3,084,927	$ 7,639,333
Benefit payments	$ 6,078,467	$12,925,872	$(3,418,531)	$ 3,744,973
Increase in reserves	(752,971)	1,657,407	5,986,198	(4,512,449)
Commissions	747,932	1,077,467	157,771	0
General expenses and taxes	6,177,012	6,106,041	5,915,286	1,573,154
Increase in loading on deferred and uncollected premiums	(13,497)	(190,727)	(244,957)	(19,940)
Total deductions	$12,236,943	$21,576,060	$ 8,395,767	$ 785,728
Net gain (loss)	$ 1,738,007	$ (8,766,308)	$(5,310,840)	$ 6,853,605
Federal and foreign income taxes incurred	726,506	(1,771,954)	(423,975)	400,917
Net gain (loss) from operations before net realized capital gains	$ 1,011,501	$ (6,994,354)	$(4,886,865)	$ 6,452,688
Net realized capital gains	36,650	1,346,107	0	0
Net income (loss)	$ 1,048,151	$ (5,648,247)	$(4,886,865)	$ 6,452,688

In 2012, the decrease in premium and consideration resulted from premium refunds of $7.8 million processed in 2012 to HSBC Finance Corporation's mortgage customers who had credit life insurance. In addition the Company terminated all new sales of the term life products effective January 1, 2012.

In 2013, the increase in premium and consideration is mainly due to $5.9 million of credit life premiums from the prior year.

In 2011, the increase in benefit payments is due to higher benefit payments for ordinary life of $1.4 million, and an increase in the credit life insurance reserves of $3.4 million, which was a result of compliance with Department Regulation No. 200 that required reserves for deaths reported in the Social Security Death Master index.

In 2012, the decrease in benefit payments is due to a lower claim fluctuation reserve of $6.8 million as a result of the premium refunds paid to mortgage customers.

In 2013, the increase in benefit payments resulted from $7.3 million in credit life benefits from the prior year.

In 2011, the increase in reserves is due to a $5.0 million addition to the cash flow testing reserve on the ordinary life product.

In 2012, the increase in reserve is due to the Company's addition of $6.6 million in the deficiency reserve on the term life product.

In 2013, the decrease in reserve is due to the $6.6 million increase to the deficiency reserve calculation in 2012 and the release of the $5.0 million of the cash flow testing reserve added in 2011.

In 2013, the decrease in general expenses resulted from reduced expenses of $4.0 million for administrative services provided by the Enstar (US), Inc., which became effective after the acquisition.

E. Capital and Surplus Account

	2010	2011	2012	2013
Capital and surplus, December 31, prior year	$23,588,435	$24,838,011	$19,544,223	$14,839,182
Net income (loss)	$ 1,048,151	$ (5,648,247)	$ (4,886,865)	$ 6,452,688
Change in net deferred income tax	1,470,604	6,258	1,546,093	(984,367)
Change in non-admitted assets and related items	(1,575,234)	(131,842)	(1,207,821)	1,495,862
Change in liability for reinsurance in unauthorized companies	365,890	542,569	25,055	(6,071)
Change in asset valuation reserve	(59,835)	(62,526)	(181,502)	365,141
Dividends to stockholders	0	0	0	(9,000,000)
Net change in capital and surplus for the year	$ 1,249,576	$ (5,293,787)	$ (4,705,040)	$ (1,676,747)
Capital and surplus, December 31, current year	$24,838,011	$19,544,224	$14,839,183	$13,162,435

7. 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.

1. Section 3211(a)(1) of the New York Insurance Law states, in part:

> “No policy of life insurance…shall terminate or lapse by reason of default in payment of any premium, installment, or interest on any policy loan in less than one year after such default, unless, for scheduled premium policies, a notice shall have been duly mailed at least fifteen and not more than forty-five days prior to the day when such payment becomes due, or life insurance policies in which the amount and frequency of premium may vary, no earlier than and within thirty days after the day when the insurer determines that the net cash surrender value under the policy is insufficient to pay the total charges that are necessary to keep the policy in force…”

The examiner reviewed 21 lapsed term life policies, which had regularly scheduled premium payments annually, semi-annually and quarterly. In all instances, the Company mailed the premium due notices seven days or less prior to the scheduled payment due date and terminated the policies 64 days or less after the default due date.

The Company violated Section 3211(a)(1) of the New York Insurance Law when it terminated term life insurance policies less than one year after the default in the premiums without mailing the premium due notices to the policyholders at least fifteen and not more than forty-five days prior to the day when such payment became due.

