<u>REPORT ON EXAMINATION</u>

<u>OF THE</u>

<u>PARAMOUNT INSURANCE COMPANY</u>

<u>AS OF</u>

<u>DECEMBER 31, 2008</u>

<u>DATE OF REPORT</u>	<u>DECEMBER 11, 2009</u>
<u>EXAMINER</u>	<u>JOSEPH REVERS</u>

TABLE OF CONTENTS

ITEM NO.		PAGE NO.
1	Scope of examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	5
	C. Reinsurance	6
	D. Affiliated group	8
	E. Significant operating ratios	9
3.	Financial statements	10
	A. Balance sheet	10
	B. Underwriting and investment exhibit	11
4.	Losses and loss adjustment expenses	12
5.	Compliance with prior report on examination	14
6.	Summary of comments and recommendations	16

STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

December 11, 2009

Honorable James J. Wrynn
Superintendent of Insurance
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 30327 dated April 2, 2009 attached hereto, I have made an examination into the condition and affairs of Paramount Insurance Company as of December 31, 2008, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Paramount Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's home office located at One Park Avenue, New York, NY 10016.

1. SCOPE OF EXAMINATION

The Department has performed an association examination of Paramount Insurance Company. The previous examination was conducted as of December 31, 2003. This examination covered the five year period from January 1, 2004 through December 31, 2008. 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, 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 Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Paramount Insurance Company was incorporated under the laws of the State of New York on June 4, 1980 and licensed on July 13, 1981.

Direct control of the Company is held by PSM Holding Corporation ("PSM Holding"), which in turn, is controlled directly by Public Service Mutual Insurance Company ("PSM"), the parent company of the Magna Carta Companies, Inc.

Since January 1992, Paramount and PSM have pooled premiums, losses and expenses under a reinsurance pooling agreement.

At December 31, 2008 capital paid in was $4,200,000 consisting of 4.2 million shares of $1 par value per share common stock. Gross paid in and contributed surplus was $13,300,000. These amounts have not changed since the prior examination.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company shall be vested in a board of directors consisting of fifteen members. Each director shall serve on the board for a term of three years following his or her election by a majority vote of the Company's policyholders during their annual meeting. At December 31, 2008, the board of directors was comprised of the following fifteen members:

Name and Residence	Principal Business Affiliation
Charles Lanham Crouch, III La Canada, CA	Senior Vice President, General Counsel and Secretary, Public Service Mutual Insurance Company
Andrew Lawrence Furgatch Los Angeles, CA	Chairman of the Board, Public Service Mutual Insurance Company

Name and Residence	Principal Business Affiliation
Anita Davis Goodman Rye, NY	Real Estate Broker
John David Hatch Tarpon Springs, FL	Attorney
Donald Henderson Aromas, CA	Business Executive
John Thomas Hill, II Pennington, NJ	President and Chief Operations Officer, Public Service Mutual Insurance Company
Sue Kelly Katonah, NY	Retired U.S. Congresswoman
David Anthony Lawless Mamaroneck, NY	Senior Vice President and Chief Administrative Officer, Public Service Mutual Insurance Company
Fredric G. Marziano Belmar, NJ	Business Executive, Insurance Perspective and Solutions
Stanley Joseph Mastrogiacomo Warwick, NY	Business Executive
Milton Peckman Coconut Creek, FL	Business Executive
Paul Steven Schweitzer Potomac, MD	Business Executive, Julien J. Studley, Inc.
Dr. Leslie Wilfred Seldin New York, NY	Dentist
Dr. Lewis James Spellman, Ph. D. Austin, TX	Professor, University of Texas
Irwin Wallace Young Manhasset, NY	Business Executive, DuArt Film Labs, Inc.

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 had an acceptable record of attendance.

The Company also has executive, investment and compensation committees comprised of three board members per committee. Designated board members serve on their respective committees for one year at a time and are elected annually by majority votes of the board.

As of December 31, 2008, the principal officers of the Company were as follows:

Name	Title
Andrew Lawrence Furgatch	Chairman and Chief Executive Officer
John Thomas Hill, II	President, Executive Vice President and Treasurer
David Anthony Lawless	Senior Vice President and Chief Administrative Officer
Charles Lanham Crouch, III	Senior Vice President, General Counsel and Secretary

B. Territory and Plan of Operation

As of December 31, 2008, the Company was licensed to write business in the States of New York, Massachusetts, New Jersey 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:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 $2,150,000.

The Company's principal lines of business are commercial multiple peril and workers' compensation, which account for approximately 90% of the Company's 2008 net written premiums. The Company specializes in commercial package policies and workers' compensation for restaurants, mercantile establishments, habitational risks, and light manufacturing risks. Business is produced through independent agents and brokers.

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

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a Percentage of Total Premium
2004	$26,892,224	$33,155,571	81.11%
2005	$28,973,792	$38,481,833	75.29%
2006	$30,119,835	$40,782,823	73.85%
2007	$25,752,714	$35,730,138	72.08%
2008	$23,288,417	$34,985,145	66.57%

C. Reinsurance

Assumed

The Company's reinsurance assumed business stems from the Company's participation in an inter-company pooling arrangement with its ultimate parent company, Public Service Mutual Insurance Company ("PSM"), a New York domiciled property casualty company. Under the agreement, which became effective January 1, 1992, the Company cedes 100% of its net direct business to PSM and assumes 10% of the combined net business from PSM, excluding voluntary assumed reinsurance. The pooling arrangement has not changed since the last examination.

Ceded

The company has structured its ceded reinsurance program to limit its exposure as follows:

Type of Treaty	Cession
Property	
Per Risk Excess of Loss First layer 70% authorized	$2,000,000 excess of $1,000,000 each risk, each loss. Maximum any one occurrence limit of $6,000,000.
Second layer 57% authorized	$7,000,000 excess of $3,000,000 each risk, each loss. Maximum any one occurrence limit of $2,500,000.
Property Catastrophe	
First layer 41% authorized	95% of $22,500,000 excess of $7,500,000 each loss occurrence.
Second layer 24% authorized	90% of $60,000,000 excess of $30,000,000 each loss occurrence.
Casualty	
First layer 100% authorized	50% of $1,750,000 excess of $1,250,000 ultimate net loss per occurrence.
Second layer 100% authorized	50% of $3,000,000 excess of $3,000,000 ultimate net loss per occurrence.
Third layer 100% authorized	100% of $5,000,000 excess of $6,000,000 ultimate net loss per occurrence.
Worker's Compensation Catastrophe	
60% authorized	$25,000,000 excess of $11,000,000 each loss occurrence.

Unauthorized reinsurance

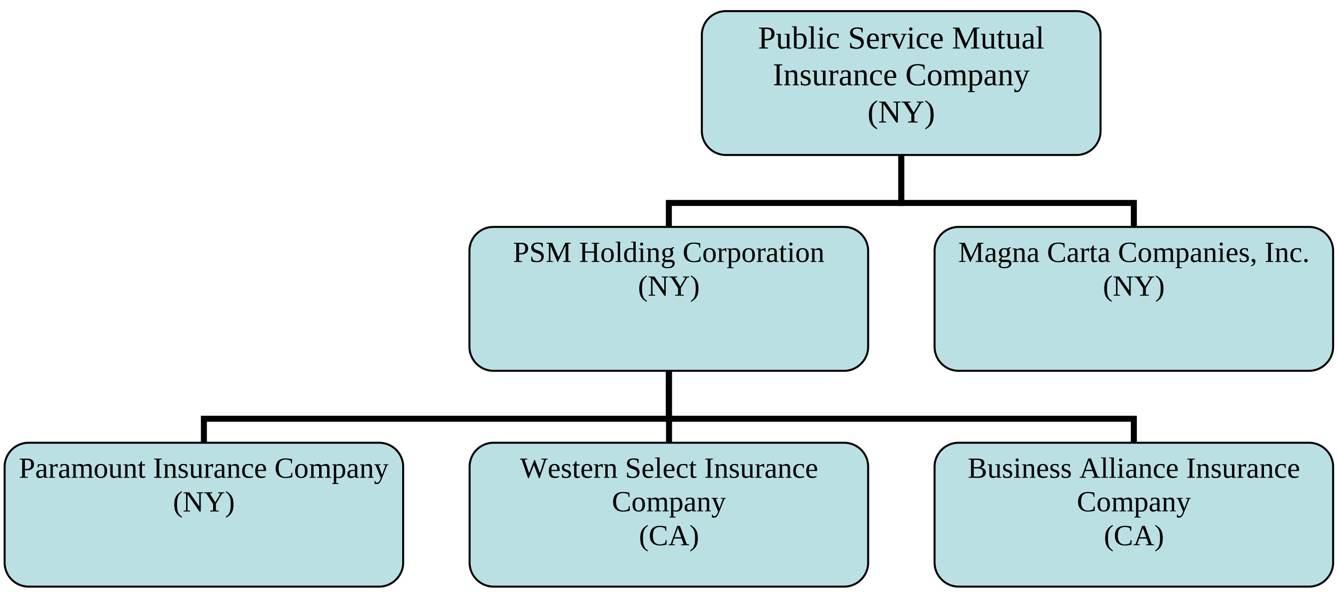
All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statements of Accounting Principles ("SSAP") No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer pursuant to the NAIC Annual Statement Instructions. Also, management indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

Upon examination review of the Schedule F data reported by the Company in its filed 2008 annual statement, it was noted that the Company reported a few unauthorized reinsurers as authorized. The misclassification did not have a material effect on the Company's Provision for reinsurance; nevertheless, it is recommended that the Company take proper care in filling out Schedule F on all filed financial statements.

D. Affiliated Group

The Company is a member of group of companies marketing under the name Magna Carta Companies ("MCC"). The ultimate parent of MCC is PSM, which is the sole stockholder of PSM Holding Corporation, which in turn owns 100% of Paramount Insurance Company.

The following is a chart of the affiliated group at December 31, 2008:



A review of the Department Regulation 53 filings (subsidiaries reports) filed by the ultimate parent with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 16 of the New York Insurance Law and Department Regulation 53.

At December 31, 2008, the Company was party to the following agreements with other members of its holding company system:

Service Agreement with PSM

Effective January 1, 1992, PSM provides the services of its personnel, office space, equipment, and other services to the Company. The cost of such services are allocated to the Company based on its percentage participation in the intercompany pooling agreement. A review of the allocation of expenses between the parties revealed that the charges are reasonable and in accordance with the requirements of Department Regulation No. 30.

Tax Allocation Agreement

Effective January 1, 2001, PSM, the Company, WSI, PSM Holding Corporation and Magna Carta Companies, Inc. file a consolidated income tax return with the Internal Revenue Service. A review of this agreement indicated that it is in compliance with Department Circular Letter No. 33 (1979). Effective January 1, 2009, the agreement was amended to include Business Alliance Insurance Company, a California insurance company recently acquired by PSM.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2008, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.59:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	60%
Premiums in course of collection to surplus as regards policyholders	7%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$58,775,146	68.21%
Other underwriting expenses incurred	30,211,444	35.06
Net underwriting gain	(2,822,905)	(3.28)
Premiums earned	$86,163,685	100.00%

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2008 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$50,623,970	$ 0	$50,623,970
Cash, cash equivalents and short-term investments	4,856,802		4,856,802
Investment income due and accrued	541,997		541,997
Uncollected premiums and agents' balances in the course of collection	1,888,739	115,605	1,773,134
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,762,852		1,762,852
Net deferred tax asset	927,380		927,380
Receivables from parent, subsidiaries and affiliates	445,144		445,144
Other assets	363,062	53,853	309,209
Equities and deposits in pools and associations	226,395	0	226,395
Total assets	$61,636,341	$169,458	$61,466,883

Liabilities, Surplus and Other Funds	Examination	Company	Surplus Increase (Decrease)
Liabilities			
Losses and loss adjustment expenses	$26,744,903	$24,396,903	$(2,348,000)
Commissions payable, contingent commissions and other similar charges	200,000	200,000	
Other expenses (excluding taxes, licenses and fees)	410,478	410,478	
Taxes, licenses and fees (excluding federal and foreign income taxes)	63,046	63,046	
Current federal and foreign income taxes	1,185,381	1,185,381	
Unearned premiums	8,046,513	8,046,513	
Policyholders dividends declared and unpaid	26,332	26,332	
Amounts withheld or retained by company for account of others	(2,027)	(2,027)	
Remittances and items not allocated	131,893	131,893	
Other liabilities	722,192	722,192	-
Total liabilities	$37,528,711	$35,180,711	$(2,348,000)
Surplus and Other Funds			
Common capital stock	$ 4,200,000	$ 4,200,000	$ 0
Gross paid in and contributed surplus	13,300,000	13,300,000	
Unassigned funds (surplus)	6,438,172	8,786,172	(2,348,000)
Surplus as regards policyholders	$23,938,172	$26,286,172	$(2,348,000)
Total liabilities, surplus and other funds	$61,466,883	$61,466,883	

NOTE: The Internal Revenue Service has not audited the Company's consolidated tax returns covering tax years 2004 through 2008. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $1,474,280 during the five-year examination period January 1, 2004 through December 31, 2008, detailed as follows:

Underwriting Income		
Premiums earned		$86,163,685
Deductions:		
Losses and loss adjustment expenses incurred	$58,775,146	
Other underwriting expenses incurred	30,179,566	
Aggregate write-ins for underwriting deductions	31,878	
Total underwriting deductions		88,986,590
Net underwriting gain or (loss)		$(2,822,905)
Investment Income		
Net investment income earned	$14,600,619	
Net realized capital gain	655,418	
Net investment gain or (loss)		15,256,037
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(264,110)	
Finance and service charges not included in premiums	69,427	
Aggregate write-ins for miscellaneous income	(1,363,201)	
Total other income		(1,557,884)
Net income before dividends to policyholders and before federal and foreign income taxes		$10,875,248
Dividends to policyholders		1,237,296
Net income after dividends to policyholders but before federal and foreign income taxes		$9,637,952
Federal and foreign income taxes incurred		3,383,463
Net income		$ 6,254,489

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2003			$24,811,892
Net income	$6,254,489		
Change in net deferred income tax		$ 122,411	
Change in nonadmitted assets	163,111		
Change in provision for reinsurance	31,091		
Dividends to stockholders		9,500,000	
Adjustments to surplus, correction of error	2,300,000	0	
Total gains and losses	$8,748,691	$9,622,411	
Net increase in surplus			(873,720)
Surplus as regards policyholders per report on examination as of December 31, 2008			$23,938,172

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $26,744,903 is $(2,348,000) more than the $24,396,903 reported by the Company as of December 31, 2008. 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.

Upon review of the Company's loss data and Schedule P reconciliations, the following anomalies were noted:

1. Ceded reinsurance reserves for a group of claims totaling $5.2 million for the period 1993 – 2002 were not included in the Company's ceded case reserves as of December 31, 2008. The Company's actuary reduced the IBNR reserve to account for the missing case reserve cessions.

2. The reserves for the older assumed business are not properly reported in the financial statements. The gross reserves are understated by $1 million and the net reserves are overstated by $1.8 million as of December 31, 2008. The Company's actuary adjusted the IBNR for these amounts.

3. The Company's claim system allows net negative incurred amounts for several accident years.

4. The Company is carrying a negative total net reserve for Commercial Umbrella and BOP Liability, which is illogical. Its held reserves by line of business are significantly different from indicated levels.

5. The Company has a series of adjustments to its Workers' Compensation case reserves remaining from its recording of second injury fund transactions which, while they net to zero, are large in individual years.

Although these items did not have a material impact on the Company's reported reserves, it is recommended that the Company resolve the data anomalies noted during our review.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that all officers and responsible employees complete conflict of interest questionnaires annually to disclose all possible conflicts to the board of directors.	5
	The Company has complied with this recommendation.	
ii.	It is also recommended that the Company respond accurately to all General Interrogatory questions of the annual statement.	5, 14
	The Company has complied with this recommendation.	
B.	Accounts and Records	
i.	Custodian Agreement	
	It is recommended that the Company amend its custodian agreement to include all the protective covenants and provisions in order to comply with the requirements set forth in the NAIC Financial Condition Examiners Handbook and to Insurance Department guidelines.	13
	The Company has complied with this recommendation.	
ii.	Certified Public Accountant Contract	
	It is recommended that the Company ensure that the contract with its CPA complies with the requirements of Department Regulation 118.	15
	The Company has complied with this recommendation.	
iii.	Investment Reconciliation	
	It is recommended that the Company, when performing an investment reconciliation, list on a separate column all of its special deposits with other states in order to facilitate the review of its investments.	15
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
iv.	Remittances and Items Not Allocated	
	It is recommended that in future annual statement filed with this Department, the Company correctly classify annual statement accounts in accordance with the NAIC Annual Statement Instructions.	16
	The Company has complied with this recommendation.	
	It is further recommended that the Company comply with SSAP No. 67 of the NAIC Accounting Practices and Procedures Manual and to record suspense accounts as Remittances and items not allocated.	16
	The Company has complied with this recommendation.	
v.	Earned but Unbilled Premiums	
	It is recommended that the Company properly classify audit premiums as earned but unbilled premiums (“EBUB”) and disclose in parenthesis on the “Deferred premiums, agents' balances and installments booked but deferred and not yet due” line in the asset page of the annual statement.	17
	The Company has complied with this recommendation.	
vi.	Electronic Data Processing Equipment	
	It is recommended that the Company depreciate its EDP equipment in accordance with the provisions of SSAP No. 79.	17
	The Company has complied with this recommendation.	
C.	Loss and Loss Adjustment Expenses	
	It is recommended that the Company provide accurate claims count data and that the Schedule P be accurately completed in all future statements filed with the Department.	22
	The Company has complied with this recommendation.	
D.	Market Conduct Activities	
i.	Regulation 64 Compliance	
	It is recommended that the Company fully and strictly comply with the time requirement provisions of Sections 216.4 and 216.6 of Department Regulation 64. In addition, it is recommended that the Company fully comply with Section 216.11 of Department Regulation 64 and maintain	25

ITEM		PAGE NO.
	within each claim file all communications, transactions, notes and work papers relating to the claim as required by this specific section of Department Regulation 64.	
	The Company has complied with this recommendation.	
ii.	Complaints	
	It is recommended that the Company maintain a complaint log that complies with the requirements of Circular Letter No. 11 (1978) and going forward maintain a complaint log that encompasses the eleven topics required in this circular letter.	26
	The Company has complied with this recommendation.	

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

ITEM		PAGE NO.
A.	Reinsurance	
	It is recommended that the Company take proper care in filling out Schedule F on all filed financial statements.	8
B.	Losses and loss adjustment expenses	
	It is recommended that the Company resolve the data anomalies noted during our review.	13

Respectfully submitted,

/s/
Joseph Revers, CFE
Senior Insurance Examiner

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

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

/s/
Joseph Revers, CFE

Subscribed and sworn to before me

this__________ day of ____________________, 2010.

Appointment No. 30327

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Joseph Revers

as proper person to examine into the affairs of the

PARAMOUNT INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 2nd *day of* April, *2009*

ERIC R. DINALLO
Superintendent of Insurance