

REPORT OF EXAMINATION
OF THE
UBS LIFE INSURANCE COMPANY USA
AS OF
DECEMBER 31, 2020

Insurance Commissioner

A handwritten signature in blue ink, appearing to be "P. DeLoe", is positioned to the right of the text "Insurance Commissioner".

FILED ON November 12, 2021

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Los Angeles, California
October 29, 2021

Honorable Ricardo Lara
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). The Company's books and records are located at 1000 Harbor Boulevard, 8th Floor, Weehawken, New Jersey 07086. The Company's statutory home office is located at 555 California Street, Suite 3400, San Francisco, California 94104.

SCOPE OF EXAMINATION

We have performed our multi-state domestic examination of the Company. The previous examination of the Company was as of December 31, 2015. This examination covered the period from January 1, 2016 through December 31, 2020.

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.

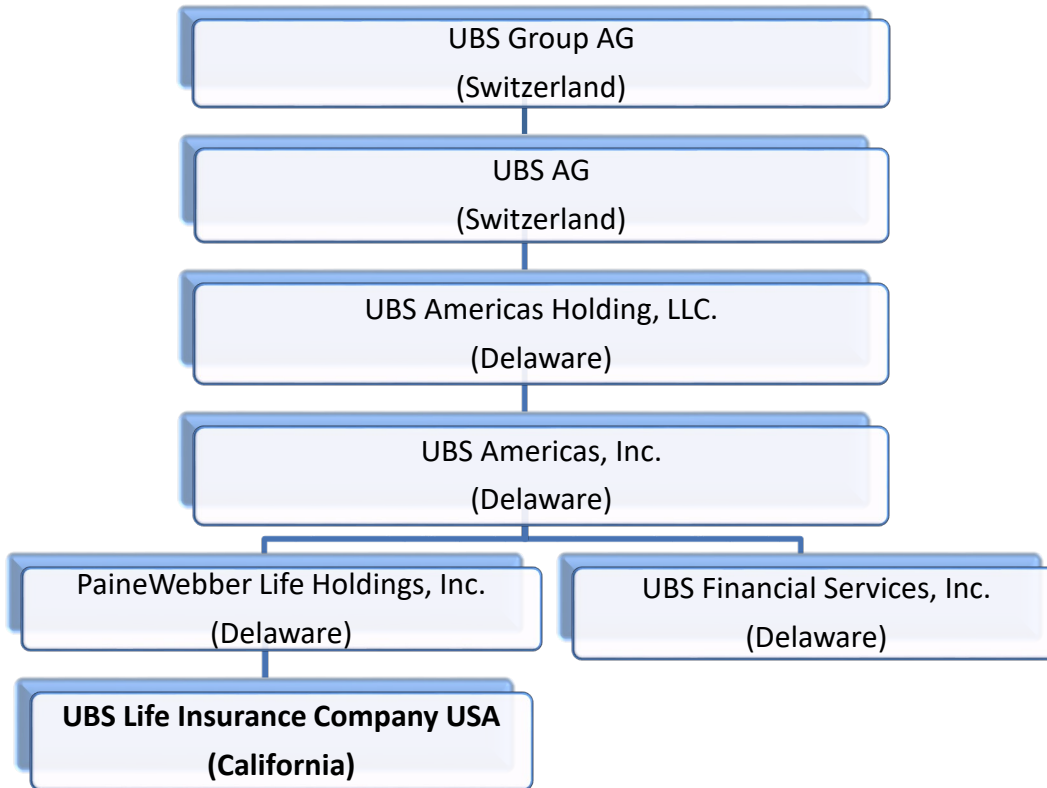
COMPANY HISTORY

Dividends

On September 18, 2020, the Company's board of directors declared an ordinary cash dividend of \$599,637 to its immediate parent and sole shareholder, PaineWebber Life Holdings, Inc., which was paid in September 2020.

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 three 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, 2020:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Kathleen Horan Jersey City, New Jersey	GWM US Ledger Lead and Americas Asset Management Controller UBS Financial Services, Inc.
Phillip J. Pellegrino Hoboken, New Jersey	Product Manager – Wealth Planning, US UBS Financial Services, Inc.
Michael York Bergenfield, New Jersey	Annuities Sales and Relationship Manager UBS Financial Services, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Phillip J. Pellegrino	President
Michael York	Vice President
Kathleen Horan	Treasurer
Vanessa L. Friedhoff	Secretary

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.

Effective January 1, 2012, the Company entered into a Master Service Agreement (MSA), which is a specific supplement to the Cost Allocation and Reimbursement Agreement mentioned above dated 1992 with UBSFS. Under this agreement, UBSFS provides legal and compliance, tax, and finance services at agreed-upon annual fees of \$67,000. As recommended during the previous examination, the Company submitted the amended MSA with the effective date of April 3, 2018, to the California Department of Insurance (CDI) for approval as required under California Insurance Code Section 1215.5(b)(4), and it was approved on March 30, 2018.

Fees paid by the Company for the Cost Allocation Agreement and Master Service Agreement were \$83,750, \$0, \$0, \$184,250, and \$50,250 in 2016, 2017, 2018, 2019, and 2020, 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 \$320,000, \$320,000, \$320,000, \$320,000, and \$320,000 in 2016, 2017, 2018, 2019, and 2020, 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 four insurers, all of whom are admitted in California:

Insurers	Percent Assumed
AXA Equitable Life Insurance Company	20%
Pacific Life Insurance Company	20%
Venerable Insurance and Annuity Company	25%
Voya Retirement Insurance and Annuity Company	20%

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 sessions, effective December 31, 2002, or earlier. Coinsurance settlements continue on existing business assumed for the life of the underlying policies. Effective November 1, 2016, the Company terminated and commuted all obligations under its modified coinsurance treaty with Prudential Annuity Life Assurance Corporation. As of December 31, 2020, the Company continued to maintain the variable annuity the business previously assumed under its existing modified

coinsurance treaties.

Ceded

The Company cedes immaterial amount of reinsurance transactions to the following authorized non-affiliated U.S. reinsurers:

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, 2020. 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, 2020

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2020

Reconciliation of Capital and Surplus from December 31, 2015
through December 31, 2020

Statement of Financial Condition
as of December 31, 2020

<u>Assets</u>	<u>Ledger and</u> <u>Nonledger Assets</u>	<u>Assets Not</u> <u>Admitted</u>	<u>Net Admitted</u> <u>Assets</u>	<u>Notes</u>
Bonds	\$ 10,516,714	\$	\$ 10,516,714	
Cash, cash equivalents, and short-term investments	30,828,169		30,828,169	
Investment income due and accrued	47,578		47,578	
Amounts recoverable from reinsurers	2,097		2,097	
Other amounts receivable under reinsurance contracts	593,249		593,249	
Current federal and foreign income tax recoverable and interest thereon	69,530		69,530	
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	2,281,313		2,281,313	
Total assets	\$ 43,745,401	\$	\$ 43,745,401	
<u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Contract claims: Life			\$ 984,618	(1)
Other amounts payable on reinsurance			(2,829,521)	(2)
Commissions and expense allowances payable on reinsurance assumed			187,970	
General expenses due or accrued			74,037	
Net deferred tax liability			3,177	
Aggregate write-ins for liabilities			1,422,430	(3)
Total liabilities excluding Separate Accounts business			(157,289)	
From Separate Accounts statement			2,281,313	
Total liabilities			2,124,024	
Common capital stock	\$ 2,500,000			
Gross paid in and contributed surplus	32,867,359			
Unassigned funds (surplus)	6,254,018			
Capital and Surplus			41,621,377	
Total liabilities, capital, and surplus			\$ 43,745,401	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2020

