

REPORT ON EXAMINATION
OF
PEOPLE'S TRUST INSURANCE
COMPANY

BOCA RATON, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	3
HISTORY	3
GENERAL	3
CAPITAL STOCK.....	4
PROFITABILITY OF COMPANY	5
DIVIDENDS TO STOCKHOLDERS	5
MANAGEMENT.....	5
CONFLICT OF INTEREST PROCEDURE.....	7
CORPORATE RECORDS	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	8
SURPLUS DEBENTURES	8
AFFILIATED COMPANIES	8
ORGANIZATIONAL CHART	9
MANAGEMENT SERVICES AGREEMENT.....	10
COST ALLOCATION AGREEMENT	10
MANAGING GENERAL AGENT AGREEMENT.....	11
FIDELITY BOND AND OTHER INSURANCE.....	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	11
STATUTORY DEPOSITS.....	12
INSURANCE PRODUCTS.....	12
TERRITORY	12
TREATMENT OF POLICYHOLDERS.....	12
REINSURANCE	13
ASSUMED.....	13
CEDED	13
ACCOUNTS AND RECORDS.....	13
CUSTODIAL AGREEMENT	14
INDEPENDENT AUDITOR AGREEMENT.....	14
FINANCIAL STATEMENTS PER EXAMINATION.....	15
ASSETS	16

LIABILITIES, SURPLUS AND OTHER FUNDS	17
STATEMENT OF INCOME.....	18
COMMENTS ON FINANCIAL STATEMENTS.....	19
ASSETS	19
LIABILITIES	19
CAPITAL AND SURPLUS.....	19
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	20
SUMMARY OF FINDINGS	21
SUBSEQUENT EVENTS.....	22
CONCLUSION	24

Tallahassee, Florida

August 28, 2009

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, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008, of the financial condition and corporate affairs of:

**PEOPLE'S TRUST INSURANCE COMPANY
6001 BROKEN SOUND PARKWAY, SUITE 200
BOCA RATON, FLORIDA 33487**

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

SCOPE OF EXAMINATION

This examination covered the period of March 6, 2008, through December 31, 2008. This is the first examination conducted by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office on March 16, 2009 to March 19, 2009. The fieldwork commenced on March 23, 2009, and concluded as of August 28, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

This was the Company's first year financial examination.

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, and Consent Order 94519-09-CO, filed March 6, 2009, also regarding the application for the issuance of a Certificate of Authority. The Company failed to comply with the following provisions of Consent Order 93269-CO:

- The Company exceeded the 2008 premium projections as set forth in the plan of operations approved by the Office.
- The Company modified its commercial reinsurance structure effective August 14, 2008, without prior approval. The attachment point for the excess of loss coverage obtained from commercial reinsurers was increased from \$5 million to \$13 million without prior approval.

Subsequent event: The Office was notified of this change in early 2009.

- The Company acted as a disbursing agent for its parent, People's Trust Holding, LLC and its affiliate, People's Trust MGA, LLC, which was not approved as part of the Company's licensure process and approved plan of operations.
- The Company had not fully developed and implemented effective internal controls.
- The Company did not provide the Office with timely amendments to reinsurance agreements. The Office was not notified (until early 2009):
 - Of the termination on August 13, 2008, of new excess of loss reinsurance agreements with several commercial carriers.
 - Nor the execution, effective August 14, 2008, of new excess of loss agreements.

Subsequent Event: The Office was notified of this change in early 2009.

As of December 31, 2008, the Company was authorized to transact homeowners multi peril coverage in Florida.

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

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, People's Trust Holding, LLC, which owned 100% of the stock issued by the Company. Michael Gold and George Shaeffer each owned 50% of People's Trust Holding, LLC.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2008
Premiums Earned	4,637,752
Net Underwriting Gain/(Loss)	(3,720,365)
Net Income	(3,646,340)
Total Assets	25,957,874
Total Liabilities	18,921,241
Surplus As Regards Policyholders	7,036,633

Dividends to Stockholders

The Company did not declare or pay stockholder dividends in 2008.

Management

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, 2008, were:

Directors

Name and Location	Principal Occupation
Michael Gold Delray Beach, Florida	Owner and Chief Executive Officer of People's Trust Insurance Company
Eileen S. Gold Delray Beach, Florida	Retired
George W. Shaeffer Beverly Hills, California	Entrepreneur
Richard A. Widdicombe Coral Springs, Florida	President , People's Trust Insurance Company
Adam L. Frankel Delray Beach, Florida	Attorney - Adam Frankel, P.A.
Stephen L. Rohde Delray Beach, Florida	Chief Financial Officer, People's Trust Insurance Company

The Board of Directors, in accordance with the Company's bylaws, appointed the following senior officers:

Senior Officers

Name	Title
Michael Gold	Chief Executive Officer and Secretary
Richard A. Widdicombe (a)	President
Stephen L. Rohde	Chief Financial Officer and Treasurer
Shannon J. Ludlow	Vice President

(a) Resigned in February, 2009, and was replaced by Deborah Murphy on March 30, 2009, as the Company's Chief Operating Officer. Michael Gold assumed the responsibilities as President upon Mr. Widdicombe's resignation.

Following were the principal internal board committees and their members as of December 31, 2008:

Audit Committee

Adam L. Frankel ¹
Eileen S. Gold
George W. Shaeffer

Investment Committee

Michael Gold ¹
Stephen L. Rohde
George W. Shaeffer

¹ Chairman

Conflict of Interest Procedure

The Company has not formally adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook and Section 607.0832(2), Florida Statutes. **Subsequent Event:** The Company provided a copy of the Code of Ethic and Business Conduct policy dated November 11, 2008. The Company provided individually signed copies of the conflict of interest statements dated December 1, 2009.

Corporate Records

The recorded minutes of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately document its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes; however the minutes did not include the authorization of investments as required by Section 625.304, Florida Statutes. **Subsequent Event:** The Company provided copies of the investment committee minutes, signed and dated January 30, 2009. Authorization of investments was included in the minutes, in accordance with Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company was not party to any acquisitions, mergers, dissolutions, purchase or sale through reinsurance transactions during examination period.

Surplus Debentures

The Company has not issued any surplus debentures.

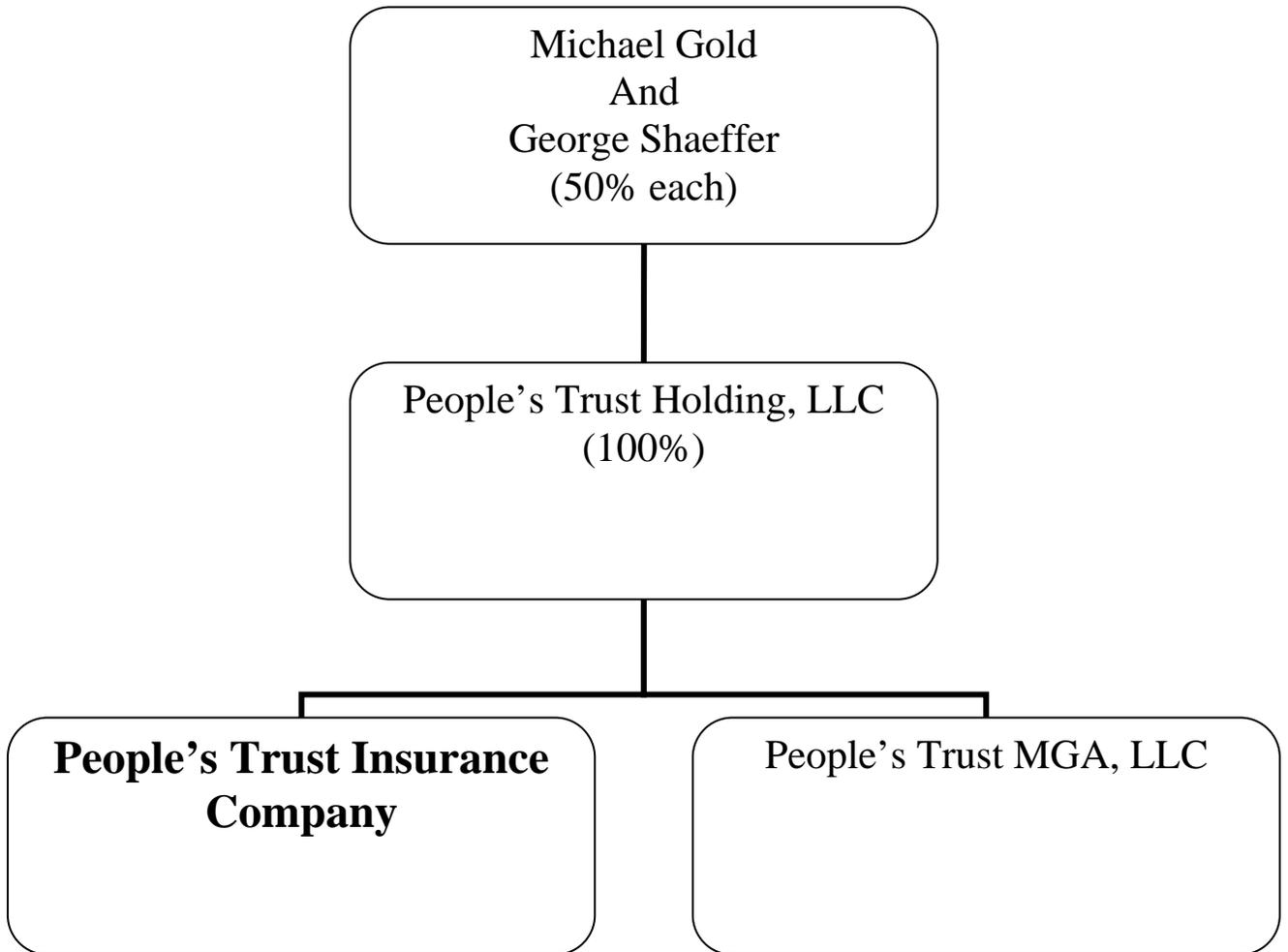
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on May 12, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

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

DECEMBER 31, 2008



The following agreements were in effect between the Company and its affiliates:

Management Services Agreement

Concurrent with its incorporation in January 2008, the Company executed a management/service agreement with its parent, People's Trust Holding, LLC (PTH). Under the terms of this agreement, PTH provided certain administrative services for the Company. These services included the preparation of federal and state income and similar tax returns; the administration of certain human resource functions; the use of information systems; the procurement of corporate insurance coverages; the use of office space and other business equipment; and other administrative services. In exchange for these services, PTH received 1% of the Company's direct written premium payable monthly on the 15 day after month end. The agreement may be terminated by either party with a 90 day advance written notice. The Company paid PTH \$221,121 in 2008 for these services.

Cost Allocation Agreement

On March 6, 2008, the Company, its parent "PTH and its affiliate "People's Trust MGA, LLC" (PTMGA) executed a cost allocation agreement. This agreement established the methodology by which joint expenses were allocated among members of the holding company. Those expenses paid by one member for the benefit of other members would be reimbursed based on the proportional benefit derived by the other members. In most instances, the basis of allocation used was a reasonably quantifiable measure as defined by generally accepted accounting principles. However, in those instances in which a quantifiable measure was not easily determined, management determined the allocation. The Company did not file this agreement with the Office as required by Rule 69O-143.047,(4)(d) Florida Administrative Code.

Subsequent Event: The Company filed the agreement with the Office and was approved on January 20, 2010.

Managing General Agent Agreement

On February 1, 2008, the Company appointed its affiliate PTMGA, as managing general agent. The agency contract provided that PTMGA would underwrite the policies, administer claim settlement, collect premium, negotiate reinsurance on behalf of the Company, provide consulting services, as well as other administrative services. All of the Company's business was written exclusively through PTMGA, which does not write business on behalf of any other insurance company.

FIDELITY BOND AND OTHER INSURANCE

The Company did not secure fidelity coverage in the suggested amount as recommended by NAIC. The Company maintained workers compensation, and various coverages related to business property and liability. Fidelity coverage is required by Section 69O-142.011(11)(b)16, Florida Administrative Code. **Subsequent Event:** The Company obtained fidelity coverage, in the amount of \$1,000,000, on December 4, 2009, which adequately covered the Company in the suggested amount as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not offer pension plans or stock ownership plans to its directors, officers or employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cash	<u>\$ 300,000</u>	<u>\$ 300,000</u>
	TOTAL FLORIDA DEPOSITS	\$ 300,000	\$ 300,000
	TOTAL SPECIAL DEPOSITS	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Subsequent Event: The Company increased the deposit by \$500,000 April 3, 2009, making the total deposit \$800,000.

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedures manual that included procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume any business.

Ceded

The Company ceded risk to the Florida Hurricane Catastrophe Fund (FHCF) at the 90% coverage level as well as purchase the optional Temporary Increase In Coverage Limit (TICL) of \$12 billion TICL coverage.

The Company also obtained excess of loss protection through unauthorized reinsurers located in Bermuda. Reinstatement premium protection was also purchased. Effective June 1, 2008, this excess of loss protection provided 100% coverage for the next \$6.5 million in losses in excess of \$5 million. However, this layer of coverage was terminated on August 13, 2008, and was replaced with protection from the same reinsurers for \$6.5 million in losses in excess of a \$13 million attachment instead of the original \$5 million attachment. As a result, effective August 14, 2008, the Company retained the risk for any losses that exceed FHCF's coverage up to the \$13 million point of attachment for the commercial reinsurance protection.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Boca Raton, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company entered into a custodial agreement with SunTrust Bank on June 3, 2009. The agreement contained the required safeguards and controls as provided by Rule 69O-143.042 Florida Administrative Code. However, the agreement was not authorized by a resolution of the board of directors or by a committee appointed by the board as required by Rule 69O-143.042, Florida Administrative Code. **Subsequent Event:** The agreement was authorized by the Board of Directors on October 29, 2009.

Independent Auditor Agreement

The Company had an agreement with De Meo Young, McGrath to perform a statutory audit of its 2008 annual statement.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$5,489,618		\$5,489,618
Cash:	15,120,726		15,120,726
Agents' Balances:			
Uncollected premium	1,636,479	248,947	1,387,532
Deferred premium	2,842,697		2,842,697
Net deferred tax asset	732,973		732,973
Interest and dividend income due & accrued	48,667		48,667
Receivable from parents, subsidiaries and affiliates	86,714		86,714
	<hr/>		
Totals	<u>\$25,957,874</u>	<u>\$248,947</u>	<u>\$25,708,927</u>

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

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$630,500		\$630,500
Loss adjustment expenses	90,000		90,000
Other expenses	142,734		142,734
Taxes, licenses and fees	421,568		421,568
Unearned premium	16,781,852		16,781,852
Advance premiums	613,504		613,504
Ceded reinsurance premiums payable	(16,042)		(16,042)
Payable to parent, subsidiaries and affiliates	257,125		257,125
Aggregate write-ins for liabilities			
Total Liabilities	\$18,921,241	\$0	\$18,921,241
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	8,950,000		8,950,000
Unassigned funds (surplus)	(2,913,367)	(248,947)	(3,162,314)
Surplus as regards policyholders	\$7,036,633		\$6,787,686
Total liabilities, surplus and other funds	\$25,957,874	(\$248,947)	\$25,708,927

PEOPLE'S TRUST INSURANCE COMPANY
Statement of Income
DECEMBER 31, 2008

Underwriting Income

Premiums earned		\$4,637,752
	Deductions:	
Losses incurred		905,460
Loss expenses incurred		195,243
Other underwriting expenses incurred		7,257,414
Aggregate write-ins for underwriting deductions		
Total underwriting deductions		\$8,358,117
Net underwriting gain or (loss)		(\$3,720,365)

Investment Income

Net investment income earned		\$248,919
Net realized capital gains or (losses)		
Net investment gain or (loss)		\$248,919

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$174,894)
Total other income		(\$174,894)
Net income before dividends to policyholders and before federal & foreign income taxes		(\$3,646,340)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$3,646,340)
Federal & foreign income taxes		0
Net Income		(\$3,646,340)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$0
Net Income		(\$3,646,340)
Change in net deferred income tax		1,266,955
Change in non-admitted assets		(533,982)
Surplus adjustments:		
Capital paid in		1,000,000
Contributed capital paid in		8,950,000
Exam Adjustment		(248,947)
Change in surplus as regards policyholders for the year		\$6,787,686
Surplus as regards policyholders, December 31 current year		\$6,787,686

COMMENTS ON FINANCIAL STATEMENTS

Assets

Uncollected Premiums

\$1,387,532

The uncollected premiums receivable has been reduced by \$248,947. The Company erroneously included balances of \$211,002 that were actually collected in 2008, and thus, should not have been treated as uncollected premium. In addition, the Company did not establish a provision for bad debt in accordance with SSAP No. 6, paragraph 10, therefore a \$37,945 provision for bad debt was also established. The Company did not age uncollected premium balances as required by Rule 69O-138.024 Florida Administrative Code.

Liabilities

Losses and Loss Adjustment Expenses

\$720,500

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Randall D. Ross, ACAS, MAAA, consulting actuary on the examination, was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus was \$6,787,686, and exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

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

DECEMBER 31, 2008

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, 2008, per Annual Statement	\$7,036,633
---	-------------

	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS:			
Uncollected Premiums	\$4,479,176	\$4,230,229	(\$248,947)
LIABILITIES:			
No Adjustments			
Net Change in Surplus:			(248,947)
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$6,787,686

SUMMARY OF FINDINGS

Compliance with previous directives

This is the Company's first year examination.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2008.

General

The Company failed to comply with numerous provisions of Consent Order 93269-07-CO. The Company:

1. Exceeded the 2008 premium projections as set forth in the plan of operations approved by the Office.
2. Modified its commercial reinsurance structure and increased the attachment point for the excess of loss coverage without prior approval.
3. Acted as a disbursing agent for its parent, People's Trust Holding, LLC and its affiliate People's Trust MGA, LLC which was not approved as part of the Company's licensure process and approved plan of operations.
4. Had not fully developed and implemented effective internal controls.

We recommend that the Company comply with all provisions Consent Order 93269-07-CO and any future consent orders entered into with the Office.

Uncollected Premiums

- The Company incorrectly reported premium balances as uncollected, which were actually collected prior to year end 2008. **We recommend that the Company correctly report uncollected premium balances as an asset on all future annual and quarterly statement filings.**
- The Company did not establish a provision for bad debt in accordance with SSAP No. 6, Paragraph 10, therefore a \$37,945 provision for bad debt was established. **We recommend that the Company establish a provision for bad debt as required by SSAP No. 6, Paragraph 10.**
- The Company did not age uncollected premium balances. **We recommend that the Company age premiums as required by SSAP No. 6 and Section 690-138.024, Florida Administrative Code.**

SUBSEQUENT EVENTS

Consent Order

On March 18, 2009, the Company entered into a consent order (Case Number 103029-09) that required the Company to stop writing new policies until it complied with provisions of the consent order.

The consent order also required the Company to use licensed agents and customer service representatives in compliance with the insurance code when soliciting and transacting insurance business and to provide proof of adequate reinsurance to the Office.

Additional Paid in and Contributed Surplus

In June 2009, the Company received an additional \$2,000,000 in paid and contributed surplus.

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, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$6,787,686, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Douglas Befort, CFE, CIE and Deanne Leyden, CISA, CFE of Examination Resources, LLC and Randall D. Ross, ACAS, MAAA and Scott Garduno, ASA, MAAA of Taylor Walker & Associates, Inc. participated on the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation