

REPORT ON EXAMINATION
OF
COMP OPTIONS INSURANCE
COMPANY, INC.

JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	3
HISTORY	4
GENERAL	4
CAPITAL STOCK	4
PROFITABILITY OF COMPANY	5
DIVIDENDS TO POLICYHOLDERS	5
MANAGEMENT	5
CONFLICT OF INTEREST PROCEDURE.....	7
CORPORATE RECORDS	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	7
SURPLUS DEBENTURES	7
AFFILIATED COMPANIES	8
ORGANIZATIONAL CHART	8
TAX ALLOCATION AGREEMENT	9
MARKETING AND ADMINISTRATIVE SERVICES AGREEMENT.....	9
FIDELITY BOND	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
STATUTORY DEPOSITS	10
INSURANCE PRODUCTS	10
TERRITORY	10
TREATMENT OF POLICYHOLDERS	10
REINSURANCE	11
ASSUMED	11
CEDED	11
ACCOUNTS AND RECORDS	11
CUSTODIAL AGREEMENT	12
INDEPENDENT AUDITOR AGREEMENT.....	12
INFORMATION TECHNOLOGY REPORT.....	12
FINANCIAL STATEMENTS PER EXAMINATION	13
ASSETS	14
LIABILITIES, SURPLUS AND OTHER FUNDS	15
STATEMENT OF INCOME	16

COMMENTS ON FINANCIAL STATEMENTS.....	17
ASSETS	17
LIABILITIES	17
CAPITAL AND SURPLUS	17
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	18
SUMMARY OF FINDINGS	19
CONCLUSION	20

Tallahassee, Florida

August 28, 2009

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008 of the financial condition and corporate affairs of:

**COMP OPTIONS INSURANCE COMPANY, INC.
5011 GATE PARKWAY
JACKSONVILLE, FLORIDA 32256**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on March 9, 2009, to March 13, 2009. The fieldwork commenced on April 6, 2009, and was concluded as of August 28, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed 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. An examination also includes 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 when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and

assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company.

The Company did not have a Florida Consolidated Income Tax Agreement in place in 2003.

Resolution: The Company provided a copy of the Tax Allocation Agreement with its July 14, 2005 response to the exam findings.

The Company did not provide audit committee minutes of its parent Blue Cross and Blue Shield of Florida (BCBS-FL) who had an audit committee serving on behalf of the Company. **Resolution:**

The Company made available audit committee minutes of BCBSFL during this examination.

The Company's quota share reinsurance agreement with BCBSFL did not contain an insolvency clause. **Resolution:** All reinsurance agreements reviewed during the examination contained the appropriate insolvency clause.

The Company inaccurately reported "Affiliates US Inter-company pooling" on Part 4 of Schedule F.

Resolution: The Company now correctly reports such information on Schedule F.

The Company's custodial agreement with Wachovia Bank contained a noncompliant clause.

Resolution: The Company provided a copy of the amended custodial agreement that included the required language with its response to the exam findings.

The Company's agents' balance aging schedule was inaccurate. **Resolution:** The Company reported an accurate aging during the examination.

HISTORY

General

The Company was incorporated in Florida on July 28, 1997 as a property and casualty insurer and commenced business on September 2, 1997 as Comp Options Insurance Company, Inc. In accordance with Section's 628.051 and 628.071, Florida Statutes, the Company was authorized to transact workers' compensation insurance coverage in Florida.

The Company's Articles of Incorporation and By-laws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Diversified Health Services, Inc. who owned 100% of the stock issued by the Company, who in turn was 100% owned by BCBS-FL.

Profitability of Company

The following table shows the profitability trend of the Company for the period of this examination, as reported in the filed annual statements (\$ thousands).

	2008	2007	2006	2005	2004
Premiums Earned	\$16,798	\$18,553	\$16,563	\$17,309	\$14,136
Net Underwriting Gain/(Loss)	7,254	6,506	7,172	8,139	3,099
Net Income	4,615	3,420	4,361	4,548	1,169
Total Assets	57,078	57,806	50,563	42,063	34,733
Total Liabilities	30,921	33,248	30,764	26,686	24,127
Surplus As Regards Policyholders	26,157	24,557	19,799	15,377	10,606

Dividends to Policyholders

In accordance with Section 628.381, Florida Statutes, the Company declared and paid dividends to its policyholders in 2008 and 2007 in the amounts of \$ 2,859,258 and \$ 2,548,797, respectively.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes, during 2008. Directors serving as of December 31, 2008, were:

Directors

Name and Location	Principal Occupation
Robert Chris Doerr Jacksonville, Florida	Chairman BCBSFL Executive VP/CFO
Barbara Greene Benevento Jacksonville, Florida	President BCBSFL Group VP
Alan Todd Guzzino Jacksonville, Florida	BCBSFL VP
Darnell Smith Jacksonville, Florida	BCBSFL Group VP
Frederick Vance Ryder Jacksonville, Florida	BCBSFL Senior VP

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Barbara Greene Benevento	President
Robert Allen Pallais	Vice President, Treasurer & CFO
Cynthia Lynn Howard	Vice President
Arezou Clegg Jolly	Secretary

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2008:

Audit Committee

Edward L Boykin ¹
Tracy A. Leinbach
John B. Ramil
Barbara B. Thomas

Investment Committee

Tracy A. Leinbach ¹
Edward L. Boykin
John B. Ramil
Barbara B. Thomas

Dr. Robert I. Lufrano ²

Dr. Robert I. Lufrano ²

Gonzalo F. Valdes-Fauli ²

Gonzalo F. Valdes-Fauli ²

1 Chairman

2 Ex-officio

Conflict of Interest Procedure

The Company adopted a formal policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

The Company did not have any acquisitions, mergers, disposals, purchases or sales through reinsurance.

Surplus Debentures

The Company had a contribution to surplus in the form of a surplus note from BCBSFL totaling \$1,400,000 in August of 2003.

The note will mature on June 30, 2018.

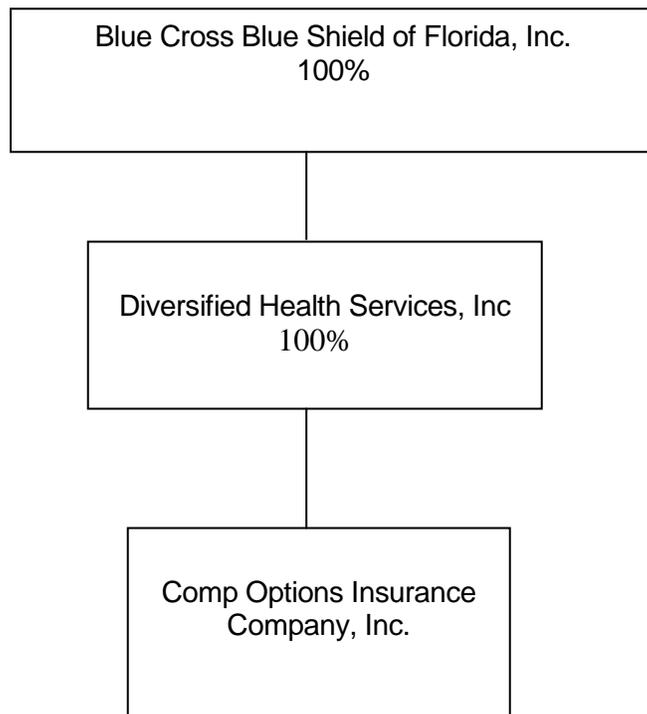
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on June 1, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

COMP OPTIONS INSURANCE COMPANY, INC. ORGANIZATIONAL CHART

DECEMBER 31, 2008



The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company and other members of the holding company system entered into an income tax allocation agreement return with its parent company. On December 31, 2008, the method of allocation between the Company and its parent was subject to written agreement among the companies.

Marketing and Administrative Services Agreement

The Company maintained an administrative services agreement with Blue Cross and Blue Shield of Florida (BCBSFL). BCBSFL agrees to provide billing and collection, network administrative, human resources, payroll, legal, facilities management, data processing, financial and general management services to the Company.

FIDELITY BOND

The Company maintained fidelity bond coverage in the amount of \$40,000,000, which was considered adequate for the Company by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

All the Company's staff are employees of the parent BCBSFL.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	US Treasury Note	<u>\$ 600,000</u>	<u>\$ 673,980</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 600,000</u>	<u>\$ 673,980</u>

INSURANCE PRODUCTS

The Company wrote workers compensation policies only in the State of Florida.

Territory

The Company was authorized to transact insurance in Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed no insurance.

Ceded

The Company ceded risk on a quota share and excess of loss basis to its parent company BCBSFL.

The Company also maintained an excess of loss agreement with Swiss Reinsurance America Corporation.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005, 2006, 2007 and 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Bank of New York for the provision of custodial services. This agreement did not contain certain provisions that were required under Rule 69O-143.042, Florida Administrative Code Section (j) and (o). Section (j) required that the custodian maintain insurance protection in an amount to protect the Company's assets and Section (o) required written notification from the custodian to the Office of Insurance Regulation if the Company terminated the agreement or withdraws 100% of the assets from the account.

Independent Auditor Agreement

The Company maintained a contract with an external CPA to perform the annual audit in compliance with Section 624.424(8) (c), Florida Statutes.

Information Technology Report

Interactive Solutions, LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned Comparative Analysis of Changes in Surplus.

COMP OPTIONS INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$34,043,017		\$34,043,017
Stocks:			
Common	2,496,721		2,496,721
Real Estate:			
Properties occupied by Company			
Other properties			
Cash:	4,627,047		4,627,047
Other investments			
Aggregate write-in for invested assets			
Agents' Balances:			
Uncollected premium	2,612,621		2,612,621
Deferred premium	8,092,862		8,092,862
Reinsurance recoverable	2,536,962		2,536,962
Net deferred tax assets	1,924,879		1,924,879
EDP Equipment			
Interest and dividend income due & accrued	79,837		79,837
Receivable from parents, subsidiaries and affiliates	143,812		143,812
Amounts receivable related to uninsured plans	520,660		520,660
Aggregate write-in for other than invested assets			
Totals	\$57,078,418		\$57,078,418

COMP OPTIONS INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$6,234,507		\$6,234,507
Loss adjustment expenses	3,015,707		3,015,707
Commissions Payable	649,870		649,870
Other expenses	706,496		706,496
Taxes, licenses and fees	410,283		410,283
Current federal income taxes	606,754		606,754
Unearned premium	5,941,330		5,941,330
Ceded reinsurance premiums payable	8,237,502		8,237,502
Amounts withheld	2,416,462		2,416,462
Dividends declared and unpaid	169,047		169,047
Payable to parent, subsidiaries and affiliates	<u>2,533,507</u>		<u>2,533,507</u>
Total Liabilities	\$30,921,465		\$30,921,465
Common capital stock	\$1,000,000		1,000,000
Surplus notes	1,400,000		1,400,000
Gross paid in and contributed surplus	22,200,000		22,200,000
Unassigned funds (surplus)	<u>1,556,956</u>		<u>1,556,956</u>
Surplus as regards policyholders	<u>\$26,156,956</u>		<u>\$26,156,956</u>
Total liabilities, surplus and other funds	<u><u>\$57,078,421</u></u>		<u><u>\$57,078,421</u></u>

COMP OPTIONS INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2008

Underwriting Income

Premiums earned		\$16,797,584
	Deductions:	
Losses incurred		(167,781)
Loss expenses incurred		1,874,088
Other underwriting expenses incurred		7,836,787
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$9,543,094
Net underwriting gain or (loss)		\$7,254,490

Investment Income

Net investment income earned		\$1,721,873
Net realized capital gains or (losses)		687,078
Net investment gain or (loss)		\$2,408,951

Other Income

Net gain or (loss) from agents' or premium balances charged off		
Finance and service charges not included in premiums		
Aggregate write-ins for miscellaneous income		
Total other income		\$9,663,441
Net income before dividends to policyholders and before federal & foreign income taxes		2,859,258
Dividends to policyholders		\$6,804,183
Net Income, after dividends to policyholders, but before federal & foreign income taxes		2,188,760
Federal & foreign income taxes		\$4,615,423
Net Income		\$4,615,423

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$24,556,853
Net Income		\$4,615,423
Net unrealized capital gains or losses		(1,053,408)
Change in non-admitted assets		(5,482,509)
Change in net deferred income tax		1,220,598
Change in excess statutory over statement reserves		
Surplus adjustments: Paid in		2,300,000
Aggregate write-ins for gains and losses in surplus		
Examination Adjustment		
Change in surplus as regards policyholders for the year		\$1,600,104
Surplus as regards policyholders, December 31 current year		\$26,156,957

COMMENTS ON FINANCIAL STATEMENTS

Assets

There were no changes to assets.

Liabilities

Losses and Loss Adjustment Expenses \$9,250,214

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The actuary contracted by the Office performed an independent analysis of the Company's loss and loss adjustment expense reserves in order to validate the reasonableness of the established liabilities for losses and loss adjustment expenses and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$26,156,956, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**COMP OPTIONS INSURANCE COMPANY, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2008, per Annual Statement	\$26,156,956
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Bonds	No adjustment needed.		
LIABILITIES:			
Other Expenses	No adjustment needed.		
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$26,156,956

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2008.

Accounts and Records

The Company had a custodial agreement with Bank of New York that did not contain certain provisions that are required under Rule 690-143.042, Florida Administrative Code sections (j) and (o). See "Custodial Agreement" Section of this report for details. **We recommend that the Company amend their custodial agreement to comply with Rule 690-143.042, Florida Administrative Code.**

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Comp Options Insurance Company, Inc. as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$26,156,956, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Samita Lamsal, Florida Office of Insurance Regulation, Financial Examiner Analyst II, participated in the examination. We also recognize Donald W. Sirois CFE, CPA, Invotex Group, Director and Matthew J. Rosendale, Invotex Group, Consultant, participated in the examination. We also recognize the participation of Interactive Solutions, LLC and Huggins Actuarial Services, Inc. in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation