STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of PHL Variable Insurance Company (the "Company") as of December 31, 2017, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

TO WIT:

1. I, Andrew N. Mais, as the Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("CGS").

2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.

3. On April 24, 2019 the verified Examination Report of the Company was filed with the Connecticut Insurance Department ("Insurance Department").

4. In accordance with Section 38a-14(e)(3) of the CGS, the Company was afforded a period of thirty (30) days within which to submit to the Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.

5. On May 20, 2019, the Company filed a written submission indicating that they were in agreement with all of the recommendations contained in the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Insurance Department.

2. That the Company shall comply with all of the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.

3. **Section 38a-14(e)(4)(A) of the CGS requires that:**

   "The secretary of the board of directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the commissioner, in writing, that a copy of the report or summary has been provided to each director."

   <u>Please address</u> the certification to the commissioner but send[ing] to the care/attention of William Arfanis, Supervising Examiner, of the Financial Regulation Division.

4. **Section 38a-14(e)(4)(B) of the CGS requires that:**

   "Not later than one hundred twenty days after receiving the report or summary, the chief executive officer or the chief financial officer of the entity examined shall present the report or summary to the entity's board of directors or similar governing body at a regular or special meeting."

   This will be verified by <u>the Insurance Department</u> either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 10th day of June, 2019.

Andrew N. Mais
Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF THE

PHL VARIABLE INSURANCE COMPANY
(NAIC # 93548)

AS OF

DECEMBER 31, 2017

BY THE

CONNECTICUT INSURANCE DEPARTMENT

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April 30, 2019

The Honorable Andrew N. Mais
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 6th Floor
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of section 38a-14 of the General Statutes of the State of Connecticut (CGS), the undersigned has conducted a examination of the condition and affairs of

PHL VARIABLE INSURANCE COMPANY

(hereafter referred to as the Company or PHLVIC), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office located at One American Row, Harford, Connecticut. The report of such examination is respectfully submitted.

SCOPE OF EXAMINATION

The previous examination of the Company was conducted by the Financial Regulation Division of the Connecticut Insurance Department (Department) as of December 31, 2012. The current examination, which covers the five-year period from January 1, 2013 to December 31, 2017, was conducted at the Company's statutory home office in Hartford, CT. The Department participated in a coordinated examination with the New York Department Financial Services (NYDFS), which acted as lead state for the examination.

The following companies were part of the coordinated exam (herein referred to as the Group):

- Nassau Life Insurance Company (NNY) (f/k/a Phoenix Life Insurance Company) (New York)
- PHLVIC
- Nassau Life and Annuity Company (NLA) (f/k/a Phoenix Life and Annuity Company) (Connecticut)

As part of the examination planning procedures, the Department reviewed the following materials dated 2013 through 2017, submitted by the Company:

- Board of Director (Board) and other committees minutes (through the latest 2018 minutes);
- statutory audit reports completed by the Company's independent certified public accountants, KPMG, LLP (KPMG);
- Management's Discussion and Analysis;
- Statements of Actuarial Opinion;
- Annual Statements filed with the Department; and
- reports of the Internal Audit Department.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, reports from the National Association of Insurance Commissioners (NAIC) database, as well as independent audit reports, all of which indicated no material concerns with respect to financial condition or regulatory compliance issues.

Work papers prepared by KPMG, as of December 31, 2017, in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

Baker Tilly Virchow Krause, LLP (Baker Tilly) was engaged by the NYDFS to perform the examination procedures of the Group in certain key functional activities of the financial condition examination, to conduct an evaluation of the Company's information technology (IT) general controls and to conduct the review of investments for the Group.

Claire Thinking, Inc. (CTI) was engaged by the Department to assist in the review of the Company's reserving, pricing and underwriting, liquidity, and reinsurance risk.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual (Manual) and the NAIC Annual Statement Instructions.

The examination considered prospective risks, those risks that existed at the balance sheet date that will impact future operations or risks associated with future business plans of the Company. Examination procedures were performed as deemed appropriate to evidence actions that the Company had taken to mitigate these risks.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

The Company was chartered by Special Act 81-3 of the 1981 session of the Connecticut General Assembly under the name, Trumbull Insurance Company of Connecticut, effective July 15, 1981. The name was changed to Hartford Life and Annuity Insurance Company on July 24, 1981. In 1984, the Dreyfus Corporation purchased the Company and changed its name to Dreyfus National Life Insurance Company. On February 17, 1984, the name was changed to Dreyfus Consumer Life Insurance Company. PM Holdings, Inc. (PM Holdings) purchased all of the outstanding stock of the Company. Effective May 31, 1994, the Company's name was changed to PHLVIC. The Company became a wholly-owned subsidiary of PM Holdings, which was a wholly-owned subsidiary of NNY. NNY was a wholly-owned subsidiary of the Phoenix Companies, Inc. (Phoenix). In 2015, the Phoenix de-stacked its insurance company subsidiaries making the Company a direct subsidiary of the Phoenix.

On June 20, 2016, Nassau Reinsurance Group Holdings L.P. (Nassau Re) acquired the Phoenix after receipt of insurance regulatory approvals from the Department and the NYDFS. Nassau Re is a privately held insurance and reinsurance business focused on acquiring and operating entities in the insurance, reinsurance, distribution and asset management sectors. Nassau Re was founded in 2015 with an initial capital commitment of $750 million provided by private equity funds managed by SEC-registered investment advisor Golden Gate Private Equity, Inc. (Golden Gate Capital).

Additionally, Nassau Re refunded $80 million of new equity capital to its reinsurance affiliate, Nassau Re (Cayman) Ltd. (Nassau Re Cayman), related to a reinsurance agreement between Nassau Re and PHLVIC.

After completion of the acquisition by Nassau Re, Phoenix became a privately held, wholly owned subsidiary of Nassau Re. There are nine U.S. insurers in the group: NNY, PHLVIC, NLA, Constitution Life Insurance Company (Constitution), Financial American Life Insurance Company, Financial American Property and Casualty Company, National Service Contract Insurance Company Risk Retention Group, Pyramid Life Insurance Company (Pyramid), and WFG National Title Insurance Company. Golden Gate Capital Opportunity Fund Management, LLC (GGCOF) is the sole shareholder of Golden Gate Capital and David Dominik is the sole director of Golden Gate Capital, the sole member of GGCOF.

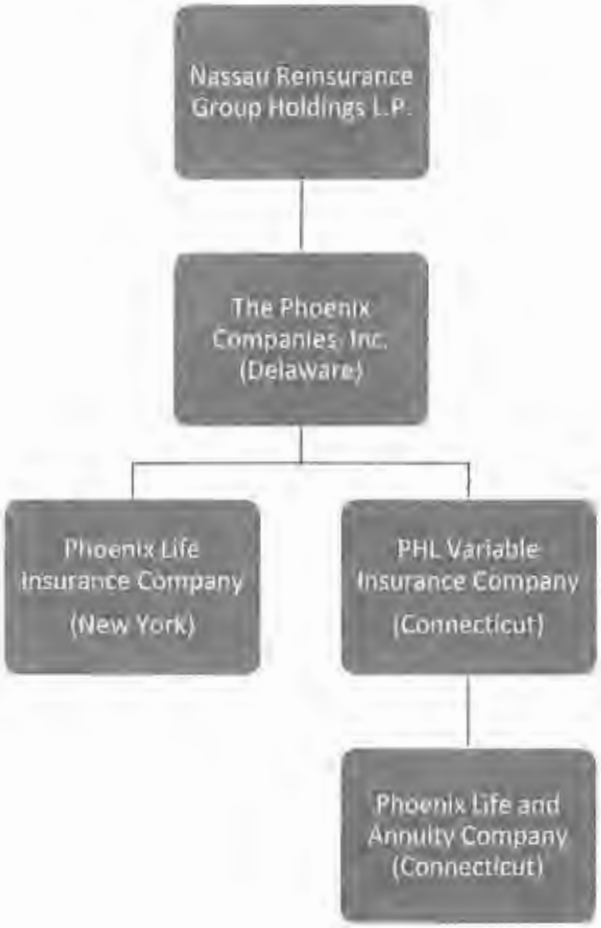
On December 31, 2016, PHLVIC received $16.5 million capital contribution of affiliate common stock of two life insurance companies, American Phoenix Life and Reassurance Company (APLAR) and NLA.

Phoenix's four operating entities, NNY, PHLVIC, NLA and APLAR provided life and annuity products through independent producers. NNY maintained a closed block of business for participating policies sold before its demutualization in 2001. PHLVIC had a significant amount of annuity business. NLA was in run-off, and APLAR was inactive and was sold to Equitable Life & Casualty Insurance Company on February 1, 2017. As of December 31, 2017, all new life insurance and annuity business was underwritten by PHLVIC.

PHL VARIABLE INSURANCE COMPANY

ORGANIZATIONAL CHART

The following is a partial organizational chart that identities the relationship of the Company and its parent as of December 31, 2017. Subsequent company name changes are noted in the exam report.



PHL VARIABLE INSURANCE COMPANY

MANAGEMENT AND CONTROL

In accordance with the amended and restated bylaws effective May 16, 2002, the annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly come before such meeting, shall be held at such location as the Board may appoint.

Special meetings of the shareholders may be called by the chairman of the Board or the president, on in the absence of both, by any vice president, or as otherwise provided by statute, and shall be so called upon the written request of a majority of the Board. Holders of a majority of voting power of shares entitled to vote at any meeting shall constitute a quorum for such meeting. Any action required by statute to be taken at an annual or special meeting may be taken without a meeting, notice or vote, if consent in writing signed by all persons who would be required to vote upon such action is obtained.

The number of directors of the Board shall be fixed from time to time by resolution of the Board but shall be no fewer than three nor more than twenty. A meeting of the Board shall be held within thirty (30) days for organization, election of officers and other business, after each annual election of directors. The Board may provide for the holding of regular meetings and may fix the times and places at which such meetings shall be held. Special meetings of the Board may be called by the president or any two directors.

At any meeting of the Board, a majority of directors shall constitute a quorum. In absence of a quorum, a majority of those present at the time and place of any meeting may adjourn the meeting from time to time until a quorum shall be present.

Committees

The Board shall be authorized to establish such committees of the Board. All committees of PHLVIC are now at the parent company level, the Nassau Companies of New York (NCNY), formerly Phoenix.

Officers

At the annual meeting, the Board shall elect from its members a president, a treasurer and a secretary, but the same person may not serve concurrently as president and secretary. Each officer shall hold office until the first meeting of the Board after the next annual meeting of shareholders.

Members of the Board serving the Company at December 31, 2017, were as follows:

Name	Title and Principal Business Affiliation
Leanne Marie Bell	Self Employed
Kostas Cheliotis	Vice President, General Counsel and Secretary Nassau Re
Phillip John Gass	President, Chief Executive Officer and Chairman of the Board Nassau Re

Kevin Joseph Gregson	Global Leader, Commercial and Client Development Wilson Towers Watson
Leland Convis Launer, Jr.	Retired
Thomas Arthur Williams	Chief Financial Officer Nassau Re

Senior officers serving the Company at December 31, 2017, were as follows:

Name	Title
Phillip John Gass	President
Kostas Cheliotis	Vice President and Secretary
Ernest Malcom McNeill, Jr.	Vice President, Chief Financial Officer and Treasurer
Thomas Martin Buckingham	Vice President
Benito Joel Cuevo, Jr.	Vice President
Byron Burdick Frank	Vice President
Robert Joseph Lombardi	Vice President
Christopher Andrew Macklem	Illustration Actuary
William Benjamin Moorcroft	Second Vice President, Chief Compliance Officer and Anti-Money Laundering Officer
Gina Collopy O'Connell	Vice President
Dana Marie Pedersen	Vice President
Diana Piquette	Vice President
Christopher Matthew Wilkos	Vice President and Chief Investment Officer
Susan Ann Zophy	Vice President

RELATED PARTIES

PHLVIC and NLA were parties to the following intercompany agreements as of December 31, 2017:

Shared Services Agreement

Effective January 1, 2017, both PHLVIC and NLA entered into a Shared Services Agreement (Agreement) with Nassau Reinsurance, LLC and NCNY to provide certain support services that are billed pursuant to the Agreement. The services provided include accounting, actuarial, information technology, human resources, enterprise risk management, among others, that have been consolidated under the Nassau Re / NCNY umbrella.

Consolidated Tax Allocation Agreement

NCNY entered into the Amended and Restated Tax Allocation Agreement dated January 1, 2001, (Tax Allocation Agreement) with its subsidiary corporations that are included in the filing of a consolidated federal income return (the NCNY Consolidated Tax Group). The federal income tax obligation of each subsidiary is calculated on a separate company basis. NCNY renders tax payments to the Internal Revenue Service on behalf of the NCNY Consolidated Tax Group. NCNY compensates a subsidiary that is a party to the Tax Allocation Agreement to the

extent such subsidiary's credit, loss or other specified tax attribute (calculated on a separate company basis) is used to reduce NCNY Consolidated Tax Group's consolidated federal taxable income.

Commission Payment Agreement

Effective February 1, 2010, this agreement provides that NNY will pay commissions to producers on behalf of PHLVIC and NLA. PHLVIC and NLA will then reimburse NNY.

Premium Processing Agreement

Effective January 14, 2010, PHLVIC entered into this agreement to provide premium processing services for NNY and NLA. PHLVIC receives payments on NNY annuity and NLA life products and forwards those payments to NNY. PHLVIC does not charge a fee for this service.

Underwriting and Distribution Agreement

An affiliate, 1851 Securities, Inc. (1851), is the principal underwriter of variable life insurance policies and variable annuity contracts. PHLVIC and NLA reimburse 1851 for commissions incurred on their behalf.

Distribution and Wholesaling Services Agreement

Saybrus Partners (Saybrus), an affiliate, provides wholesaling services to various third party distributors and affiliates of variable life insurance and variable annuities. PHLVIC and NLA reimburse Saybrus for commissions incurred on their behalf.

Investment Management Agreement

Effective January 1, 2017, PHLVIC and NLA entered into an Investment Management Agreement with Nassau Asset Management LLC (NAMCO) pursuant to which NAMCO provides investment management services and invests assets pursuant to investment guidelines.

Affiliated Loans

PHLVIC made secured loans of $149.2 million to a related party in the third quarter of 2017 (DSM Sands LLC, f/k/a Jog Works LLC). The potential maximum amount of these loans was $250 million. Interest income is included in net investment income and was $4.9 million for the year ended December 31, 2017. The loans are carried at amortized cost and reported as a write-in item liability on both PHLVIC's General Account and Separate Account Annual Statements.

INSURANCE COVERAGE

The Company is covered by a fidelity bond maintained by Nassau Re for itself and other affiliates and subsidiaries. The aggregate limit of liability provides fidelity coverage above the prescribed minimum set forth by the NAIC's schedule of suggested minimum amounts in the Handbook.

In addition to the fidelity insurance policy, Nassau Re maintains, for itself and other affiliates and subsidiaries insurance coverage including: property; professional and management liability; workers' compensation; general liability; and cyber risk coverage with various carriers.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the District of Columbia, Puerto Rico, and every state, with the exception of New York and Maine. The Company offered life insurance and annuity products. The Company's life insurance products, sold through Saybrus, included universal life (UL), term life, whole life and other insurance products. The annuity products include individual fixed deferred and individual modified guaranteed fixed. The most predominant products currently being sold by the Company are single premium fixed indexed annuities (FIA).

REINSURANCE

Assumed Reinsurance

Effective June 30, 2015, PHLVIC entered into a modified coinsurance agreement (MODCO) reinsurance agreement with NNY. This agreement provides that NNY will retrocede, and the Company will reinsure, 80% of the inforce Group Executive Ordinary corporate-owned whole life insurance policies assumed by NNY from a third-party.

Ceded Reinsurance

Effective October 1, 2017, the Company entered into an aggregate excess of loss reinsurance agreement with an affiliate reinsurer, Magni Re, to reinsure aggregate losses on certain universal life contracts in excess of the annual attachment points specified in the treaty. The Company entered into the reinsurance treaty to manage surplus volatility associated with the Company's mortality risk.

Effective April 1, 2016, PHLVIC entered into a MODCO treaty with Nassau Re Cayman to reinsure 50% of the existing inforce business and future sales of the Company's FIA contracts. Under MODCO reinsurance, the assets held for the reinsured policies and the liabilities associated with the business are retained by the Company, and the economic risks and rewards related to the business will be ceded to Nassau Re Cayman. Effective July 1, 2017, the treaty was amended to include reinsurance coverage on new term business issued on or after the amendment date.

For business sold prior to December 31, 2010, the Company's retention limit on any one life is $10 million for single life and joint first-to-die policies and $12 million for joint last-to-die policies. Beginning January 1, 2011, its retention limit on new business is $5 million for single life and joint first-to-die policies and $6 million for second-to-die policies.

INFORMATION TECHNOLOGY CONTROLS

The NYDFS engaged Baker Tilly to assist in conducting a review of NCNY's evaluation of IT controls in accordance with the guidelines and procedures set forth in Exhibit C of the Handbook (Exhibit C). The objectives were achieved through a combination of reviewing NCNY's policies and procedures, testing in key areas related to Exhibit C, interviewing senior IT management, reviewing IT risk assessment processes, and leveraging the risk assessment procedures performed by KPMG, the Company's internal audit department and Model Audit Rule documentation.

Based upon the risk-based assessment and review, the IT general controls were determined to be effective.

ACCOUNTS AND RECORDS

Since 2004, the Company has outsourced the infrastructure services of its IT organization to DXC Technology.

The Company utilizes the Oracle PeopleSoft General Ledger system. Various systems are utilized for annuity, term, whole life, and UL business. The Company contracts the services of outside firms to maintain and manage its assumed variable UL and annuity business.

The Company also contracts the services of outside firms to maintain and manage its investment portfolio. The Company utilizes the Princeton Asset Management System for investment accounting.

The Company utilizes Booke Seminar's "The Complete Package for Windows" software for preparation of its annual statement. General ledger account balances were reconciled and traced to the appropriate asset, liability and income statement lines on the annual statements using the BlackLine reconciliation system. Adjusting entries are posted on a monthly and quarterly basis as needed.

The Company responded "No" to Note 23.A.2) of the Notes to Financial Statements (Note) of the annual statement. The Note asks, *"Have any policies issued by the Company been reinsured with a company charted in a country other than the United States...which is owned in excess of 10% or controlled directly or indirectly by an insured, beneficiary, a creditor or an insured or any other person <u>not</u> primarily engaged in the insurance business?"* The Company has reinsurance ceded with two affiliates, Magni Re and Nassau Re, that are domiciled in the Cayman Islands. As evidenced by the Form A filing with the Department, the criteria in this Note has been met. It is recommended that the Company respond "Yes" to the Note, in accordance with the Instructions.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2017. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$1,645,125,879		$1,645,125,879
Preferred stocks	17,734,012		17,734,012
Common stocks	10,920,087		10,920,087
Mortgage loans on real estate			
First liens	4,250,824		4,250,824
Cash, cash equivalents and short-term investments	109,194,792		109,194,792
Contract loans	79,008,051		79,008,051
Derivatives	13,907,653		13,907,653
Other invested assets	14,168,654	$247,475	13,921,179
Receivables for securities	7,382,750		7,382,750
Investment income due and accrued	15,435,131		15,435,131
Premiums and consideration:			
Uncollected premiums and agents' balances in the course of collection	2,475,496		2,475,496
Deferred premiums; agents' balances and installments booked but deferred and not yet due	28,069,130		28,069,130
Amounts recoverable from reinsurers	13,259,215		13,259,215
Other amounts receivable under reinsurance contracts	1,860,720		1,860,720
Current federal and foreign income tax recoverable and interest thereon	96,339,744		96,339,744
Net deferred tax asset	65,656,124	51,123,070	14,533,054
Guaranty funds receivable or on deposit	345,521		345,521
Receivables from parent, subsidiaries and affiliates	3,845,217		3,845,217
Aggregate write-ins for other than invested assets	42,972,596	1,791,056	41,181,540
Total assets excluding Separate Accounts; Segregated Accounts and Protected Cell Accounts	2,171,951,596	53,161,601	2,118,789,995
From Separate Accounts	4,200,524,043		4,200,524,043
Total	$6,372,475,639	$53,161,601	$6,319,314,038

PHL VARIABLE INSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	$1,733,898,219
Liability for deposit-type contracts	70,904,777
Contract claims: Life	66,628,911
Premiums and annuity considerations for life and accident and health contracts received in advance	164,248
Other amounts payable on reinsurance including	31,492,426
Interest Maintenance Reserve	11,826,275
Commissions to agents due or accrued	118,032
General expenses due or accrued	8,308,795
Transfers to Separate Accounts due or accrued (net)	(59,077,525)
Amounts withheld or retained by company as agent or trustee	542,082
Remittances and items not allocated	2,958,771
Miscellaneous liabilities:	
Asset valuation reserve	14,157,029
Funds held under reinsurance treaties with unauthorized and certified reinsurers	102,611
Payable to parent, subsidiaries and affiliates	21,063,229
Payable for securities	28,963,255
Aggregate write-ins for liabilities	2,641,705
Total liabilities, excluding Separate Accounts business	1,934,692,840
From Separate Accounts statement	4,200,524,043
Total liabilities	6,135,216,883
Common capital stock	2,500,000
Surplus notes	30,000,000
Gross paid in and contributed surplus	134,232,940
Unassigned funds (surplus)	17,364,215
Surplus	181,597,155
Total capital and surplus	184,097,155
Totals	$6,319,314,038

PHL VARIABLE INSURANCE COMPANY

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and accident and health contracts	$320,922,423
Considerations for supplementary contracts with life contingencies	7,080,026
Net investment income	73,575,258
Amortization of Interest Maintenance Reserve (IMR)	2,084,018
Separate Accounts net gain from operations excluding unrealized gains or losses	164,587,317
Commissions and expense allowances on reinsurance ceded	21,277,093
Reserve adjustments on reinsurance ceded	(101,048,265)
Income from fees associated with investment management; administration and contract guarantees from Separate Accounts	75,680,141
Aggregate write-ins for miscellaneous income	13,932,200
Totals	578,090,211
Death benefits	290,103,711
Annuity benefits	65,433,531
Disability benefits and benefits under accident and health contracts	101,155
Surrender benefits and withdrawals for life contracts	324,762,629
Interest and adjustments on contract or deposit-type contract funds	3,531,673
Payments on supplementary contracts with life contingencies	5,407,458
Increase in aggregate reserves for life and accident and health contracts	(6,496,194)
Totals	682,843,963
Commissions on premiums; annuity considerations and deposit-type contract funds	54,795,494
Commissions and expense allowances on reinsurance assumed	547,154
General insurance expenses	86,394,579
Insurance taxes; licenses and fees; excluding federal income taxes	8,552,512
Increase in loading on deferred and uncollected premiums	(900)
Net transfers to or (from) Separate Accounts net of reinsurance	(207,888,120)
Aggregate write-ins for deductions	(53,255,213)
Totals	571,989,469
Net gain from operations before dividends to policyholders and federal income taxes	6,100,742
Net gain from operations after dividends to policyholders and before federal income taxes	6,100,742
Federal and foreign income taxes incurred (excluding tax on capital gains)	(27,934,145)
Net gain from operations after dividends to policyholders and federal income tax and before realized capital gains or (losses)	34,034,887
Net realized capital gains or (losses)	(90,241,934)
Net income	$(56,207,047)

PHL VARIABLE INSURANCE COMPANY

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, prior year	$166,732,940
Net income	(56,207,047)
Change in net unrealized capital gains (losses	50,653,148
Change in net deferred income tax	(42,314,415)
Change in nonadmitted assets	63,413,758
Change in asset valuation reserve	1,818,771
Surplus (contributed to) withdrawn from Separate Accounts during period	(166,610,045)
Other changes in surplus in Separate Accounts statement	166,610,045
Net change in capital and surplus for the year	17,364,215
Capital and surplus, December 31, current year	$184,097,155

AGGREGATE RESERVE FOR LIFE CONTRACTS (General Account)	$1,733,898,219
AGGREGATE RESERVE FOR LIFE, ANNUITY AND ACCIDENT AND HEALTH CONTRACTS (Separate Accounts)	$4,131,211,732
LIABILITY FOR DEPOSIT-TYPE CONTRACTS (General Account)	$70,904,777
LIABILITY FOR DEPOSIT-TYPE CONTRACTS (Separate Accounts)	$2,045,417
CONTRACT CLAIMS: LIFE (General Account)	$66,628,911

CTI performed a risk-based actuarial analysis of reserving, pricing and underwriting, liquidity, and reinsurance risk to ensure that:

- the life, annuity and deposit-type reserve computations were performed correctly and the selected estimates were reasonable;
- the assumptions and methodologies used were accurate and appropriate;
- the reinsurance risk transfer was classified appropriately and reinsurance credits were accurately reflected in actuarial balances;
- the assets held in support of the reserves made adequate provision for all anticipated cash flows required by the contractual obligations and related expenses of the Company; and
- pricing and/or underwriting practices were appropriate for risks assumed.

In performing the review, CTI relied upon information supplied by the Company and the Department. The information included the following:

- 2017 General Account Annual Statement and Separate Account Statement;
- 2017 Actuarial Memorandum;
- 2017 Regulatory Asset Adequacy Issues Summary;
- 2017 Actuarial Guideline XLIII (AG 43) Memorandum and Certification;
- assumption documentation and experience studies;
- model risk management policies, model documentation and model validation documentation for selected models;

- the valuation system audit trail;
- pricing documentation and supporting analyses;
- asset liability management and liquidity risk management documentation;
- FIA reinsurance treaty with Nassau Re Cayman;
- interviews with Company staff and subsequent Company feedback on meeting notes; and
- answers to requests for further information from the Company.

Reserving Risk

CTI's reserving analysis included:

- interviews with Company staff responsible for reserving and asset adequacy analysis;
- review of the actuarial opinion and memorandum regarding the cash flow testing and asset adequacy analysis provided by the Company; and
- sample testing and output review of Actuarial Guideline 43 standard scenario calculations.

Pricing and Underwriting Risk

CTI's pricing and underwriting analysis included:

- interviews with Company staff responsible for pricing practices and discussion of the underwriting practices;
- review of new business strategy;
- review of select pricing models and pricing processes;
- review of the controls used in pricing; and
- review of corporate-level capital projection model.

Liquidity Risk

CTI's liquidity analysis included:

- interviews with Company staff responsible for asset liability management;
- review of liquidity policies and guidelines; and
- review of asset liability management program.

Reinsurance Risk

CTI's reinsurance analysis included:

- interviews with Company staff responsible for reserving and asset adequacy analysis;
- review of affiliated ceded reinsurance treaties to confirm that the reinsurance reserve credit was eligible based on the qualification guidelines applicable to unauthorized insurers as codified in Section 38a-88 of the CGS and that the treaties met the risk transfer requirements codified in Section 38a-72a-3 of the CGS; and
- a high-level review of reserve development and asset adequacy testing to confirm that the reinsurance reserve credit provided by both treaties was accurately reflected.

A review of the expense allowances incorporated into the FIA reinsurance treaty with Nassau Re was inadequate to cover fully allocated renewal expenses, as required by paragraph 17 of SSAP No. 61R, and as clarified by Item 2 of Appendix A-791, of the Manual.

The reinsurance treaty incorporates a renewal year per policy expense allowance of $75 intended to cover a quota share of annual maintenance expenses of $75 per policy. According to the 2017 Actuarial Opinion Memorandum, however, the total per policy expenses allocable to FIA products was $150, of which roughly $85 were direct expenses. The remainder represents allocated "overhead" and corporate expenses that are not required to be covered by renewal year expense allowances.

Item 2 of Appendix A-791 of the Manual stipulates that no liability should be reduced or any asset be established for reinsurance ceded, if, by the terms of a reinsurance agreement, "renewal expense allowances provided or to be provided to the ceding insurer by the reinsurer in any accounting period are not sufficient to cover anticipated allocable renewal expenses of the ceding insurer on the portion of the business reinsured, unless a liability is established for the present value of the shortfall..."

Based on an updated review of available expense data using general ledger accounts, it was determined that 2017 FIA annual maintenance expenses averaged $80.30 per policy, compared to the treaty allowance of $76.50. Using an estimated policy count of 36,000 provided by the Company, this translates to a shortfall of $136,800. As a result of expense efficiencies achieved in 2018, however, the annual maintenance expense decreased to $68.10 while the inflation-adjusted expense allowance increased to $78.00, generating a favorable margin of approximately $300,000. Therefore, over the two-year period, treaty allowances were adequate to cover fully allocated direct maintenance expenses.

It is recommended that the level of renewal year expense allowances incorporated into the FIA treaty be periodically reassessed to determine their sufficiency to cover fully allocated renewal year expenses, in accordance with the Manual. To the extent they are found to be inadequate to cover the maintenance expense burden incorporated in asset adequacy analysis, either the treaty should be appropriately amended or a balance sheet liability equal to the present value of future shortfalls should be established.

Conclusion

Based upon the risk-based assessment and review, no material findings were noted with respect to the Company's formula reserving, pricing and underwriting or liquidity risks.

CAPITAL AND SURPLUS

The reconciliation of surplus for the period under examination was as follows:

Surplus, as of December 31, 2012	$313,464,191
Net income	(267,266,864)
Change in net unrealized capital gains (losses)	15,997,855
Change in net deferred income tax	(82,647,477)
Change in non-admitted assets	38,230,006
Change in asset valuation reserve	(6,668,728)
Surplus (contributed to) withdrawn from Separate Accounts during period	(301,818,370)
Change in surplus notes	30,000,000
Change in reserve on account of change in valuation basis	(11,316,886)
Other changes in surplus in Separate Accounts statements	357,920,277
Surplus adjustment – paid in	143,638,517
Aggregate write-ins for gains and losses in surplus	(45,435,366)
Net change in capital and surplus	(129,367,036)
Surplus, December 31, 2017	$184,097,155

The decrease in surplus during the examination period was primarily attributable to net loss for all years under examination due to various factors such as new reinsurance arrangements, new hedging strategies, federal tax expense, and reserve adjustments.

SEPARATE ACCOUNTS

The following exhibit summarizes the balance sheet of the insulated separate accounts as of December 31, 2017:

ASSETS

	Fair Value Basis	Total
Bonds	$2,652,191,981	$2,652,191,981
Preferred stocks	32,686,050	32,686,050
Common stocks	1,262,995,797	1,262,995,797
Mortgage loans on real estate	7,917,137	7,917,137
Cash and cash equivalents	67,112,337	67,112,337
Derivatives	32,403,858	32,403,858
Other invested assets	3,424,930	3,424,930
Subtotals, Cash and invested assets	$4,058,732,090	$4,058,732,090
Investment income due and accrued	23,135,888	23,135,888
Receivables for securities	1,495,004	1,495,004
Aggregate write-ins for other than invested assets	117,161,061	117,161,061
Total	$4,200,524,043	$4,200,524,043

LIABILITIES AND SURPLUS

	Fair Value Basis	Total
Aggregate Reserve for life, annuity and accident and health contracts	$4,131,211,732	$4,131,211,732
Liability for deposit-type contracts	2,045,417	2,045,417
Other transfers to general account due or accrued	59,116,239	59,116,239
Remittances and items not allocated	134,356	134,356
Payable for securities	8,016,299	8,016,299
Total Liabilities	$4,200,524,043	$4,200,524,043
Surplus	0	0
Total	$4,200,524,043	$4,200,524,043

RECOMMENDATIONS

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9 Accounts and Records

It is recommended that the Company respond "Yes" to the Note, in accordance with the Instructions.

13 Reserves

It is recommended that the level of renewal year expense allowances incorporated into the FIA treaty be periodically reassessed to determine their sufficiency to cover fully allocated renewal year expenses, in accordance with the Manual.

CONCLUSION

As of December 31, 2017, the Company reported (including Separate Accounts) admitted assets of $6,319,314,038, liabilities of $6,135,216,883, and capital and surplus of $184,097,155. During the period under examination, admitted assets increased by $662,234,169, liabilities increased by $791,601,205, and capital and surplus decreased by $129,367,036.

SUBSEQUENT EVENTS

Effective December 31, 2018, Nassau Re restructured the insurance segment of the Company. The name of PHLVIC will remain, but will become a subsidiary of a new parent company, PHL Delaware LLC.

The rebranded companies are as follows:

Phoenix Life and Annuity Company is now NLA;

Phoenix Life Insurance Company is now NNY;

Phoenix is now NCNY;

Constitution will be Nassau Life Insurance Company of Texas; and

Pyramid will be Nassau Life Insurance Company of Kansas.

NLA will be the new flagship company for growth across the U.S., with products offered in New York through NNY.

The following is a partial organizational chart that identities the relationship of the insurance segment of Nassau Re's current structure as of February 2019.

SIGNATURE

In addition to the undersigned, the following members of the State of Connecticut Insurance Department participated in the examination: Sharon Altieri, CPA; William Arfanis, CFE; Daniel Levine, AFE, CPA; Joseph Marcantonio, AFE, AES, CISA; Susan Pulaski, CPA; William Tacy, CFE, CIA, CISA; Michael Colburn, FSA, MAAA; and the professional services firms of CTI and Baker Tilly.

I, Kevin Beaudoin, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2017, to the best of my information, knowledge and belief.

Respectfully submitted,

Kevin Beaudoin

Kevin Beaudoin, CFE
Insurance Certified Financial Examiner
State of Connecticut
Insurance Department

State of Connecticut ss Hartford

County of Hartford

Subscribed and sworn before me, Nancy M. Mercier Notary Public/Commissioner of the Superior Court, on this 30th day of April, 2019.

Nancy M. Mercier

Notary Public/Commissioner of the Superior Court

My Commission Expires June 30, 2020