

REPORT OF EXAMINATION
OF THE
UBS LIFE INSURANCE COMPANY USA
AS OF
DECEMBER 31, 2011

Filed: May 15, 2013

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San Francisco, California
April 30, 2013

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 1200 Harbor Boulevard, 10th 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 made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2011. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting

Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; and statutory deposits.

SUBSEQUENT EVENTS

In May 2012, the Company finalized its Commutation Agreement with John Hancock Life Insurance Company USA (formerly The Manufacturers Life Insurance Company USA) to recapture its modified coinsurance treaty effective upon execution with settlements paid through June 30, 2011. The parties agreed that the value of the reinsurance business ceded as of June 30, 2011 was \$2,650,000. Upon mutual execution of the Commutation Agreement, John Hancock Life Insurance Company USA wired the sum of \$962,717 which represents the business value less \$1,687,283, the amount overpaid to the Company due to an accounting error.

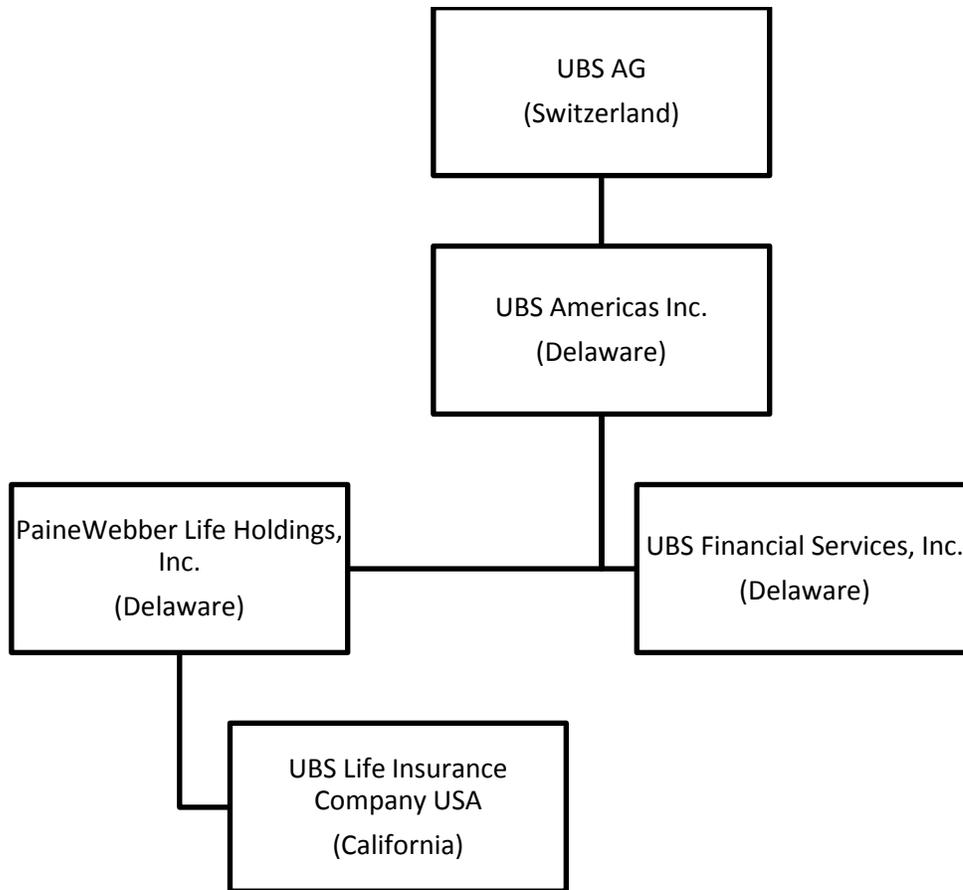
COMPANY HISTORY

On December 7, 2011, the Company's board of directors approved a resolution to pay an ordinary dividend totaling \$1,800,000 to its sole shareholder, PaineWebber Life Holdings, Inc.

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, 2011 (all ownership is 100%):



Management of the Company is vested in a two-member board of directors elected annually. Following are members of the board and principal officers of the Company serving as of December 31, 2011:

Directors

Name and Residence

Principal Business Affiliation

David Peterson
New York, New York

Managing Director
UBS Financial Services, Inc.

Directors (continued)

Name and Residence

Kevin J. Ruth
Wyckoff, New Jersey

Principal Business Affiliation

Managing Director
UBS Financial Services, Inc.

Principal Officers

Name

David Peterson
Lance A. Warrick

Kathleen Horan
Mary Ann Lim

Title

President
Senior Vice President and Assistant
Secretary
Treasurer
Vice President, Assistant Secretary, and
Assistant Treasurer

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 effective 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 effective 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 such matters as physical facilities, confirmations and statements, cashiering and operations functions, accounting, recordkeeping, and facilities common expense and related operational and administrative costs. The Company reimburses UBSFS for its share of expenses on an actual cost basis. The allocated expenses paid under this agreement amounted to \$165,848 \$93,598, \$54,037, and \$54,917 in 2008, 2009, 2010, and 2011, respectively. This agreement became effective on December 31, 1992.

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 Financial Services, Inc. Since March 1998, it has not written new business but continues to administer previously written policies. It originally offered two types of variable annuities with seven available investment options.

The Company's current business is from the assumption of blocks of variable annuity business through modified coinsurance treaties. The Company assumed premiums of \$1,114,856, \$437,574, \$518,878, and \$530,701 in 2008, 2009, 2010, and 2011, 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 cession, effective December 31, 2002 or earlier.

Corporate, administrative, accounting and reinsurance functions are performed at the Company's home office. 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 Company paid Globalogix fees of \$371,750, \$366,601, \$323,865, and \$320,000 in 2008, 2009, 2010, and 2011, respectively.

The Company currently remains in run-off.

REINSURANCE

Assumed

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

<u>Insurer</u>	<u>Percent Assumed</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 USA	15%-35%
American Skandia Life Assurance Corporation	20%-50%
The Equitable Life Assurance Society of the U.S.	20%-50%
Pacific Life Insurance Company	20%
Aetna Life Insurance & Annuity Company	20%-30%

The Company discontinued assuming new business from the above companies effective December 31, 2002. Coinsurance settlements continue on existing business assumed.

Ceded

The Company previously ceded a portion (approximately 60%) of the direct business under an agreement with American Republic Insurance Company (ARIC). 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, remain in full force and effect.

ARIC and Swiss Re Life and Health America Inc. (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. This novation agreement replaces ARIC's reinsurance coverage with Swiss Re's.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2011

Reconciliation of Capital and Surplus from December 31, 2007
through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 10,276,256	\$	\$ 10,276,256	
Cash and short-term investments	28,848,464		28,848,464	
Investment income due and accrued	42,893		42,893	
Amount recoverable from reinsurers	3,345		3,345	
Current federal and foreign income tax recoverable and interest thereon	850,092		850,092	
Net deferred tax asset	542,451	79,784	462,667	
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>3,242,606</u>	<u> </u>	<u>3,242,606</u>	
 Total assets	 <u>\$ 43,806,107</u>	 <u>\$ 79,784</u>	 <u>\$ 43,726,323</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Contract claims: Life			\$ 3,019,353	
Other amounts payable on reinsurance			(11,879,851)	(1)
Commission and expense allowances payable on Reinsurance assumed			920,445	
General expenses due or accrued			102,465	
Amounts withheld or retained by company as agent or trustee			1,853	
Reinsurance payable			8,766,602	
From Separate Accounts statement			<u>3,242,606</u>	
 Total liabilities			 4,173,473	
 Common capital stock		 \$ 2,500,000		
Gross paid-in and contributed surplus		32,867,359		
Unassigned funds (surplus)		<u>4,481,669</u>		
Capital and surplus			<u>39,552,850</u>	
 Total liabilities, capital and surplus			 <u>\$ 43,726,323</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2011

Statement of Income

Underwriting Income

Premiums	\$ 530,701
Net Investment Income	183,812
Miscellaneous Income:	
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	56,446
Aggregate write-ins for miscellaneous income	<u>67,307,221</u>
Totals	68,078,180
Annuity Benefits	15,016,031
Surrender Benefits and withdrawals for life contracts	<u>48,472,181</u>
Totals	63,488,212
Commissions and expense allowance on reinsurance assumed	3,747,465
General insurance expenses	1,050,418
Insurance taxes, licenses and fees excluding federal income taxes	(92,792)
Net transfer to or (from) Separate Accounts net of reinsurance	<u>(451,508)</u>
Totals	67,741,795
Net gain from operations after dividends to policyholders and and before federal income taxes	336,385
Federal and foreign income taxes incurred	<u>(3,864,647)</u>
Net income	<u>\$ 4,201,032</u>

Capital and Surplus Account

Capital and surplus, December 31, 2010	\$ 37,174,385
Net income	\$ 4,201,032
Change in net deferred income tax	(111,027)
Change in nonadmitted assets	88,460
Dividends to stockholders	<u>(1,800,000)</u>
Net change in capital and surplus for the year	<u>2,378,465</u>
Capital and surplus, December 31, 2011	<u>\$ 39,552,850</u>

Reconciliation of Capital and Surplus
from December 31, 2007 through December 31, 2011

Capital and surplus, December 31, 2007 per Examination			\$ 36,313,802
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 5,674,939	\$	
Change in net deferred income tax		1,586,269	
Change in nonadmitted assets	950,378		
Dividends to stockholders	<u> </u>	<u>1,800,000</u>	
Total gains and losses	<u>\$ 6,625,317</u>	<u>\$ 3,386,269</u>	
Net increase in capital and surplus			<u>3,239,048</u>
Capital and surplus, December 31, 2011, per Examination			<u>\$ 39,552,850</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Other Amounts Payable on Reinsurance

The negative \$11,879,851 for other amounts payable on reinsurance represents accrued modified coinsurance activity for the fourth quarter.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records (Page 8): It was recommended that the Company implement control procedures to ensure that its annual and quarterly statements are prepared accurately and in compliance with the National Association of Insurance Commissioners Annual Statement Instructions. The Company has complied with this recommendation.

Cash and Short-Term Investments (Page 14): It was 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. The Company has complied with this 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,

Ber Vang, CFE, AES, CISA
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California