

**REPORT ON EXAMINATION**

of the

**PARATRANSIT INSURANCE COMPANY, a  
MUTUAL RISK RETENTION GROUP  
1000 RIDGEWAY LOOP ROAD  
MEMPHIS, TN**

**RECEIVED**

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Company Examinations

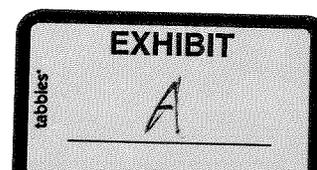
as of

**DECEMBER 31, 2007**

**DEPARTMENT OF COMMERCE AND INSURANCE**

**STATE OF TENNESSEE**

**NASHVILLE, TENNESSEE**



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Memphis, Tennessee  
June 5, 2009

Honorable Leslie A. Newman  
Commissioner  
State of Tennessee  
Department of Commerce and Insurance  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of the

**PARATRANSIT INSURANCE COMPANY, a  
MUTUAL RISK RETENTION GROUP  
MEMPHIS, TENNESSEE**

hereinafter and generally referred to as the Company, and a report thereon is submitted as follows:

**INTRODUCTION**

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on May 19, 2007. The examination was conducted under the association plan of the NAIC by duly authorized representatives of "The Department of Commerce and Insurance", State of Tennessee.

**SCOPE OF EXAMINATION**

This examination report covers the period from December 31, 2002, the date of the last previous examination, to the close of business on December 31, 2007, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2007. The financial condition of the Company and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected

periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

In addition, the following topics were reviewed:

- Company History
- Charter and Bylaws
- Management and Control
- Corporate Records
- Fidelity Bonds and Other Insurance
- Territory (includes inforce/premium by state)
- Plan of Operation
- Market Conduct Activities
- Reinsurance
- Retirement Plan and Other Employee Benefits
- Loss Experience
- Accounts and Records
- Statutory Deposits
- Pecuniary Interest
- Commission Equity
- Dividends or Distribution
- Litigation
- Subsequent Events
- Financial Statement

The previous examination was conducted as of December 31, 2002 and resulted in no changes to the Company's surplus account. The examination report made several comments in the previous examination report. These comments are outlined under the caption "COMMENTS – PREVIOUS EXAMINATION".

#### **COMMENTS – PREVIOUS EXAMINATION**

- Review of various issued checks during the testing of various items indicated that there were instances when the Company was not adhering to its policy of having two signatures required on checks over \$50,000. It is suggested that the Company effect more efficient controls to insure that two signatures are on checks which are \$50,000 or more. This finding was also noted in the CPA Management Letter.
- During the examination it was determined, that the charter and the bylaws of the Company were not in agreement as to the minimum number of directors. The Amended and Restated Charter stated that "directors shall never be less than

nine (9)" and the bylaws called for not less than seven directors. Articles of Amendment to the Charter were adopted May 21, 2003 to state "The number of Directors of the Corporation shall be not less than seven (7) or more than twelve (12)." "The number of Directors may be increased or decreased pursuant to the Bylaws of the Corporation, but shall never be less than seven (7)."

- The Company could not produce a formal investment management agreement with Smith Barney Asset Management which had been managing a portion of their investment portfolio since 1998. Discussions with Smith Barney indicated that they had a copy of an agreement in the New York office; however, it was deemed lost in the destruction following the 9/11 disaster. The Company signed a new investment management agreement with Smith Barney Asset Management dated July 7, 2003. The securities managed by Smith Barney continue to be held in custody under the Company's name at National Bank of Commerce. As of the current examination date December 31, 2007, the current custodian is SunTrust Bank, and Smith Barney is no longer an asset manager.
- The Company did not complete Schedule E – Part 2 – Special Deposits to indicate that a \$100,000 FHLB-5.4%-Due 10/25/06-Cusip 3133MEDP3 was held as a deposit by the State of Tennessee. The security is correctly listed on Schedule D – Part 1. It is suggested that future statements filed with the Department have a properly completed Schedule E in addition to Schedule D as indicated in NAIC Annual Statement Instructions.
- Detail testing of purchases and sales of securities indicate that the Company is recording the settlement date rather than the trade date as the transaction date. The effect of this dating on the Company's amortization of securities as exhibited on Schedule D – Part 1 has an immaterial effect as the time involved is a matter of a few days. No change is proposed to the current Schedule D. It is suggested that the trade date be used as the purchase date on future purchases to better adhere with Statement of Statutory Accounting Principles #26 as stated in the NAIC Accounting Practices and Procedures Manual.
- The Company's bonds, stocks and short-term investments are managed by investment advisors, Congress Asset Management Company and Salomon Smith Barney. The assets are held in the Company's name at National Bank of Commerce (now SunTrust Bank) under a Custodial Agreement. The said custodial agreement did not contain the specific requirements outlined in Tenn. Comp. R. & Reg. § 0780-1-46 Appendix A Custodial Agreement as follows:

"An insurance company shall require – in addition to any other provisions – that such a custodial agreement provide a standard of responsibility on the part of the custodian which shall not be less than the responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee; that securities held by the custodian are subject to instructions of the insurance

company; and that securities may be withdrawn immediately upon demand of the insurance company.”

The Company subsequently amended its custodial agreement dated July 21, 2003 to comply with Tenn. Comp. R. & Reg. § 0780-1-46-.03(2)(a).

Findings during the previous examination were addressed during or have been addressed since the previous examination made as of December 31, 2002.

### **COMPANY HISTORY**

The Company was incorporated on June 3, 1987, as a mutual property and casualty insurer under Article 48A, Subtitle 46, Annotated Code of Maryland, with the name Paratransit Risk Retention Group of Maryland, Inc., and commenced business on March 1, 1988. The Company was organized for the purpose of providing vehicle liability insurance to its member public transportation fleet companies. On March 4, 1988, the Company assumed the net assets of Paratransit Insurance Company, Ltd. (PIC); an insurance company incorporated on March 1, 1986, under the laws of the Cayman Islands, British West Indies. The members of PIC became members of the Company with the subscribers' capital account being transferred to the Company. PIC ceased to have separate existence after the transfer. In conjunction with the transfer of business from PIC, the Company assumed the runoff of unpaid losses on all business written by PIC prior to March 1, 1988.

On January 4, 1993, the Company formed a wholly-owned subsidiary, Public Auto Claims Services, Inc., to provide claims administrative services. The subsidiary remained substantially dormant from its inception. In 1996, the subsidiary was liquidated and its assets were transferred to the Company. The net amount received was \$10,866. In 1997, the subsidiary was dissolved.

In January 1995, the Company contributed \$750,000 as initial capital to its wholly-owned subsidiary, Paratransit Risk Retention Group Insurance Company, a property and casualty insurance company domiciled in Kansas. The Kansas subsidiary was chartered for the purpose of redomesticating the Company from Maryland to Kansas. In 1996, the corporate charter of this subsidiary was surrendered and all of its assets were transferred to the Company. The net amount received by the Company was \$813,516. During its existence, there were no insurance policies issued by the Kansas subsidiary.

The Company applied for redomestication from Maryland to Tennessee during 1996. On December 30, 1997, the Company was chartered in Tennessee as Paratransit Risk Retention Group Insurance Company. The Company was issued a certificate of authority dated April 20, 1998 from The Department of Commerce and Insurance of the State of Tennessee to transact the business of casualty insurance (commercial auto liability only). The Company's principal place of business is 1000 Ridgeway Loop Road,

Memphis, Tennessee which is the address of Marsh USA Inc. the registered agent for the Company. Marsh had acquired Sedgwick James of Tennessee, Inc. the former registered agent for the Company effective December 31, 1998.

The Company's members consented on September 10, 1999 pursuant to Tenn. Code Ann. § 48-17-104 to change the name of the Company to Paratransit Insurance Company, a Mutual Risk Retention Group. A new certificate of authority in said name was issued by The Department of Commerce and Insurance of the State of Tennessee on February 2, 2000.

At December 31, 2007, the Company was licensed in one state, Tennessee.

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination, based upon the annual statements filed with "The Department of Commerce and Insurance", State of Tennessee.

<u>Date</u>	<u>Earned Premiums</u>	<u>Incurred Losses &amp; LAE</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus and Unassigned Funds</u>
12/31/2003	\$2,387,678	\$510,145	\$16,030,042	\$10,698,161	\$5,331,881
12/31/2004	2,997,788	1,433,230	17,867,229	11,880,708	5,986,521
12/31/2005	2,853,371	1,134,067	18,799,085	12,382,540	6,416,545
12/31/2006	2,914,005	1,531,204	20,102,654	13,177,996	6,924,658
12/31/2007	2,642,615	1,214,092	20,880,214	13,588,066	7,292,148

#### **Dividends or Distributions:**

Dividends to policyholders paid by the Company are from surplus profits and are therefore in compliance with Tenn. Code Ann. § 56-3-108. The Company is not required to notify "The Department of Commerce and Insurance" of dividends to policyholders or seek approval for such dividends pursuant to Tenn. Code Ann. § 56-11-106(b) because the Company is not part of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(b)(6).

### **CHARTER AND BYLAWS**

#### **Charter:**

The restated Charter approved by the board of directors on August 27, 1999 and approved by the members on September 10, 1999, changed the Company's name from Paratransit Risk Retention Group Insurance Company to Paratransit Insurance Company, a Mutual Risk Retention Group. The charter establishes the Company as a

mutual insurer and states the purposes for which the Company is formed as follows:

(a) to undertake and carry on the business of insurance, limited to liability insurance for assuming and spreading all or any portion of similar or related liability exposures of members;

(b) to do any and all things permitted under Tennessee law pertaining to a mutual insurance company; and

(c) to do any and all things permitted under federal and state law pertaining to a risk retention group, as those laws are amended from time to time.

The charter establishes that the membership of the Company shall consist of persons, firms or corporations who have been issued a policy of insurance by the Company, which is in full force and effect. Membership shall cease when such insurance is canceled or terminated for any cause whatsoever. Additionally, the charter recites other general and specific powers in detail. These are usual in nature and consistent with statute.

**Bylaws:**

The bylaws of the Company in effect at December 31, 2007 were last amended on December 9, 1999. The bylaws are such as those generally found in corporations of this type and contain no unusual provisions.

The bylaws of the Company provide that all corporate powers are vested in and shall be exercised by a Board of Directors except as otherwise prescribed by statute or by the Company's charter.

**MANAGEMENT AND CONTROL**

**Management:**

The Company's bylaws state that the business affairs of the Company shall be under the direction and control of a Board of Directors consisting of not less than seven (7) or more than twelve (12) directors. As of December 31, 2007, the Board of Directors of the Company was composed of the following:

<u>Name</u>	<u>Director Affiliation</u>
Steven Joseph Abraham	President of Yellow Cab Company, Inc.
Richard George Corey	President of C & H Taxi
Ellis Houston	President of Greater Houston Transportation Company, Inc.

Craig Mackin	CFO of Interlock Industries
Randy Sackett	President of Trans Iowa, L.C.
William Hamilton Smythe, III	President/CEO of Southern Cab Corporation
William Hamilton Smythe, IV	President of Yellow Cab Company
Judith O. Swystun	Vice-President/Manager of Hampton Roads Transportation

The following Directors were serving on the Executive Committee at December 31, 2007:

William Hamilton Smythe, III  
Richard George Corey  
Judith O. Swystun  
Steven Joseph Abraham

In addition to the Executive Committee, the following committees and their members at December 31, 2007 were as follows:

<u>Audit Committee</u>	<u>Claims Committee</u>	<u>Investment Committee</u>
Steven Joseph Abraham	Steven Joseph Abraham	Steven Joseph Abraham
Jeffrey Lee Mackin	Randy Sackett	Craig Mackin
Judith O. Swystun		Ellis Houston
 <u>Marketing Committee</u>		 <u>Underwriting Committee</u>
Richard George Corey		Richard George Corey
Steven Joseph Abraham		Steven Joseph Abraham
William Hamilton Smythe, III		William Hamilton Smythe, III

As of December 31, 2007, the following persons held office in the Company:

William Hamilton Smythe, III, President  
Jeffrey Lee Mackin, Secretary  
Judith O. Swystun, Treasurer  
Richard George Corey, Vice President  
Andrew Sargeant, Assistant Treasurer

The administrative functions of the Company are performed by the office staff of Marsh USA Inc. under recitals of a service agreement. The statutory accounting functions for the Company are performed by USA Risk Group of Vermont under recitals of a captive insurance company services agreement. These respective agreements are outlined under the caption "Accounts and Records". Certain services are purchased from outside contractors if needed and are not available from in house personnel. Such

services include actuarial analysis and independent audit.

Actuarial Services:                   Select Actuarial Services  
28 White Bridge Road, Suite 205  
Nashville, TN 37205

Auditing Services:                   Faulkner, Mackie & Cochran, P.C.  
3100 West End Avenue, Suite 700  
Nashville, TN 37203

**Control:**

Primary control of the Company is vested in its members. The membership of the Company consists of persons or entities that have been issued a policy of insurance by the Company.

Annual meetings of the members of the Company are held each year at such place, date and time as the Board of Directors may determine. The time and date of said meetings shall be no later than April 30th of each year, for the purpose of electing directors and for the transaction of such other business as may lawfully be brought before the meeting. Special meetings of the members may be called by the Secretary upon written request of the President or by any two (2) directors. Upon request in writing signed by 20 percent of the Members delivered to the President, Secretary or any Director, it shall be the duty of the President, Secretary or such Director to call forthwith a meeting of Members. The presence in person or by proxy of a majority of the members shall be requisite to constitute a quorum at any meeting of Members, but less than such a quorum may adjourn the meeting from time to time, and at any adjourned meeting, any business may be transacted which might have been transacted if the meeting had been held as originally called. Each Member entitled to vote in accordance with the terms and provisions of the Company's charter and bylaws is entitled to one (1) vote, in person or by proxy, for each insurance policy held by such Member.

**CORPORATE RECORDS**

Minutes of meetings of the shareholders and Board of Directors of the Company were reviewed for the period under examination. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

**FIDELITY BOND AND OTHER INSURANCE**

The following is a schedule of insurance maintained by the Company at December 31, 2007.

Type of Coverage

Executive Liability and Indemnification

Coverage Limits

\$1,000,000

(\$50,000 deductible,  
executive indemnification)

Coverage is underwritten by Federal Insurance Company, Indianapolis, IN which is licensed in Tennessee as a "Foreign Property and Casualty Insurer"

The Company's fidelity bond coverage exceeds the \$175,000 to \$200,000 suggested minimum exhibited in the NAIC Financial Condition Examiners Handbook.

**TERRITORY**

As of December 31, 2007, and as of the date of this examination report, the Company was licensed to transact business in the State of Tennessee. The Certificate of Authority for that jurisdiction was reviewed. The Company is authorized to conduct business in other states pursuant to the federal "Liability Risk Retention Act of 1986". As of December 31, 2007 and as of the date of this examination report, the Company was registered in a total of thirty-two (32) states.

During 2007, the Company wrote direct premiums in 17 states:

<u>State</u>	<u>Amount</u>
Alabama	\$170,994
Arkansas	177,849
Connecticut	295,850
Iowa	229,932
Kentucky	447,414
Missouri	359,370
Nebraska	320,566
Nevada	231,947
New Mexico	280,289
Ohio	345,851
Oklahoma	113,091
Oregon	132,563
South Carolina	69,470
Tennessee	107,306
Utah	397,229
Virginia	405,488
West Virginia	<u>61,576</u>
Total	\$4,146,785

### **Policy Forms, Rating and Underwriting:**

Under Tenn. Code Ann. § 56-5-306, rates, supplementary rate information, policy forms and endorsements will be filed with the Commissioner not later than fifteen (15) days after the effective date. Prior approval is not required. The Company uses casualty rates developed by a combination of Company experience and industry data. Policies written were reviewed to application files and underwriting standards.

The Company maintains written underwriting procedures and rating guide. A physical inspection of the account is completed by either a Director, an approved member of Paratransit or Marsh USA Inc.

### **Advertising:**

The Company maintains an advertising file. The advertising program consists of a Company website ([www.paratransitinsurance.com](http://www.paratransitinsurance.com)) and printed advertisements in trade publications. The advertising file was reviewed and appears to be in compliance with applicable statutes and regulations.

### **Claims Review:**

A sample of open and closed claim files reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were made promptly upon receipt of proper evidence of the Company's liability.

### **Policyholder Complaints:**

Inquiries made to the various policyholders' service offices indicated no regulatory concerns with the Company during the period under examination. No unusual practices or items warranting criticism of the Company were noted.

## **REINSURANCE**

The Company's reinsurance agreements were reviewed and found to contain the standard provisions. The reinsurers are licensed in Tennessee as "Foreign Property and Casualty Insurers". The Company's reinsurance agreements with policies in effect as of December 31, 2007 are summarized below.

### **Ceded:**

(1)

<b><u>Type:</u></b>	First Excess of Loss (treaty basis)
<b><u>Reinsurer:</u></b>	SCOR Reinsurance Company
<b><u>Term:</u></b>	July 1, 2002 through June 30, 2003

Premium: 27.6% of net written premium, subject to a minimum of \$814,000 (or pro rata portion thereof if term of contract is less than 12 months) with a deposit premium of \$1,017,916 payable in four quarterly payments of \$254,479 each

Commission: n/a

Coverage: Excess of the greater of the insured's self-insured retention or the first \$100,000 of ultimate net loss on each occurrence not to exceed \$400,000 as respects any one occurrence

"In the event the Company suffers losses arising out of the same occurrence under two or more separate policies which have been allocated to this Contract and to another contract, the Company's retention with respect to this Contract shall be reduced to that percentage of the Company's retention which the Company's losses under policies allocated to this Contract bear to the Company's total losses arising out of that occurrence. The limit of the Reinsurer's liability shall be prorated in the same manner."

Intermediary: Benfield Blanch Inc.

(2)

Type: Second Excess of Loss (treaty basis)

Reinsurer: SCOR Reinsurance Company

Term: July 1, 2002 through June 30, 2003

Premium: 5% of net written premium, subject to a minimum of \$147,500 (or pro rata portion thereof if term of contract is less than 12 months) with a deposit premium of \$184,400 payable in four quarterly payments of \$46,100 each

Commission: n/a

Coverage: Excess of the greater of the insured's self-insured retention or the first \$500,000 of ultimate net loss on each occurrence not to exceed \$500,000 as respects any one occurrence

"The Company shall be permitted to carry underlying excess of loss reinsurance, recoveries under which shall inure solely to the benefit of the Company and be entirely disregarded in applying all of the provisions of this Contract."

"In the event the Company suffers losses arising out of the same occurrence under two or more separate policies which have been allocated to this Contract and to another contract, the Company's retention with respect to this Contract shall be reduced to that percentage of the Company's retention which the Company's losses under policies allocated to this Contract bear to the Company's total losses arising out of that occurrence. The limit of the Reinsurer's liability shall be prorated in the same manner."

Intermediary: Benfield Blanch, Inc.

(3)

Type: Excess Casualty Clash (treaty basis)

Reinsurer: SCOR Reinsurance Company

Term: October 1, 2002 through June 30, 2003

Premium: 2.4% of net earned premium with a deposit premium of \$66,375 payable in three payments of \$22,125 each on October 1, 2002 and January 1 and April 1, 2003

Commission: n/a

Coverage: Excess of \$1,000,000 of ultimate net loss on each occurrence not to exceed \$1,000,000 as respects any one occurrence

Intermediary: Benfield Blanch, Inc.

(4)

Type: First Excess of Loss (treaty basis)

Reinsurer: Swiss Reinsurance America Corporation

Term: July 1, 2007 through July 1, 2010

Premium: Premium adjustment will determine actual reinsurance premium due. Rate shall apply to gross written policy premium according to Limit + Self Insured Retention (SIR) with a deposit premium of \$1,125,000 payable in four quarterly payments of \$281,250 each

Commission: N/A

Coverage: Amount by which the Company's ultimate net loss exceeds the Company's retention of \$250,000 each occurrence never to exceed \$712,500 (i.e. 95% of \$750,000) as respects any one occurrence

"Reinsurance of the Company's retention, set forth above, shall not be deducted in arriving at the Company's Ultimate Net Loss."

Intermediary: N/A

(5)

Type: Second Excess of Loss (treaty basis)

Reinsurer: Swiss Reinsurance America Corporation

Term: July 1, 2007 through July 1, 2010

Premium: Net rate is 1.568% with a deposit premium \$65,000 payable in four quarterly payments of \$16,250 each. Deposit premiums shall be at the agreed rates based on Earned Premiums

"Earned premium as used in the agreement is defined as gross written premium of the Company for the classes of business reinsured hereunder, plus unearned premium at the beginning of the Agreement Year less premiums ceded on facultative reinsurances purchased to protect policies with limits exceeding the

Reinsurance Agreement limit or reinsured at the Company's discretion, less any unearned premium at the end of the Agreement Year."

Commission:

N/A

Coverage:

Amount by which the Company's Ultimate Net Loss exceeds the Company's retention of \$1,000,000 never to exceed \$1,000,000 with respect to any one Loss Occurrence

"It is warranted by the Company that except for Loss in Excess of Policy Limits and Extra Contractual Obligations, the reinsurance provided shall attach only when two or more Policies are involved in the same Loss Occurrence."

"The Company's retention and the Reinsurer's limit of liability for each Loss Occurrence shall apply irrespective of the number of coverages in one Policy."

"Reinsurance of the Company's retention shall not be deducted in arriving at the Company's Ultimate Net Loss."

Intermediary:

N/A

The Company entered into reinsurance agreements with Swiss Reinsurance America Corporation effective July 1, 2003 until termination for the current agreements summarized above. The prior agreements and the current agreements are basically the same. The Company enters into facultative reinsurance arrangements on risks over one million dollars, \$1,000,000. These risks are reinsured with Swiss Reinsurance America Corporation. The Company also places facultative reinsurance with BF Re.

### **RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS**

The Company has no employees. All administrative services are performed by Marsh USA Inc. (Marsh) as outlined in an agreement between the Company and Marsh. The said agreement is outlined under the caption "Accounts and Records".

### **LOSS EXPERIENCE**

<u>Year</u>	<u>Losses Incurred</u>	<u>LAE Incurred</u>	<u>Premiums Earned</u>	<u>Loss Ratio</u>
2003	\$471,470	\$38,675	\$2,387,678	21.4%

2004	1,286,597	146,633	2,997,788	47.8%
2005	1,067,733	66,334	2,853,371	39.7%
2006	1,394,748	136,456	2,914,005	52.7%
2007	<u>1,134,395</u>	<u>79,697</u>	<u>2,642,615</u>	45.9%
Total	\$5,354,943	\$467,795	\$13,795,457	42.2%

### ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2003, 2004, 2005, 2006, and 2007.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination. The Company's Risk Based Capital Report was reviewed.

Administrative services are performed by Marsh USA Inc. under recitals of a service agreement for the term beginning December 1, 2006 and continuing for a period of three years. Statutory accounting services are performed by USA Risk Group of Vermont under recitals of a captive insurance company service agreement dated April 1, 1999 and amended with a term of January 1, 2006 – December 31, 2008.

Marsh USA, Inc. receives a fee of \$550,000 for the period of December 1, 2006 – December 1, 2007 and \$555,000 for the period of December 1, 2007 – December 1, 2008.

USA Risk Group of Vermont receives a fee of \$75,000 per annum payable quarterly in advance. Additionally, the Company pays USA Risk Group for reasonable out-of-pocket costs for the holding Board or Board-approved meetings reasonable software and printing costs associated with preparation of annual and quarterly statements as well as costs for unanticipated expenses for services not specifically included in the agreement.

An annual audit of the Company is performed by an independent accounting firm, Faulkner, Mackie & Cochran, P.C.

Books and records of the Company are kept at the home office location:

Marsh USA Inc.

1001 Ridgeway Loop  
Memphis, TN 38104

Duplicate copies of some books and records used in preparation of financial reporting statements are maintained at the following location:

Vermont Insurance Management, Inc.  
P. O. Box 1330  
Montpelier, VT 05601

### **STATUTORY DEPOSITS**

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2007.

<b><u>Where Deposited and Description</u></b>	<b><u>Par Value</u></b>	<b><u>Book/Adjusted Carrying Value</u></b>	<b><u>Fair Value</u></b>
<b>Tennessee</b>			
FNMA 5.375% due 11/15/11	\$100,000	\$101,696	\$101,696
<b>Total special deposits held for the benefit of all policyholders of the Company</b>	<b><u>100,000</u></b>	<b><u>101,696</u></b>	<b><u>101,696</u></b>
<b>Total</b>	<b><u>\$100,000</u></b>	<b><u>\$101,696</u></b>	<b><u>\$101,696</u></b>

The above deposit was confirmed with the custodian at the Division of Insurance.

### **PECUNIARY INTEREST TENN. CODE Ann. § 56-3-103**

The Company's Directors file annual conflict of interest statements. The statements were reviewed and found to be in compliance with Tenn. Code Ann. § 56-3-103.

### **LITIGATION**

As of December 31, 2007, the Company had no pending litigation, other than that arising out of the normal course of business, which would adversely affect the financial condition of the Company.

## SUBSEQUENT EVENTS

The Company had been in discussion concerning the matter of using one asset manager of its equities and securities. As of June 2, 2008 the Company ceased using Smith Barney, leaving Congress Asset Management as its investment advisor. Previously, the Company had used Smith Barney and Congress Asset Management as asset managers.

The Company changed Directors and Officers (D&O) policy coverage to St. Paul Mercury Insurance Company (Travelers) effective March 30, 2008. Previously, the Company had D&O coverage with Federal Insurance Company (Chubb).

The Company and SunTrust executed a new custodial agreement to comply with all provisions required by Tenn. Comp. R. & Reg. 0780-1-46.03(2)(a). The agreement was signed by the Company on June 3, 2009 and by SunTrust Bank on June 4, 2009. Previously, the custodial agreement did not contain the provision required by Tenn. Comp. R. & Reg. 0780-1-46.03(2)(a):

“A provision stating that the agreement is between the custodian and the insurance company, and not the parent or affiliate of an insurance company.”

During the examination, National Bank of Commerce was the named custodian. National Bank of Commerce was acquired by SunTrust Bank and SunTrust Bank was left the surviving entity. The certificate of merger was filed with an effective date of April 22, 2005 by the Secretary of the State of Georgia. The Custodial Agreement did provide provision for any corporate successor to the trust business (SunTrust Bank) become Custodian.

## FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2007, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

### ASSETS

	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$14,091,274		\$14,091,274
Common Stocks	3,556,181		3,556,181
Cash and short-term investments	1,226,962		1,226,962
Investment income due and accrued	183,417		183,417
Premiums and agents, balances in course of collection	45,125	45,125	0
Premiums, agent balances, and installments booked but deferred and not yet due	1,544,468		1,544,468
Reinsurance amounts recoverable from Reinsurers	14,310		14,310
Current federal and foreign income tax recoverable and interest thereon	78,964		78,964
Interest, dividends and real estate income due and accrued	202,801	18,161	184,640
Aggregate write-ins for other than invested Assets	<u>381,937</u>	<u>381,937</u>	<u>0</u>
Totals	<u>\$21,325,437</u>	<u>\$445,223</u>	<u>\$20,880,214</u>

## LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses	\$10,460,700
Reinsurance payable on paid loss and loss adjustment expenses	0
Loss adjustment expenses	302,000
Commissions payable, contingent commissions and other similar charges	0
Other expenses (excluding taxes, licenses and fees)	78,498
Taxes, licenses and fees (excluding federal and foreign income tax)	89,399
Federal and foreign income taxes	78,078
Unearned premiums	1,383,286
Advance premiums	45,115
Dividends declared and unpaid: policyholders	868,079
Ceded reinsurance premiums payable (net of ceding commissions)	38,093
Amounts withheld or retained by company for account of others	<u>322,896</u>
Total Liabilities	13,588,066
Aggregate write-ins for special surplus funds	3,034,561
Gross paid in and contributed surplus	650,289
Unassigned funds (surplus)	<u>3,607,298</u>
Surplus as regards policyholders	7,292,148
Total liabilities and surplus	<u>\$20,880,214</u>

## STATEMENT OF INCOME

### UNDERWRITING INCOME

Premiums earned		\$2,642,615
Deductions: Losses incurred	\$1,134,395	
Loss expenses incurred	79,697	
Other underwriting expenses incurred	<u>995,568</u>	
Total underwriting deductions		<u>2,209,660</u>
Net underwriting gain		432,955

### INVESTMENT INCOME

Net investment income earned	732,472	
Net realized capital gains (losses)	<u>106,994</u>	
Net investment gain		839,466

### OTHER INCOME

Total other income		<u>0</u>
Net income before dividends to policyholders and before federal income taxes		1,272,421
Dividends to policyholders		850,000
Federal income taxes incurred		<u>92,538</u>
Net income		<u>\$329,883</u>

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31 prior year		\$6,924,658
Net income	\$329,883	
Change in net unrealized capital gains (losses)	20,876	
Change in net deferred income tax	(12,668)	
Change in non-admitted assets	15,346	
Surplus adjustments: Paid in	138,900	
Aggregate write-ins for gains and losses in surplus	(124,847)	
Change in surplus as regards policyholders for the year		<u>367,490</u>
Surplus as regards policyholders, December 31 current year		<u>\$7,292,148</u>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR THE PERIOD UNDER EXAMINATION**

<b>Surplus as regards policyholders December 31</b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>
Previous Year	<u>\$4,175,023</u>	<u>\$5,331,881</u>	<u>\$5,986,521</u>	<u>\$6,416,545</u>	<u>\$6,924,658</u>
Net Income	721,715	53,975	403,246	171,726	329,883
Change in net unrealized capital gains or (losses)	258,647	53,975	1,432	82,711	20,876
Change in net deferred income tax	21,931	(15,568)	(1,210)	(44,358)	(12,668)
Change in non-admitted Assets	42,846	71,947	(33,716)	149,769	15,346
Change in provision for Reinsurance	0	(33,000)	33,000	0	0
Cumulative effect of changes in accounting principles	0	0	0	0	0
Surplus adjustments: Paid in	111,719	132,972	135,635	148,265	138,900
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>0</u>	<u>(108,363)</u>	<u>0</u>	<u>0</u>
<b>Surplus as regards to policyholders December 31 Current Year</b>	<b><u>\$5,331,881</u></b>	<b><u>\$5,986,521</u></b>	<b><u>\$6,416,545</u></b>	<b><u>\$6,924,658</u></b>	<b><u>\$7,292,148</u></b>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS**  
**RESULTING FROM EXAMINATION**

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on surplus funds, as regards policyholders, either singly or in aggregate.

## COMMENTS AND RECOMMENDATIONS

### Comments:

- The Company is not adhering to its Charter by not including certain language, which is stated in its Charter, in the Company's policy form. The Charter states, "...The membership of the Corporation shall consist of persons, firms or corporations who have been issued a policy of insurance by the Corporation, which is in full force and effect. Membership shall cease when such insurance is cancelled or terminated for any cause whatsoever. Each policy shall specify this fact..." The Company will include language in accordance with its Charter on future policies issued.
- The Company reports that the largest net aggregate amount insured in any one risk is \$176,500. This was accurate in the prior examination period. The Company's largest net aggregate amount insured in any one risk is now calculated as \$287,500 less the individual policyholders' self-insured retention (SIR). The SIR can vary from \$25,000 to \$200,000. There is no impact to the financial statements. The Company will report the amount accurately on future filings.
- The Company and SunTrust executed a new custodial agreement to comply with all provisions required by Tenn. Comp. R. & Reg. 0780-1-46.03(2)(a). The agreement was signed by the Company on June 3, 2009 and by SunTrust Bank on June 4, 2009. Previously, the custodial agreement did not contain all provisions required by Tenn. Comp. R. & Reg. 0780-1-46.03(2)(a)

### Recommendations:

- The Company included anticipated premium audit adjustment payments received from insured members as advance premiums. This is a misclassification as advance premium is for processed policies with premiums paid prior to the effective date according SSAP 53, paragraph 13. Future receipt of these types of funds will be more appropriately classified as remittances and items not allocated. The difference is immaterial resulting in no financial adjustments.

It is recommended that the Company properly classify the liability in accordance with SSAP 53, paragraph 13.

## CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Paratransit Insurance Company, a Mutual Risk Retention Group of Memphis, Tennessee.

In such manner, it was determined that, as of December 31, 2007, the Company had admitted assets of \$20,880,214 and liabilities, exclusive of unassigned funds, of \$13,588,066. Thus, there existed for the additional protection of the policyholders, the amount of \$7,292,148 in the form of aggregate write-ins for special surplus funds, gross paid in and contributed surplus and unassigned funds (surplus).

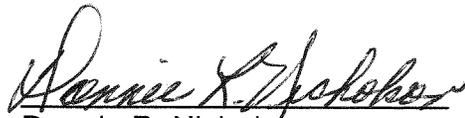
The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Mr. Glenn A. Tobleman, FCAS, FSA, MAAA and Mr. Gregory S. Wilson, FCAS, MAAA of the contracting actuarial firm Lewis and Ellis, Inc. of Richardson, Texas participated in the work of this examination.

Respectfully submitted,



Bryant Cummings, CFE  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, N.A.I.C.



Donnie R. Nicholson  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Paratransit Insurance Company, a Mutual Risk Retention Group dated June 5, 2009, and made as of December 31, 2007, on behalf of the "The Department of Commerce and Insurance", State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.



Bryant Cummings, CFE  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 5th day of

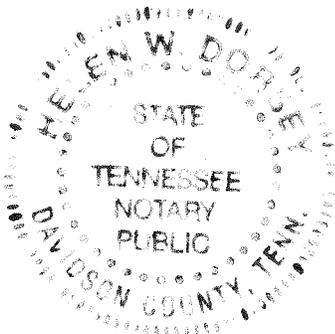
June, 2009

Notary Helen W. Dorsey

County Davidson

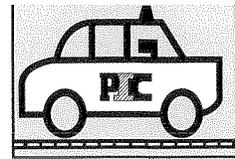
State Tennessee

Commission Expires 05/22/2010



My Commission Expires MAY 22, 2010

**PARATRANSIT INSURANCE COMPANY**  
A MUTUAL RISK RETENTION GROUP



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**JUN 23 2009**

Dept. of Commerce & Insurance  
Company Examinations

June 18, 2009

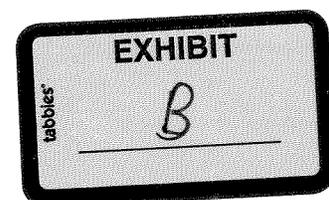
Mr. Philip Blustein, CFE  
Financial Affairs Section  
Tennessee Dept. of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243

RE: Written responses to comments and recommendations in the Examination Report  
Of Paratransit Insurance Company, a Mutual Risk Retention Group made as of  
December 31, 2007

Dear Mr. Blustein:

This letter is in response to the comments and recommendations contained in the  
Examination Report of Paratransit Insurance Company, a Mutual Risk Retention Group  
made as of December 31, 2007.

- We are not challenging or rebutting any of the comments or the recommendation.
- Regarding the report's first comment, we have amended our policy conditions to note that membership in the company ceases when insurance is cancelled or terminated.
- We will make sure that the company's largest net retention is accurately stated whenever that information must be reported.
- Regarding the recommendation concerning premiums paid by insured members in anticipation of additional premium due at audit, we agree with the suggested classification of the premiums as "remittances and items not allocated." We will properly classify the resulting liability in accordance with SSAP 53, paragraph 13.



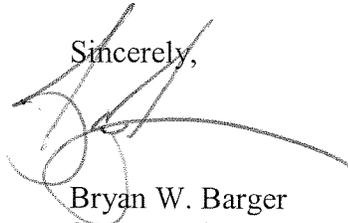
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JUN 23 2009

Dept. of Commerce & Insurance  
Company Examinations

I trust this letter provides you with an appropriate response to the Examination Report. If you need additional information, please contact me. We appreciate the efforts of the department and look forward to working with your staff in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Bryan W. Barger", with a large, sweeping flourish extending to the right.

Bryan W. Barger  
Sr. Executive Underwriter