



**FINANCIAL CONDITION REPORT ON EXAMINATION**

**OF THE**

**HM LIFE INSURANCE COMPANY OF NEW YORK**

**AS OF DECEMBER 31, 2021**

**EXAMINER:**

**JAMES WANG, CPA**

**DATE OF REPORT:**

**MAY 31, 2023**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

June 26, 2023

Honorable Adrienne A. Harris  
Superintendent of Financial Services  
New York, New York 10004

Dear Adrienne A. Harris:

In accordance with instructions contained in Appointment No. 32399, dated March 31, 2022, and annexed hereto, an examination has been made into the condition and affairs of HM Life Insurance Company of New York, hereinafter referred to as "the Company". The Company's home office is located at One Penn Plaza, Suite 1909, New York, NY 10119. Due to the COVID-19 pandemic, the examination was conducted remotely.

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 violation and recommendation contained in this report are summarized below.

- The Company violated Section 1505(d)(3) of the New York Insurance Law by acting under a service agreement that has not been submitted to the Superintendent and by entering into transactions with United Concordia for the rendering of a sublease agreement on a systematic basis without notifying the Superintendent, in writing, thirty days prior to entering into such transactions. (See item 3D of this report.)
- The examiner recommends that the parties comply with the terms of the investment advisory agreement, or amend the terms of the agreement to match what the parties are actually performing under the agreement. Any amendment to the agreement should be submitted to the Department pursuant to Section 1505 of the New York Insurance Law. (See item 3D 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's") *Financial Condition Examiners Handbook, 2022 Edition* (the "Handbook"). The examination covers the 5-year period from January 1, 2017, to December 31, 2021. 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, 2021 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 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 Department of Insurance in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. Pennsylvania served as the lead state with Arizona, Delaware, Maryland, Michigan, New York, Ohio, Texas and West Virginia serving as participating states. Since the lead and participating states are all 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 2017 through 2021, by the accounting firm of PricewaterhouseCoopers LLP (“PwC”). 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’s ultimate parent, Highmark Health, has an internal audit department that has been given the task of assessing the internal control structure and compliance with Model Audit Rule (“MAR”). Where applicable, MAR workpapers 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 contained in the prior report on financial condition 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.

### 3. DESCRIPTION OF COMPANY

#### A. History

The Company was incorporated as a stock life insurance company under the laws of the State of New York on October 16, 1996, under the name of Trans-General Life Insurance Company of New York. The Company was licensed and commenced business on March 26, 1997. On April 1, 1999, the Company changed its name to Highmark Life Insurance Company of New York. On April 1, 2006, the Company changed its name to its present name.

In April 2013, Highmark Inc. was acquired by UPE, a Pennsylvania non-profit corporation, and became an indirect wholly owned subsidiary of UPE. On May 2, 2013, UPE changed its name to Highmark, and Highmark Inc. changed its name to Highmark Health Services. On October 25, 2013, Highmark changed its name to Highmark Health, and Highmark Health Services changed its name back to Highmark Inc.

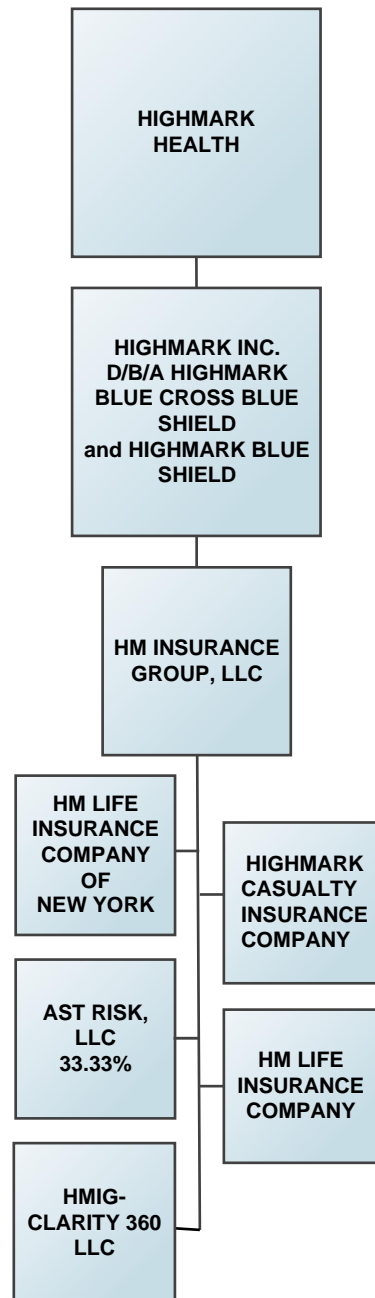
Initial resources of \$10,000,000, consisted of common capital stock of \$2,000,000 and paid in and contributed surplus of \$8,000,000. The capital stock was provided through the sale of 200,000 shares of common stock (with a par value of \$10 each) for \$10 per share. The contributed surplus was provided by its ultimate parent Highmark Inc. In 2004, the Company received a capital contribution of \$5,000,000 from Highmark Inc. Capital and paid in and contributed surplus were \$2,000,000 and \$13,000,000, respectively, as of December 31, 2021.

#### B. Holding Company

The Company is a wholly owned subsidiary of HM Insurance Group, Inc. (“HMIG”), a Pennsylvania holding company. HMIG is in turn a wholly owned subsidiary of Highmark Inc., a Pennsylvania non-profit corporation that is licensed as a hospital plan and professional health services plan. Highmark Inc. is in turn a wholly owned subsidiary of Highmark Health. The ultimate parent of the Company is Highmark Health.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2021 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 of Services	Recipients of Services	Specific Services Covered	Income/ (Expense) For Each Year of the Examination
Optical Laboratory Agreement File No. 35854	11/01/2006	Davis Vision, Inc.	The Company	Design, develop, manufacture and supply vision care products	2017 \$(4,175,636) 2018 \$ 0 2019 \$ 0 2020 \$ 0 2021 \$ 0
Employee Benefit Administrators Agreement File No. 29380	01/01/2003	HM Life Insurance Company	The Company	Employee Benefit Plan Admin., Financial, Legal, Information Technology and other support services	2017 \$(124,112) 2018 \$(144,167) 2019 \$(139,063) 2020 \$(215,439) 2021 \$(148,145)
Investment Advisory Agreement File No. 44253	01/01/2008	Highmark Inc.	The Company	Provide supervision and direction of investment of cash, securities, and other assets	2017 \$(1,563) 2018 \$(1,330) 2019 \$ (761) 2020 \$ (681) 2021 \$ (391)
Administrative Services Agreement File No. 45178	01/01/2012	HM Life Insurance Company	The Company	Executive management, staffing, customer service, underwriting, claims, financial, marketing and advertising, actuarial, computer and data processing	2017 \$(4,056,873) 2018 \$(3,757,194) 2019 \$(4,538,658) 2020 \$(4,096,946) 2021 \$(3,597,443)
Sublease Agreement	10/20/2017	The Company	United Concordia	HMLNY subleases office space to United Concordia.	2017 \$1,500 2018 \$1,500 2019 \$1,500 2020 \$1,500 2021 \$1,500

Section 1505 of the New York Insurance Law states (“NYIL”), in part:

“(d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period . . .

(3) rendering of services on a regular or systematic basis . . . ”

The Company has a sublease agreement with an affiliate, however, there is no record showing that the agreement was ever submitted to the Department for review. In addition, the sublease agreement was entered into on October 20, 2017, and signed on November 15, 2017, less than 30 days after the agreement was made. During the examination period, the Company received lease payments totaling \$7,500 from United Concordia Companies, Inc.

The Company violated Section 1505(d)(3) of the New York Insurance Law by acting under a service agreement that has not been submitted to the Superintendent and by entering into transactions with United Concordia for the rendering of a sublease agreement on a systematic basis without notifying the Superintendent, in writing, thirty days prior to entering into such transactions.

The examiner notes that the Company filed the sublease agreement with the Department on April 27, 2022.

The Company filed an investment advisory agreement with an affiliate, pursuant to Section 1505 of the New York Insurance Law under Department File No. 44253. The agreement as filed, indicates that the service provider, Highmark Inc., shall submit to the service recipient, the Company, within thirty (30) days of the end of each calendar quarter, a written statement (invoice) of the amount owed by the Company for services provided pursuant to the agreement in that calendar quarter and that the Company shall pay or have paid Highmark within thirty (30) days following receipt of such written statement the amount set forth in the statement. The examiner’s review indicates that Highmark Inc. has not sent invoices to the Company at the end of each quarter, and that as of June 30, 2022, the Company has not paid for services received under the agreement since the first quarter of 2021.

The examiner recommends that the parties comply with the terms of the investment advisory agreement, or amend the terms of the agreement to match what the parties are actually

performing under the agreement. Any amendment to the agreement should be submitted to the Department pursuant to Section 1505 of the New York Insurance Law.

#### 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 shareholders. As of December 31, 2021, the board of directors consisted of eleven members. Meetings of the board are held quarterly.

The eleven board members and their principal business affiliation, as of December 31, 2021, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
John Robert Baum, Ph.D. Lansdale, PA*	Emeritus, Department of Management and Organization University of Maryland Robert H. Smith School of Business	2015
William Anthony Brothers North Toawandia, NY*	Insurance Sales and Consulting Premier Consulting Associates	2017
Kenyokee Clinton Crowell Wexford, PA	Senior Vice President, Clinical Services Highmark Inc.	2021
Thomas Anthony Doran Sewickley, PA	Executive Vice President Chief Operating Officer Health Plan Highmark Inc.	2019
Michael William Fry Sammamish, WA*	Retired Insurance Executive Symetra Insurance Company	2020
Kevin Mark Lawrence Valencia, PA	President HM Insurance Group, LLC	2020
Sarah Marie Marche Pittsburgh, PA	Senior Vice President, Pharmacy and Clinical Market Strategy Highmark Inc.	2021
David Michael Matter Naples, FL*	Retired Oxford Development Company	2010

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Frederick Gerard Merkel Hilton Head, SC	Retired Executive Highmark Inc.	2015
Deborah Lynn Rice- Johnson North Huntingdon, PA	President, Highmark Health Plan Highmark Inc.	2021
William John Stallkamp Vero Beach, FL*	Retired Penn Hudson Financial Group	2010

\* 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, 2021:

<u>Name</u>	<u>Title</u>
Kevin Mark Lawrence	President
Caleb Lee Knier	Chief Financial Officer and Treasurer
Edward August Bittner, Jr., Esquire	Corporate Secretary

#### 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 New York, Rhode Island, and the District of Columbia. In 2021, all accident and health premiums were received from New York. Policies are written on a non-participating basis. The Company has never offered annuity products. The Company stopped writing new life insurance business since 2012 and does not intend to offer any life or annuity products in the future.

##### A. Statutory and Special Deposits

As of December 31, 2021, 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 primarily markets group accident and health insurance coverage. Within the accident and health business lines, the Company markets stop loss, vision care, and managed care reinsurance.

The Company utilizes independent agents and brokers to market its stop loss products. Three individuals employed by the Company, two in its New York City office and one in its Syracuse, New York office, contact agents and brokers in New York State encouraging them to market the Company's products. Approximately 92.5% of the 2021 net written premiums was derived from stop loss business. Vision care products are marketed through Davis Vision, Inc., an affiliated third-party administrator. Approximately 7.5% of the 2021 net written premiums was derived from the vision care business. Effective December 1, 2017, Davis Vision, Inc. was acquired by Centerbridge Partners LP and ceased to be an affiliate of the Company.

C. Reinsurance

As of December 31, 2021, the Company had reinsurance treaties in effect with four companies, of which three were authorized or accredited. The Company's accident and health business is reinsured on a coinsurance basis. Reinsurance is provided on an automatic basis.

## 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2021, as contained in the Company's 2021 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, 2021 filed annual statement.

### A. Independent Accountants

PwC was retained by the Company to audit the Company's combined statutory-basis statements of financial position as of December 31<sup>st</sup> of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

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

### B. Net Admitted Assets

Bonds	\$65,108,730
Cash, cash equivalents and short term investments	13,096,082
Investment income due and accrued	257,286
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	1,568,089
Reinsurance:	
Amounts recoverable from reinsurers	83,044
Funds held by or deposited with reinsured companies	35,000
Other amounts receivable under reinsurance contracts	1,083,881
Net deferred tax asset	24,605
Receivables from parent, subsidiaries and affiliates	123,105
Health care and other amounts receivable	4,731
Prepaid taxes	<u>25,835</u>
Total admitted assets	<u>\$81,410,388</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for accident and health contracts	\$ 1,021,651
Contract claims:	
Life	50,000
Accident and health	14,497,351
Contract liabilities not included elsewhere:	
Interest maintenance reserve	1,120,079
Commissions to agents due or accrued	1,210,281
General expenses due or accrued	1,083,187
Taxes, licenses and fees due or accrued, excluding federal income taxes	208,905
Current federal and foreign income taxes	1,309,827
Amounts withheld or retained by company as agent or trustee	2,846,230
Remittances and items not allocated	229,618
Miscellaneous liabilities:	
Asset valuation reserve	193,461
Funds held under reinsurance treaties with unauthorized reinsurers	1,425,867
Payable to parent, subsidiaries and affiliates	608,262
Unclaimed property	<u>3,967</u>
 Total liabilities	 <u>\$25,808,686</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	13,000,000
Unassigned funds (surplus)	<u>40,601,702</u>
Surplus	<u>\$53,601,702</u>
 Total capital and surplus	 <u>\$55,601,702</u>
 Total liabilities, capital and surplus	 <u>\$81,410,388</u>



D. Condensed Summary of Operations

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Premiums and considerations	\$72,804,811	\$36,235,875	\$39,178,474	\$36,891,756	\$35,720,787
Investment income	1,332,668	1,660,693	1,827,354	1,504,371	1,232,470
Commissions and reserve adjustments on reinsurance ceded	364,367	6,438,979	6,004,778	8,346,782	5,361,410
Miscellaneous income	<u>626</u>	<u>12</u>	<u>205</u>	<u>31,496</u>	<u>0</u>
Total income	<u>\$74,502,472</u>	<u>\$44,335,559</u>	<u>\$47,010,811</u>	<u>\$46,774,405</u>	<u>\$42,314,667</u>
Benefit payments	\$50,142,655	\$32,469,241	\$36,789,241	\$16,294,622	\$24,298,003
Increase in reserves	1,354,678	(227,747)	(377,036)	119,434	(43,017)
Commissions	4,898,416	3,528,637	3,775,073	4,598,597	4,168,824
General expenses and taxes	10,868,006	10,110,215	10,381,597	11,879,617	9,400,966
Miscellaneous expenses	<u>21</u>	<u>52</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total deductions	<u>\$67,263,776</u>	<u>\$45,880,398</u>	<u>\$50,568,875</u>	<u>\$32,892,270</u>	<u>\$37,824,776</u>
Net gain (loss)	\$ 7,238,696	\$(1,544,839)	\$(3,558,064)	\$13,882,135	\$ 4,489,891
Federal and foreign income taxes incurred	<u>2,166,245</u>	<u>(469,891)</u>	<u>(799,532)</u>	<u>2,981,463</u>	<u>969,921</u>
Net gain (loss) from operations before net realized capital gains	<u>\$ 5,072,451</u>	<u>\$(1,074,948)</u>	<u>\$(2,758,532)</u>	<u>\$10,900,672</u>	<u>\$ 3,519,970</u>
Net income	<u>\$ 5,072,451</u>	<u>\$(1,074,948)</u>	<u>\$(2,758,532)</u>	<u>\$10,900,672</u>	<u>\$ 3,519,970</u>

E. Capital and Surplus Account

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Capital and surplus, December 31, prior year	\$ <u>40,180,878</u>	\$ <u>45,057,134</u>	\$ <u>43,841,477</u>	\$ <u>41,203,735</u>	\$ <u>51,595,647</u>
Net income	\$ 5,072,451	\$(1,074,948)	\$(2,758,532)	\$10,900,672	\$ 3,519,970
Change in net unrealized capital gains (losses)	10,283	15,625	(40,570)	0	(88)
Change in net deferred income tax	(633,930)	(261,152)	(71,943)	83,155	(63,760)
Change in non-admitted assets and related items	229,319	0	0	0	0
Change in liability for reinsurance in unauthorized companies	226,481	138,358	209,349	(573,971)	573,971
Change in asset valuation reserve	<u>(28,348)</u>	<u>(33,540)</u>	<u>23,954</u>	<u>(17,944)</u>	<u>(24,038)</u>
Net change in capital and surplus for the year	\$ <u>4,876,256</u>	\$ <u>(1,215,657)</u>	\$ <u>(2,637,742)</u>	\$ <u>10,391,912</u>	\$ <u>4,006,055</u>
Capital and surplus, December 31, current year	\$ <u>45,057,134</u>	\$ <u>43,841,477</u>	\$ <u>41,203,735</u>	\$ <u>51,595,647</u>	\$ <u>55,601,702</u>

## 6. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation contained in the prior report on financial condition examination and the subsequent actions taken by the Company in response to the citation:

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 325(a) of the New York Insurance Law by failing to keep copies of statutorily required records at its home office.</p> <p>The Company kept copies of statutorily required records at its home office during the examination period.</p>

## 7. SUMMARY AND CONCLUSIONS

Following are the violation and recommendation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by acting under a service agreement that has not been submitted to the Superintendent and by entering into transactions with United Concordia for the rendering of a sublease agreement on a systematic basis without notifying the Superintendent, in writing, thirty days prior to entering into such transactions.	8
B	The examiner recommends that the parties comply with the terms of the investment advisory agreement, or amend the terms of the agreement to match what the parties are actually performing under the agreement. Any amendment to the agreement should be submitted to the Department pursuant to Section 1505 of the New York Insurance Law.	8

Respectfully submitted,

*James Wang*

James Wang, CPA  
Senior Insurance Examiner

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

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

*James Wang*

James Wang

Subscribed and sworn to before me  
this 26<sup>th</sup> day of June, 2023  
*Audrey Hall*

**AUDREY HALL**  
Notary Public, State of New York  
No. 01HA6274900  
Qualified in Kings County  
Commission Expires January 28, 2025

Respectfully submitted,

\_\_\_\_\_/s/  
Flora Egbuchulam  
Associate 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. 32399***

***NEW YORK STATE***

***DEPARTMENT OF FINANCIAL SERVICES***

*I, **ADRIENNE A. HARRIS**, 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:*

***JAMES WANG***

*as a proper person to examine the affairs of the*

***HM 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 31st day of March, 2022*

***ADRIENNE A. HARRIS***  
*Superintendent of Financial Services*

*By:*

*msl AM leud*

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***MARK MCLEOD***  
***DEPUTY CHIEF - LIFE BUREAU***

