

REPORT ON EXAMINATION

OF

INTERNATIONAL CREDIT OF NORTH AMERICA REINSURANCE, INC.

AS OF

DECEMBER 31, 2011

DATE OF REPORT

OCTOBER 5, 2012

EXAMINER

ADEBOLA AWOFOESO

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	4
	C. Reinsurance	5
	D. Holding company system	7
	E. Significant operating ratios	9
	F. Accounts and records	10
3.	Financial statements	12
	A. Balance sheet	12
	B. Statement of income	13
4.	Losses and loss adjustment expenses	14
5.	Subsequent events	14
6.	Compliance with prior report on examination	16
7.	Summary of comments and recommendations	19



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawskey  
Superintendent

October 5, 2012

Honorable Benjamin M. Lawskey  
Superintendent of Financial Services  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30750 dated August 23, 2011, attached hereto, I have made an examination into the condition and affairs of International Credit of North America Reinsurance, Inc. as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Company” or “ICNA RE” appear herein without qualifications, they should be understood to indicate International Credit of North America Reinsurance, Inc.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s main administrative office located at 2564 Brunswick Pike, Suite 106, Lawrenceville, NJ 08648.

## **1. SCOPE OF EXAMINATION**

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2005. This examination covered the six-year period from January 1, 2006 through December 31, 2011. The examination was initially started with an examination date as of December 31, 2010, but was subsequently updated to include the year ending December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination 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. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

The Company was incorporated in the State of New York on September 9, 1988, and became licensed and commenced business on January 18, 1989. The Company, which was a wholly-owned subsidiary of International Credit of North America Holding Corporation, a Delaware corporation, was acquired on November 6, 2007, by Empire Holdings Group (“Empire”) a Delaware corporation.

At December 31, 2011, capital paid in was \$1,000,000 consisting of 4,000 shares of common stock without a par value. Gross paid in and contributed surplus was \$1,530,683. Gross paid in and contributed surplus increased by \$1,458,163 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2006	Beginning gross paid in and contributed surplus	\$ 72,520
2007	Surplus contribution	\$1,185,662
2008	Surplus contribution	<u>272,501</u>
	Total surplus contributions	<u>1,458,163</u>
2011	Ending gross paid in and contributed surplus	<u>\$1,530,683</u>

### A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven members nor more than thirteen members. At December 31, 2011, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael Agliata Bordentown, NJ	Teacher, NJ Department of Correction

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Marc Brotman Sunnyside NY	Attorney, JASA/Legal Services for the Elderly in Queens, NY
Leslie D. Gesme Pewaukee, WI	Project Manager, RedPrairie
Monty D. Meyer Moline, IL	Owner, Monty Meyer, CPA
John Petrone Moorestown, NJ	Dentist, Gentle Touch Dentistry
Aimen Salem Mahwah, NJ	Chief Financial Officer, Greenway Trading LLC
Rodney Tartar Hainesport NJ	Owner, Bail Bonds of America
Sandra Jill Timmerman Rock Island, IL	General Counsel, Williams National Surety Corporation
Bradley Michael Williams Moline, IL	Vice President, Continental Heritage Ins. Co
Gary M. Williams Milan, IL	Vice President, Continental Heritage Ins. Co. 100% Owner and Board Member of, Williams National Surety Corporation

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2011, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Bridget Anna Kutz	President & Treasurer
Bradley Williams	Secretary

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in the following seven states: Arizona, Delaware, Indiana, New Mexico, New York, North Dakota and Pennsylvania.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
16	Fidelity and surety

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,000,000.

Prior to the acquisition by Empire, the Company ceased writing new business in 1993, and was in run-off status. The Company started writing new business in 2008. During the examination period the Company engaged in the business of writing surety insurance, primarily bail bonds, both on a direct and assumed basis. Business is generated through approximately one hundred independent agents.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT WRITTEN PREMIUMS

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a Percentage of Total Premium</u>
2006	0	0	0%
2007	0	0	0%
2008	\$142,883	\$ 402,971	35.46%
2009	\$754,465	\$1,465,146	51.49%
2010	\$964,899	\$2,668,869	36.15%
2011	\$323,042	\$2,887,749	11.19%

C. ReinsuranceAssumed

Assumed reinsurance accounted for 17% of the Company's gross premium written in 2011. The following chart shows the assumed reinsurance treaties that comprised the majority of the business assumed by the Company during the examination period:

<u>Type of Treaty</u>	<u>Cession</u>
Surety excess of loss Covering Surety Bonds written by FIA Financial Service Group	7/1/2009 – 4/1/2011: \$100,000 excess of \$400,000 any bond or principal. After 4/1/2011: \$20,000 excess of \$480,000 any bond or principal.
Bail Bond quota share Covering Bail Bonds written Blaze Bail Bonds, Inc.	9/1/2008 – 3/30/2011: 50% quota share. 4/1/2011 – 8/31/2011: 25% quota share. Non-renewed after 8/31/2011.

The Company utilized reinsurance accounting as defined in NAIC Accounting Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

Pursuant to the Bail Bond quota share agreement, the Company assumed business written by First Indemnity of America Insurance Company ("FIA"), a Pennsylvania insurer, and produced by Blaze Bail Bonds, Inc. ("Blaze"), which was a general agent of FIA licensed in New Jersey. Blaze was owned by Rafael Agliata and Eric Valentin, who were at that time directors and officers of the Company and also owned 25% each of Empire.

During 2010, Blaze failed to remit to FIA some of the premiums it had collected on business it produced for FIA. At a meeting held at the Department's office on October 19, 2011, Mr. Valentin acknowledged that Blaze had "mismanaged" the premium funds and had used them for other purposes such as paying losses. FIA, in turn, has withheld some of the ceded premiums due the Company pursuant to the quota share reinsurance agreement whereby FIA ceded a portion of the business that was produced by Blaze. It is noted that FIA has filed suit against Rafael Agliata, Eric Valentin and Blaze Bail Bonds, Inc. It is also noted that Messrs. Valentin and Agliata resigned as officers of the Company effective October 4, 2011 and that Mr. Valentin also resigned as a director of



the Company on that date. Additionally, effective February 3, 2012, Messrs. Agliata and Valentin transferred their shares of Empire to Bradley and Gary Williams who each became 50% owners.

### Ceded

The following is a description of the Company's ceded reinsurance program in effect during the examination period:

<u>Type of Treaty</u>	<u>Cession</u>
Surety Quota Share Covering Surety Bonds written by Whitewood Agency, Ltd. 100% Unauthorized	12/1/2008 – 12/1/2009: 60% quota share. 12/1/2009 – 4/1/2011: 70% quota share. 4/1/2011 – 12/1/2011: 90% quota share. Non-renewed after 12/1/2011.

All ceded reinsurance agreements in effect during the examination were reviewed and found to contain the required standard clauses including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62.

#### D. Holding Company System

As of December 31, 2011, the Company was a wholly owned subsidiary of Empire Holdings Inc., which in turn is ultimately controlled by the following persons:

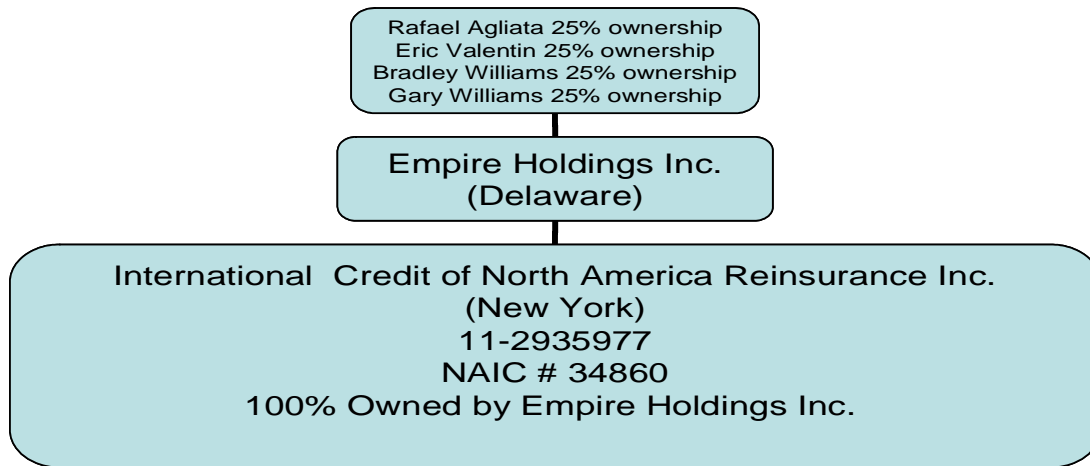
<u>Name</u>	<u>Percentage of Control</u>
Rafael Agliata	25 %
Eric Valentin	25 %
Bradley Williams	25 %
Gary Williams	25 %

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner except for the 2009 statement which was not filed and the 2010 statement which was not filed until November of 2010. Pursuant to

Part 80-1.4 of New York Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company's fiscal year.

It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

The following is a chart of the holding company system at December 31, 2011:



PNC Bank, NA (“the Plaintiff”) filed a lawsuit against Blaze Bail Bonds, Inc., E&R Premium Finance Company, Inc., Eric Valentin, Rafael Agliata, and Empire Holdings Group, Inc. (collectively, “the Defendants”) for a defaulted personal loan obtained by Rafael Agliata and Eric Valentin, which was obtained in order to furnish Mr. Agliata and Mr. Valentin with their share of the funds required for Empire Holdings Inc. to purchase the Company.

On February 24, 2011, a judgment was entered in Superior Court of New Jersey Law Division, Middlesex County in favor of plaintiff PNC Bank against the Defendants, jointly and severally. The judgment was subsequently settled by Bradley Williams and Gary Williams on the condition that Rafael Agliata and Eric Valentin transfer their shares of Empire Holding Inc. to Bradley and Gary Williams, and sever all association with the Company. On February 3, 2012, Rafael Agliata and Eric Valentin transferred their shares of Empire to Bradley and Gary Williams who each became 50% owners. The final payment in settlement of the judgment was made on February 14, 2012.

At December 31, 2011, the Company was party to the following agreement with other members of its holding company system:

Producer Service Agreement

Effective January 1, 2008, the Company entered into a producer servicing agreement with Williams National Surety Corporation (“Williams”), whereby Williams provides certain services for the Company, including but not limited to, data entry of information of bail bonds written by producers, distribution and accounting to producers of power of attorney received from the Company, monthly processing and remittance of premium payments by producers to the Company and oversight of producer’s indemnity funds. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	*309%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	58%
Premiums in course of collection to surplus as regards policyholders	2%

The above ratio denoted with an asterisk falls outside the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. It is noted that the Company’s Net premiums written to surplus as regards policyholders ratio is more than the benchmark ratio of 300%, an indication that Company is writing significantly more business than its surplus can support. It is recommended that the Company take action to limit its net premiums written to no more than three times its surplus as regards policyholders.

At December 31, 2011, the Company’s reported surplus as regards policyholders was \$1,048,604, and its risk based capital (“RBC”) level was 87.5%, which represents an authorized control level. It is noted that the Company’s quarterly statement as of March 31, 2012 indicated that its surplus as regards policyholders had decreased to \$916,728, which is below its minimum required capital of \$1,000,000. By letter dated March 7, 2012, the Department advised the Company that it

must submit to the Department no later than April 15, 2012, an RBC Plan pursuant to Section 1324(d)(2) of the New York Insurance Law indicating its proposed corrective actions to eliminate the action level.

On April 16, 2012, the Company submitted an RBC Plan, which contemplated selling the Company to a potential buyer who would infuse capital into the Company. Subsequently, the Company advised the Department that it would instead pursue additional capital via a \$500,000 Section 1307 surplus note from its existing owners; however, as of the date of this report, no additional funds have been infused into the Company.

The Company ceased writing new and renewal business effective July 31, 2012.

The underwriting ratios presented below are on an earned/incurred basis and encompass the six-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$1,341,992	17.11%
Other underwriting expenses incurred	7,966,030	101.54
Net underwriting loss	<u>(1,462,494)</u>	<u>(18.64)</u>
Premiums earned	<u>\$7,845,528</u>	<u>100.00%</u>

## F. Accounts and Records

### 1. Custodial Agreement

Management answered affirmatively to the following General Interrogatory on the 2011 annual statement:

“Excluding items in Schedule E-Part 3-Special Deposit, real estate, mortgage loans and investments held physically in the reporting entity’s offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III-General Examination Considerations, F. Outsourcing of Critical Functions Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?”

However, examination review indicated that the Company’s custodial agreement was lacking the protective covenants set forth in the NAIC Financial Condition Examiners Handbook.

It is recommended that the Company procure a custodial agreement that is in compliance with the NAIC guidelines.

## 2. Conflict of Interest

The Company has an established procedure for disclosure to its board of directors of any material interest or affiliation on the part of its officers and directors, trustees or responsible employees that is likely to conflict with the official duties of such person.

The Company could not provide signed conflict of interest statements for eight directors and one officer for 2008, any directors and officers for 2009 and 2010 and one director for 2011.

It is recommended that the Company comply with its own internal policy by ensuring that senior management and directors sign the annual conflict of interest statements in a timely manner and make copies available for examination review.

## 3. Shareholders' Meeting Minutes

Section 325(a) of the New York Insurance Laws states:

“Every domestic insurer and every licensed United States branch of an alien insurer entered through this state shall, except as hereinafter provided, keep and maintain at its principal office in this state its charter and by-laws (in the case of a United States branch a copy thereof) and its books of account, and if a domestic stock corporation a record containing the names and addresses of its shareholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof, and if a domestic corporation the minutes of any meetings of its shareholders, policyholders, board of directors and committees thereof.”

The Company could not provide the minutes of shareholders' meetings held during the examination period.

It is recommended that the Company comply with Section 325(a) of the New York Insurance Law and maintain all minutes of shareholders' meetings and make copies available for examination review.

3 **FINANCIAL STATEMENTS**A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Common stocks	\$ 138,901	\$ 0	\$ 138,901
Cash, cash equivalents and short-term investments	2,292,423		2,292,423
Investment income due and accrued	492		492
Uncollected premiums and agents' balances in the course of collection	79,024	62,640	16,384
Electronic data processing equipment and software	<u>75</u>	<u>0</u>	<u>75</u>
Total assets	<u>\$2,510,915</u>	<u>\$62,640</u>	<u>\$2,448,275</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 816,720
Reinsurance payable on paid losses and loss adjustment expenses	(72,398)
Other expenses (excluding taxes, licenses and fees)	7,304
Unearned premiums	631,055
Ceded reinsurance premiums payable (net of ceding commissions)	<u>16,990</u>
Total liabilities	\$1,399,671

Surplus and Other Funds

Common capital stock	\$1,000,000
Gross paid in and contributed surplus	1,530,683
Unassigned funds (surplus)	<u>(1,482,079)</u>
Surplus as regards policyholders	<u>1,048,604</u>
Total liabilities, surplus and other funds	<u>\$2,448,275</u>

**NOTE:** The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2006 through 2011. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased \$37,720 during the six-year examination period January 1, 2006 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned \$ 7,845,528

## Deductions:

Losses and loss adjustment expenses incurred \$1,341,992

Other underwriting expenses incurred 7,966,030

Total underwriting deductions 9,308,022

Net underwriting loss \$ (1,462,494)

Investment Income

Net investment income earned \$ 106,863

Net realized capital gain 2,567

Net investment gain 109,430

Other Income

Aggregate write-ins for miscellaneous income \$ 2,424

Total other income 2,424

Net income before federal and foreign income taxes \$ (1,350,640)

Federal and foreign income taxes incurred 0

Net income \$ (1,350,640)

Surplus as regards policyholders per report on examination as of December 31, 2005			\$1,010,884
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$1,350,640	
Net unrealized capital gains or (losses)		7,163	
Change in non-admitted assets		62,640	
Surplus adjustments paid in	\$1,458,163	<u>0</u>	
Total gains and losses	\$1,458,163	\$1,420,443	
Net increase (decrease) in surplus			<u>37,720</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$1,048,604</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$816,720 is the same as reported by the Company as of December 31, 2011. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.



## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained sixteen comments and recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Minimum Surplus</u></p> <p>As of the examination date the Company's surplus of \$1,010,884 was marginally over its minimum surplus to be maintained of \$1,000,000. It is noted that subsequent to the examination date, on November 6, 2007, the Department approved the acquisition of control of International Credit of North America Reinsurance, Inc. pursuant to Section 1506(a) of the New York Insurance Law by Empire Holdings Group ("Empire") and that Empire further capitalized ICNA Re in the amount of \$1.4 million.</p>	<p>1, 18</p>
<p>B. <u>Management</u></p> <p>i. It is recommended that the Company comply with Sections 1201(a)(5)(B)(v) and 1202(a)(2) of the New York Insurance Law and its charter and by-laws by maintaining a board of directors consisting of at least thirteen members.</p> <p>This recommendation is no longer applicable.</p>	<p>4</p>
<p>ii. It is recommended that the Company comply with Section 1201(a)(5)(B)(vi) of the New York Insurance Law and articles IV and II of its charter and by-laws respectively regarding the number of directors residing in the State of New York.</p> <p>The Company has complied with this recommendation.</p>	<p>5</p>
<p>iii. It is recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law regarding the approval of its investment transactions.</p> <p>The Company has complied with this recommendation.</p>	<p>6</p>
<p>iv. It is recommended that the Company comply with Section 325(a) of the New York Insurance Law and keep minutes of the meetings of committees of the board.</p> <p>The Company has complied with this recommendation.</p>	<p>6</p>

<u>ITEM</u>	<u>PAGE NO.</u>
C. <u>Abandoned Property Law</u>	
It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.	9
The Company has complied with this recommendation.	
D. <u>Accounts and Records</u>	
i.     It is recommended that the Company assign another officer as signatory on the cash and investment accounts and that the authority threshold for a single individual to endorse checks be reduced to a prudent level.	10
The Company has complied with this recommendation.	
ii.    It is recommended that the Company comply with Department Regulation 110, Part 72.4 and increase its individual retention limits to \$2,000 and its aggregate limits to \$20,000 and add a coinsurance of .2% to its directors and officers' policy.	10
The Company has complied with this recommendation.	
iii.   It is recommended that the Company comply with Department Regulation 118 in regards to its CPA contract.	10
The Company has complied with this recommendation.	
iv.    It is recommended that the Company includes the safeguard provisions in its custodial agreement with Brown Brothers Harriman as required by Part 1, Section IV-J of the NAIC Financial Condition Examiners Handbook.	11
The Company did not comply with this recommendation. A similar recommendation is made in this report.	
v.     It is recommended that the Company comply with Section 325(a) of the New York Insurance Law and return its books of account to New York.	11
The Company has complied with this recommendation.	
vi.    It is recommended that either the Company or Constitution Partners, LLC, obtain fidelity insurance to properly safeguard the Company's assets.	11
This recommendation is no longer applicable.	

<u>ITEM</u>	<u>PAGE NO.</u>	
vii.	<p>It is recommended that the Company obtain a written agreement for the sweep account, which at a minimum authorizes the funds to be swept, establishes the amount of funds to be swept, indicates what the swept funds are invested in, and puts forth each party's rights and responsibilities under the arrangement.</p> <p>This recommendation is no longer applicable.</p>	11
viii.	<p>It is recommended that the Company comply with Section 1402(a) of the New York Insurance Law and maintain minimum capital investments of \$1,000,000 as required by law or that it maintain adequate documentation to prove that it had no other investments besides acceptable minimum capital investments.</p> <p>The Company has complied with this recommendation.</p>	12
E.	<p><u>Management Agreement</u></p> <p>It is recommended that the Company submit its management agreement or any amendment to the Department prior to its implementation.</p> <p>This recommendation is no longer applicable.</p>	12
F.	<p><u>Loss Adjustment Expenses</u></p> <p>It is recommended that the Company establish a liability for loss adjustment expenses in accordance with SSAP 55, Paragraph 5.</p> <p>The Company has complied with this recommendation.</p>	17

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A.	
<u>Blaze Bail Bonds, Inc. (“Blaze”)</u>	
i.	6
During 2010, Blaze failed to remit to FIA some of the premiums it had collected on business it produced for FIA. FIA, in turn, withheld some of the ceded premiums due the Company pursuant to the quota share reinsurance agreement based on the fact that the owners of Blaze were also directors and officers of the Company and shareholders of the Company’s immediate parent. At a meeting held at the Department’s office on October 19, 2011, Mr. Valentin acknowledged that Blaze had “mismanaged” the premium funds and had used them for other purposes such as paying losses.	
ii.	7
On January 17, 2012, a lawsuit was filed in Superior Court of New Jersey Law Division, Morris County by plaintiff FIA against defendants Rafael Agliata, Eric Valentin and Blaze Bail Bonds.	
B.	
<u>Holding Company</u>	
i.	8
It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.	
ii.	8
On February 24, 2011, a judgment was entered in Superior Court of New Jersey Law Division, Middlesex County in favor of plaintiff PNC Bank against defendants Rafael Agliata, Eric Valentin, Blaze Bail Bonds, E&R Premium Finance Company Inc. and Empire Holdings Inc., jointly and severally, in the sum of \$1,430,037.21 plus post-judgment interest thereon; for a defaulted personal loan obtained by Rafael Agliata and Eric Valentin, which was obtained in order to furnish Mr. Agliata and Mr. Valentin with their share of the funds required for Empire Holdings Inc. to purchase the Company. The judgment was settled for \$400,000 by Bradley Williams and Gary Williams on the condition that Rafael Agliata and Eric Valentin transfer their shares of Empire Holding Inc. to Bradley and Gary Williams, and sever all association with the Company.	
C.	
<u>Significant Operating Ratios</u>	
i.	
<u>Premiums Written to Surplus Ratio</u>	
It is recommended that the Company take action to limit its net premiums written to no more than three times its surplus as regards policyholders.	9

ITEMPAGE NO.ii. Risk Based Capital (“RBC”)

At December 31, 2011, the Company’s reported surplus as regards policyholders was \$1,048,604, and its RBC level was 87.5%, which represents an authorized control level. On April 16, 2012, the Company submitted an RBC Plan, which contemplated selling the Company to a potential buyer who would infuse capital into the Company. Subsequently, the Company advised the Department that it would instead pursue additional capital via a \$500,000 Section 1307 surplus note from its existing owners; however, as of the date of this report, no additional funds have been infused into the Company.

9

The Company ceased writing new and renewal business effective July 31, 2012.

D. Accounts and Records

- |      |  |    |
|------|--|----|
| i.   | It is recommended that the Company procure a custodial agreement that is in compliance with the NAIC guidelines.   | 11 |
| ii.  | It is recommended that the Company comply with its own internal policy by ensuring that senior management and directors sign the annual conflict of interest statements in a timely manner and make copies available for examination review. | 11 |
| iii. | It is recommended that the Company comply with Section 325(a) of the New York Insurance Law and maintain all minutes of shareholders’ meetings and make copies available for examination review.   | 11 |

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Adebola Awofeso  
Senior Insurance Examiner

STATE OF NEW YORK     )  
  )ss:  
COUNTY OF NEW YORK    )

ADEBOLA AWOFESE, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_/s/\_\_\_\_\_  
Adebola Awofeso

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2012.