State of Income

Premiums and annuity considerations	\$ (837)	
Net investment income	258,682	
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	32,403	
Aggregate write-ins for miscellaneous income	<u>13,104,637</u>	
Total		\$ 13,394,885
Annuity benefits	\$ 4,156,555	
Surrender benefits and withdrawals for life contracts	7,350,446	
Commissions and expense allowance on reinsurance assumed	738,362	
General insurance expenses	706,493	
Insurance taxes, licenses and fees, excluding federal income taxes	116,288	
Net transfer to or (from) Separate Accounts net of reinsurance	<u>(70,494)</u>	
Total		<u>12,997,650</u>
Net gain from operations before dividends to policyholders, refunds to members and federal income taxes		397,235
Federal and foreign income taxes incurred		<u>80,898</u>
Net income		<u>\$ 316,337</u>

Capital and Surplus Account

Capital and surplus, December 31, 2019		\$ 41,906,634
Net income	\$ 316,337	
Change in net deferred income tax	(1,967)	
Dividends to stockholders	<u>(599,627)</u>	
Change in capital and surplus for the year		<u>(285,257)</u>
Capital and surplus, December 31, 2020		<u>\$ 41,621,377</u>

Reconciliation of Capital and Surplus
from December 31, 2015 through December 31, 2020

Capital and surplus December 31, 2015			\$ 39,820,411
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 2,431,501	\$	
Change in net deferred income tax		42,691	
Change in nonadmitted assets	11,783		
Change in asset valuation reserve	20,932	20,932	
Dividend to stockholders		<u>599,627</u>	
Total gains and losses	<u>\$ 2,464,216</u>	<u>\$ 663,250</u>	
Net increase in capital and surplus			<u>1,800,966</u>
Capital and surplus, December 31, 2020			<u>\$ 41,621,377</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Contract Claims: Life

As of December 31, 2020, the Company reported annuity claims in settlement of \$984,618 related to modified coinsurance assumed business. The Company appears to have sufficient capital and surplus concerning its future liabilities as of the examination date. Since the last examination, there have been no significant changes in operation; the examiner determined that review of reserve adequacy was unnecessary for this examination.

(2) Other Amounts Payable on Reinsurance

The majority of the negative \$2,829,521 for other amounts payable on reinsurance as of December 31, 2020, represents accrued reserve adjustments and expense allowances for the reinsurance assumed under modified coinsurance arrangements.

(3) Aggregate Write-ins for Liabilities

Aggregate write-ins for liabilities totaling \$1,422,430 as of December 31, 2020, represent accrued surrender benefits for the reinsurance assumed under modified coinsurance arrangements.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets. The examination reviewed the potential impact of the pandemic to the Company and noted minimal impact on the Company's business operations as of the date of this report. However, a significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The California Department of Insurance (CDI) continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

On June 3, 2021, Aspida Holdings, Ltd. (Aspida), a Bermuda corporation, entered into a Stock Purchase Agreement with PaineWebber Life Holdings, Inc. (PaineWebber), the current parent and sole shareholder of the Company, to acquire all the issued and outstanding shares of the Company, in the amount equal to the Company's statutory capital, less the declared extraordinary cash dividend of \$20 million, plus \$5.66 million.

On July 2, 2021, Aspida filed with the CDI the Form A application, pursuant to California Insurance Code Section 1215.2, to acquire the Company under the terms described in the above Stock Purchase Agreement. As part of the consideration of the sale, the Company filed an application seeking prior approval of an extraordinary dividend and return of capital contribution in the amount of \$20 million to PaineWebber. The application of the extraordinary dividend was approved on September 16, 2021 and the Form A application is currently under review.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control – Corporate Records (Page 4): It was 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 was 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. The Company complied with the recommendations.

Management and Control – Management Agreements (Page 4): It was 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). The Company complied with the recommendation.

Comments on Financial Statement Items – General Expenses Due or Accrued (Page 12): It was recommended the Company comply with the NAIC Annual Statement Instructions when reporting of transactions with its affiliate. The Company has provided a reasonable rectification to comply with the recommendation.

ACKNOWLEDGMENT

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

Respectfully submitted,

Sunny Kim Digitally signed by Sunny Kim
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Sunny Kim, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Fan, Vivien Digitally signed by Fan, Vivien
Date: 2021.11.12 07:57:53
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Vivien Fan, CFE
Bureau Chief
Department of Insurance
State of California