

REPORT ON EXAMINATION

OF THE

PARAMOUNT INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

JUNE 8, 2015

EXAMINER

KEVIN MCNAMEE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

June 8, 2015

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

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31230 dated January 6, 2015, attached hereto, I have made an examination into the condition and affairs of Paramount Insurance Company as of December 31, 2013, 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 State Department of Financial Services.

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 participated in a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2008. This examination covered the five year period from January 1, 2009 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Illinois, which was the coordinating state. The examination was performed concurrently with the examination of Public Service Insurance Company (“PSIC”), an Illinois domiciled insurer.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

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

Company history
Corporate records
Management and control
Territory and plan of operation
Loss experience
Reinsurance
Accounts and records
Financial statements
Summary of recommendations

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

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

2. DESCRIPTION OF COMPANY

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

As a result of a “Reorganization” effected on October 1, 2012, direct ownership of Paramount Insurance Company is held by MCC Financial Holdings, Inc., a Delaware intermediate holding company, which is directly owned by MCC Corporate Holdings, Inc., a wholly-owned subsidiary of Public Service Mutual Holding Company (“PSMHC”), an Illinois-domiciled mutual insurance holding company and ultimate parent of the Public Service Mutual group of companies.

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

At December 31, 2013, capital paid in was \$4,200,000 consisting of 4,200,000 shares of \$1 par value per share common stock. All capital stock is owned by MCC Financial Holdings, Inc. 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 is vested in a board of directors consisting of fifteen (15) members. Each director serves on the board for a term of three years following his or her election by a majority vote of the Company's policyholders during its annual meeting, the majority of whom shall be citizens and residents of the State of New York or of adjoining states, and not less than three (3) of whom shall be residents of New York State. As of December 31, 2013, the board of directors consisted of the following members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Charles L. Crouch, III La Canada, CA	Senior Vice President, General Counsel & Secretary Paramount Insurance Company
Andrew L. Furgatch Los Angeles, CA	Chairman & Chief Executive Officer Paramount Insurance Company
John D. Hatch Tarpon Springs, FL	Attorney
Donald Henderson Sault Sainte Marie, MI	Business Executive
John T. Hill Pennington, NJ	President, Chief Operating Officer & Treasurer Paramount Insurance Company
Sue Kelly Katonah, NY	Retired U.S. Congresswoman
David A. Lawless Mamaroneck, NY	Executive Vice President, Chief Administrative Officer & Assistant Secretary Paramount Insurance Company
Philip J. London New York, NY	Partner Wiss & Company, LLP

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Fredric G. Marziano Belmar, NJ	Principal CIM
Stanley J. Mastrogiacomo Warwick, NY	Business Executive
Milton Peckman Coconut Creek, FL	Business Executive
Paul S. Schweitzer Potomac, MD	Managing Principal, Serten Advisors, LLC
Leslie W. Seldin Brookfield, CT	Retired Dentist, Private practice of dentistry
Lewis J. Spellman Austin, TX	Professor of Finance, University of Texas
Irwin W. Young New York, NY	Chairman, DuArt Film Labs, Inc.

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

As of December 31, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Andrew L. Furgatch	Chairman & Chief Executive Officer
John T. Hill	President, Chief Operating Officer & Treasurer
David A. Lawless	Executive Vice President & Chief Administrative Officer
Charles L. Crouch, III	Senior Vice President, General Counsel & Secretary

It was noted during a review of the Company's Conflict of Interest Statements that the Company has not established a formalized Conflict of Interest Policy for disclosing any material

interest or affiliation on the part of any of its officers or responsible employees which is in, or is likely to conflict with the official duties of such person.

It is recommended that the Company establish a formal Conflict of Interest policy and have it approved by the Board of Directors.

B. Territory and Plan of Operation

As of December 31, 2013, Paramount Insurance Company was licensed to write business in the States of New York, Massachusetts, Pennsylvania, and New Jersey. 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(a)	Accident and health
4	Fire
5	Miscellaneous property damage
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	Worker's compensation and employer's 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 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 United States	Percentage of Premiums Written in New York
2009	\$23,098,797	\$46,638,775	49.53%
2010	\$24,111,961	\$44,956,353	53.63%
2011	\$29,127,502	\$50,136,999	58.10%
2012	\$31,648,672	\$53,460,266	59.20%
2013	\$36,877,027	\$60,584,469	60.87%

Paramount Insurance Company's direct business consisted primarily of workers' compensation coverage, which accounted for approximately 68.5% of the Company's 2013 direct written premiums. Such business is concentrated in New York and New Jersey. It is noted that the Company's net written premiums are significantly different than its direct business due to the pooling agreement with affiliate described further herein under item 2C, "Reinsurance". Commercial multiple peril and workers' compensation coverage account for approximately 89.0% of the Company's 2013 net written premiums and are derived from a broader geographic region than the Company's direct business written.

C. Reinsurance

Assumed

The Company assumed minimal unaffiliated business during the examination period.

Pooling Agreement with Affiliate

The Company participates in a pooling arrangement with its affiliated company, PSIC. Under the agreement, the Company cedes 100% of its net direct business to PSIC and assumes 10% of the combined net business from PSIC, excluding voluntary assumed reinsurance. The pooling arrangement has not changed since the last examination. PSIC is the lead pool member.

This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Ceded

The Company is a participant in PSIC's external reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u>	
Per Risk Excess of Loss First layer 67% authorized	\$2,000,000 excess of \$1,000,000 each risk, each loss. Maximum any one occurrence limit of \$6,000,000.
Second layer 67% 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 62% authorized	100% of \$22,500,000 excess of \$7,500,000 each loss occurrence.
Second layer 62% authorized	100% of \$60,000,000 excess of \$30,000,000 each loss occurrence.
<u>Casualty</u>	
First layer 100% authorized	75% of \$1,000,000 excess of \$2,000,000 ultimate net loss per occurrence.
Second layer 100% authorized	100% 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>Worker's Compensation Catastrophe</u>	
First layer 86% authorized	\$11,000,000 excess of \$14,000,000 each loss occurrence.
Second layer 86% authorized	\$11,000,000 excess of \$25,000,000 each loss occurrence.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

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 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.

D. Holding Company System

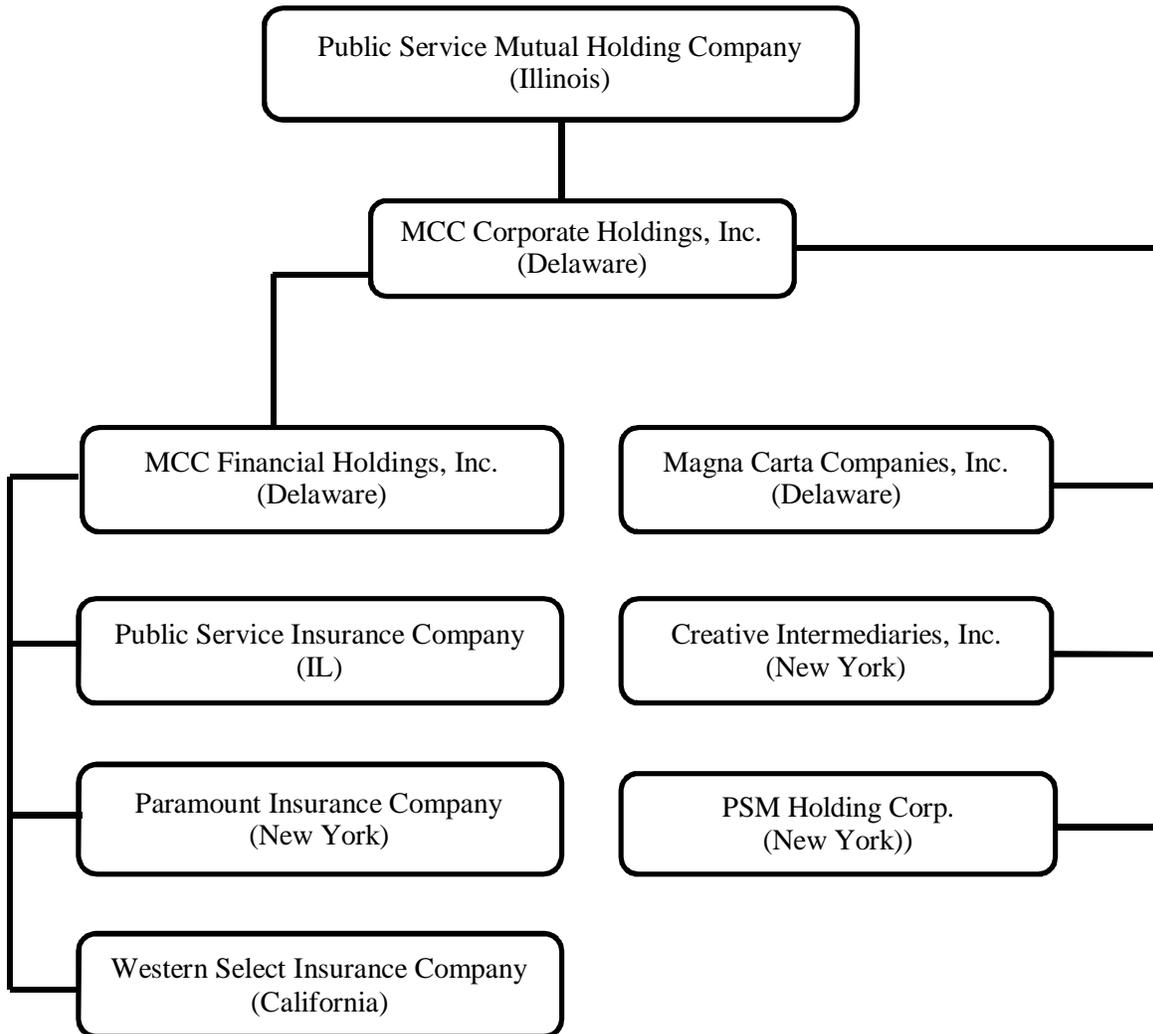
Paramount Insurance Company is a wholly owned subsidiary of MCC Financial Holdings, Inc., an intermediate holding company domiciled in the State of Delaware, which in turn is a wholly owned subsidiary of MCC Corporate Holdings, Inc., a Delaware-domiciled company which is ultimately 100% owned by Public Service Mutual Holding Company.

Effective October 1, 2012, Public Service Mutual Insurance Company, formerly a New York domiciled mutual insurance company, re-domesticated from New York to Illinois (the "Re-domestication") and subsequently converted from an Illinois domiciled mutual insurance company to an Illinois-domiciled stock insurance company (now named Public Service Insurance Company ("PSIC")) as part of a mutual insurance holding company conversion accomplished pursuant to federal and Illinois law (the "Conversion" and together with the "Re-domestication", the "Reorganization"). As part of the Reorganization, a new Illinois-domiciled mutual insurance holding company named Public Service Mutual Holding Company ("PSMHC") was formed as the ultimate parent holding company of the Public Service Mutual group of companies.

In connection with the Reorganization, MCC Corporate Holdings, Inc., a new Delaware intermediate holding company was formed as a wholly-owned subsidiary of PSMHC, and MCC Financial Holdings, Inc., a new Delaware intermediate holding company, was formed as a wholly-owned subsidiary of MCC Corporate Holdings. The existing insurance companies PSIC, Paramount Insurance Company and Western Select Insurance Company are now direct wholly-owned subsidiaries of MCC Financial Holdings, and the non-insurance companies Magna Carta Companies, Inc., Creative Intermediaries, Inc. and PSM Holding Corp. are now direct wholly-owned subsidiaries of MCC Corporate Holdings.

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, 2013:



At December 31, 2013, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

Effective November 1, 2013, the company entered into a consolidated federal income tax return settlement agreement. It was approved by the New York State Department of Financial Services. The terms of the agreement describes that the corporate parties each of whom is named in this agreement agrees to file a consolidated Federal Income Tax return.

Expense Sharing Agreement

The Company is party to an expense sharing agreement with PSIC, in which PSIC provides the Company personnel, office space, equipment and other services. The costs of such services are shared consistent with the rate of the pooling agreement. Total expenses allocated to the Company from PSIC in 2013 amounted to \$4,501,174.

The intercompany agreements noted above were filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	173%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	83%
Premiums in course of collection to surplus	14%

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	\$75,025,704	90.6%
Other underwriting expenses incurred	27,163,729	32.8%
Net underwriting loss	<u>(19,365,624)</u>	<u>(23.4)%</u>
Premiums earned	<u>\$82,823,809</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, 2013 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	\$44,893,345	0	\$44,893,345
Cash, cash equivalents and short-term investments	4,499,797	0	4,499,797
Investment income due and accrued	534,161	0	534,161
Uncollected premiums and agents' balances in the course of collection	1,731,398	100,190	1,631,208
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,361,260	0	2,361,260
Current federal and foreign income tax recoverable and interest thereon	16,448	0	16,448
Net deferred tax asset	266,840	0	266,840
Aggregate write-ins for other than invested assets	<u>617,424</u>	<u>54,309</u>	<u>563,115</u>
Total assets	<u>\$54,920,673</u>	<u>\$154,499</u>	<u>\$54,766,174</u>

Liabilities, surplus and other funds

	<u>Examination</u>	<u>Company</u>	Surplus Increase (Decrease)
Losses and loss adjustment expenses	\$33,836,420	\$28,751,420	(\$5,085,000)
Commissions payable, contingent commissions and other similar charges	128,699	128,699	0
Other expenses (excluding taxes, licenses and fees)	235,698	235,698	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	171,321	171,321	0
Unearned premiums	8,472,277	8,472,277	0
Policyholders (dividends declared and unpaid)	74,903	74,903	0
Amounts withheld or retained by company for account of others	3,344	3,344	0
Remittances and items not allocated	192,219	192,219	0
Payable to parent, subsidiaries and affiliates	54,563	54,563	0
Aggregate write-ins for liabilities	<u>336,293</u>	<u>336,293</u>	<u>0</u>
Total liabilities	<u>\$43,505,737</u>	<u>\$38,420,737</u>	<u>(\$5,085,000)</u>
 <u>Surplus and Other Funds</u>			
Common capital stock	\$ 4,200,000	\$ 4,200,000	\$ 0
Gross paid in and contributed surplus	\$13,300,000	13,300,000	0
Unassigned funds (surplus)	<u>(6,239,563)</u>	<u>(1,154,563)</u>	<u>(5,085,000)</u>
Surplus as regards policyholders	<u>\$11,260,437</u>	<u>\$16,345,437</u>	<u>(\$5,085,000)</u>
 Total liabilities, surplus and other funds	 <u>\$54,766,174</u>	 <u>\$54,766,174</u>	

Note: The Internal Revenue Service has not audited the Company's federal income tax returns for the period covered by this examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of IncomeUnderwriting Income

Premiums earned		\$ 82,823,809
Deductions:		
Losses and Loss adjustment expenses incurred	\$75,025,704	
Other underwriting expenses incurred	<u>27,163,729</u>	
Total underwriting deductions		<u>102,189,433</u>
Net underwriting gain or (loss)		(19,365,624)

Investment Income

Net investment income earned	9,845,987	
Net realized capital gain	<u>216,110</u>	
Net investment gain or (loss)		10,062,097

Other Income

Net gain or (loss) from agents' or premium balances charged off	(189,737)	
Finance and service charges not included in premiums	453,977	
Aggregate write-ins for miscellaneous income	<u>(760,986)</u>	
Total other income		<u>(496,746)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		(9,800,273)
Dividends to policyholders		<u>1,108,964</u>
Net income after dividends to policyholders but before federal and foreign income taxes		(10,909,237)
Federal and foreign income taxes incurred		<u>(877,083)</u>
Net Income		<u>(\$ 10,032,154)</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$12,677,735 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2008			\$23,938,172
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$ 10,032,154	
Net unrealized capital gains or (losses)		52,985	
Change in net deferred income tax		607,555	
Change in nonadmitted assets	\$ 14,959		
Dividends to stockholders	<u>0</u>	<u>2,000,000</u>	
Net increase (decrease) in surplus	<u>14,959</u>	<u>12,692,694</u>	<u>(12,677,735)</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			<u>\$ 11,260,437</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$33,836,420 is \$5,085,000 more than the \$28,751,420 reported by the Company in its December 31, 2013, filed annual statement. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

Section 1303 of the New York Insurance Law states, in part:

“Every insurer shall...maintain 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 statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims.”

Further, Paragraph 10 of SSAP No. 55 states, in part:

“The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience...”

The examination change primarily relates to the Company’s worker’s compensation line of business for which, the Company booked carried reserves lower than the appointed actuary’s projected point estimate.

It is recommended that the Company address the identified reserving deficiencies and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55.

It is also recommended that the Company monitor the Loss and loss adjustment expense reserve development on a quarterly basis, particularly its Workers’ Compensation line of business.

It is noted, by virtue of its fifteen month runoff for accident years 2013 and prior as reported by the Company in its March 2015 quarterly statement, the Company has recognized approximately \$3.7 million or 73% of the Department's \$5.1 million projected Loss and loss adjustment expense reserve deficiency.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained two recommendations as follows:

<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
	The Company has complied with this recommendation.	
B.	<u>Losses and loss adjustment expenses</u> It is recommended that the Company resolve the data anomalies noted during our review.	13
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Management</u>	
	It is recommended that the Company establish a formal Conflict of Interest policy and have it approved by the Board of Directors.	6
B	<u>Losses and Loss Adjustment Expenses</u>	
i.	It is recommended that the Company address the identified reserving deficiencies and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55.	17
ii.	It is recommended that the Company monitor the Loss and loss adjustment expense reserve development on a quarterly basis, particularly its Workers' Compensation line of business.	17

Respectfully submitted,

Kevin McNamee
Senior Insurance Examiner

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

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

Kevin McNamee

Subscribed and sworn to before me

this _____ day of _____, 2015.

APPOINTMENT NO. 31230

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Kevin McNamee

as a proper person to examine the affairs of the

Paramount Insurance Company

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

COMPANY

with such other information as he shall deem requisite.

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

this 6th day of January, 2015

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Rolf Kaumann
Deputy Chief Examiner

