

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION**

**OF**

**PASSPORT INSURANCE COMPANY  
BISMARCK, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2010**

STATE OF NORTH DAKOTA  
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

**PassPort Insurance Company**

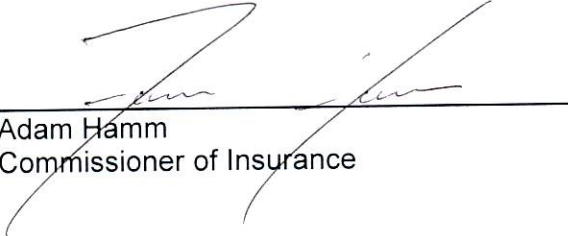
**Bismarck, North Dakota**

as of December 31, 2010, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto

set my hand and affixed my official seal at my  
office in the City of Bismarck, this 24<sup>th</sup> day of  
October, 2012.



  
Adam Hamm  
Commissioner of Insurance

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Bismarck, North Dakota  
September 11, 2012

Honorable Adam Hamm  
Commissioner of Insurance  
State of North Dakota  
600 East Boulevard Avenue  
Bismarck, ND 58505-0320

Dear Sir:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination was made of the condition and affairs of the

**PassPort Insurance Company  
Bismarck, North Dakota**

as of December 31, 2010.

The PassPort Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2005, by a representative of the State of North Dakota.

**SCOPE OF EXAMINATION**

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. The current examination covers the period January 1, 2006, through December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

## STATUS OF PRIOR EXAM FINDINGS

The recommendations contained in the prior examination report dated December 31, 2005, have been adequately addressed by the Company except as follows:

<u>Recommendation</u>	<u>Response</u>
It is recommended that the Company amend its custodial agreement with the Bank of North Dakota to include the safeguards required by the NAIC <i>Financial Examiners Handbook</i> .	The Company's custodial agreement is now with The Bank of New York (BoNY). However, the BoNY agreement does NOT meet the requirements of N.D. Admin. Code § 45-03-23-02. <b>It is recommended that the company amend its custodial agreement to comply with the requirements of N.D. Admin. Code § 45-03-23-02.</b>
It is again recommended that the Board of Directors, or an Investment Committee appointed by the Board, approve investment transactions on at least a quarterly basis in compliance with N.D. Admin Code § 45-03-12-05.	The Company's Board of Directors approve investment transactions, which is only required annually with N.D. Admin Code § 45-03-12-05(3). However, the Board of Director meeting minutes did not reflect proper review of the Company's investment portfolio approval as required by N.D. Admin. Code § 45-03-12-05(4)(a). <b>It is recommended that the Company's Board of Directors comply with the requirements of N.D. Admin. Code § 45-03-12-05(4)(a) and that these activities are recorded in the minutes of the Board of Directors.</b>

## SUBSEQUENT EVENTS

On January 10, 2011, the Company made a loan of \$550,000 to Peter Halmos, the Company's owner. There was no record of the loan being approved by the Board of Directors in the Board minutes. The Board of Directors is required to approve the Investment of funds as stated in N.D.C.C. § 26.1-05-18 which states, "An investment or loan, except a policy loan, may not be made by any domestic insurance company unless the investment or loan first has been authorized by the board of directors of the company charged with the duty of supervising the making of loans or investments made by the Company." Also, N.D.C.C. § 26.1-05-18(6) states that a domestic company may not invest its capital, surplus funds, or other assets in, or loan the same upon, any property owned by any officer or director of the company, or by any of the immediate members of the family of any such office or director, nor in any manner which will permit any such officer or director to gain through the investment of funds of the company. **It is recommended that the company record all actions and approvals of the Board of Directors in the Board minutes and that no investment or loan be made which is prohibited under N.D.C.C. § 26.1-05-18.**

The entire loan was paid back to the company on December 15, 2011, for a total of \$560,792.46.

## HISTORY

### General

The Company was incorporated on May 30, 1989, pursuant to the North Dakota Business Corporation Act, N.D.C.C. Chapters 10-19.1 and 26.1-05.

As of May 12, 1998, the Company is wholly owned by President Peter Halmos. Prior to this date the Company was owned by Continuity Marketing Corporation. The Company's President changed from Peter Halmos to Nicholas Halmos in 2009.

The Company has been inactive since its formation and the primary location of its books and records is in West Palm Beach, Florida.

### Capital Stock

The Company is authorized to operate as a stock entity. The aggregate number of common shares which the corporation is authorized to issue is 5,000. All of the authorized shares were outstanding and owned by Peter Halmos as of December 31, 2010.

### Dividends to Stockholders

During the period under examination, no dividends were paid to the stockholders.

## MANAGEMENT AND CONTROL

### Stockholders

The Company, as defined in its Bylaws, is owned by the stockholders. As of December 31, 2010, all 5,000 outstanding shares were owned by Company President Peter Halmos of Palm Beach, Florida.

### Directors

The Bylaws provide that the number of directors of the corporation shall be three who shall hold office until the next annual meeting of stockholders and until their successor shall have been elected and qualified.

The following directors were serving as of the date of this examination:

<u>Name and Address</u>	<u>Business Affiliation</u>
Nicholas Halmos Palm Beach, Florida	Company President
Peter Halmos Palm Beach, Florida	100% Owner and Vice President
David Vanderscoff Marana, Arizona	Company Vice President and Management Consultant

### Officers

The Bylaws provide that the officers of the Company shall be a President, two Vice Presidents, a Secretary, and a Treasurer. The offices of President, Secretary, and Treasurer may be held by the same person.

Officers serving as of the date of this examination were as follows:

Nicholas Halmos Palm Beach, Florida	President & Secretary
Gail Meyers Jupiter, Florida	Treasurer
Peter Halmos Palm Beach, Florida	Vice President
David P. Vanderscoff Marana, Arizona	Vice President

### Corporate Records

The minutes of the Board of Directors and Stockholder meetings were reviewed for compliance with the Articles of Incorporation, Bylaws and statutory requirements.

During the exam period, the Company's annual meetings were held in March. According to the Company's Bylaws under Article II-Shareholder under Section 1-Annual Meeting, it states that the annual meeting is to be held on the first Thursday in the month of January in each year beginning with the year 1990 at the hour of 10:00 a.m. **It is recommended that either the Company comply with its Bylaws, or amend its Bylaws to change the annual meeting date to when the meetings are actually held.**

The Company does not have a written investment plan that satisfies N.D. Admin. Code § 45-03-12-05(1) which requires that the Board of Directors shall adopt a written plan for acquiring and holding investments and for engaging in investment practices that specifies guidelines as to the quality, maturity, and diversification of investments and other specifications including investment strategies intended to assure that the investments and investment practices are appropriate for

the business conducted by the insurer, its liquidity needs, and its capital and surplus. The board shall review and assess the insurer's technical investment and administrative capabilities and expertise before adopting a written plan concerning an investment strategy or investment practice. **It is recommended that the Company establish and adopt a written investment plan that satisfies the requirements of N.D. Admin. Code § 45-03-12-05(1).**

The Company's Board of Directors meeting minutes do not satisfy N.D. Admin. Code § 45-03-12-05(4)(a), which requires that the Board of Directors on no less than a quarterly basis, receive and review a summary report on the insurer's investment portfolio, its investment activities, and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan. **It is recommended that the Company's Board of Directors comply with the requirements of N.D. Admin. Code § 45-03-12-05(4)(a) and that these activities are recorded in the minutes of the Board of Directors.**

There were no amendments to the Articles of Incorporation or Bylaws during the period under review.

## FIDELITY BOND AND OTHER INSURANCE

The Company does not have a fidelity bond nor does it have any employees.

The Company was listed as a named insured under a commercial general liability policy issued to Peter Halmos & Sons.

## PENSION PLANS

The Company does not have any employees.

## STATUTORY DEPOSIT

Deposits maintained by or through regulatory agencies are as follows:

State	Type of Asset	Market Value	Statement Value
North Dakota	Bond	\$355,790	\$344,571
	Bond	519,965	499,668
	Bond	108,063	103,601
Totals		\$983,818	\$947,840

On September 28, 2008, \$250,000 of a pledged bond was called by the issuer and the Company did not replace the called portion of the bond. The Company, therefore, did not have the \$1,200,000 in deposits as required by the Commissioner under N.D.C.C. § 26.1-05-07.1. **It is recommended that the Company pledge securities sufficient to meet its deposit requirements.**

The Company did not complete Schedule E Part 3: Special Deposits as part of its Annual Statement filing. **It is recommended that the Company complete Schedule E Part 3: Special**



**Deposits and prepare its Annual Statement in compliance with the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.**

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

The Company does not have any issued policies.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed only in the State of North Dakota.

## **REINSURANCE**

The Company did not cede nor assume any business during the period under review.

## **ACCOUNTS AND RECORDS**

The Examiner obtained a trial balance for 2010 and traced it to the Annual Statement with no exceptions noted.

The Company's Custodial Agreement with The Bank of New York is not in compliance with the requirements of the N.D. Admin. Code § 45-03-23-02. The following listed below is not in compliance:

1. Securities other than those held for deposit requirements be withdrawable on demand.
2. Upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities.
3. The custodian and its agents shall be required to send to the insurance company: (1) all reports which they receive from a clearing corporation on their respective systems of internal accounting control, and (2) any reports prepared by outside auditors on the custodian's or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.
4. To the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its Annual Statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information.
5. The custodian shall provide, upon written request from an appropriate officer of the insurer, the appropriate affidavits, substantially in the form included under the rule.

6. Custodian to maintain insurance protection in an adequate amount.
7. The custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.
8. In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

**It is recommended that the company amend its Custodial Agreement to comply with the requirements of N.D. Admin. Code § 45-03-23-02.**

## **FINANCIAL STATEMENTS**

The financial statements of the Company and supporting reconciliations are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus, and Other Funds, December 31, 2010

Summary of Operations for the Year Ended December 31, 2010

Reconciliation of Capital and Surplus Account, January 1, 2006, through December 31, 2010

**PassPort Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 2010**

	<u>Assets</u>			
	<u>Ledger Assets</u>	<u>Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,403,475			\$1,403,475
Cash on Deposit	583,196			583,196
Accrued Inv. Income	14,765			14,765
Aggregate write-ins for other Invested assets	<u>3,239</u>			<u>3,239</u>
Total	<u>\$2,004,675</u>			<u>\$2,004,675</u>

<u>Liabilities</u>		
Pre-Paid Fee Income		\$ 330,000
Total Liabilities		<u>\$ 330,000</u>
Common Capital Stock		\$1,187,509
Unassigned Surplus		<u>487,166</u>
Surplus as Regards Policyholders		<u>\$1,674,675</u>
Total Liabilities, Surplus, and Other Funds		<u>\$2,004,675</u>

**PassPort Insurance Company**  
**Summary of Operations**  
**For the Year Ended December 31, 2010**

**Investment Income**

Net Investment Income Earned	\$16,703	
Net Realized Capital Gain (Loss)	0	
Net Investment Gain or (Loss)		<u>\$16,703</u>
Net Income before Federal Income Taxes		\$16,703
Federal Income Taxes Incurred		<u>0</u>
Net Income		<u>\$16,703</u>

**PassPort Insurance Company**  
**Reconciliation of Capital and Surplus Account**  
**January 1, 2006, through December 31, 2010**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Capital and Surplus, December 31, Previous Year	\$1,657,972	\$1,631,080	\$1,594,284	\$1,552,369	\$1,533,597
Net Income	16,703	26,892	36,796	41,915	18,772
Net Unrealized Capital Gains or (Losses)	0	0	0	0	0
Aggregate write-ins for gains and losses in surplus	0	0	0	0	0
Net Change in Capital and Surplus for the Year	\$ 16,703	\$ 26,892	\$ 36,796	\$ 41,915	\$ 18,772
Capital and Surplus, December 31, Current Year	\$1,674,675	\$1,657,972	\$1,631,080	\$1,594,284	\$1,552,369

## COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2010, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

### **Prepaid Fee Income**

On December 27, 2001, the Company received payments totaling \$330,000 from three different companies (Continuity Marketing Corp, Intelligence Services, and PAH Co.) all of which are also owned by Peter Halmos, for development of insurance-related products in approved areas. To date, the development of these products has not been completed so the \$330,000 is still shown as a liability.

## CONCLUSION

The financial condition of the Company, as of December 31, 2010, as determined by this examination is summarized as follows:

ADMITTED ASSETS		<u>\$2,004,675</u>
Total Liabilities	\$ 330,000	
Surplus as Regards Policyholders	<u>1,674,675</u>	
LIABILITIES, SURPLUS, AND OTHER FUNDS		<u>\$2,004,675</u>

No material financial adjustments were identified by this examination and no changes were made to the amounts reported by the Company in its 2010 Annual Statement.

Since the last examination conducted as of December 31, 2005, the Company's admitted assets have increased \$141,078, its total liabilities have remained the same, and its surplus as regards policyholders has increased \$141,078.

The courteous cooperation extended by the officers of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,



Mary Raps  
Examiner  
North Dakota Insurance Department

## COMMENTS AND RECOMMENDATIONS

It is recommended that the Company record all actions and approvals of the Board of Directors in the Board minutes and that no investment or loan be made which is prohibited under N.D.C.C. § 26.1-05-18.

It is recommended that either the Company comply with its Bylaws, or amend its Bylaws to change the annual meeting date to when the meetings are actually held.

It is recommended that the Company establish and adopt a written plan that satisfies the requirements of N.D. Admin. Code § 45-03-12-05(1).

It is recommended that the Company's Board of Directors comply with the requirements of N.D. Admin. Code § 45-03-12-05(4)(a) and that these activities are recorded in the minutes of the Board of Directors.

It is recommended that the Company pledge securities sufficient to meet its deposit requirements.

It is recommended that the Company complete Schedule E Part 3: Special Deposits and prepare its Annual Statement in compliance with the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.

It is recommended that the Company amend its Custodial Agreement to comply with the requirements of N.D. Admin. Code § 45-03-23-02.