

REPORT ON EXAMINATION

OF THE

PUBLIC SERVICE MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2008

DATE OF REPORT

DECEMBER 11, 2009

EXAMINER

JOSEPH REVERS

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	5
	C. Reinsurance	6
	D. Affiliated group	8
	E. Significant operating ratios	11
3.	Financial statements	12
	A. Balance sheet	12
	B. Underwriting and investment exhibit	14
4.	Losses and loss adjustment expenses	15
5.	Compliance with prior report on examination	16
6.	Summary of comments and recommendations	18



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 30326 dated April 2, 2009, attached hereto, I have made an examination into the condition and affairs of Public Service Mutual 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 Public Service Mutual 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 Public Service Mutual 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

The Company was incorporated in the State of New York on June 24, 1925 and received subsequent licensing authority from the State on July 20, 1925 under the initial name, Public Service Mutual Casualty Corporation. It commenced business on August 1, 1925. The name was amended in 1940 to Public Service Mutual Casualty Company, Inc. and in 1944, the Company's name was amended to its present name Public Service Mutual Insurance Company.

Effective June 30, 1965, the Company merged with the General Mutual Insurance Company with the Company emerging as the surviving insurer.

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:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
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
Anita Davis Goodman Rye, NY	Real Estate Broker
John David Hatch Tarpon Springs, FL	Attorney

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
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 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 committee for one year at a time and are elected annually by a majority vote of the board.

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

<u>Name</u>	<u>Title</u>
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 all fifty states and the District of Columbia.

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>
3(i)	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

The Company is also licensed to transact the kinds of insurance and reinsurance as defined in Section 4102(c) of the New York Insurance Law and is licensed to write special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based on the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The Company's principal lines of business are commercial multiple peril, workers' compensation, fire, allied lines, other liability occurrence, and homeowners. Commercial multiple peril and workers' compensation account for approximately 90% of 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:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums written in New York as a Percentage of United States Premiums</u>
2004	\$50,428,103	\$159,941,148	31.53%
2005	\$54,831,258	\$153,300,745	35.77%
2006	\$57,464,831	\$152,781,753	37.61%
2007	\$52,128,564	\$139,727,773	37.31%
2008	\$49,512,584	\$130,126,232	38.05%

C. Reinsurance

Assumed

Assumed reinsurance accounted for 26% of the Company's gross premium written at December 31, 2008. During the period covered by this examination, the Company's assumed reinsurance business has increased since the last examination. The Company's assumed reinsurance program consists mainly of its participation in an inter-company pooling arrangement with its wholly-owned subsidiary, Paramount Insurance Company ("Paramount"), a New York domiciled property and casualty company. Under the agreement, which became effective January 1, 1992, the Company assumes 100% of Paramount's net direct business and cedes 10% of the combined net business to Paramount, excluding voluntary assumed reinsurance.

The Company also assumes business under two separate 90% quota share reinsurance agreements with two wholly-owned subsidiaries, Western Select Insurance Company (“WSI”) and Business Alliance Insurance Company (“BAIC”).

Ceded

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

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u>	
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.
<u>Property Catastrophe</u>	
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.
<u>Casualty</u>	
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.
<u>Workers’ Compensation Catastrophe</u>	
60% authorized	\$25,000,000 excess of \$11,000,000 each loss occurrence.

Unauthorized reinsurance

The letters of credit obtained by the Company in order to take credit for cessions made to unauthorized reinsurers were reviewed for compliance with Department Regulations 133. The review revealed no exceptions.

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 Statutory 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.

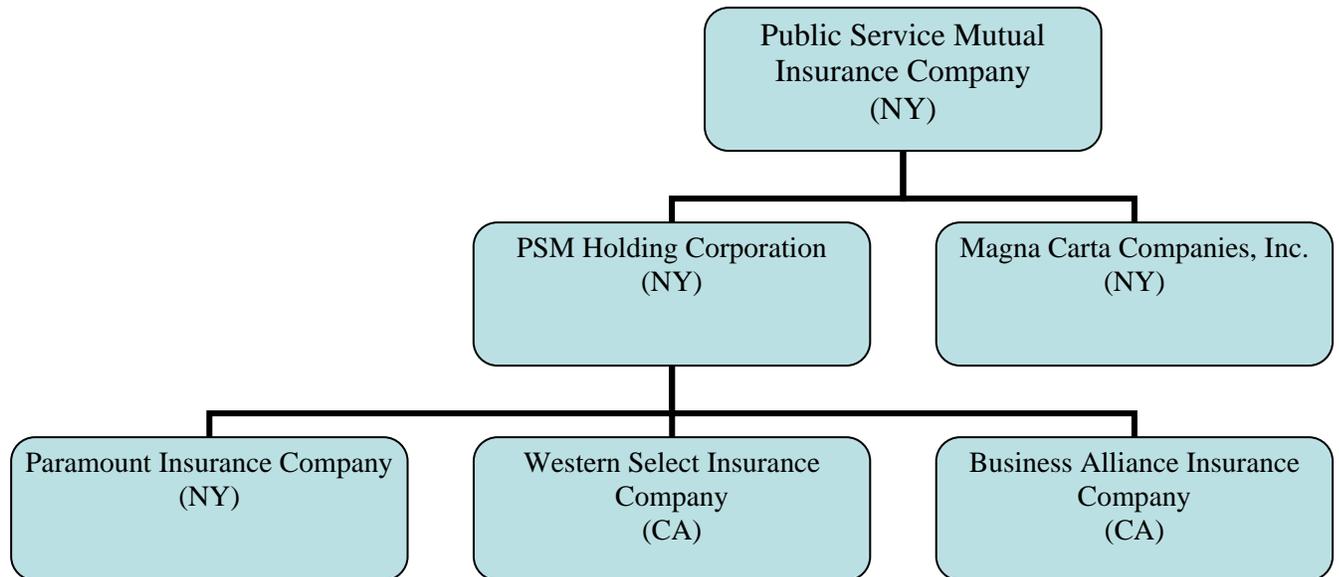
Upon examination review of the Schedule F data reported by the Company in its filed 2008 annual statement, it was noted that the Company reported a few unauthorized reinsurers as authorized. The misclassification did not have a material effect on the Company's Provision for reinsurance; nevertheless, 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 the ultimate parent of a group of companies marketing themselves under the name “Magna Carta Companies.” The Company is the sole stockholder of PSM Holding Corporation, a New York holding corporation, which in turn owns 100% of Paramount Insurance Company, a New York insurer, Western Select Insurance Company, a California insurer, and Business Alliance Insurance Company (“BAIC”), a California insurer. The Company is also the sole stockholder of Magna Carta Companies, Inc., a New York corporation.

The Company acquired 100% ownership of BAIC in October of 2008. The Company then contributed its 100% ownership of BAIC to PSM Holding Corporation. BAIC is licensed only in California and issues almost exclusively commercial package and business owner policies. The acquisition of BAIC was non-disapproved by the Department pursuant to the provisions of Section 1603(a) of the New York Insurance Law and Department Regulation 53.

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



A review of the Department Regulation 53 filings (subsidiaries reports) filed 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.

In addition to the intercompany pooling agreement with Paramount and the 90% quota share agreements with WSI and BAIC, the Company was a party to the following agreements with other members of its affiliated group at December 31, 2008:

Service Agreement with Paramount

Effective January 1, 1992, the Company agrees to make available to Paramount the services of its personnel, office space, equipment, and other services. The cost of such services is allocated to Paramount based on its percentage participation in the inter-company pooling agreement.

Service Agreement with WSI and BAIC

Effective May 1, 1999 (and as amended and restated on March 26, 2001 and as further amended in October 2008 to add BAIC), the Company agrees to make available to WSI and BAIC the services of its personnel, office space, equipment, and other services. The cost of such services is based upon the actual costs incurred by PSM in providing the services. 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, the Company, Paramount, 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).

Relative to the acquisition of BAIC, the Company included the following item in the Notes to Financial Statements in its June 30, 2009 quarterly statement:

The Company through its wholly-owned subsidiary, PSM Holding Corp. (PSM) entered into an agreement on September 16, 2005 to purchase Business Alliance Insurance Company (BAIC). The sellers did not proceed with the sale. As a result, on December 22, 2005 PSM filed a complaint against BAIC, BAIC's parent company National Farm Financial Corporation (NFFC) and Larry P. Chao (collectively, the defendants) in the United States District Court for the Central District of California for breach of contract, fraud and negligent misrepresentation. Trial commenced on August 14, 2007 and lasted over four weeks. On September 14, 2007, the jury found in favor of PSM. The jury found the defendants jointly and severally liable to PSM for \$40 million for breach of contract and \$3 million for fraud (the "Judgment"). The Judgment was entered on October 4, 2007. Post Trial motions were filed by PSM and the defendants. The result of the post trial motions was to reduce the amount of the judgment by \$3 million and to allow PSM to recover legal costs of \$3.1 million. The defendants filed a notice of appeal to the United States Court of Appeal for the 9th Circuit, on February 5, 2008. NFFC and Larry P. Chao filed separate bankruptcy actions in an attempt to stay the execution of the Judgment while the appeal was pending. The Company was able to negotiate a final disposition to the NFFC bankruptcy which permitted ownership of BAIC to be transferred to PSM as of October 21, 2008. The Company recorded a gain of \$15,999,000 in its 2008 financial statements.

On June 18, 2009, the United States Court of Appeal for the 9th Circuit reversed the lower court Judgment. PSM sought a rehearing of this ruling which was denied on July 28, 2009. The Company cannot reasonably estimate the financial impact of the appellate court's action. While the final outcome is uncertain the two scenarios that seem most

likely is BAIC will be returned to NFFC or PSM will acquire BAIC for some unknown amount. The Company in June 2009 reversed the gain of \$15,999,000 recorded in 2008.

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	.52:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	75%
Premiums in course of collection to surplus as regards policyholders	6%

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:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$520,774,786	67.12%
Other underwriting expenses incurred	272,795,658	35.16
Net underwriting gain	<u>(17,681,352)</u>	<u>(2.28)</u>
Premiums earned	<u>\$775,889,092</u>	<u>100.00%</u>

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:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$395,905,159	\$ 0	\$395,905,159
Common stocks	78,430,679		78,430,679
First liens - mortgage loans on real estate	24,313,247		24,313,247
Cash, cash equivalents and short-term investments	49,632,030		49,632,030
Investment income due and accrued	3,883,316		3,883,316
Uncollected premiums and agents' balances in the course of collection	16,998,644	1,040,449	15,958,195
Deferred premiums, agents' balances and installments booked but deferred and not yet due	15,865,671		15,865,671
Amounts recoverable from reinsurers	16,327,362		16,327,362
Funds held by or deposited with reinsured companies	351,661		351,661
Current federal and foreign income tax recoverable and interest thereon	8,605,896		8,605,896
Net deferred tax asset	13,885,931		13,885,931
Electronic data processing equipment and software	200,547		200,547
Furniture and equipment, including health care delivery assets	1,852,505	1,852,505	0
Receivables from parent, subsidiaries and affiliates	10,601,102	0	10,601,102
Other assets	4,553,092	1,400,902	3,152,190
Equities and deposits in pools and associations	<u>2,037,556</u>		<u>2,037,556</u>
Total assets	<u>\$643,444,398</u>	<u>\$4,293,856</u>	<u>\$639,150,542</u>

Liabilities, Surplus and Other Funds

			Surplus Increase (Decrease)
<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	
Losses and loss adjustment expenses	\$289,056,775	\$265,229,775	\$(23,827,000)
Reinsurance payable on paid losses and loss adjustment expenses	4,215,531	4,215,531	
Commissions payable, contingent commissions and other similar charges	1,800,000	1,800,000	
Other expenses (excluding taxes, licenses and fees)	3,694,278	3,694,278	
Taxes, licenses and fees (excluding federal and foreign income taxes)	567,410	567,410	
Unearned premiums	72,418,607	72,418,607	
Policyholders (dividends declared and unpaid)	236,985	236,985	
Ceded reinsurance premiums payable (net of ceding commissions)	435,987	435,987	
Funds held by company under reinsurance treaties	2,861,728	2,861,728	
Amounts withheld or retained by company for account of others	(18,245)	(18,245)	
Remittances and items not allocated	1,187,034	1,187,034	
Provision for reinsurance	7,700,993	7,700,993	
Net adjustments in assets and liabilities due to foreign exchange rates	524,021	524,021	
Other liabilities	<u>6,499,727</u>	<u>6,499,727</u>	-
Total liabilities	<u>\$391,180,831</u>	<u>\$367,353,831</u>	<u>\$(23,827,000)</u>
<u>Surplus and Other Funds</u>			
Special contingent surplus	\$ 1,350,000	\$ 1,350,000	\$ 0
Surplus notes	52,000,000	52,000,000	
Unassigned funds (surplus)	<u>194,619,711</u>	<u>218,446,711</u>	<u>(23,827,000)</u>
Surplus as regards policyholders	<u>\$247,969,711</u>	<u>\$271,796,711</u>	<u>\$(23,827,000)</u>
Total liabilities, surplus and other funds	<u>\$639,150,542</u>	<u>\$639,150,542</u>	

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 \$97,297,175 during the five-year examination period January 1, 2003 through December 31, 2008, detailed as follows:

Underwriting Income

Premiums earned		\$775,889,092
Deductions:		
Losses and loss adjustment expenses incurred	\$520,774,786	
Other underwriting expenses incurred	272,508,759	
Aggregate write-ins for underwriting deductions	<u>286,899</u>	
Total underwriting deductions		<u>793,570,444</u>
Net underwriting gain or (loss)		\$(17,681,352)

Investment Income

Net investment income earned	\$116,088,703	
Net realized capital gain	<u>(14,583,703)</u>	
Net investment gain or (loss)		101,505,000

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (2,376,991)	
Finance and service charges not included in premiums	879,922	
Aggregate write-ins for miscellaneous income	<u>1,348,754</u>	
Total other income		<u>(148,315)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 83,675,333
Dividends to policyholders		<u>11,135,661</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 72,539,672
Federal and foreign income taxes incurred		<u>11,154,430</u>
Net income		<u>\$ 61,385,242</u>

Surplus as regards policyholders per report on examination as of December 31, 2003			\$144,047,536
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$ 61,385,242		
Net unrealized capital gains or (losses)	25,201,938		
Change in net unrealized foreign exchange capital gain (loss)	564,085		
Change in net deferred income tax	1,773,140		
Change in nonadmitted assets	507,521		
Change in provision for reinsurance		\$1,136,496	
Change in surplus notes	25,000,000		
Excess of additional pension liability		7,073,255	
Correction of error		<u>2,300,000</u>	
Total gains and losses	<u>\$114,431,926</u>	<u>\$10,509,751</u>	
Net increase (decrease) in surplus			<u>103,922,175</u>
Surplus as regards policyholders per report on examination as of December 31, 2008			<u>\$247,969,711</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$289,056,775 is \$23,827,000 more than the \$265,229,775 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 thirteen recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Management</u></p> <p style="padding-left: 20px;">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.</p> <p style="padding-left: 40px;">The Company has complied with this recommendation.</p>	<p>5</p>
<p style="padding-left: 20px;">ii. It is also recommended that the Company respond accurately to all General Interrogatory questions of the annual statement.</p> <p style="padding-left: 40px;">The Company has complied with this recommendation.</p>	<p>5, 14</p>
<p>B. <u>Accounts and Records</u></p> <p style="padding-left: 20px;">i. <u>Custodian Agreement</u></p> <p style="padding-left: 40px;">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.</p> <p style="padding-left: 40px;">The Company has complied with this recommendation.</p>	<p>14</p>
<p style="padding-left: 20px;">ii. <u>CPA Contract</u></p> <p style="padding-left: 40px;">It is recommended that the Company ensure that the contract with its CPA complies with the requirements of Department Regulation 118.</p> <p style="padding-left: 40px;">The Company has complied with this recommendation.</p>	<p>15</p>

<u>ITEM</u>	<u>PAGE NO.</u>
iii. <u>Claim Account Bank Reconciliation</u> It is recommended that the Company correct the check processing problem to ensure that the claims cash account will no longer show an irreconcilable difference. The Company has complied with this recommendation.	16
iv. <u>Investment Reconciliation</u> 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. The Company has complied with this recommendation.	16
v. <u>Classification of Certificate of Deposits</u> It is recommended that the Company classify securities in the correct annual statement line in future statements filed with the Department. The Company has complied with this recommendation.	17
vi. <u>Remittances and Items Not Allocated</u> It is recommended that in future annual statements filed with this Department, the Company correctly classify annual statement accounts in accordance with the NAIC Annual Statement Instructions. The Company has complied with this recommendation. It is further recommended that the Company comply with SSAP No. 67 of the Accounting Practices and Procedures Manual and not record suspense accounts as an offset against Uncollected premiums and agents' balances in course of collection but rather as "Remittances and items not allocated." The Company has complied with this recommendation.	18
vii. <u>Earned but Unbilled Premiums</u> 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. The Company has complied with this recommendation.	18
viii. <u>EDP Equipment</u> It is recommended that the Company depreciate its EDP equipment in accordance with the provisions of SSAP No. 79.	19

<u>ITEM</u>	<u>PAGE NO.</u>
	The Company has complied with this recommendation.
C.	<u>Loss and Loss Adjustment Expenses</u>
	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. 24
	The Company has complied with this recommendation.
D.	<u>Market Conduct Activities</u>
i.	<u>Department Regulation 64 Compliance</u>
	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 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. 27
	The Company has complied with this recommendation.
ii.	<u>Complaints</u>
	It is recommended that the Company maintain a complaint log that complies with the requirements of Circular Letter No. 11 (1978). 27
	The Company has complied with this recommendation.
6.	<u>SUMMARY OF COMMENTS AND RECOMMENDATIONS</u>

<u>ITEM</u>	<u>PAGE NO.</u>
A.	<u>Reinsurance</u>
	It is recommended that the Company take proper care in filling out Schedule F on all filed financial statements. 8
B.	<u>Losses and loss adjustment expenses</u>
	It is recommended that the Company resolve the data anomalies noted during our review. 16

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

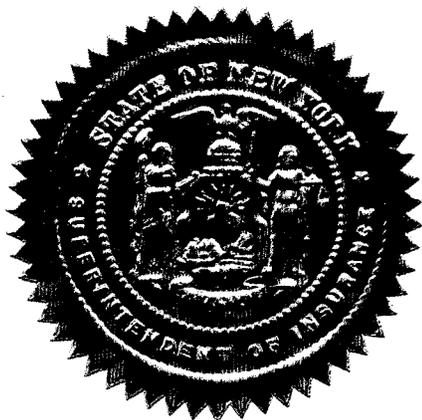
PUBLIC SERVICE MUTUAL INSURANCE COMPANY

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

A handwritten signature in cursive script that reads "Eric Dinallo".

ERIC R. DINALLO
Superintendent of Insurance