

**REPORT ON LIMITED SCOPE EXAMINATION
OF
PEOPLE'S TRUST INSURANCE
COMPANY**

DEERFIELD BEACH, FLORIDA

**AS OF
DECEMBER 31, 2013**

**BY THE
FLORIDA OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

May 23, 2014

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a limited scope examination of Corporate Governance, Information Technology, Premiums / Underwriting, Claims Handling / Reserves, Investments, Reinsurance – Ceding and Financial Reporting as of December 31, 2013, of:

**PEOPLE'S TRUST INSURANCE COMPANY
18 PEOPLE'S TRUST WAY, SUITE 200
DEERFIELD BEACH, FLORIDA 33441**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This was a limited scope examination of People's Trust Insurance Company (Company) to the extent and in the manner directed by the Florida Office of Insurance Regulation (Office). The Company was last examined by representatives of the Office as of December 31, 2010. To the extent applicable, the limited scope examination was conducted in accordance with the guidance of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiner's Handbook, the NAIC Accounting Practices and Procedures Manual and the Florida Administrative Code. The limited scope examination differed in many respects from that of a full-scope examination or an audit performed in accordance with generally accepted auditing standards.

The fieldwork commenced on March 10, 2014 and concluded as of May 23, 2014. The limited scope examination included material events occurring subsequent to December 31, 2013 and noted during the course of the examination as they related to the foregoing areas within the limited scope of the examination.

This examination covered the Corporate Governance process, Information Technology environment, Premiums and Underwriting, Claims Handling and Reserves, Investments, Reinsurance – Ceding, and Financial Reporting as of December 31, 2013 and was conducted by Examination Resources, LLC.

HISTORY

General

The Company was incorporated in Florida on January 17, 2008, and commenced business on March 6, 2008, as People's Trust Insurance Company.

The Company was party to Consent Order 93269-07-CO, filed January 2, 2008, regarding the application for the issuance of a Certificate of Authority, Consent Order 94519-08-CO, filed March 6, 2008, also regarding the application for the issuance of a Certificate of Authority; Consent Order 110951-10-CO, filed June 29, 2010, ordering suspension of the COA; and Consent Order 111379-10-CO, filed July 8, 2010, regarding the order rescinding the order of suspension.

The Company issued surplus debenture notes at par value for cash as follows:

May 31, 2012 - \$12,000,000
June 30, 2013 - \$2,000,000
December 31, 2013 - \$15,000,000

The notes bear interest at 6% and interest is payable at December 31 of each year with the approval of the Office. As of December 31, 2013, the Office had approved interest payments on \$14,000,000 principal but no payments had been accrued or paid.

The Company was authorized to transact homeowners multi peril insurance coverage in Florida on March 6, 2008 and authorized to transact fire, allied lines and other liability insurance coverage on April 19, 2012. The Company continued to be authorized in these lines of business as of December 31, 2013.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

CORPORATE GOVERNANCE

We conducted examination procedures that included inquiry and interviews of selected senior management personnel and the Board of Directors Chairman. At December 31, 2013, the Board was comprised of seven members, currently six following the death of Michael Gold. The

Company's Bylaws dictates that the Company's Board of Directors consists of at least five Directors. Each Director holds office until the next annual meeting of the Shareholders or until their successor has been elected and qualified, or until their resignation. The Board is comprised of both Officers and individuals that are independent from management. The Board includes the two owners and a relative.

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2013, were:

Directors

Name and Location	Principal Occupation
Adam Lawrence Frankel Delray Beach, Florida	Partner, Adam Frankel, P.A.
Eilene Susan Gold Delray Beach, Florida	Retired
George William Schaeffer Beverly Hills, California	Consultant, OPI Products, Inc.
Gerald Arnold Levy Boca Raton, Florida	Retired
Michael Gold * Delray Beach, Florida	CEO, People's Trust Insurance Company and its related entities
Mitchell Frederick Politzer West Palm Beach, Florida	President, People's Trust Insurance Company and its related entities
Stephen Alfonso Giliotti West Palm Beach, Florida	Retired

*Mr. Gold passed away on January 26, 2014. The Company appointed George Schaeffer as the interim CEO. On June 1, 2014, the Company submitted Mr. Schaeffer as the new CEO pending approval by the Office. Mr. Schaeffer submitted an acquisition pursuant to which he acquired 50% interest in People's Trust Holdings, LLC formerly owned by Michael Gold.

On June 10, 2014 and June 11, 2014, the Company submitted Brett Frankel as Vice President, Secretary and General Counsel and Adam Hasner as Vice President and Chief Marketing & Communications Officer.

The Board in accordance with the Company's Bylaws appointed the following senior officers:

Senior Officers

Name	Title
Michael Gold *	Chief Executive Officer & Secretary
Michael Frederick Politzer	President
Steven Charles Martindale	Chief Financial Officer
Mark William Bowsher	Chief Underwriting Officer

*Mr. Gold passed away on January 26, 2014. The Company appointed George Schaeffer as the interim CEO. On June 1, 2014, the Company submitted Mr. Schaeffer as the new CEO pending approval by the Office.

The Company's Board appointed several internal committees. Following were the principal internal Board committees and their members as of December 31, 2013:

Audit Committee	Investment Committee	Risk Assessment Committee	IT Steering Committee
Gerald Levy ¹	Michael Gold ¹	Mitchell Politzer ¹	Mitchell Politzer ¹
Stephen Gilotti	George Schaeffer	Mark Bowsher	Mark Bowsher
	Mitchell Politzer	Brett Frankel	Edgar Gunness
		Joel Knofla	Steve Martindale
		Kathy Semanate	Rosie Sicre
		Rosie Sicre	
		Kevin Walton	

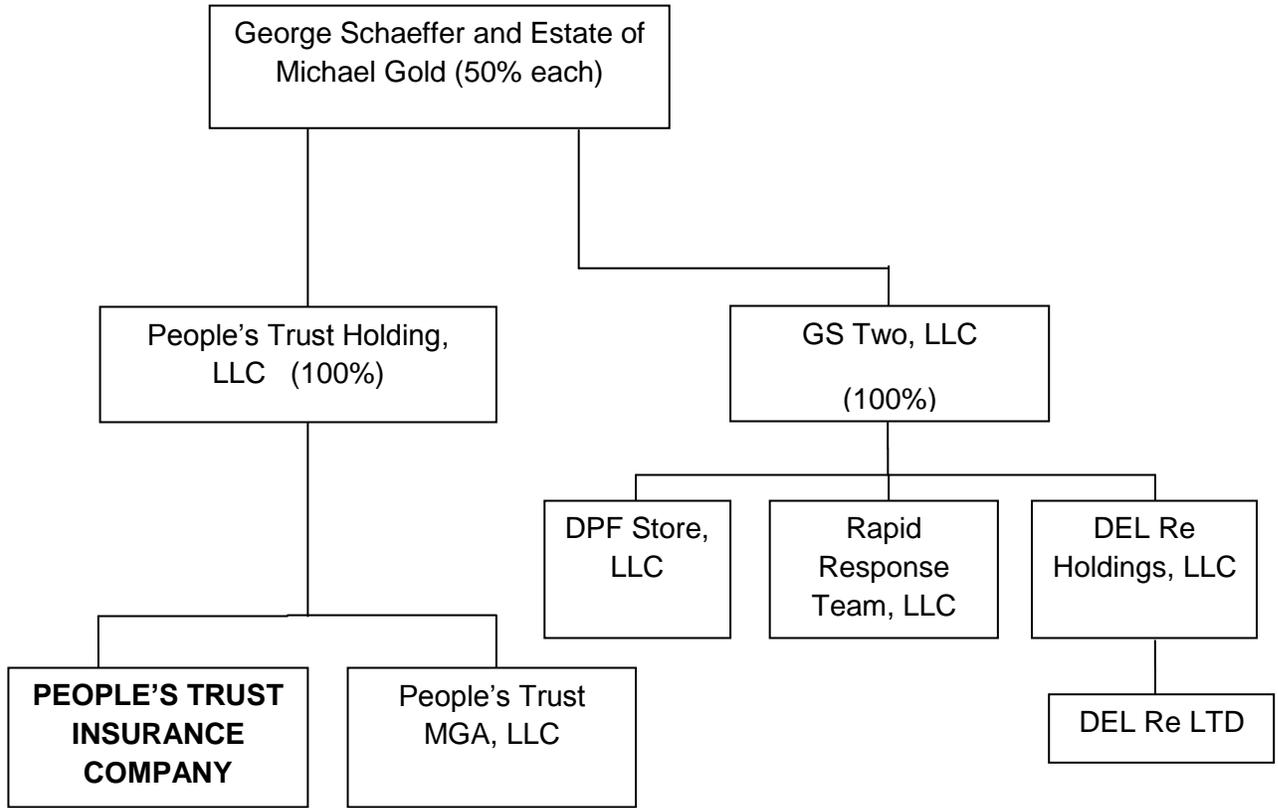
¹Chairman

The Board of Directors appointed two members to the Audit Committee on February 26, 2013. This did not comply with Section 624.424(8)(c), Florida Statutes, or the Company's Audit Committee Charter, both of which require a minimum of three members. **Subsequent Event:** In 2014, the Company designated Mr. Adam Frankel as a member of the Audit Committee.

An organizational chart as of December 31, 2013, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2013 annual statement provided a list of all related companies of the holding company group.

**PEOPLE'S TRUST INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2013



INFORMATION TECHNOLOGY REPORT

James Gowins with Examination Resources performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

CLAIMS AND RESERVES

The Company's Board of Directors appointed and the Company contracted with an outside actuarial firm, who rendered an opinion that the amounts carried in the balance sheet as of December 31, 2013, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, Brent Sallay, FCAS, MAAA of Taylor-Walker & Associates, Inc., to review the Losses and Loss Adjustment Expenses carried in the Company's balance sheet as of December 31, 2013 and he was in concurrence with this opinion.

Data

The Company provided the following data and information in addition to data and information provided for past reports to perform the actuarial analysis:

- Paid and incurred Losses and Loss Adjustment Expenses data and open and reported count data by state and coverage as of December 31, 2013.
- Details of two reinsurance agreements.
- Paid and incurred Losses and Loss Adjustment Expenses data and open and reported data used in the Merlino & Associates, Inc. reserve study at December 31, 2013.
- Miscellaneous information obtained from a number of discussions with the Company.

REINSURANCE

The Company is obligated by Florida Statutes to purchase reinsurance from the State's hurricane relief fund, the Florida Hurricane Catastrophe Fund (Fund) which is administered by the State Board of Administration (SBA). This fund represents the State's reinsurance fund that is engaged in case a named storm or hurricane of any sort results in damages on covered homes in the state of Florida. This is a catastrophe fund and does not relate to any damages payable for losses arising from any causes that are not named storms.

For the remainder of the company's reinsurance needs, in addition to the coverage provided by the Fund, the Company has purchased reinsurance using an affiliated unauthorized captive, Del Re Ltd (Del Re).

The Reinsurance Agreements for the Company consist of the following two agreements:

Property Catastrophe Excess of Loss Agreement: The Company has a contract that is effective December 1, 2013 through December 1, 2014. The property catastrophe excess of loss reinsurance contract between the Company and Del Re is essentially the same as the previous year's reinsurance contract with the exception of Article 6 regarding retention and limits, Article 13 regarding the deposit premium, and the extension of first-dollar protection to include non-hurricane losses. Extending first-dollar protection is intended to help protect the Company's surplus from a large loss or multiple small losses up to the exhaustion point of the proposed program.

Del Re will be providing \$83,000,000 of first-dollar coverage for losses up to its specified limits. Del Re will also be liable for \$56,000,000 of ultimate net loss in the event of non-hurricane

losses (e.g. tornado, non-named windstorms, and hail). The Company shall pay Del Re an annual deposit premium of \$56,000,000 which will be remitted to a trust account. The Company will be utilizing UBS Trust Company to secure the funds supporting the proposed catastrophe reinsurance program.

Florida Hurricane Catastrophe Fund

The Fund analyzes in force exposure on a statewide basis as of June 30 with a data call due by September 1. Rate formulas at the zip code level determine the retention multiple and the premium multiple for the insurers. Florida insurers do not know what their actual Fund exposure is until October or November of any year. The Fund provides reimbursement to admitted insurers writing residential property insurance in Florida as well as to Citizens Property Insurance Corporation for their covered losses from hurricanes after each insurer has met its retention, or deductible. After the retention is met, the Fund reimburses covered losses at up to 90%, with the remaining losses paid by the insurer. For 2013, the estimated retention for the Company is \$72,800,000.

Once the retention is met, the Fund provides a mandatory layer of coverage up to 90% of \$179,400,000 for the Company. The original estimated premiums paid by the Company to the Fund is \$13,400,000.

A review of the Company's reinsurance program was performed specifically addressing the following:

1. Assess the adequacy and appropriateness of the reinsurance program to include the modeling assumptions and methodologies utilized;

2. Perform a reinsurance contract review to ensure that the contract meets all of the requirements for reinsurance agreements per the Statement of Statutory Accounting Principle No. 62R, Property and Casualty Reinsurance;
3. Review the accuracy of the ceded unearned premium calculation for both Del Re and the Fund; and
4. Review the Trust agreement, ensure compliance with the corresponding reinsurance agreement, and reconcile year-end balance to corresponding bank statement.

FINANCIAL REPORTING

The Company is wholly owned by Peoples Trust Holdings, LLC (Holdings). The Company maintains a management services agreement with Holdings whereby Holdings shall perform the following services: corporate organization, tax services, corporate management services, human resources services, corporate expense oversight, benefit plan management, use of information systems, corporate insurance, group infrastructure and services, and ministerial functions. In exchange for these services, the Company pays 1% of direct written premiums to Holdings.