2. Section 86.4 of Department Regulation No. 95 states, in part:

> "(a) . . . all applications for commercial insurance and accident and health insurance, provided to any person residing or located in this State in connection with insurance policies for issuance or issuance for deliver in this State, shall contain the following statement:
>
> "Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation."
>
> (d) Location of warning statements and type size. The warning statement required by subdivision (a)…of this section shall be placed immediately above the space provided for the signature of the person executing the application or claim form and shall be printed in type which will produce a warning statement of conspicuous size…
>
> (e) Notwithstanding the provisions of subdivision (a) and (b) of this section, insurers may use substantially similar warning statements provided such warning statements are submitted to the Criminal Investigation Unit for prior approval."

The examiner reviewed 59 paid claims for term life, credit life, and credit accident and health policies.

In 26 of the 59 (44.0%) instances, the Company used claim forms containing a fraud warning statement which differed from the required statement of Section 86.4(a) of Department Regulation No. 95. In addition, the Company did not submit such alternate fraud warning statements to the Department's Criminal Investigation Unit for prior approval. The Company identified a total of 555 instances where the claim forms used contained a fraud warning statement that differed from Section 86.4(a) of Department Regulation No. 95.

In 55 of the 59 (93.2%) instances, the Company used claim forms which did not have the fraud warning statement placed immediately above the space provided for the claimant's signature. The Company identified total of 1776 instances where the claim forms used did not have the fraud warning statement placed immediately above the space provided for the signature of the person executing the claim.

The Company violated Sections 86.4(a) and 86.4(e) of Department Regulation No. 95 when it used alternate fraud warning statements on the claim forms without obtaining an approval from the Criminal Investigation Unit before using alternate fraud warning statements.

The Company also violated Section 86.4(d) of Department Regulation No. 95 when it did not have, on its claim forms, the fraud warning statement placed immediately above the space provided for the signature of the person executing the claim.

D. Self-Support Documentation

Section 4228(h) of the New York Insurance Law states, in part:

> "(h) No company shall offer for sale any life insurance policy form or annuity contract form covered by this section or any debit life insurance policy form which shall not appear to be self-supporting on reasonable assumptions as to interest, mortality, persistency, taxes, agents' and brokers' survival and expenses resulting from the sale of the policy or contract form. For all such forms offered for sale in this state, and for all forms filed for use outside this state by domestic life insurance companies, a statement that the requirements of this subsection have been met, signed by an actuary who is a member in good standing of the American Academy of Actuaries and meets the requirements prescribed by the superintendent by regulation shall be submitted with each such life insurance policy or annuity contract form filed pursuant to paragraph one or six of subsection (b) of section three thousand two hundred one of this chapter. A demonstration supporting each such statement, signed by an actuary meeting such qualifications, shall be retained in the company's home office, while such form is being offered in this state and for a period of six years thereafter and be available for inspection . . . "

The examiner conducted a review of the pricing adequacy for various products subject to Section 4228(h) of the New York Insurance Law. This review included an examination of the required actuarial statements of self-support and the supporting demonstrations. The examiner requested statements and corresponding demonstrations for all of the Company's policy forms subject to Section 4228(h).

Concerns were raised with respect to the unavailability of some of these materials. For one policy form, with 4,070 policies issued, no demonstration of self-support was found.

In response to the Department's concerns, the Company agreed that all future demonstrations will be signed, dated and finalized prior to the date of the statement of self-support. The Company is not writing new business at this time but the agreement applies to material re-pricing of existing products as well as any future products in the event the Company resumes sales of new business.

The Company violated Section 4228(h) of the New York Insurance Law by failing to have a qualified actuary sign and date the demonstrations.

The Company also agreed that such demonstrations will be well organized, containing narrative descriptions of the methodologies and material assumptions used such that another actuary can make a reasonable assessment of the analyses performed.

8. COMPLAINT LOG

NY Circular Letter No. 11 (1978) states, in part:

> "…Responsibility for such department is to be vested in a corporate officer who is also to be entrusted with the duty of executing the Insurance Department's directives. All initial Insurance Department inquiries are to be forwarded to the attention of the designated officer whose department will then investigate and reply to the Insurance Department's Consumer Services Bureau and be available to that Bureau's personnel for any necessary further contact. . . . However, if the Insurance Department requests the appearance of a company representative to discuss a pending matter, the individual whom the company sends should be authorized to make any determination warranted after all the facts are elicited at such conference.
>
> As part of its complaint handling function, the company's consumer services department will maintain an ongoing central log to register and monitor all complaint activity…"

The examiner compared the Department's Consumer Services Bureau ("CSB") listing to the Company's complaint log to ensure that the Company maintains an ongoing central log to register and monitor all complaint activities by the CSB. The CSB had 17 complaint cases during the examination period. The Company did not register in its ongoing central log three of the 17 complaint cases.

The examiner recommends that the Company monitor all complaints received and ensure that all complaints are registered on its central log.

9. DISASTER RESPONSE PLAN

Section C(1)(a) of NY Circular Letters Nos. 3 (2011), 3 (2012) and 4 (2013) states, in part:

> "Disaster Response Plan…By June 1, 2011, June 1, 2012, and June 30, 2013, each company must submit a Disaster Response Plan to the Department. Entities must provide their completed Disaster Response Plan to the Department via the Department's Portal Application or in hard copy…
>
> If the current Disaster Response Plan is the same as the most recent Disaster Response Plan filed with the Department, please submit a statement indicating that the previously filed plan is still in effect. The statement should also indicate the names and NAIC numbers of the companies covered by the plan, and the date it was submitted. The statement should be submitted as an attachment via the Department's Portal or in hard copy…"

The Company did not submit the Disaster Response Plan or the statement as to why the plan was not submitted to the Department for the years 2011, 2012 and 2013. Following an inquiry by the examiner, the Company submitted the Disaster Response Plan for the year 2014 on June 16, 2014.

The examiner recommends that the Company establish procedures to ensure that future annual Disaster Response Plans are submitted to the Department in a timely manner.

10. RECORD RETENTION

> Section 243.2 of the Department Regulation No. 152 states, in part:
>
> "(a) In addition to any other requirement contained in Insurance Law Section 325, any other Section of the Insurance Law or other law, or any other provision of this Title, every insurer shall maintain its claims, rating, underwriting, marketing, complaint, financial, and producer licensing records, and such other records subject to examination by the superintendent, in accordance with the provisions of this Part.
>
> (b) Except as otherwise required by law or regulation, an insurer shall maintain:
>
> . . .
>
> (8) Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review."

Since its acquisition in March 2013, the Company migrated into a different production system than the one it previously had with the HSBC technology area. The Company's new system was unable to produce a detailed listing of expired credit life policies which reconciles to the Exhibit of Life Insurance in the annual statement for the examination period. As a result, the examiner was unable to select a sample of expired credit life policies for review.

The Company violated Section 243.2(b)(8) of Department Regulation No. 152 by failing to maintain the detailed listing of the expired credit life policies for six calendar years or until the conclusion of an investigation in which the record was subject to review.

The examiner recommends that the Company immediately establish a production system to generate a detailed listing of the expired credit life policies reported in the annual statement.

11. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation and recommendations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The examiner recommended that the Company initiate immediate action to ensure that it adheres to all the terms and conditions of its approved intercompany service agreement.
	The Company established a monthly settlement process for payments to BFC Insurance Agency of Nevada, a former affiliate, to adhere to all the terms and conditions of its approved intercompany service agreement.
B	The examiner recommended that newly elected directors be required to complete conflict of interest questionnaires shortly after their election.
	The Company had all newly elected directors complete a conflict of interest questionnaire.
C	The Company violated Section 51.6(a)(2) of Department Regulation No. 60 when the Company failed to require with or as part of each application a completed definition of replacement signed by the applicant and agent.
	The Company maintained the signed definition of replacement for all the issued policies that were reviewed during the examination period.

12. SUMMARY AND CONCLUSIONS

Following are the comment, violations and recommendations contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 1411(a) of the New York Insurance Law when the board of directors did not authorize or approve purchases and sales of investments for the year 2013.	11
B	The Company violated Section 3211(a)(1) of the New York Insurance Law when it terminated the term life insurance policies less than one year after the default in the premiums without mailing the premium due notices to the policyholders at least fifteen and not more than forty-five days prior to the day when such payment became due.	22
C	The Company violated Sections 86.4(a) and 86.4(e) of Department Regulation No. 95 when it used alternate fraud warning statements without obtaining an approval from the Criminal Investigation Unit before using alternate fraud warning statements.	23
D	The Company also violated Section 86.4(d) of Department Regulation No. 95 when it did not have, on its claim forms, the fraud warning statement placed immediately above the space provided for the signature of the person executing the claim.	23
E	The Company violated Section 4228(h) of the New York Insurance Law by failing to have a qualified actuary sign and date the demonstrations.	24
F	Comment: The Company also agreed that such demonstrations will be well organized, containing narrative descriptions of the methodologies and material assumptions used such that another actuary can make a reasonable assessment of the analyses performed	24
G	The examiner recommends that the Company monitor all complaints received and ensure that all complaints are registered on its central log.	25
H	The examiner recommends that the Company establish procedures to ensure that future annual Disaster Response Plans are submitted to the Department in a timely manner.	26

Item	Description	Page No(s).
I	The Company violated Section 243.2(b)(8) of Department Regulation No. 152 by failing to maintain the detailed listing of the expired credit life policies for six calendar years or until the conclusion of an investigation in which the record was subject to review.	27
J	The examiner recommends that the Company immediately establish a production system to generate the detailed listing of the expired credit life policies reported in the annual statement.	27

Respectfully submitted,

/s/
Chong Kim
Senior Insurance Examiner

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

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

/s/
Chong Kim

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 31104

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:

CHONG KIM

as a proper person to examine the affairs of the

PAVONIA 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 7th day of March, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU