

REPORT OF EXAMINATION  
OF THE

UBS LIFE INSURANCE COMPANY USA  
(Formerly, UBS Paine Webber Life Insurance Company)

AS OF  
DECEMBER 31, 2007

Participating State  
and Zone:

California

Filed June 5, 2009

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San Francisco, California  
March 13, 2009

Honorable Alfred W. Gross  
Chairman of the NAIC Financial  
Condition (EX4) Subcommittee  
Commissioner of Insurance  
Virginia Bureau of Insurance  
Richmond, Virginia

Honorable Morris Chavez  
Secretary, Zone IV – Western  
Superintendent of Insurance  
New Mexico Insurance Division  
Santa Fe, New Mexico

Honorable Steve Poizner  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the affairs and financial condition of

UBS LIFE INSURANCE COMPANY USA  
(Formerly, UBS Paine Webber Life Insurance Company)

(hereinafter also referred to as the Company) at the office of its business processing service partner, Globalogix, Inc. located at 915 State Street, Erie, Pennsylvania 16501-1405. Corporate records were obtained from the Company's executive office located at 1200 Harbor Boulevard, 4<sup>th</sup> floor, Weehawken, New Jersey 07087. The Company's statutory home office is located at 555 California Street, Suite 3200, San Francisco, California 94014.

## SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2007. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2007 as deemed necessary under the circumstances.

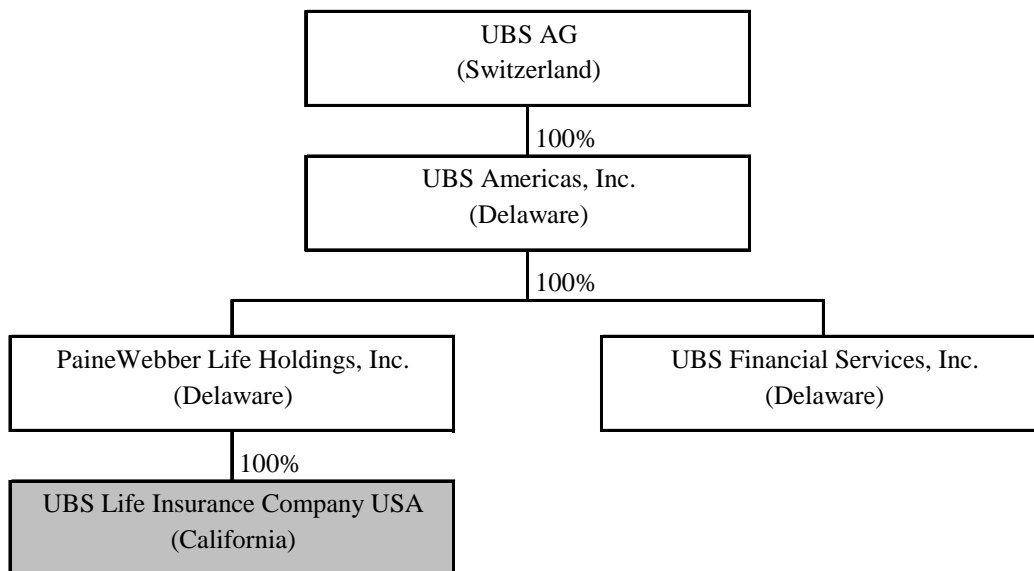
In addition to the items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas which require no further comments: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; mortality experience; and sales and advertising.

## COMPANY HISTORY

Effective September 9, 2004, the Company changed its name from UBS PaineWebber Life Insurance Company to UBS Life Insurance Company USA and amended its Articles of Incorporation to reflect the name change.

## MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which UBS AG, a global provider of financial services based in Switzerland, is the ultimate controlling entity. The abridged chart below depicts the interrelationship of some of the companies within the holding company system as of December 31, 2007:



Management of the Company is vested in a four-member board of directors. Following are lists of directors and the principal officers of the Company as of December 31, 2007:

#### Directors

<u>Name</u>	<u>Principal Business Affiliation</u>
Michael Ban Rumson, New Jersey	Managing Director and Head of Insurance and Annuities UBS Financial Services, Inc.
Robert A. Kinsky Hoboken, New Jersey	Associate Director and Business Manager of Insurance and Annuities UBS Financial Services, Inc.
David Peterson New York, New York	Executive Director and Chief Operating Officer, Wealth Planning UBS Financial Services, Inc.
Gerianne J. Silva * Maplewood, New Jersey	Director UBS Financial Services, Inc.

## Principal Officers

<u>Name</u>	<u>Title</u>
Michael Ban	Chairman of the Board
David Peterson	President
Gerianne J. Silva *	Senior Vice President, Secretary and Assistant Treasurer
Doris Vitiello	Vice President and Assistant Treasurer
Robert A. Kinsky	Treasurer

\* Resigned and replaced by Lance A. Warrick effective July 25, 2008.

## Intercompany Agreements

General Agreement with UBS Financial Services Inc. ("UBS FSI") (formerly, PaineWebber Incorporated): Under this agreement, the Company agrees to use the sales force of UBS Financial Services Inc. for its variable annuity products and to use PaineWebber Series Trust as the underlying investment vehicle. This agreement has been effective since September 1, 1993; however, the Company ceased writing direct business in 1998.

Selling Agreement with UBS Financial Services Inc. and Affiliates: Under this agreement, the Company agrees to engage the sales agencies of UBS Financial Services Inc. to market on an agency basis the variable annuity and variable annuity life insurance contracts.

This agreement has been effective since September 1, 1993. Although the Company has ceased writing direct business in 1998, based on the agreement, it still continues to pay commissions to the agent on products sold in 1998 and prior.

Principal Underwriter (Distribution) Agreement with UBS Financial Services Inc.: Under this agreement, UBS Financial Services Inc. agrees to serve as distributor for the annuity contracts issued by the Company. Subject to the written approval of the Company, UBS Financial Services Inc. may contract with other broker dealers to sell the Company's products. This agreement became effective on February 21, 1993.

Cost Allocation and Reimbursement Agreement with UBS Financial Services Inc.: Under this agreement UBS Financial Services Inc. agrees to perform certain functions and provide certain services to the Company. The Company reimburses UBS Financial Services Inc. for its share of the expenses. The allocated expenses paid under this agreement amounted to \$216,473 and \$216,580 in 2007 and 2006, respectively. This agreement became effective December 31, 1992.

Participation Agreement among the Company on behalf of itself and its "Separate Account", UBS PaineWebber, Inc. ("Contracts Distributor"), Alliance Capital Management L.P. (Adviser) and Alliance Fund Distributors, Inc. ("Distributor") dated as of October 26, 2001: Under this agreement, the Company, the Distributor, and Alliance Variable Products Series Fund, Inc. ("Fund") desire that Class A shares of the Fund's certain portfolios be made available by Distributor to serve as underlying investment media for those combination fixed and variable annuity contracts of the Company, to be offered through Contracts Distributor and other registered broker-dealer firms. Effective March 31, 2003, the Distributor was renamed AllianceBernstein Investment Research and Management, Inc. and the Fund was also renamed AllianceBernstein Variable Products Series Fund, Inc. The Company submitted this agreement together with other forms and documents in its filing dated December 4, 2001 to the California Department of Insurance (CDI). The Company was unable to provide proof of approval for this agreement by the CDI.

#### TERRITORY AND PLAN OF OPERATION

The Company is licensed to write life insurance and annuities in the District of Columbia, U.S. Virgin Islands, and all states except Connecticut and New York.

The Company previously sold variable annuities on a direct basis through UBS FSI Financial Advisors. Since March 1998, it has not written new business but continues to administer those previously written policies. It offered two types of variable annuities with seven available investment options in a separate account.

The Company currently does not write directly. All of its business is from the assumption of blocks of variable annuity business through modified coinsurance treaties. The Company assumed \$1.9 million and \$1.2 million of variable annuity business from eight insurers in 2007 and 2006, respectively. Assumed premiums since 2002 have declined from \$63 million to the current level primarily due to the ceding insurers mutually agreeing to terminate new business cessions effective December 31, 2002 or earlier. All assumed business from these insurers was generated by the UBS FSI Financial Advisors.

Corporate, administrative, accounting and reinsurance functions are performed at the Company's Weehawken, New Jersey office. Under a General Services Agreement with Globalogix, Inc. (Globalogix), effective July 1, 2007, Globalogix acts as an independent contractor, performing certain services on behalf of the Company. Services provided include but not limited to: policy maintenance activities; policyholders' support services (e.g., 1035(a) exchanges, partial withdrawal, full surrenders, death claims and annuitization payouts policyholder inquiries and requests), preparation and filing of annual and quarterly statutory financial statements with all necessary state insurance departments; and preparation and recording of accounting entries. Service fees vary depending upon the category of services provided. The Company paid Globalogix, Inc. fees of \$281,750 for the year ended December 31, 2007. Prior to July 1, 2007, similar services were performed by American Republic Insurance Company (ARIC), an Iowa Corporation, on behalf of the Company.

The Company currently remains in runoff status.

## REINSURANCE

### Assumed

The Company assumes variable annuity business under modified coinsurance with the following eight insurers, all of whom are admitted in California:

<u>Insurers</u>	<u>Percent Assumed from Insurer</u>
ITT Hartford Life and Annuity Insurance Company	20% - 30%
Hartford Life Insurance Company	20% - 30%
Golden American Life Insurance Company	25%
The Manufacturers Life Insurance Company of North America	15% - 35%
American Skandia Life Assurance Corporation	20% - 50%
The Equitable Life Assurance Society of the U.S.	20%
Pacific Life Insurance Company	20%
Aetna Life Insurance & Annuity Company	20% - 35%

The Company discontinued assuming new business from the above companies effective December 31, 2002 or earlier. Coinsurance settlements continue on existing business assumed for the life of the underlying policies.

#### Ceded

Below is a summary of the ceded reinsurance contracts in force as of December 31, 2007:

<u>Name of Reinsurer</u>	<u>Company's Retention</u>	<u>Business Reinsured</u>
American Republic Insurance Company (ARIC), an admitted reinsurer	-0- for business rolled over from ARIC through the 1035 exchange  75% for business excluding 1035 exchange from ARIC	100% for business rolled over from ARIC through the 1035 exchange (include death benefits)  25% for business excluding 1035 exchange from ARIC (include death benefits)
Swiss Re Life & Health America Inc. (Swiss Re), an admitted reinsurer	-0-	100% of the death benefits portion of all annuity business after the 25% ceded to ARIC

Two changes affecting these agreements were made during the examination period which are summarized below:

(1) ARIC and Swiss Re had a separate agreement under which certain enhanced death benefit risks assumed by ARIC from the Company were retroceded to Swiss Re. The Company was not an original party to such agreement. The Company entered into a novation agreement with ARIC and Swiss Re, effective July 1, 2007, whereby the Company would assume all rights and obligations of ARIC with respect to enhanced death benefits under such retrocession agreement. This novation agreement merely replaced ARIC's reinsurance coverage with Swiss Re's reinsurance coverage.

(2) The reinsurance agreement between the Company and ARIC was amended, effective June 30, 2007, to terminate any obligation of ARIC to reinsure policies that (i) have already annuitized on a variable basis, or (ii) may annuitize in the future on a variable basis. Any and all provisions of such agreement that obligate ARIC to reinsure annuity policies that (i) have already annuitized on a fixed basis, or (ii) annuitize in the future on a fixed basis (as they annuitize), remain in full force and effect.

#### ACCOUNTS AND RECORDS

The California Department of Insurance, Financial Analysis Division, brought to the Company's attention several reporting issues in the Company's filed 2005 Annual Statement, 2006 Quarterly Statements and 2007 Annual Statement. The Company responded to the Department's inquiries and/or amended and re-filed certain pages of its 2006 and 2007 Annual Statements, as applicable. It is recommended that the Company implement control procedures to ensure that its annual and quarterly statements are prepared accurately and in compliance with the NAIC Annual Statement Instructions – Life, Accident & Health Manual.

The Company has indicated that it has taken corrective actions in this matter by changing the third-party vendor that prepared its financial statements for filing from American Republic Insurance Company to Globalogix, Inc. The Company also indicated that it has instituted certain

review procedures to insure its quarterly and annual statements are correct and in accordance with annual statement instructions.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Summary of Operations and Capital and Surplus Account for the Year Ended  
December 31, 2007

Reconciliation of Capital and Surplus from December 31, 2003  
through December 31, 2007

Reconciliation of Examination Changes as of December 31, 2007

Statement of Financial Condition  
as of December 31, 2007

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 7,977,393	\$	\$ 7,977,393	
Cash and short-term investments	26,042,027		26,042,027	(1)
Investment income due and accrued	128,030		128,030	
Uncollected premiums and agents' balances in the course of collection	351,822		351,822	(2)
Reinsurance:				
Amounts recoverable from reinsurers	25,182		25,182	
Net deferred tax asset	<u>2,128,723</u>	<u>1,030,162</u>	<u>1,098,561</u>	
Totals	<u>\$36,653,177</u>	<u>\$ 1,030,162</u>	<u>\$35,623,015</u>	
From Separate Accounts statement			<u>7,246,387</u>	
Total assets			<u>\$42,869,402</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Contract claims: Life			\$ 1,942,144	(3)
Contract liabilities not included elsewhere:				
Other amounts payable on reinsurance assumed and ceded			(35,143,335)	(3)
Commissions and expense allowances payable on reinsurance assumed			1,350,514	(3)
General expenses due or accrued			97,556	
Taxes, licenses and fees due or accrued			3,986	
Current federal income taxes			73,121	
Reinsurance payable			31,833,071	(3)
From Separate Accounts statement			<u>7,246,387</u>	
Total liabilities			7,403,444	
Common capital stock		\$ 2,500,000		
Gross paid-in and contributed surplus		32,867,359		
Unassigned funds (surplus)		<u>98,599</u>		
Capital and surplus			<u>35,465,958</u>	
Total liabilities, capital and surplus			<u>\$42,869,402</u>	

Summary of Operations and Capital and Surplus Account  
for the Year Ended December 31, 2007

Statement of Income

Premiums and annuity considerations	\$ 2,223,076
Net investment income	1,274,861
Amortization of interest maintenance reserve	5
Commissions and expense allowances on reinsurance ceded	65,732
Reserve adjustments on reinsurance assumed	191,172,221
Income from fees associated with investment management, administration and contract guarantees from Separate Account	161,703
Miscellaneous loss	<u>(816)</u>
Total	<u>194,896,782</u>
Annuity benefits	20,900,694
Surrender benefits and withdrawals for life contracts	<u>165,598,824</u>
Total	186,499,518
Commissions on premiums and annuity considerations	5,226
Commissions and expense allowances on reinsurance assumed	10,060,823
General insurance expenses	1,666,093
Insurance taxes, licenses and fees, excluding federal income taxes	52,208
Net transfer from Separate Accounts	<u>(6,436,629)</u>
Total	<u>191,847,239</u>
Net gain from operations before federal income taxes	3,049,543
Federal income taxes incurred	<u>73,118</u>
Net income	<u>\$ 2,976,425</u>

Capital and Surplus Account

Capital and surplus, December 31, 2006	\$ 33,496,379
Net income	\$ 2,976,425
Change in net deferred income tax	(1,249,655)
Change in nonadmitted assets	<u>242,809</u>
Net change in capital and surplus for the year	<u>1,969,579</u>
Capital and surplus, December 31, 2007	<u>\$ 35,465,958</u>

Reconciliation of Capital and Surplus  
from December 31, 2003 through December 31, 2007

Capital and surplus, December 31, 2003, per Examination			\$21,880,015
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$13,904,736	\$	
Change in net deferred income tax	701,037		
Change in nonadmitted assets		1,027,495	
Change in asset valuation reserve	<u>7,665</u>	<u>          </u>	
Total gains and losses in surplus	<u>\$14,613,438</u>	<u>\$ 1,027,495</u>	
Increase in capital and surplus			<u>13,585,943</u>
Capital and surplus, December 31, 2007, per Examination			<u>\$35,465,958</u>