People's Trust MGA, LLC (MGA) provides managing general agency services to the Company pursuant to an agreement on file with the Office. The MGA provides, among other things, underwriting and policy administration services pursuant to this agreement. According to the agreement, the MGA shall deduct and retain compensation in all lines of insurance a fee of 30% of direct written premiums.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2013, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

PEOPLE'S TRUST INSURANCE COMPANY
Assets

December 31, 2013

	Per Company	Examination Adjustments	Per Examination
Bonds	\$79,905,342		\$79,905,342
Stocks:			
Preferred	4,562,628		4,562,628
Common	219,260		219,260
Motgage loans: First Lien	3,477,118		3,477,118
Cash	19,778,694		19,778,694
Cash equivalents	0		0
Short-term investments	13,329,297		13,329,297
Receivables for securities	18,178		18,178
<hr/>			
Subtotals, cash and invested assets	\$121,290,517		\$121,290,517
Investment income due and accrued	\$406,196		\$406,196
Uncollected premiums and agents' balances	5,938,835		5,938,835
Deferred premiums, agents' balances and installments	19,572,247		19,572,247
Net tax deferred asset	5,948,561		5,948,561
EDP equipment and software	221,669		221,669
Receivables from parent, subs, and affiliates	22,592,199		22,592,199
Totals	<u>\$175,970,224</u>	<u>\$0</u>	<u>\$175,970,224</u>

PEOPLE'S TRUST INSURANCE COMPANY
Liabilities, Surplus and Other Funds

December 31, 2013

	Per Company	Examination Adjustments	Per Examination
Losses	\$26,669,980		\$26,669,980
Loss adjustment expenses	6,330,021		6,330,021
Other expenses	1,717,107		1,717,107
Taxes, licenses, and fees	4,937,417		4,937,417
Current federal and foreign income taxes	5,219,108		5,219,108
Unearned premium	65,539,180		65,539,180
Advance premium	4,301,473		4,301,473
Payable for securities	4,537		4,537
Total Liabilities	\$114,718,823	\$0	\$114,718,823
Common capital stock	\$1,000,000		\$1,000,000
Surplus Notes	29,000,000		29,000,000
Gross paid in and contributed surplus	31,900,000		31,900,000
Unassigned funds (surplus)	(648,598)		(648,598)
Surplus as regards policyholders	\$61,251,402	\$0	\$61,251,402
Total liabilities, surplus and other funds	\$175,970,225	\$0	\$175,970,225

PEOPLE'S TRUST INSURANCE COMPANY
Statement of Income

December 31, 2013

Underwriting Income

Premiums earned		\$95,856,780
	Deductions:	
Losses incurred		30,902,611
Loss adjustment expenses incurred		7,503,952
Other underwriting expenses incurred		44,083,586
Total underwriting deductions		\$82,490,149
Net underwriting gain or (loss)		\$13,366,631

Investment Income

Net investment income earned		\$1,078,224
Net realized capital gains or (losses)		(285,906)
Net investment gain or (loss)		\$792,318

Other Income

Aggregate write-ins for miscellaneous income		\$337,248
Finance and service charges not included in premiums		0
Total other income		\$337,248
Net income before dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes		\$14,496,198
Net Income, after dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes		\$14,496,198
Federal & foreign income taxes		5,351,477
Net Income		\$9,144,721

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$34,118,158
Net Income		\$9,144,721
Change in net unrealized capital gains or (losses) less capital gains tax of \$		(\$375,222)
Change in net deferred income tax		673,741
Change in nonadmitted assets		893,532
Change in provision for reinsurance		0
Change in surplus as regards policyholders for the year		\$17,000,000
Aggregate write-ins for gains and losses in surplus		(203,528)
Change in Surplus notes		27,133,244
Surplus as regards policyholders, December 31 current year		\$61,251,402

**PEOPLE'S TRUST INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2013

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2013, per Annual Statement	\$61,251,402
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2013, Per Examination			\$61,251,402

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **People's Trust Insurance Company** as of December 31, 2013, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$61,251,402, which exceeded the minimum of \$10,284,065 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Bradley Hazelwood, CFE, CPA, MCM, Examiner-In-Charge, Rachelle Gowins, CFE, MCM, Examiner-In-Charge, and James Gowins, CISA, AES, AFE, MCM and Scott Kalna, CFE, MCM, Participating Examiners, of Examination Resources, LLC participated in the examination. In addition, Brent Sallay, FCAS MAAA, consulting actuary of Taylor-Walker & Associates, Inc., James Gowins, CISA, AES, AFE, MCM, IT Examiner of Examination Resources, LLC, and Bryan Fuller, CPCU, AIA, AIE, MCM, Reinsurance Specialist of Examination Resources, LLC and Jonathan Frisard, Examination Manager, of the Office also participated in the examination.

Respectfully submitted,

Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation