REPORT ON EXAMINATION

OF

PEOPLE'S TRUST INSURANCE COMPANY

BOCA RATON, FLORIDA

AS OF

DECEMBER 31, 2009

BY THE

OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

July 6, 2010

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 an examination as of December 31, 2009, 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 January 1, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on March 29, 2010, to April 2, 2010. The fieldwork commenced on April 5, 2010, and concluded as of July 6, 2010.

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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination

Losses and LAE Reserves

The Company's Loss and Loss Adjustment Expense (LAE) reserves fell below the low end of the reasonable range of estimates prepared by an independent actuary. Based on the mid-point estimate, the Company was under reserved by $694,000 as of December 31, 2009.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2008, along with resulting action taken by the Company.

General

The Company failed to comply with numerous provisions of Consent Order 93269-07-CO, filed January 2, 2008. The Company:

- Exceeded the 2008 premium projections as set forth in the plan of operations approved by the Office. **Resolution:** During 2009, the Company filed an amended plan of operations to the Office and was in compliance with that plan.

- Modified its commercial reinsurance structure and increased the attachment point for the excess of loss coverage without prior approval. **Resolution:** During 2009, the Company filed an amended plan of operations which was approved by the Office and the Company was in compliance with that plan throughout 2009.
- Acted as a disbursing agent for its parent and its affiliate which was not approved as part of the Company's licensure process and approved plan of operations. **Resolution:** During 2009, the Company filed an amended plan of operations to the Office and was in compliance with that plan.
- Transacted business prior to obtaining fully executed reinsurance agreements. **Resolution:** The Company had reinsurance agreements in place throughout 2009 while transacting business.
- Had not fully developed and implemented effective internal controls. **Resolution:** During 2009 the Company made significant strides in the implementation of Internal Controls.
- Did not provide the Office with amendments to reinsurance agreements in a timely manner. **Resolution:** The Company filed an amended Holding Company Registration Statement which disclosed all reinsurance agreements in 2009. However, adequacy of reinsurance was an issue in 2010.

Uncollected Premiums

The Company incorrectly reported premium balances as uncollected, which were actually collected prior to year end 2008. The Company did not establish a provision for bad debt. The Company did not age uncollected premium balances. **Resolution:** The Company filed amended 2008 Financial Statements with the Office in early 2009 which provided resolution to the issues.

SUBSEQUENT EVENTS

The Company had experienced significant subsequent events in the first half of 2010. In late March 2010, the Company's parent People's Trust Holding, LLC (PTH), contributed an additional $7 million in capital to the Company.

In June 2010, the Company placed reinsurance agreements for the period ending July 2011. The reinsurance agreements were negotiated and modeled on the Company philosophy that Rapid Response Team, LLC (RRT), an affiliated company, would be able to reduce demand surge by stockpiling supplies for utilization following catastrophic events. Based on this philosophy, reinsurance agreements were placed to cover a lower probable maximum loss (PML). The Office reviewed the structure chart and PML based on the practice of stockpiling supplies and utilizing an affiliated company to perform all repair work is untested and therefore unreliable. An inspection of the warehouses was conducted to verify contents and construction materials available. After review of the structure chart and PML by the Office, it was determined that the total PML coverage placed by these agreements was only up to a 1-in-58 year event when modeled with demand surge and the Company's retention point was $3 million. The Company was party to Consent Order 103029-09 and 105446-09 which required the Company to, at all times, maintain reinsurance coverage to a PML of a 1-in-100 year event as well as maintaining a retention point of no more than 25% of surplus. Based on year end 2009 numbers and the review of agreements, the Office determined that the retention point of $3 million dollars was greater that 25% of surplus and that the Company had not maintained coverage to a 1-in-100 year event. Subsequently the Office issued Consent Order 110951-10 on June 29, 2010, which was an Order of Suspension. Based on the Company's purchase of additional reinsurance and satisfaction of other requirements, the Office issued Consent Order 111379-10 on July 8, 2010, rescinding Consent Order 110951-10 and requesting documents on affiliate Rapid Response Team.

In July 2010, Ms. Deborah Murphy, Chief Operating Officer for the Company, resigned from her position to pursue an opportunity with a different Company. She did not cite the suspension as a reason for leaving, but rather multiple other reasons for her decision.

Mitch Politzer joined the Company as President and Kyle Stuart was promoted to Chief Underwriting Officer during 2010.

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 94519-08-CO, filed March 6, 2008, also regarding the application for the issuance of a Certificate of Authority.

As of December 31, 2009, the Company was authorized to transact homeowner's multi peril coverage in Florida.

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

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder(s) in 2009.

Capital Stock and Capital Contributions

As of December 31, 2009, 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, PTH, who owned 100% of the stock issued by the Company, who in turn was 50% owned by Michael Gold and 50% owned by George Schaeffer.

The parent contributed $5,950,000 in cash throughout 2009. In addition, the parent contributed an additional $7,000,000 in cash to the Company on March 30, 2010.

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

The Company had no acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the examination period.

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 documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

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, 2009, were:

Directors

Name and Location	Principal Occupation
Michael Gold Delray Beach, Florida	Owner, President and Chief Executive Officer of People's Trust Insurance Company
Eileen S. Gold Delray Beach, Florida	Retired

George W. Schaeffer Beverly Hills, California	Entrepreneur, Owner OPI Products
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, President and Secretary
Deborah E. Murphy (a)	Chief Operating Officer
Stephen L. Rohde	Chief Financial Officer and Treasurer
Joyce M. Wright	Chief Claims Officer
Peter Coleman	Vice President – Operations

(a) Resigned in July 2010, and was temporarily replaced by Peter Coleman on an interim basis until a permanent replacement is found.

Audit Committee	**Investment Committee**
Adam L. Frankel [1]	Michael Gold [1]
Eileen S. Gold	Stephen L. Rohde
George W. Schaeffer	George W. Schaeffer

[1] Chairman

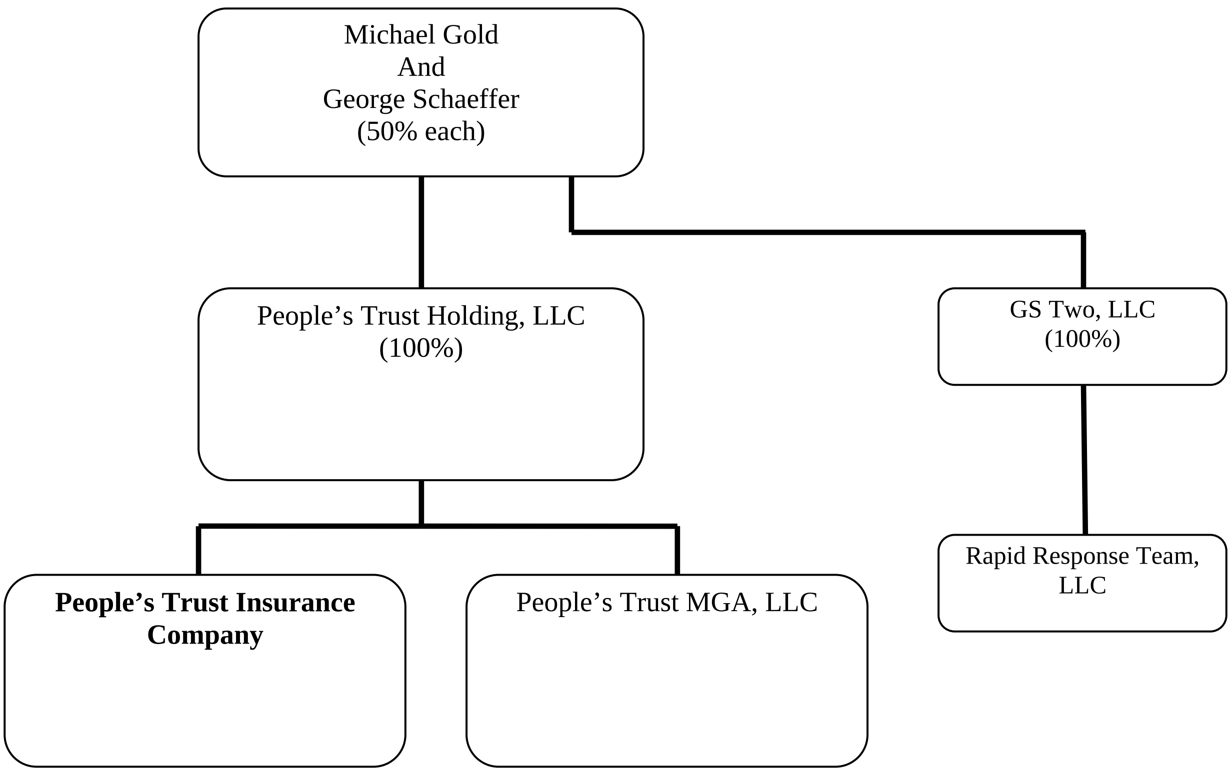
Affiliated Companies

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 March 1, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group. Rapid Response Team, LLC was 100% owned by GS2 and due to common ownership was considered an affiliate of the Company.

PEOPLE'S TRUST INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2009



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

Management Services Agreement

In January 2008, the Company executed a management/service agreement with its parent, 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 coverage; 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.

Cost Allocation Agreement

On March 6, 2008, the Company, its parent 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 were 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.

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, 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.

FIDELITY BOND

The Company maintained fidelity bond coverage up to $1,000,000 with a deductible of $25,000, an amount considered adequate by NAIC guidelines.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

TERRITORY AND PLAN OF OPERATIONS

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

COMPANY GROWTH

The Company continued, for its second year, to maintain underwriting and net losses from operations. During 2009, the Company was party to a Consent Order which limited the Company's writings during 2005. This caused the administrative and underwriting expenses as a percentage of premiums written to grow exponentially which had a negative effect on the financial operations for 2009.

Profitability of Company

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

	2009	2008
Premiums Earned	19,065,099	4,637,752
Net Underwriting Gain/(Loss)	(2,475,780)	(3,720,365)
Net Income	(1,812,822)	(3,646,340)
Total Assets	26,038,863	25,957,874
Total Liabilities	15,778,279	18,921,240
Surplus As Regards Policyholders	10,260,584	7,036,633

LOSS EXPERIENCE

The 2009 reporting year was the Company's second year of operations. Losses throughout 2009 were substantially greater than that of 2008 primarily based on the volume and duration of in-force risk. Based on the age of the Company, significant loss development history and patterns have yet to emerge. An independent actuarial firm, AMI Risk Consultants, was engaged to review the Statutory Loss and Loss Adjustment Expense reserves carried on the Company's balance sheet as of December 31, 2009. AMI Risk Consultants utilized hind sight analysis (with data as of March 31, 2010) and concluded that the amounts carried on the balance sheet as of December 31, 2009, were understated by $694,000. The Company indicated that multiple losses occurred late in 2009 that were not reported until early 2010 which contributed to the deficiency of reserves.

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 risk during 2009.

Ceded

The Company ceded premiums to the Florida Hurricane Catastrophe Fund and a number of private reinsurers. All of the reinsurance with private reinsurers was purchased through intermediary Guy Carpenter.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determination of the ultimate loss opinion.

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 annually for the years 2008 and 2009, 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 utilized third-party providers for their core information technology functions relating to underwriting, premium and claims processing. The applications were outsourced web-based applications where the third-party provider maintains the application, performs systems development and change management, as well as handles the method of access to these applications.

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.

Managing General Agent Agreement

The Company had a managing general agent (MGA) agreement with an affiliated company, PTMGA, in which the MGA managed all marketing and underwriting operations for the Company. All business was written through that MGA for the year ended 2009.

Independent Auditor Agreement

The Company had an agreement with the independent audit firm of De Meo Young and McGrath to perform the statutory audit of its 2009 annual statement.

Information Technology Report

ParenteBeard LLC 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.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Cash	$ 800,000	$ 800,000
TOTAL SPECIAL DEPOSITS		$ 800,000	$ 800,000

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	$7,163,784		$7,163,784
Cash:	15,186,344	281,612	$15,467,956
Investment income due and accrued	85,983		$85,983
Agents' Balances:			
Uncollected premium	54,883		$54,883
Deferred premium	2,585,889	259,916	$2,845,805
Net deferred tax asset	450,142		$450,142
Guaranty fund rec or on deposit	181,205		$181,205
EDP Equip and Software	63,835		$63,835
Receivable from parents, subsidiaries and affiliates	266,798		$266,798
Totals	$26,038,863	$541,528	$26,580,391

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

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	$1,456,819	$694,000	$2,150,819
Loss adjustment expenses	260,359		260,359
Other expenses	260,752		260,752
Taxes, licenses and fees	577,091		577,091
Unearned premium	5,151,303		5,151,303
Advance premiums	1,221,334	674,080	1,895,414
Ceded reinsurance premiums payable	6,580,853		6,580,853
Payable to parent, subsidiaries and affiliates	269,768		269,768
Total Liabilities	$15,778,279	$1,368,080	$17,146,359
Common capital stock	$1,000,000		$1,000,000
Gross paid in and contributed surplus	14,900,000		14,900,000
Unassigned funds (surplus)	(5,639,416)	(826,552)	(6,465,968)
Surplus as regards policyholders	$10,260,584	($826,552)	$9,434,032
Total liabilities, surplus and other funds	$26,038,863	$541,528	$26,580,391

PEOPLE'S TRUST INSURANCE COMPANY
Statement of Income
DECEMBER 31, 2009

Underwriting Income	
Premiums earned	$19,065,099
Deductions:	
Losses incurred	$7,994,477
Loss expenses incurred	1,153,397
Other underwriting expenses incurred	12,393,005
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$21,540,879
Net underwriting gain or (loss)	($2,475,780)
Investment Income	
Net investment income earned	$592,848
Net realized capital gains or (losses)	70,110
Net investment gain or (loss)	$662,958
Other Income	
Net gain or (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	$0
Net income before dividends to policyholders and before federal & foreign income taxes	($1,812,822)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($1,812,822)
Federal & foreign income taxes	0
Net Income	($1,812,822)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$7,036,633
Net Income	($1,812,822)
Net unrealized capital gains or losses	0
Change in net deferred income tax	(816,813)
Change in non-admitted assets	(96,414)
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	5,950,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(826,552)
Change in surplus as regards policyholders for the year	$2,397,399
Surplus as regards policyholders, December 31, 2009	$9,434,032

A comparative analysis of changes in surplus is shown below.

PEOPLE'S TRUST INSURANCE COMPANY
Comparative Analysis Of Changes In Surplus

DECEMBER 31, 2009

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

	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
Surplus as Regards Policyholders December 31, 2009, per Annual Statement				$10,260,584
ASSETS:				
Cash	$15,186,344	$15,467,956	$281,612	
Deferred Premiums	$2,585,889	$2,845,805	$259,916	
LIABILITIES:				
Losses and LAE	$1,717,178	$2,411,178	($694,000)	
Advance Premium	$1,221,334	$1,895,414	($674,080)	
Net Change in Surplus:				(826,552)
Surplus as Regards Policyholders December 31, 2009, Per Examination				$9,434,032

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash $15,467,956

Cash reported as of December 31, 2009, was understated by $281,612 due to an error in accounting resulting from the receipt of payments not accurately booked into the general ledger. This adjustment was also noted by the CPAs and corrected in the Company's amended annual statement filed with the Office.

Deferred Premiums $2,845,805

Deferred Premiums reported as of December 31, 2009, were understated by $259,916 due to the incorrect calculation and reporting of Written Premiums as of December 31, 2009. This adjustment was also noted by the CPAs and corrected in the Company's amended annual statement filed with the Office.

Liabilities

Losses and Loss Adjustment Expenses $2,411,178

An independent actuarial firm, AMI Risk Consultants, performed a review of the Loss and Loss Adjustment Expenses as of December 31, 2009 in conjunction with this examination. The review determined that the Company was under reserved by $694,000. The Examiners have made the adjustment which yielded a new balance of $2,411,178. This was noted as an examination finding and reported in the Summary of Exam Findings section of this report.

Advance Premiums $1,895,414

Advance Premiums reported as of December 31, 2009, were understated by $674,080 due to the incorrect calculation and reporting of Written Premiums as of December 31, 2009. This adjustment was also noted by the CPAs and corrected in the Company's amended annual statement filed with the Office.

Capital and Surplus $9,434,032

The adjusted amount of surplus is $9,434,032 per the examination, exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Losses and Loss Adjustment Expenses

We recommend the Company adjust recorded reserves within the range of reasonable estimates. Some degree of conservatism would be prudent until claim practices are well-established and stable, the book of business has matured and unpaid liabilities become more predictable. Being a start-up company (within 2-3 years of business), we recommend taking a conservative approach and book reserves at the calculated point estimate by the opining actuary of $2,411,000.

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, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $9,434,032, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael C. Brennan, CPA, Examiner In Charge, Gail Flannery, FCAS, MAAA, Consulting Actuary, and Philip Schmoyer, Participating Examiner and IT consultant representing ParenteBeard, LLC, participated in the examination.

Respectfully submitted,

____
James M. Pafford, Jr.
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation