



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF
PARATRANSIT INSURANCE COMPANY, A MUTUAL RISK
RETENTION GROUP
(NAIC # 44130)
MEMPHIS, TENNESSEE

AS OF
December 31, 2017

TABLE OF CONTENTS

Introduction	1
Scope of Examination	1
Compliance with Previous Examination Findings	2
Company History	2
Management and Control	3
Management	3
Control	4
Dividends to Members	4
Corporate Records	4
Territory and Plan	5
Territory	5
Plan of Operation	5
Growth of Company	6
Reinsurance	6
Accounts and Records	7
Market Conduct Activities	7
Financial Statements	8
Assets	8
Liabilities, Surplus, and Other Funds	9
Statement of Income	10
Capital and Surplus Account	11
Analysis of Changes in Financial Statements	12
Comments and Recommendations	12
Conclusion	13
Affidavit	14

Memphis, Tennessee
March 31, 2019

Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-1-408, a full-scope financial examination and a market conduct review, as of December 31, 2017, has been made of the condition and affairs of:

PARATRANSIT INSURANCE COMPANY, A MUTUAL RISK RETENTION GROUP
NAIC # 44130
775 Ridge Lake Boulevard, Suite 105
Memphis, Tennessee 38120

hereinafter referred to as the “Company” and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or “Department”). The examination was conducted by duly authorized representatives of the Department.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2012. This examination covers the period January 1, 2013, through December 31, 2017, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of the examination. There are no other insurers in the holding company group; therefore, no examination coordination with any other states was necessary.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and

procedures promulgated by the National Association of Insurance Commissioners (NAIC) in the *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance. Significant inherent risks within the Company were reviewed and assessed. Controls and mitigation for those significant risks were also reviewed. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions.

All significant risks were reviewed when planning which key activities and accounts would be examined. The key activities included: Investments; Underwriting/Premiums; Reserving/Claims; Reinsurance Ceded; and Risk Retention Group.

Independent information technology specialist services, provided by Lewis & Ellis, Inc., were utilized in the examination review of the Company’s information technology general controls (ITGC).

A separate market conduct review was also performed concurrently with the financial examination. See “Market Conduct Activities” section of this report.

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company’s loss reserves.

The independent auditor’s workpapers for the 2017 audit were reviewed and copies were incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

There were no recommendations in the prior examination report.

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 of Paratransit Risk Retention Group of Maryland, Inc. Business commenced on March 1, 1988. The business purpose was to provide vehicle liability insurance to its members in the taxicab and transportation for hire industry.

On March 4, 1988, the Company assumed the net assets and liabilities of Paratransit

Insurance Company, Ltd. (PIC Ltd.) and PIC Ltd. was merged into the Company. The members of PIC, Ltd. became members of the Company with the subscribers' capital account being transferred to the Company.

During 1996, the Company applied for re-domestication from Maryland to Tennessee. On December 30, 1997, the Company was chartered in Tennessee as Paratransit Risk Retention Group Insurance Company. Effective April 20, 1998, the TDCI issued a certificate of authority to the Company with authority to transact the business of commercial automobile liability.

Pursuant to Tenn. Code Ann. § 48-17-104, the Company's members consented on September 10, 1999, to change the name of the Company to Paratransit Insurance Company, A Mutual Risk Retention Group. A new certificate of authority was issued by the TDCI on February 2, 2000, reflecting the name change.

The Company is a risk-retention group, but regulated as a traditional property/casualty insurer.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Members of the risk retention group elected a Board annually. The following persons were serving as directors, as of December 31, 2017:

<u>Name</u>	<u>Principal Occupation</u>
Steven Joseph Abraham	Member, Owner of Taxi Cab Business
John David Batson	Member, Owner of Taxi Cab Business
Richard G. Corey	Member, Owner of Taxi Cab Business
Ellis W. Houston	Member, Owner of Taxi Cab Business
Basil L. Rudawsky	Member, Owner of Taxi Cab Business
Randy J. Sackett	Member, Owner of Taxi Cab Business
William Hamilton Smythe III	Member, Owner of Taxi Cab Business
William Hamilton Smythe IV	Member, Owner of Taxi Cab Business
Judith O. Swystun	Member, Owner of Taxi Cab Business

Officers

The following were serving as officers, as of December 31, 2017:

<u>Name</u>	<u>Title</u>
William Hamilton Smythe III	Chairman
William Hamilton Smythe IV	President
Steven Joseph Abraham	Treasurer
Basil L. Rudawsky	Secretary
Richard George Corey	Vice President
Judith O. Swystun	Vice President
Cindy L. Lyford	Assistant Treasurer
William Joseph Lammel	Assistant Secretary

Committees

The Company's board of directors delegated certain duties and responsibilities to the following committees: audit; executive; underwriting; claims and investments.

CONTROL

Primary control of the Company is vested in its members. Annually, members elect a Board which is responsible for the direction and results of the Company. Members are required to be owners and / or operators of taxicab operations and / or other transportation for hire operations. The directors contracted third parties to manage the day-to-day operations of the Company.

DIVIDENDS TO MEMBERS

Ordinary dividends to members were declared by the Board of Directors ("Board") in December of each year under examination and paid in the subsequent year's first quarter. Ordinary dividends declared in each year were as follows:

<u>Year</u>	<u>Dividend Amount</u>
2013	\$1,250,000
2014	\$1,000,000
2015	\$1,100,000
2016	\$1,350,000
2017	\$1,500,000

CORPORATE RECORDS

Minutes of the members' and directors' meetings reflected adequate approval and support of the Company's transactions. The Board gave regular approval for all investment transactions as required by Tenn. Code Ann. § 56-3-408 (b)(1).

Effective April 5, 2014, the membership amended the Company's Bylaws to create the official role of Chairman of the Board.

TERRITORY AND PLAN

TERRITORY

As of December 31, 2017, the Company was licensed to transact business only in the State of Tennessee. However, the Company was authorized to conduct business in other states pursuant to the federal "Liability Risk Retention Act of 1986" codified at 15 U.S.C. § 3901 et seq. ("the Act"). As of the examination date, the Company was registered under the Act in the following thirty-one (31) states and the District of Columbia:

Alabama	Georgia	Missouri	Oregon
Arizona	Illinois	Nebraska	South Carolina
Arkansas	Indiana	Nevada	Tennessee
California	Iowa	New Mexico	Texas
Colorado	Kentucky	New York	Utah
Connecticut	Maine	North Carolina	Virginia
District of Columbia	Minnesota	Ohio	Washington
Florida	Mississippi	Oklahoma	West Virginia

As of the examination date, the Company was writing business in twenty-one (21) states.

PLAN OF OPERATION

The Company provides commercial vehicle liability insurance to subscribing members in the taxicab and transportation for hire industry. The focus of the Company is primarily in small to medium size cities. Members pay an annual fee and have a self-insured retention amount which is mutually agreed upon. All operations of the Company are outsourced to third parties. Effective December 12, 2016, the Company entered into a management services agreement with Lammel and Associates, LLC. The Company did not provide the thirty-day notification to the Department prior to the effective date as required by Tenn. Code Ann. § 56-45-103 (d)(2)(b). However, the Company subsequently notified the Department on May 20, 2017.

The maximum retention for any one (1) occurrence was \$262,500.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, as recorded in its annual statements as filed with the Department:

<u>Year</u>	<u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	<u>Total</u> <u>Surplus</u>	<u>Net Earned</u> <u>Premiums</u>	<u>Net</u> <u>Income</u>
2017	\$31,117,153	\$17,360,954	\$14,756,199	\$5,646,686	\$422,588
2016	\$27,570,086	\$14,611,712	\$12,958,374	\$4,111,098	\$103,865
2015	\$25,160,084	\$12,546,497	\$12,613,587	\$3,658,198	\$334,838
2014	\$23,869,759	\$11,518,364	\$12,351,395	\$3,476,623	\$297,992
2013	\$23,468,272	\$11,668,368	\$11,799,904	\$3,160,599	\$373,962

REINSURANCE

Assumed

The Company did not assume risks through reinsurance during the examination period.

Ceded

Effective July 1, 2015, the Company entered into an excess of loss reinsurance agreement with Swiss Reinsurance America Corporation. Coverage included all the commercial automobile liability written by the Company. The first excess layer covered ninety-five percent (95%) for each loss exceeding \$250,000 to \$1,000,000. The second layer covered one hundred percent (100%) for each loss exceeding 1,000,000 to \$2,000,000. The agreement did not contain a provision required by Statements of Statutory Accounting Principles (SSAP) No. 62R, section 8. However, subsequent to the examination date, the agreement was amended to comply with SSAP No. 62R, section 8.

The agreement transferred risk in accordance with SSAP No. 62R.

The Company also had other reinsurance agreements in effect which were not considered significant.

ACCOUNTS AND RECORDS

Independent audits were performed each year during the examination period with each resulting in an unqualified opinion.

The Company's custody agreement with First Tennessee Bank did not meet all the provisions of Tenn. Comp. R. & Regs. 0780-1-46. Subsequent to the examination date, the agreement was amended to comply with the regulation.

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

The Company's primary books and records were located at 775 Ridge Lake Boulevard, Memphis, Tennessee.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company, as of December 31, 2017, in conjunction with this examination. The following items were addressed:

Underwriting, Rates and Policy Forms

During the examination of underwriting and rating, Company operations were examined for compliance with their own underwriting guidelines, filed rates and forms, and applicable statutes and rules. As a result of the examination, no issues or concerns were identified.

Claims Handling

The Company's efficiency of claims handling, accuracy of payment, adherence to policy provisions, and compliance with applicable statutes and rules were examined. As a result of the examination, no issues or concerns were identified.

Producer Licensing

A sample of captive and independent agents was reviewed for proper licensing. As a result of the examination, no issues or concerns were identified. The Company was not required to appoint agents.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2017, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2017 annual statement.

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$15,280,097	\$	\$15,280,097
Stocks:			
Common stocks	6,680,622		6,680,622
Cash, cash equivalents and short-term investments	5,250,842		5,250,842
Investment income due and accrued	142,754		142,754
Premiums and considerations:			
Deferred premiums, agents balance and installments booked but deferred and not yet due	3,678,202		3,678,202
Current federal and foreign income tax recoverable	84,636		84,636
Write-ins			
Prepaid D&O and Management Fees	8,987	8,987	-
Section 847 Special Tax Deposit	63,934	63,934	-
 Total Assets	\$31,190,074	\$72,921	\$31,117,153

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses		\$8,714,192
Loss adjustment expenses		435,808
Commissions payable, contingent commissions and other similar charges		53,806
Other expenses		205,775
Taxes, licenses and fees		151,922
Net deferred tax liability		331,824
Unearned premiums		3,137,394
Dividends declared and unpaid:		
Policyholders		1,500,000
Ceded reinsurance premiums payable		888,351
Amounts withheld or retained by company for account of others		934,249
Remittances and items not allocated		7,633
Total Liabilities		<u>16,360,954</u>
Write-in for other than special surplus funds		
Subscribers' Capital Accounts		4,654,162
Gross paid in and contributed surplus	\$650,289	
Unassigned funds (surplus)	<u>9,451,748</u>	
Total surplus		<u>10,102,037</u>
Surplus as regards policyholders		<u>14,756,199</u>
Total Liabilities, Surplus and Other Funds		<u><u>\$31,117,153</u></u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned	\$ 5,646,686
Deductions:	
Losses incurred	<u>2,427,523</u>
Loss adjustment expenses incurred	53,772
Other underwriting expenses incurred	<u>1,826,184</u>
 Total underwriting deductions	 <u>1,826,184</u>
 Net underwriting gain or (loss)	 <u>3,820,502</u>

Investment Income

Net investment income earned	<u>460,152</u>
Net realized capital gains (losses)	<u>234,589</u>
 Net investment gain or (loss)	 <u>694,741</u>

Other Income

Net gain (loss) from agents' or premium balances charged off	<u>(301)</u>
 Total other income	 <u>(301)</u>
 Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	 <u>2,033,647</u>
Dividends to policyholders	<u>1,500,000</u>
 Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	 <u>533,647</u>
Federal and foreign income taxes incurred	<u>111,059</u>
 Net Income	 <u><u>\$ 422,588</u></u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Surplus as regards policyholders,					
December 31, prior year	\$ 12,958,374	\$ 12,613,587	\$ 12,351,395	\$ 11,799,905	\$ 10,580,164
Net Income	422,588	103,865	334,838	297,992	373,962
Change in net unrealized capital gains(losses) less capital gains tax	906,724	55,727	(305,912)	130,811	428,013
Change in net deferred income tax	(132,026)	63,502	(11,449)	(58,222)	(96,785)
Change in nonadmitted assets	126,909	(72,578)	50,455	(2,787)	250,790
Surplus adjustments					
Paid in	221,142	194,268	183,420	172,490	178,722
Write-ins for gains and losses in surplus					
Section 847 Special Tax Deposit	130,342				
Miscellaneous		3			
Prior period Premium NAA Adjustments				96,046	(93,519)
Audit adjustment	122,146		10,840	(84,840)	178,558
Surplus as regards policyholders,					
December 31, current year	<u>\$ 14,756,199</u>	<u>\$ 12,958,374</u>	<u>\$ 12,613,587</u>	<u>\$ 12,351,395</u>	<u>\$ 11,799,905</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$14,756,199

Total capital and surplus, as established by this examination, is the same as what was reported by the Company in its 2017 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2017.

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in "Reinsurance," the Company's reinsurance agreement did not contain a provision as required by SSAP No. 62R, section 8. Subsequent to the examination date, the Company amended the agreement to comply with SSAP No. 62R, section 8.
2. As noted in "Accounts and Records," the Company's custodial agreement with First Tennessee Bank did not meet all the requirements of Tenn. Comp. R. & Regs. 0780-01-46. Subsequent to the examination date, the agreement was amended to comply with Tenn. Comp. R. & Regs. 0780-01-46.
3. As noted in "Plan of Operation", the Company did not provide the thirty-day notification to the Department prior to the effective date of the management services agreement as required by Tenn. Code Ann. § 56-45-103 (d)(2)(b). However, the Company subsequently notified the Department on May 20, 2017.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee, and guidance from the NAIC Handbook, as deemed appropriate, 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.

In such manner, it was found that as of December 31, 2017, the Company had admitted assets of \$31,117,153 and liabilities, exclusive of surplus, of \$16,360,954. Thus, there existed for the additional protection of the policyholders, the amount of \$14,756,199 in the form of subscriber capital accounts, gross paid in and contributed surplus, and unassigned funds (surplus). Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum capital of \$1,000,000 and minimum surplus of \$1,000,000. For this examination, as of December 31, 2017, the Company maintains capital and surplus sufficient to satisfy those requirements.

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, James T. Pearce, Jr. and Jay Uselton, CFE, Insurance Examiners for the State of Tennessee participated on the examination. Contracted specialists Lindsey Pittman, CPA, CFE, CISA, MCM and Mike Mayberry, FSA, MAAA, participated in the Information Systems and Actuarial reviews of this examination, respectively.

Respectfully submitted,



Don Karnes, CFE
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says he has duly executed the attached examination report of Paratransit Insurance Company, A Mutual Risk Retention Group located in Memphis, Tennessee, dated March 31, 2019, and made as of December 31, 2017, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.



Don Karnes, CFE
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 7th day of June, 2019

Mindy C. Walker
(NOTARY)



My Commission Expires: 7.6.2020