

REPORT OF EXAMINATION
OF THE
UBS LIFE INSURANCE COMPANY USA
AS OF
DECEMBER 31, 2015

Filed on June 23, 2017

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Los Angeles, California
May 22, 2017

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

UBS LIFE INSURANCE COMPANY USA

(hereinafter also referred to as the Company) at the primary location of its books and records, located at 1000 Harbor Boulevard, 8th Floor, Weehawken, New Jersey 07086. The Company's statutory home office is located at 555 California Street, Suite 3200, San Francisco, California 94104.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2011. This examination covered the period from January 1, 2012 through December 31, 2015.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

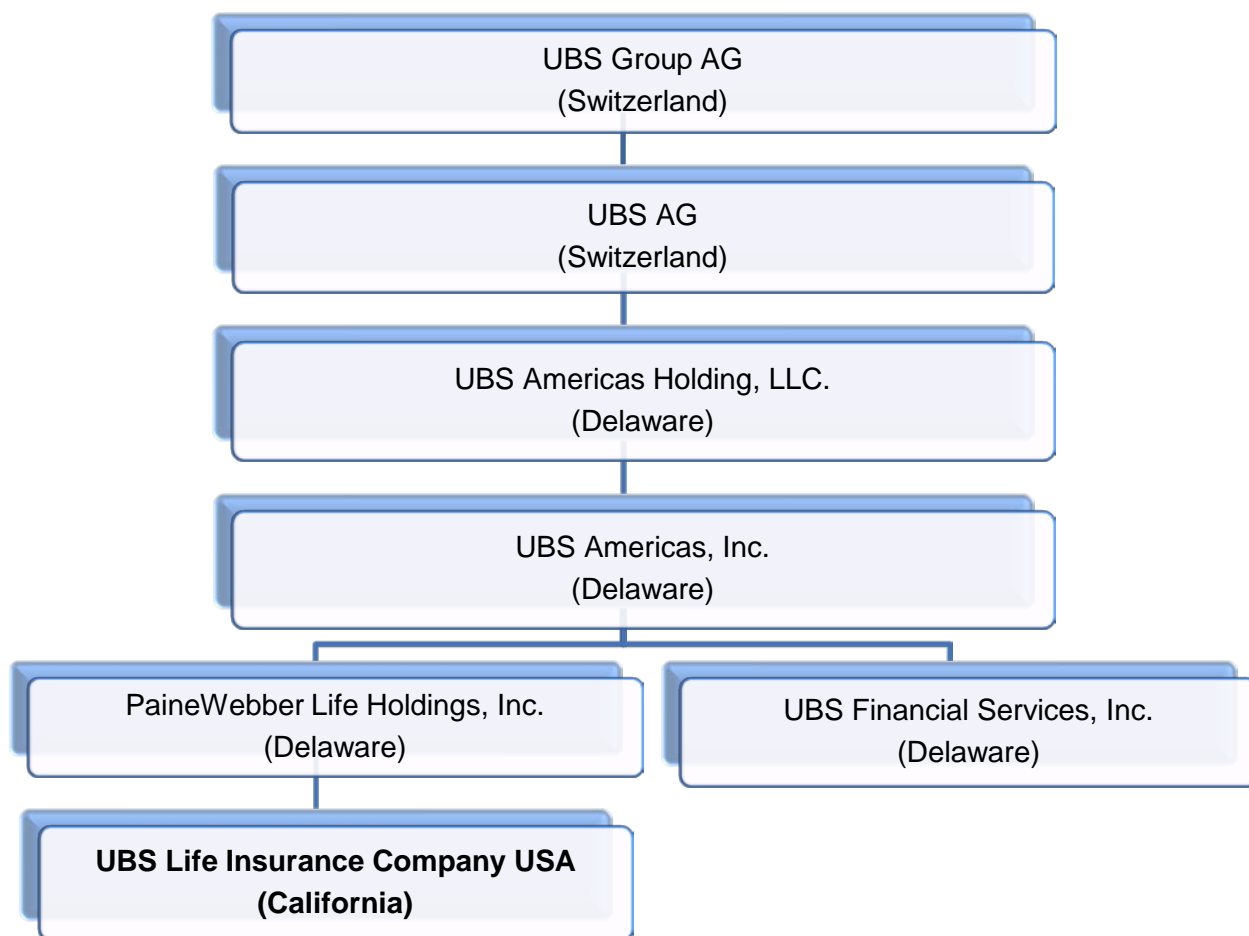
This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company's board of directors declared an ordinary cash dividend totaling \$4,145,754 to its sole shareholder, PainWebber Life Holdings, Inc., which was paid in June 2014.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which UBS Group AG, a global corporation based in Switzerland, is the ultimate controlling entity. Following is an abridged organizational chart. All ownership is 100%.



The two members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2015:

Directors

Name and Location

Principal Business Affiliation

Patricia Marie Landau
Douglaston, New York

Executive Director
UBS Financial Services, Inc.

Kathleen Horan
Jersey City, New Jersey

Executive Director
UBS Financial Services, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Patricia Marie Landau	President
Kathleen Horan	Treasurer
Vanessa Lynne Friedhoff	Secretary
May Ann Lim	Vice President

Corporate Records

It was noted that the Insurance Holding Company System Annual Registration Statements filed with the California Department of Insurance (CDI) did not include statements that the board of directors is responsible for overseeing corporate governance and internal controls and that the insurer's officers or senior management have approved, implemented, and continue to maintain and monitor corporate governance and internal control procedures. Such statements are required by California Insurance Code Section (CIC) 1215.4(b)(6). It is recommended that the Company comply with CIC Section 1215.4(b)(6) for future Insurance Holding Company System Annual Registration Statement filings.

CIC Section 735 states that an insurer shall inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner. These facts shall be entered in the board minutes. A review of the board minutes failed to provide evidence pertaining to the receipt of the examination report. It is recommended that the Company comply with CIC Section 735.

Management Agreements

General Agreement: Under this agreement, the Company agrees to use the sales force of its affiliate, UBS Financial Services, Inc. (UBSFS) for its variable annuity products and to use PaineWebber Series Trust as the underlying investment vehicle. This agreement has been in effect since September 1, 1993; however, the Company ceased

writing direct business in 1998, and has not paid any fees to UBSFS during the examination period.

Selling Agreement: Under this agreement, the Company agrees to engage the sales agencies of UBSFS to market the variable annuity and variable annuity life insurance contracts on an agency basis. This agreement has been in effect since September, 1, 1993; however, the Company ceased writing direct business in 1998, and has not paid any fees to UBSFS during the examination period.

Cost Allocation and Reimbursement Agreement: Under this agreement, UBSFS agrees to perform certain functions and provide certain services to the Company. The functions and services include, but are not limited to: services relating to physical facilities, confirmations and statements, cashiering and operations functions, accounting, recordkeeping, and facilities common expenses and related operational and administrative costs. The Company reimburses UBSFS for its share of expenses on an actual cost basis. The agreement became effective on December 31, 1992.

Master Service Agreement: Effective January 1, 2012, the Company entered into a Master Service Agreement, which acts as a specific supplement to the aforementioned Cost Allocation and Reimbursement Agreement dated 1992 with UBSFS. Under this agreement UBSFS provides legal and compliance, tax, and finance services at agreed upon annual fees. This agreement was not submitted to the CDI for a prior approval as required under CIC Section 1215.5(b)(4). It is recommended the Company submit this agreement to the CDI for approval as required by CIC Section 1215.5(b)(4).

Fees paid by the Company for the Cost Allocation Agreement and Master Service Agreement were \$78,688, \$67,000, \$67,000, and \$50,250 in 2012, 2013, 2014, and 2015, respectively.

General Services Agreement: Under a General Services Agreement with Globalogix, Inc. (Globalogix), a non-affiliate, Globalogix acts as an independent contractor,

performing services on behalf of the Company. The services provided include, but are not limited to: policy maintenance activities; policyholders' support services; preparation and filing of annual and quarterly statutory financial statements; and preparation and recording of accounting entries. Service fees vary depending upon the category of services provided. The agreement was effective July 1, 2007, and the Company paid Globalogix fees of \$325,821, \$324,505, \$320,000, and \$326,838 in 2012, 2013, 2014, and 2015, respectively.

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 currently remains in run-off. The Company previously sold variable annuities on a direct basis through UBS Financial Services, Inc. Since March 1998, it has not written any new business, but continues to administer previously written policies. It originally offered two types of variable annuities with seven available investment options.

REINSURANCE

Assumed

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

Insurers	Percent Assumed
AXA Equitable Life Insurance Company	20%
Hartford Life and Annuity Insurance Company ^(a)	20%
Hartford Life Insurance Company ^(a)	20%

Insurers	Percent Assumed
Pacific Life Insurance Company	20%
Prudential Annuities Life Assurance Corporation ^(b)	20%
Voya Insurance and Annuity Company	25%
Voya Retirement Insurance and Annuity Company	20%

(a) Effective January 1, 2015, the Company terminated its reinsurance agreements with Hartford Life and Annuity Insurance Company and Hartford Life Insurance Company and commuted all obligations thereunder.

(b) Subsequent to the examination period, and effective November 1, 2016, the Company terminated its reinsurance agreement with Prudential Annuity Life Assurance Corporation and commuted all obligations thereunder.

At the end of 2002, the Company determined that it would discontinue assuming variable annuity business under its modified coinsurance treaties. Each ceding insurer mutually agreed to terminate new business cessions, effective December 31, 2002 or earlier. Coinsurance settlements continue on existing business assumed for the life of the underlying policies. Therefore, during the examination period, the Company continued to maintain variable annuity business previously assumed pursuant to its existing modified coinsurance treaties.

Ceded

The Company cedes variable annuity policies to American Republic Insurance Company that (i) have already annuitized on a fixed basis, or (ii) annuitize in the future on a fixed basis.

The Company also cedes certain enhanced death benefit risks to Swiss Re Life & Health America Inc.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2015

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2015

Reconciliation of Capital and Surplus from December 31, 2011
through December 31, 2015

Statement of Financial Condition
as of December 31, 2015

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 10,270,609	\$	\$ 10,270,609	
Cash and short-term investments	29,341,581		29,341,581	
Investment income due and accrued	33,593		33,593	
Amount recoverable from reinsurers	3,793		3,793	
Net deferred tax asset	39,514	11,783	27,731	
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>1,610,130</u>		<u>1,610,130</u>	
Total assets	<u>\$ 41,299,220</u>	<u>\$ 11,783</u>	<u>\$ 41,287,437</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Contract claims: Life			\$ 1,064,215	(1)
Other amounts payable on reinsurance			(4,605,954)	(2)
Commissions and expense allowance payable on reinsurance assumed			309,288	
General expenses due or accrued			94,863	(3)
Current federal and foreign income taxes			86,188	
Amounts withheld or retained by company as agent or trustee			1,892	
Aggregate write-ins for liabilities			2,906,404	(4)
From Separate Accounts statement			<u>1,610,130</u>	
Total liabilities			1,467,026	
Common capital stock	\$ 2,500,000			
Gross paid-in and contributed surplus		32,867,359		
Unassigned funds (surplus)		<u>4,453,052</u>		
Capital and Surplus			<u>39,820,411</u>	
Total liabilities, capital, and surplus			<u>\$ 41,287,437</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2015

Statement of Income

Premiums and annuity considerations	\$ 9,048	
Net investment income	106,529	
Income from fees associated with investment management, Administration, and contract guarantees from Separate Accounts	35,124	
Aggregate write-ins for miscellaneous income	<u>22,839,932</u>	
Total		\$ 22,990,633
Annuity benefits	\$ 8,110,025	
Surrender benefits and withdrawals for life contracts	13,733,515	
Commissions and expense allowances on reinsurance assumed	1,011,368	
General insurance expenses	505,112	
Insurance taxes, licenses and fees, excluding federal income taxes	102,745	
Net transfer to or (from) Separate Accounts net of reinsurance	<u>(1,334,661)</u>	
Total		<u>22,128,104</u>
Net gain from operations before federal income taxes		862,529
Federal income taxes incurred		<u>239,393</u>
Net income		<u>\$ 623,136</u>

Capital and Surplus Account

Capital and surplus, December 31, 2014		\$ 39,249,551
Net income	\$ 623,136	
Change in net deferred income tax	(51,464)	
Change in nonadmitted assets	<u>(812)</u>	
Net change in capital and surplus for the year		<u>570,860</u>
Capital and surplus, December 31, 2015		<u>\$ 39,820,411</u>

Reconciliation of Capital and Surplus
from December 31, 2011 through December 31, 2015

Capital and surplus, December 31, 2011			\$ 39,552,850
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 4,848,251	\$	
Change in net deferred income tax		502,937	
Change in nonadmitted assets	68,001		
Dividends to stockholders		<u>4,145,754</u>	
Total gains and losses	<u>\$ 4,916,252</u>	<u>\$ 4,648,691</u>	
Net increase in capital and surplus			<u>267,561</u>
Capital and surplus, December 31, 2015			<u>\$ 39,820,411</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Contract Claims: Life

Annuity claims in the course of settlement totaling \$1,064,215 has been recorded as of December 31, 2015 related to modified coinsurance assumed business. The Company appears to have sufficient capital and surplus with respect to its future liabilities as of the examination date. Based on a preliminary review performed by a Life Actuary from the California Department of Insurance, it was determined no further review of reserve adequacy was needed for purposes of this examination.

(2) Other Amounts Payable on Reinsurance

The majority of the negative \$4,605,954 for other amounts payable on reinsurance as of December 31, 2015 represents accrued reserve adjustments and expense allowances for the reinsurance assumed under modified coinsurance arrangements.

(3) General Expenses Due or Accrued

General expenses due or accrued as of December 31, 2015 include accrued liabilities of \$16,750 due to its affiliate, UBS Financial Services, Inc. (UBSFS). UBSFS provides certain services to the Company under the aforementioned Cost Allocation and Reimbursement Agreement and the Master Service Agreement. Pursuant to the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions, accrued expenses due to affiliates should be reported as Payable to Parent, Subsidiaries and Affiliates. Due to the immaterial amount, no reclassification adjustment was made for the purpose of this examination.

It was also noted the 2015 Annual Statement, Schedule Y, Part 2, failed to properly include accrued liabilities of \$16,750 due to UBSFS. Pursuant to the NAIC Annual Statement Instructions, this schedule should be prepared on an accrual basis. It is recommended the Company comply with the NAIC Annual Statement Instructions when reporting transactions with its affiliate.

(4) Aggregate Write-ins for Liabilities

Aggregate write-ins for liabilities totaling \$2,906,404 as of December 31, 2015 represent accrued surrender benefits for the reinsurance assumed under modified coinsurance arrangements.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Corporate Records (Page 4): It is recommended that the Company comply with the California Insurance Code (CIC) Section 1215.4(b)(6) for future Insurance Holding Company System Annual Registration Statement filings. It is also recommended that the Company comply with CIC Section 735 to include statements in the board minutes pertaining to the receipt of the examination report.

Management and Control – Management Agreements (Page 4): It is recommended the Company submit the Master Service Agreement to the California Department of Insurance for approval as required by CIC Section 1215.5(b)(4).

Comments on Financial Statement Items – General Expenses Due or Accrued (Page 12): It is recommended the Company comply with the NAIC Annual Statement Instructions when reporting of transactions with its affiliate.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company and UBS Financial Services, Inc.'s officers and employees during the course of this examination.

Respectfully submitted,

/S/

Sayaka T. Dillon, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

/S/

Vivien Fan, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California