Reconciliation of Examination Changes  
as of December 31, 2007

	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Surplus Increase</u> <u>or (Decrease)</u>	<u>Notes</u>
<u>Assets</u>				
Uncollected premiums and agents' balances in the course of collection	0	351,822	351,822	(2)
<u>Liabilities</u>				
Contract claims: Life	\$ 2,964,346	\$ 1,942,144	\$ 1,022,202	(3)
Other amounts payable on reinsurance assumed and ceded	(20,271,089)	(35,143,335)	14,872,246	(3)
Commissions and expense allowances payable on reinsurance assumed	(1,144,754)	1,350,514	(2,495,268)	(3)
Reinsurance payable	17,234,225	31,833,071	<u>(14,598,846)</u>	(3)
Net decrease to unassigned funds			(847,844)	
Capital and surplus, December 31, 2007, per Company			<u>36,313,802</u>	
Capital and surplus, December 31, 2007, per Examination			<u>\$35,465,958</u>	

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Cash and Short-Term Investments

The Company maintains its checking account at Wells Fargo Bank located in Des Moines, Iowa. The cash account balance as of December 31, 2007 was \$2,005,786. Because the Company is no longer administered by a third party administrator located in Des Moines, Iowa, the business reason to maintain its checking account in Des Moines, Iowa is no longer necessary. It is recommended that this bank account be transferred to, and maintained in California in compliance with California Insurance Code Sections 1104.1 and 1104.9.

### (2) Uncollected Premiums and Agents' Balances in the Course of Collection

This asset account was increased by \$351,822 based on cash settlements on reinsurance assumed made during January 2008 through April 2008.

### (3) Contract Claims: Life

Other Amounts Payable on Reinsurance Assumed and Ceded

Commissions and Expense Allowances Payable on Reinsurance Assumed

Reinsurance Payable

The captioned accounts relate to variable annuities assumed by the Company. The following schedule summarized the examination changes:

<u>Account</u>	<u>Per Company</u>	<u>Per Examinations</u>	<u>Examination Adjustments</u>
Contract Claims-Life	\$ 2,964,346	\$ 1,942,144	\$ 1,022,202
Other Amounts Payable on Reinsurance Assumed and Ceded	(20,271,089)	(35,143,335)	14,872,246

<u>Account</u>	<u>Per Company</u>	<u>Per Examination</u>	<u>Examination Adjustment</u>
Commissions and Expense Allowances Payable on Reinsurance Assumed	(1,144,754)	1,350,514	(2,495,268)
Reinsurance Payable	17,234,225	31,833,071	(14,598,846)
Decrease in Surplus			\$ (1,199,666)

The amounts reported by the Company were the Company's estimates at year-end. The examination amounts were based on cash settlements made during January 2008 through April 2008.

### SUMMARY OF COMMENTS AND RECOMMENDATIONS

#### Current Report of Examination

Accounts and Records (Page 8): It is recommended that the Company implement control procedures to ensure that its annual and quarterly statements are prepared accurately and in compliance with the NAIC Annual Statement Instructions – Life, Accident & Health Manual.

Cash and Short-Term Investments (Page 14): It is recommended that the checking account maintained at Wells Fargo Bank located in Des Moines, Iowa be transferred to, and maintained in California in compliance with California Insurance Code Sections 1104.1 and 1104.9.

#### Prior Report of Examination

Net Deferred Tax Asset (Page 12): It was recommended that the Company comply with Statements of Statutory Accounting Principles (SSAP) No. 10, paragraphs 18-22 by properly disclosing in the Notes to Financial Statements the federal income tax related accounts. It was also recommended that the Company comply with SSAP No. 10, paragraph 7 by recognizing the

change in net deferred income tax as a separate component of gains and losses in unassigned funds (surplus). The Company has complied.

Policy and Contract Claims: Life, Other Amounts Payable on Reinsurance Assumed and Ceded, Commissions and Expense Allowances Payable on Reinsurance Assumed, and Accounts Payable (Page 13): It was recommended that the Company comply with the Quarterly and Annual Statement Instructions by reclassifying the modified coinsurance reserve adjustments to “Other amounts payable on reinsurance assumed and ceded” and also change the “Accounts Payable” to a more appropriate liability account. The Company has since complied.

ACKNOWLEDGEMENT

The cooperation and assistance extended by the officers of the Company and the employees of Globalogix, Inc., the Company's business processing service provider, are acknowledged.

Respectfully submitted,

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

Mario Adoc, CFE  
Contract Insurance Examiner  
Department of Insurance  
State of California