

REPORT ON EXAMINATION

OF THE

PARK INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT

DECEMBER 10, 2010

EXAMINER

ADEBOLA AWOEFISO

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

December 10, 2010

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 30523 dated May 18, 2010 attached hereto, I have made an examination into the condition and affairs of Park Insurance Company as of December 31, 2009, and submit the following report thereon.

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

Wherever the designations "the HDH" or "Agent" appear herein without qualification, it should be understood to mean The HDH Group Inc., the Company's underwriting agent.

Wherever the designations "the CSB" or "TPA" appear herein without qualification, it should be understood to mean Claims Service Bureau, the Company's claims administrator.

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 administrative office located at 100 Park Avenue, New York NY 10017, the agent office located at 600 Grant Street, Pittsburgh, PA 15219 and the TPA's office located at 21 Hempstead Avenue, Lynbrook, NY 11563.

This examination has determined that as of December 31, 2009, the Company's minimum required to be maintained surplus of \$700,000 was impaired in the amount of \$378,452.

The examination surplus included the disallowance as an admitted asset of a loan to the shareholders of the Company in the amount of \$558,000, which is a prohibited investment pursuant to Section 1407(a)(4) of the New York Insurance Law, and a receivable from the shareholders of the Company for a capital contribution in the amount of \$300,000, which did not qualify to be recognized as a subsequent event at the examination date, pursuant to the provisions of paragraph 2 of National Association of Insurance Commissioners Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles ("SSAP") No. 9. Subsequent to the examination date, the Company received payment for the \$558,000 loan and the \$300,000 receivable from the shareholders, which eliminated the impairment that existed at December 31, 2009.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Park Insurance Company. This is the first financial examination of the Company after the report on organization, which was conducted as of October 5, 2007. This examination covered the period from October 6, 2007 through December 31, 2009. 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. An 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 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
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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

Park Insurance Company was incorporated under the laws of the State of New York on November 23, 2004. It became licensed on December 6, 2007 and commenced business on January 1, 2008.

The Company's authorized capital of \$700,000 consists of 70,000 shares of \$10 par value per share common stock. The Gross paid in and contributed surplus reported by the Company at December 31, 2009 was \$3,524,203; however, this amount included various in and out transfers between the Company and its affiliate, Atlas Roll-off Corporation. These transfers represent prohibited transactions pursuant to the provisions of Section 1217 of the New York Insurance Law, which states that:

No domestic insurance company shall make any disbursement of one hundred dollars or more unless evidenced by a voucher signed by or on behalf of the payee as compensation for goods or services rendered for the company, and correctly describing the consideration for the payment.

It is recommended that the Company refrain from transferring money between itself and its affiliates except as compensation for good or services rendered pursuant to the provisions of Section 1217 of the New York Insurance Law.

Further, it is noted that there is no provision in the New York Insurance Law allowing an insurer to transfer money out of paid in and contributed surplus. It is recommended that the Company refrain from transferring funds out of paid in and contributed surplus.

Based on the above, this report on examination will reflect an adjusted paid in and contributed surplus in the amount of \$3,304,757, as follows:

| | | <u>Company</u> | <u>Exam</u> |
|------------|---|---------------------|---------------------|
| 10/5/2007 | Beginning paid in and contributed surplus | \$ 1,450,000 | \$ 1,450,000 |
| 2007 | Capital contribution * | <u>135,335</u> | <u>135,335</u> |
| 12/31/2007 | Ending paid in and contributed surplus | \$ 1,585,335 | \$ 1,585,335 |
| 2008 | Transfer from Atlas Roll-off Corporation | 6,000 | 6,000 |
| 2008 | Transfer to Atlas Roll-off Corporation ** | (46,745) | (46,745) |
| 2008 | Contribution from stockholders | <u>200,000</u> | <u>200,000</u> |
| 12/31/2008 | Ending paid in and contributed surplus | \$ 1,744,590 | \$ 1,744,590 |
| | Transfer of securities from Madison Insurance | | |
| 2009 | Company Ltd. *** | 1,590,598 | 1,590,598 |
| 2009 | Various transfers to Atlas Roll-off Corporation | (3,213,041) | |
| 2009 | Various transfers from Atlas Roll-off Corporation | 2,882,610 | |
| 2009 | Accrued capital contribution | 300,000 | |
| 2009 | Net of transfers and accrued capital contribution | | (30,431) |
| 2009 | Unsupported difference | <u>219,446</u> | <u>-</u> |
| 12/31/2009 | Ending paid in and contributed surplus | <u>\$ 3,524,203</u> | <u>\$ 3,304,757</u> |

* This amount represents a reclassification from unassigned funds and does not represent an actual capital contribution.

** This amount represents an unauthorized transfer out of paid in and contributed surplus.

*** The Company advised that this transfer represented a capital contribution.

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 thirteen nor more than fifteen members. The board is required to meet four times during each calendar year. At December 31, 2009, the board of directors was comprised of the following thirteen members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|---|---|
| Andrew Barile Santa Fe, CA | Insurance Consultant, Andrew Barile Consulting Corp. |
| Dennis Carmen Melville, NY | Certified Public Accountant, Carmen & Pearl CPA |
| Salvatore DeSantis Manalapan, NJ | Partner, Molod Spitz & DeSantis P.C. |
| David G. Hutchinson Rockville Center, NY | Claims Manager, Claims Service Bureau |

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|---|---|
| Richard T. Hyder Kansas City, MO | Retired, GE Finance |
| Jerome R. Janson E. Setauket, NY | Retired Sales Manager, Essex Cement Company |
| William J. Knox Mars, PA | Senior Vice President-Alternative Risk, The HDH Group, Inc. |
| John Mannix Island Park, NY | Reinsurance Intermediary, Aon Benfield |
| John Polsinelli Bellmore, NY | President, Atlas Companies |
| Paul Polsinelli Syosset, NY | Vice President, Atlas Companies |
| Thomas Polsinelli Atlantic Beach, NY | President and Chief Executive Officer, Park Insurance Company Secretary and Treasurer, Atlas Companies |
| Vincent Polsinelli Laurel Hollow, NY | Vice President, Atlas Companies Park Insurance Company |
| David Salzman Greenlawn, NY | Self Employed, David Salzman Marketing and Advertising |

The Company's 2009 annual statement listed George Voinchet and Joseph Sforzo, who both resigned from the board in 2008, as current members of the boards of directors. Additionally, the 2009 annual statement did not list Richard T. Hyder and David Salzman as directors. It is recommended that the Company exercise greater care in the preparation and filing of its annual statement jurat page.

The Company held two board of directors' meetings during 2008 and four during 2009. A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of Vincent Polsinelli who attended none of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth

their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

As of December 31, 2009, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|--------------------|---------------------------------------|
| Thomas Polsinelli | President and Chief Executive Officer |
| Salvatore DeSantis | Secretary |

Conflict of Interest Policy

The Company has a conflict of interest policy, which defines what constitutes a potential conflict; however, the Company does not have an established procedure for disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors and key employees. In response to a request for signed conflict of interest statements, the Company provided signed statements from its directors only, which stated only that they had been given a copy of the conflict of interest policy and that they have read and agree with this policy. Nowhere on the statement does it ask whether the person has any material interest or affiliation that is in conflict or is likely to conflict with the official duties of such person.

It is recommended that the Company amend its conflict of interest statements to require the signor to disclose any material interest of affiliation that is in conflict or is likely to conflict with the official duties of such person. It is further recommended that the Company require all officers, directors and key employees to complete and sign a conflict of interest statement annually and that the signed statements be provided to the Company's board of directors, copies of which should be maintained by the Company and available for review upon examination.

Code of Ethics Policy

Examination review indicates that the Company did not have in place a code of ethics policy for the organization. An effective code of ethics policy, which is communicated to the Company's employees and enforced by management, is an essential element of good corporate governance.

It is recommended that the Company adopt and implement a code of ethics policy for its employees, officers and consultants.

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in New York only.

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> |
|------------------|--|
| 13 | Personal injury liability |
| 14 | Property damage liability |
| 19 | Motor vehicle and aircraft physical damage |

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 \$700,000.

The Company provides commercial auto and general liability coverage, which included ambulette business, on a per occurrence basis to accounts involved in the ready-mix concrete business. The Company sells policies through retail brokers throughout the State of New York, with a concentration downstate and the five boroughs of New York City.

It was noted that the ambulette business has increased as a percentage of its total business during the examination period, and through the first nine months of 2010, as follows:

| <u>Calendar Year</u> | <u>Ambulette Premiums</u> | <u>Total Premiums</u> | <u>Ambulette to Total Premiums</u> |
|----------------------|-------------------------------|-----------------------|--|
| 2008 | \$ 308,642 | \$ 3,123,542 | 9.9% |
| 2009 | \$6,530,846 | \$12,118,281 | 53.9% |
| Through 9/30/2010 | \$9,925,041 | \$13,620,877 | 72.9% |

C. ReinsuranceAssumed

The Company did not assume any business during the examination period.

Ceded

The Company ceded losses through a reinsurance treaty reinsured by Lloyds Syndicates. However, effective December 31, 2009, the Company and its reinsurers mutually canceled and commuted the treaty, loss free.

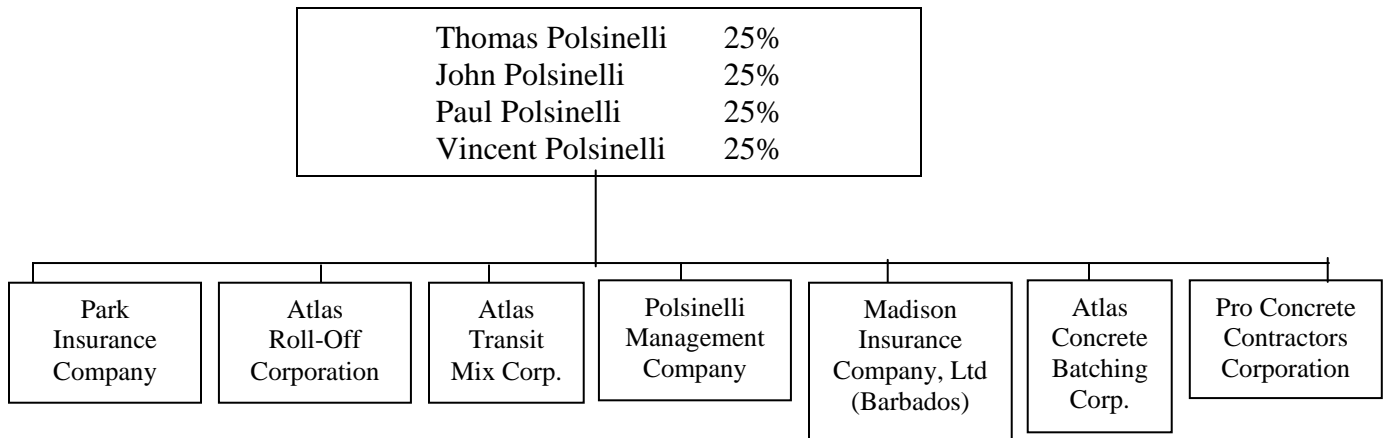
D. Holding Company System

The Company is a member of a holding Company system which is ultimately controlled by the following persons:

| <u>Name</u> | <u>Percentage of Control</u> |
|--------------------|------------------------------|
| Thomas Polsinelli | 25 % |
| John Polsinelli | 25 % |
| Paul Polsinelli | 25 % |
| Vincent Polsinelli | 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 pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2009:



E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

| | |
|--|--------|
| Net premiums written to surplus as regards policyholders | *3579% |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | *102% |
| Premiums in course of collection to surplus as regards policyholders | *64% |

The above ratios denoted with an asterisk fall outside the benchmark ranges 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 almost twelve times the benchmark ratio of 300%, indicating that it 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. The Liabilities to liquid assets and the Premiums in course of collection to surplus as regards policyholders fell outside of the benchmark ranges due to the changes made by this examination.

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

| | <u>Amounts</u> | <u>Ratios</u> |
|--|--------------------|----------------|
| Losses and loss adjustment expenses incurred | \$ 5,681,488 | 80.08% |
| Other underwriting expenses incurred | 4,232,900 | 59.67 |
| Net underwriting loss | <u>(2,820,042)</u> | <u>(39.75)</u> |
| Premiums earned | <u>\$7,094,346</u> | <u>100.00%</u> |

F. Accounts and Records

Capital and Surplus Contributions

Capital and surplus needs or contributions made during the examination period were not formally documented in board of directors or shareholder minutes.

It is recommended that Company document the discussions of its capital and surplus needs and contributions in the minutes of the board of directors meetings and in the minutes of the stockholders meetings.

Investments

Examination review indicates that some of the investment designations reported in Company's 2009 Annual Statement Schedule D did not match those listed in the NAIC Securities Valuation Office ("SVO") database. The incorrect designations did not result in a material misstatement of the value of the Company's investments.

It is recommended that the Company exercise due diligence in preparation of its Annual Statement Schedule D, going forward.

General Interrogatory

Management answered affirmatively to the following General Interrogatory:

"Excluding items in Schedule E, 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 3, III Conducting Examinations, F- Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?"

However, examination review indicated that the Company's custodial agreement lacked the protective covenants set forth in Section 3, III of the NAIC Financial Condition Examiners Handbook. It is recommended that the Company procure a custodial agreement in compliance with the NAIC guidelines.

Section 1411a of the New York Insurance Law

Section 1411(a) of the New York Insurance Law provides as follows:

“No domestic insurer shall make any loan or investment ...unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

Examination review of the board of directors' minutes did not indicate that the board of directors reviewed or approved any investment transactions entered into by the Company during the examination period.

It is recommended that the board of directors or a committee thereof approve all investment transactions pursuant to the provisions of Section 1411(a) of the New York Insurance Law.

Bond Amortization

The Company disclosed its method of bond investment amortization in its notes to the financial statements as straight line method. NAIC Accounting Practices and Procedures Statement of Statutory Accounting Principles (“SSAP”) No. 26, paragraph 6 requires amortization to be calculated using the scientific method.

It is recommended that the Company comply with the provisions of SSAP No. 26, paragraph 6 and amortize its bond investment portfolio using the scientific method.

Program Administration Agreement

Effective December 1, 2007, the Company entered into a Program Administration Agreement with The HDH Group, Inc, (HDH), a non-affiliated company, which appoints HDH as the Company's insurance services representative and agent. During the exam period, HDH produced 100% of the Company's written premium. Pursuant to the terms of the agreement, HDH provides the following services: (i) assist in developing underwriting manual; (ii) underwrite insurance policies issued by Park Insurance; (iii) issue certificates of insurance and automobile ID cards in the name of the

Company; (iv) effect cancellations and issues non-renewals; (v) create and update agent contracts and agreements with retail brokers on behalf of the Company; (vi) collect premiums and provide premium report to reinsurer; and (vii) handle all other matters to insure the efficient handling of the day-to-day operation of the Company.

It is noted that as of the date of this report, the Company had not filed a certificate of appointment with this Department appointing HDH as its insurance agent. This is contrary to the provisions of Section 2112 of the New York Insurance Law, which states:

(a) Every insurer, fraternal benefit society or health maintenance organization doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer, fraternal benefit society or health maintenance organization.

(b) To appoint a producer, the appointing insurer shall file, in a format approved by the superintendent, a notice of appointment within fifteen days from the date the agency contract is executed or the first insurance application is submitted.

It is noted that subsequent to the examination date, on December 20, 2010, the Company filed a certificate of appointment with this Department appointing HDH as its insurance agent, pursuant to the provisions of Section 2112 of the New York Insurance Law.

Underwriting Files Review

A sample of sixty underwriting files from the Company's data was selected and reviewed for compliance with Section 3426 of New York Insurance Law and to review the Company's underwriting guidelines and methodology. The examination findings are based upon a review of the selected files.

New York Insurance Law section 3426 (c) states:

“After a covered policy has been in effect for sixty days...no notice of cancellation shall become effective until fifteen days after written notice is mailed or delivered to the first-named insured and to such insured's authorized agent or broker. . . .”

Examination review indicated that the Company did not send cancellation notices to insureds within the required time frame. It is recommended that the Company comply with the notification requirements set forth in Section 3426(c) of the New York Insurance Law. It is also recommended

that the Company provide written cancellation, reinstatement, renewal and non renewal guidelines to its appointed agents and underwriters.

Examination review indicated that the Company did not have written maximum binding authority limits for its appointed agent and underwriter. It is recommended that the Company set written maximum binding authority levels for its appointed agents and underwriters.

Examination review indicated that the Company's appointed underwriter and agent did not follow some of the required procedures stated in the Company's underwriting guidelines such as procuring a signed policy application and obtaining the driving history of drivers from the Department of Motor Vehicles. It is recommended that the Company ensure that its agents and underwriters fully comply with the requirements stated in its underwriting guidelines.

Examination review indicated that Company did not maintain a detail general ledger describing all accounts and ledger entries recorded. It is recommended that the Company maintain its general ledger with detailed explanations of ledger entries.

Examination review indicated that the Company did not maintain manuals describing the proper controls and procedures required to complete operational tasks assigned for various functions such as underwriting, investment, reserving, premium, claims, reinsurance, expenses, etc. It is recommended that the Company procure manuals describing the proper controls and procedures in place to complete operational tasks for all functions.

Claim Service Agreement

Effective December 15, 2008, the Company entered into a claim service agreement with Claim Service Bureau of New York Inc. ("CSB"), a non-affiliated company, whereby CSB provides the following services: (i) examine all incident and accident reports received from insured; (ii) investigate, evaluate and adjust all claims; (iii) handle all other matters to insure the efficient handling of the day-to-day claims operation of the Company. CSB adjusts 100% of the Company's claims.

Claims Review

A sample of sixty claim files from the Company's data was selected and reviewed for compliance with Department Regulation No. 64 and to review the Company's reserve methodology and reserve adequacy. The following examination findings are based upon a review of the selected files.

Fourteen of the selected claims were not in compliance with Part 216.4 (Failure to acknowledge pertinent communications within 15 business days), six selected claims were not in compliance with Part 216.6 (Standards for prompt, fair and equitable settlements) and one claim was not in compliance with Part 216.5 (Standards for prompt investigation of claims within 15 business days of receipt of notice of claim) of Department Regulation No. 64. It is recommended that the Company comply with Department Regulation No. 64.

The Company did not have loss claim administration policy (claim manual). The Company utilized its third party administrator claim manual to settle its claims. It is recommended that the Company establish its own claim manual or have its board members formally adopt the third party administrator's claim manual.

The Company does not have in place a formal or written reserve methodology to guide its claim adjusters. The third party administrator responsible for handling the claim services on behalf of the Company stated it uses industry best practices to set reserves. It is recommended that the Company establish a written reserve methodology to guide its claim adjusters in setting up reserves.

The Company does not have a written claim settlement authority limit for the claim adjusters. The third party administrator that handles claim services for the Company stated that limits were given verbally by Mr. Thomas Polsinelli, Park Insurance Company's President. It is recommended that the Company establish written claim settlement authority limits.

The third party administrator claim manual utilized by the Company requires two signatures for paid claims. Examination review indicated that claim payment checks were processed with one signature. It is prudent business practice to require two signatures on checks. It is recommended that the Company issue future payments with two signatures as a prudent business practice.

Related Party

The following related party transactions were implemented by the Company without prior notification or approval of the Department:

- (a) Providing a \$558,000 mortgage loan to its affiliate.
- (b) Receiving \$1,854,757 gross paid in and contributed surplus during the examination period.

It is recommended that the Company comply with the notification requirements set forth in Sections 1505(c) and 1505(d)(1) of the New York Insurance Law.

Annual Statement Reporting

Section 307(b)(1) of the New York Insurance Law requires that the Company file with the Department, within five months of the end of each calendar year, an annual financial statement, together with an opinion thereon of an independent certified public accountant. The Company's 2009 audited financial statement was not filed until six months after the end of the calendar year. It is recommended that the Company comply with Section 307(b)(1) of New York Insurance Law.

The NAIC Annual Statement Instructions require insurers to disclose accounting changes and correction of errors in the notes to financial statements. Examination review indicated that the Company made several changes to the originally filed annual statements during the examination years without detailing the changes or errors in item 2 of the Notes to Financial Statements. It is recommended that, going forward, the Company exercise due diligence in reporting disclosures of accounting changes and corrections of errors in accordance with the Annual Statement Instructions.

The NAIC Annual Statement Instructions require an insurer to disclose information concerning parent, subsidiary and affiliates in item 10 of the Notes to Financial Statements. The Company did not disclose a \$558,000 mortgage loans to the Company's owners and a \$300,000 receivable from parent, subsidiaries and affiliates. It is recommended that the Company comply with the NAIC Annual Statement Instructions and identify all related party transactions.

The NAIC Annual Statement Instructions requires property and casualty insurers to allocate common or overhead expenses incurred to Loss Adjustment, Other Underwriting and Investment expenses. A review of the Underwriting and Investment Exhibit, Part 3 indicated that the Company recorded all common or overhead expenses incurred as Other Underwriting expenses. It is

recommended that the Company comply with the NAIC Annual Statement Instructions and properly allocate expenses.

Statement of Statutory Accounting Principles No. 55 (“SSAP 55”) of the NAIC Accounting Practices and Procedures Manual requires property & casualty insurance companies to define and classify loss adjustment expenses into two categories: Defense and Cost Containment (“DCC”) and Adjusting and Other (“AO”).

Park Insurance Company did not classify loss adjustment expenses in accordance with SSAP 55 in the Company's general ledger.

It is recommended that the Company define and classify loss adjustment expenses into two categories: Defense and Cost Containment and Adjusting and Other, as required by SSAP 55 of the NAIC Accounting Practices and Procedures Manual.

Examination review indicated that Company misclassified salary and related item expenses as rent and rent items. An amount of \$189,374 salary paid to the president, Thomas Polsinelli, was recorded as rent. In addition, Company failed to file a Supplemental Compensation Exhibit for directors, officers and employees as required by NAIC Annual Statement Instructions.

It is recommended that the Company exercise proper care in classifying expenses. It is also recommended that the Company file a Supplemental Compensation Exhibit for directors, officers and employees as required by NAIC Annual Statement Instructions.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

| <u>Assets</u> | <u>Assets</u> | <u>Examination</u> Assets Not Admitted | Net Admitted <u>Assets</u> | <u>Company</u> Net Admitted <u>Assets</u> | Surplus Increase (Decrease) |
|--|---------------------|--|-------------------------------|---|-----------------------------------|
| Bonds | \$3,620,966 | \$ 0 | \$3,620,966 | \$3,620,966 | \$ 0 |
| Preferred stocks | 1,157,788 | 0 | 1,157,788 | 1,157,788 | 0 |
| Common stocks | 98,630 | 0 | 98,630 | 98,630 | 0 |
| First liens - mortgage loans on real estate | 558,000 | 558,000 | 0 | 558,000 | (558,000) |
| Cash, cash equivalents and short-term investments | 4,725,924 | 0 | 4,725,924 | 4,725,924 | 0 |
| Investment income due and accrued | 45,941 | 0 | 45,941 | 45,941 | 0 |
| Uncollected premiums and agents' balances in the course of collection | 635,168 | 428,093 | 207,075 | 635,168 | (428,093) |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 1,905,501 | 0 | 1,905,501 | 1,905,501 | 0 |
| Other amounts receivable under reinsurance contracts | 64,170 | 0 | 64,170 | 64,170 | 0 |
| Net deferred tax asset | 263,413 | 0 | 263,413 | 263,413 | 0 |
| Receivables from parent, subsidiaries and affiliates | <u>300,000</u> | <u>300,000</u> | <u>0</u> | <u>300,000</u> | <u>(300,000)</u> |
| Total assets | <u>\$13,375,501</u> | <u>\$1,286,093</u> | <u>\$12,089,408</u> | <u>\$13,375,501</u> | <u>\$(1,286,093)</u> |

| <u>Liabilities, Surplus and Other Funds</u> | <u>Examination</u> | <u>Company</u> | <u>Increase (Decrease)</u> |
|---|---------------------|---------------------|--------------------------------|
| <u>Liabilities</u> | | | |
| Losses and Loss adjustment expenses | \$4,572,045 | \$3,437,045 | \$(1,135,000) |
| Other expenses (excluding taxes, licenses and fees) | 171,600 | 171,600 | 0 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 283,568 | 283,568 | 0 |
| Current federal and foreign income taxes | 104,000 | 104,000 | 0 |
| Unearned premiums | <u>6,636,647</u> | <u>6,636,647</u> | <u>0</u> |
| Total liabilities | <u>\$11,767,860</u> | <u>\$10,632,860</u> | <u>\$(1,135,000)</u> |
| <u>Surplus and Other Funds</u> | | | |
| Common capital stock | \$700,000 | \$700,000 | \$ 0 |
| Gross paid in and contributed surplus | 3,304,757 | 3,524,203 | (219,446) |
| Unassigned funds (surplus) | (3,683,209) | (1,481,562) | (2,201,647) |
| Surplus as regards policyholders | <u>321,548</u> | <u>2,742,641</u> | <u>(2,421,093)</u> |
| Total liabilities, surplus and other funds | <u>\$12,089,408</u> | <u>\$13,375,501</u> | <u>\$(1,286,093)</u> |

NOTE: This examination has determined that as of December 31, 2009, the Company's minimum required to be maintained surplus of \$700,000 was impaired in the amount of \$378,452.

The examination surplus included the disallowance as an admitted asset of a loan to the shareholders of the Company in the amount of \$558,000, which is a prohibited investment pursuant to Section 1407(a)(4) of the New York Insurance Law, and a receivable from the shareholders of the Company for a capital contribution in the amount of \$300,000, which did not qualify to be recognized as a subsequent event at the examination date, pursuant to the provisions of paragraph 2 of SSAP No. 9. Subsequent to the examination date, the Company received payment for the \$558,000 loan and the \$300,000 receivable from the shareholders, which eliminated the impairment that existed at December 31, 2009.

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2008 through 2009. 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 decreased \$1,997,507 during the two-year examination period January 1, 2008 through December 31, 2009, detailed as follows:

Underwriting Income

| | | |
|--------------------------------------|------------------|------------------|
| Premiums earned | | \$7,094,346 |
| Deductions: | | |
| Losses incurred | \$ 4,929,338 | |
| Loss adjustment expenses incurred | 752,150 | |
| Other underwriting expenses incurred | <u>4,232,900</u> | |
| Total underwriting deductions | | <u>9,914,388</u> |
| Net underwriting loss | | \$(2,820,042) |

Investment Income

| | | |
|------------------------------|----------------|---------|
| Net investment income earned | \$476,187 | |
| Net realized capital gain | <u>329,140</u> | |
| Net investment gain | | 147,047 |

Other Income

| | | |
|---|---------------|----------------------|
| Start up cost | \$(188,385) | |
| Other | <u>12,785</u> | |
| Total other income | | <u>(175,600)</u> |
| Net income after dividends to policyholders but before federal and foreign income taxes | | \$(2,848,595) |
| Federal and foreign income taxes incurred | | <u>104,000</u> |
| Net income | | <u>\$(2,952,595)</u> |

| | | | |
|--|-------------------------|--------------------------|-----------------------|
| Surplus as regards policyholders per report on examination as of October 5, 2007 | | | \$ 2,319,055 |
| | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> | |
| Net income | | \$ 2,952,595 | |
| Net unrealized capital gains or (losses) | \$ 74,078 | | |
| Change in net deferred income tax | 502,704 | | |
| Change in non-admitted assets | | 1,525,384 | |
| Surplus adjustments paid in | <u>1,903,690</u> | <u>0</u> | |
| Total gains and losses | <u>\$ 2,480,427</u> | <u>\$ 4,477,979</u> | |
| Net increase (decrease) in surplus | | | <u>\$ (1,997,507)</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2009 | | | <u>\$ 321,548</u> |

4. MORTGAGE LOANS ON REAL ESTATE

The Company reported an admitted asset in the amount of \$558,000 under this caption as of the examination date. Pursuant to this examination, the admitted asset has been eliminated.

The asset reported by the Company represents a mortgage note, effective October 31, 2009, whereby the Company loaned the sum of \$558,000 to Thomas Polsinelli, John Polsinelli, Vincent Polsinelli and Paul Polsinelli (collectively, “the Mortgagors”). Pursuant to the terms of the note, the Mortgagors were obligated to pay interest only, each month beginning December 31, 2009 at the rate of 5% per annum, with the principal of the loan due on October 31, 2014.

The mortgage note is a prohibited investment pursuant to the provisions of Section 1407(a)(4) of the New York Insurance Law, which prohibits investments in “obligations, shares or other securities (including certificates of deposit) issued by a parent corporation or a corporation which is an affiliate or will be an affiliate after direct or indirect acquisition by the insurer.”

Additionally, it is noted that the amount of the loan represented 16.7% of the Company’s reported admitted assets as of December 31, 2008. Therefore, this transaction was subject to Section 1505(c) of the New York Insurance Law, which requires the superintendent’s prior approval for transactions between a domestic controlled insurer and any person in its holding company system involving five percent or more of the insurer’s admitted assets at last year-end. The Company did not

submit the mortgage loan to the Department for prior approval pursuant to Section 1505(c) of the New York Insurance Law.

Further, the mortgage note would not qualify as an admitted asset pursuant to paragraph 7 of Statement of Statutory Accounting Principles (“SSAP”) No. 25, which provides that “loans or advances (including debt, public or private) made by a reporting entity or its parent or principal owner shall be admitted if approval for the transaction has been obtained from the domiciliary commissioner and the loan or advance is determined to be collectible based on the parent or principal owner’s independent payment ability.”

Upon discovery by the Department of this prohibited investment, the Company was directed by the Department to rescind the mortgage loan and to have the full amount of the loan returned to them by the close of business on June 23, 2010. The Company subsequently received the \$558,000 by payments received on July 28 and August 5, 2010.

It is recommended that the Company submit to the Department for prior approval, any transactions involving five percent or more of its admitted assets as of the prior year-end, pursuant to the provisions of Section 1505(c) of the New York Insurance Department. It is further recommended that the Company refrain from making prohibited investments pursuant to the provisions of Section 1407 of the New York Insurance Law.

5. UNCOLLECTED PREMIUMS AND AGENTS’ BALANCES IN THE COURSE OF COLLECTION

The examination admitted asset for the captioned item of \$207,075 is \$428,093 less than the \$635,168 reported by the Company as of December 31, 2009.

The Company reported \$2,540,669 of premium receivable in its 2009 filed annual statement (\$635,168 for “Uncollected premiums and agents’ balances in the course of collection” and \$1,905,501 for “Deferred premiums, agents’ balances and installments booked but deferred and not yet due.”). The data provided for examination review contained premium receivable of only \$2,206,229; a difference of \$334,440, which the Company could not reconcile or account for. The difference has been non-admitted in this report on examination. It is recommended that Company reconcile its accounts and use due diligence in reporting premium receivable in its annual statement.

The examiner noted that the account "Premiums and agent's balances in course of collection" contained premiums receivable in the amount of \$93,653, which were more than ninety days past due as of the examination date and which should have been not admitted pursuant to the provisions of Section 1301(a)(6) of the New York Insurance Law and Paragraph 9 of SSAP No. 6.

It is recommended that the Company comply with Section 1301(a)(6) of New York Insurance Law as well as the provisions of SSAP No. 6, and not admit premiums more than ninety days overdue in its future annual statements.

6. RECEIVABLES FROM PARENT, SUBSIDIARIES AND AFFILIATES

The Company reported an admitted asset in the amount of \$300,000 under this caption as of the examination date. Pursuant to this examination, the admitted asset has been eliminated.

The captioned asset represented an accrued capital contribution by the Company's shareholders, which had not been received by the Company as of the examination date. The \$300,000 was subsequently received by the Company in two equal installments of \$150,000 on April 23 and May 5, 2010. The contribution does not qualify to be recognized as a subsequent event as of the examination date pursuant to paragraph 2 of SSAP No. 9, which defines subsequent events as "events or transactions that occur subsequent to the balance sheet date, but before the issuance of the statutory financial statements and before the date the audited financial statements are issued, or available to be issued."

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for loss and loss adjustment expenses of \$4,572,045 is \$1,135,000 more than the \$3,437,045 reported by the Company as of the examination date. The examination change is based on analysis 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.

The examination reserve deficiency represents 33% of the Company's reported reserve as of December 31, 2009. Section 1303 of the New York Insurance Law requires that every insurer shall:

maintain loss and claim reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of the statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable.

It is recommended that the Company adequately reserve for losses and loss adjustment expenses in its future filed statements with the Department pursuant to the provisions of Section 1303 of the New York Insurance Law.

8. CONCLUSION

This examination has determined that as of December 31, 2009, the Company's minimum required to be maintained surplus of \$700,000 was impaired in the amount of \$378,452.

The examination surplus included the disallowance as an admitted asset of a loan to the shareholders of the Company in the amount of \$558,000, which is a prohibited investment pursuant to Section 1407(a)(4) of the New York Insurance Law, and a receivable from the shareholders of the Company for a capital contribution in the amount of \$300,000, which did not qualify to be recognized as a subsequent event at the examination date, pursuant to the provisions of paragraph 2 of SSAP No. 9. Subsequent to the examination date, the Company received payment for the \$558,000 loan and the \$300,000 receivable from the shareholders, which eliminated the impairment that existed at December 31, 2009.

9. COMPLIANCE WITH PRIOR REPORT ON ORGANIZATION

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

| <u>ITEM</u> | <u>PAGE NO.</u> |
|--|--|
| <p>A. <u>Incorporation</u> It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p> <p>It is recommended that the Company engage a certified public accountant firm that has no business affiliation with any officer or director of the Company.</p> <p>The Company has complied with this recommendation.</p> <p>It is further recommended that the Company establish a formal policy for all directors, officers, trustees, and designated responsible employees to report conflict of interests.</p> <p>The Company has not complied with this recommendation. A similar recommendation is contained in this report.</p> <p>It is recommended that the Company complies with all the provisions governing the management and operation of its business as required in the charter and bylaws.</p> <p>The Company has complied with this recommendation.</p> | <p>3</p> <p>4</p> <p>4</p> <p>4</p> <p>4</p> |
| <p>B. <u>Custodial Agreement</u> It is recommended that the Company procure a custodial agreement that complies with the guidelines set forth in the NAIC Examiners' Handbook.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p> | <p>7</p> |
| <p>C. <u>Service Agreements</u> It is recommended that the Company procure a fully executed service agreement, claims service agreement, agency agreement, and underwriting agreement that include an effective date as part of the terms of the agreement.</p> <p>The Company has complied with this recommendation.</p> | <p>10</p> |

10. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| <u>ITEM</u> | <u>PAGE NO.</u> |
|---|-----------------|
| A. <u>Surplus Impairment</u> | |
| <p>This examination has determined that as of December 31, 2009, the Company's minimum required to be maintained surplus of \$700,000 was impaired in the amount of \$378,452.</p> <p>The examination surplus included the disallowance as an admitted asset of a loan to the shareholders of the Company in the amount of \$558,000, which is a prohibited investment pursuant to Section 1407(a)(4) of the New York Insurance Law, and a receivable from the shareholders of the Company for a capital contribution in the amount of \$300,000, which did not qualify to be recognized as a subsequent event at the examination date, pursuant to the provisions of paragraph 2 of SSAP No. 9. Subsequent to the examination date, the Company received payment for the \$558,000 loan and the \$300,000 receivable from the shareholders, which eliminated the impairment that existed at December 31, 2009.</p> | 2, 19, 24 |
| B. <u>Paid in and contributed surplus</u> | |
| <p>i. It is recommended that the Company refrain from transferring money between itself and its affiliates except as compensation for good or services rendered pursuant to the provisions of Section 1217 of the New York Insurance Law.</p> | 4 |
| <p>ii. It is recommended that the Company refrain from transferring funds out of paid in and contributed surplus.</p> | 4 |
| C. <u>Management</u> | |
| <p>i. It is recommended that the Company exercise greater care in the preparation and filing of its annual statement jurat page.</p> | 6 |
| <p>ii. It is recommended that the Company comply with its by-law by conducting regular meeting of the board of directors at least once in each quarter of the year.</p> | 6 |
| <p>iii. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p> | 7 |
| <p>iv. It is recommended that the Company amend its conflict of interest statements to require the signor to disclose any material interest of affiliation that is in conflict or is likely to conflict with the official duties of such person. It is further recommended that the Company require all officers, directors and key employees to complete and sign a conflict of interest statement annually and that the signed statements be provided to the Company's board of directors, copies of which should be maintained by the</p> | 7 |

| <u>ITEM</u> | <u>PAGE NO.</u> |
|--|-----------------|
| Company and available for review upon examination. | |
| v. It is recommended that the Company adopt and implement a code of ethics policy for its employees, officers and consultants. | 7 |
| D. <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. | 10 |
| E. <u>Accounts and Records</u> | |
| i. It is recommended that Company document the discussions of its capital and surplus needs and contributions in the minutes of the board of directors meetings and in the minutes of the stockholders meetings. | 11 |
| ii. It is recommended that the Company exercise due diligence in preparation of its Annual Statement Schedule D, going forward. | 11 |
| iii. It is recommended that the Company procure a custodial agreement in compliance with the NAIC guidelines. | 12 |
| iv. It is recommended that the board of directors or a committee thereof approve all investment transactions pursuant to the provisions of Section 1411(a) of the New York Insurance Law. | 12 |
| v. It is recommended that the Company comply with the provisions of SSAP No. 26, paragraph 6 and amortize its bond investment portfolio using the scientific method. | 12 |
| vi. It is recommended that the Company comply with the notification requirements set forth in Section 3426(c) of the New York Insurance Law. It is also recommended that the Company provide written cancellation, reinstatement, renewal and non renewal guidelines to its appointed agents and underwriters. | 13 |
| vii. It is recommended that the Company set written maximum binding authority levels for its appointed agents and underwriters. | 14 |
| viii. It is recommended that the Company ensure that its underwriters and agents fully comply with the requirements stated in its underwriting guidelines. | 14 |
| ix. It is recommended that the Company maintain its general ledger with detailed explanations of ledger entries. | 14 |
| x. It is recommended that the Company procure manuals describing the proper controls and procedures in place to complete operational tasks for all functions. | 14 |

| <u>ITEM</u> | <u>PAGE NO.</u> |
|--|-----------------|
| xi. It is recommended that the Company comply with Department Regulation No. 64. | 15 |
| xii. It is recommended that the Company establish its own claim manual or have its board members formally adopt the third party administrator's claim manual. | 15 |
| xiii. It is recommended that the Company establish a written reserve methodology to guide its claim adjusters in setting up reserves. | 15 |
| xiv. It is recommended that the Company establish written claim settlement authority limits. | 15 |
| xv. It is recommended that the Company issue future payments with two signatures as a prudent business practice. | 15 |
| xvi. It is recommended that the Company comply with the notification requirements set forth in Sections 1505 (c) and 1505 (d)(1) of the New York Insurance Law. | 16 |
| xvii. It is recommended that the Company comply with Section 307(b) (1) of New York Insurance Law. | 16 |
| xvii. It is recommended that, going forward, the Company exercise due diligence in reporting disclosures of accounting changes and corrections of errors in accordance with the Annual Statement Instructions. | 16 |
| xix. It is recommended that the Company comply with the NAIC annual statement instruction and identify all related party transactions. | 16 |
| xx. It is recommended that the Company comply with the NAIC annual statement instruction and properly allocate expenses. | 16 |
| xxi. It is recommended that the Company define and classify loss adjustment expenses into two categories, Defense and Cost Containment ("DCC") and Adjusting and Other ("AO") as required by Statement of Statutory Accounting Principles No. 55 of the NAIC Accounting Practices and Procedures Manual. | 17 |
| xxii. It is recommended that the Company exercise proper care in classifying expenses. It is also recommended that the Company file a Supplemental Compensation Exhibit for directors, officers and employees as required by NAIC Annual Statement Instructions. | 17 |

| <u>ITEM</u> | <u>PAGE NO.</u> |
|--|-----------------|
| F. <u>Mortgage Loans on Real Estate</u> | |
| i. It is recommended that the Company submit to the Department for prior approval, any transactions involving five percent or more of its admitted assets as of the prior year-end, pursuant to the provisions of Section 1505(c) of the New York Insurance Department. | 22 |
| ii. It is further recommended that the Company refrain from making prohibited investments pursuant to the provisions of Section 1407 of the New York Insurance Law. | 22 |
| G. <u>Uncollected Premiums and Agents' Balances in the Course of Collection</u> | |
| i. It is recommended that Company reconcile its accounts and use due diligence in reporting premium receivable in its annual statement. | 22 |
| ii. It is recommended that the Company comply with Section 1301(a)(6) of New York Insurance Law as well as the provisions of SSAP No. 6, and not admit premiums more than ninety days overdue in its future annual statements. | 23 |
| H. <u>Losses and Loss Adjustment Expenses</u> | |
| It is recommended that the Company adequately reserve for losses and loss adjustment expenses in its future filed statements with the Department pursuant to the provisions of Section 1303 of the New York Insurance Law. | 24 |

Respectfully submitted,

_____/s/
Adebola Awofeso
Senior Insurance Examiner

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

ADEBOLA AWOFESO 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 _____, 2011.

Appointment No. 30523

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Adebola Awofeso

as proper person to examine into the affairs of the

PARK 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 18th day of May, 2010



A handwritten signature in cursive script, reading "James J. Wrynn".

JAMES J. WRYNN

Superintendent of Insurance