

REPORT ON EXAMINATION

OF

COMP OPTIONS INSURANCE

COMPANY, INC.

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2003

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 29, 2005

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 (FS) and Rule 690-137.002(1), Florida Administrative Code (FAC), 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, 2003, of the financial condition and corporate affairs of:

**COMP OPTIONS INSURANCE COMPANY, INC.
5011 GATE PARKWAY, BLDG. 200, 4TH FLOOR
JACKSONVILLE, FL 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, 2001 through December 31, 2003. This examination commenced with planning at the Office on January 31, 2005 through February 4, 2005. The fieldwork commenced on February 7, 2005, and was concluded as of March 29, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was conducted in accordance with the Financial Examiners Handbook, Accounting Practices and Procedures Manual as adopted by Rules 69O-137.001(4), FAC and 138.001(1), FAC, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. The Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its financial statements as of December 31, 2003. Transactions subsequent to year-

end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

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

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPA, after verifying the statutory requirements, for the following accounts:

Federal income tax payable
Deferred income tax
Agents' balances

Status of Adverse Findings from Prior Examination

Cash

The general ledger account balances were not correctly stated individually.

Resolution: The general ledger account balances were again not correctly stated individually.

HISTORY

General

The Company incorporated on July 28, 1997, under the laws of the State of Florida as a stock property and casualty insurer and commenced business on September 2, 1997, with the name Comp Options Insurance Company, Inc.

In accordance with Section's 628.051 and 628.071, FS, the Company was authorized to transact workers' compensation insurance coverage, in Florida, on December 31, 2003.

The Company's articles and by-laws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2003, the Company's capitalization was as follows:

Description	Number of shares authorized	Number of shares outstanding	Par Value per share	Value
Common	5,000,000	1,000,000	\$1.00	\$1,000,000

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of the examination.

	2001	2002	2003
Premiums Earned	4,028,000	10,286,746	10,555,374
Net Underwriting Gain/(Loss)	(1,979,271)	(753,203)	1,782,909
Net Income	(1,286,614)	(826,065)	1,464,753
Total Assets	12,149,811	19,917,279	29,455,245

Total Liabilities	7,504,778	13,522,456	19,686,631
Surplus As Regards Policyholders	4,636,033	6,394,823	9,768,615

Dividends to Policyholders

The Company declared dividends to policyholders totaling \$169,050 in 2003.

Management

The annual meeting for the election of directors and officers was held in accordance with the Company's by-laws. Directors serving as of December 31, 2003 were as follows:

Directors

Name and Location	Principal Occupation
Robert Chris Doerr Jacksonville, Florida	Chairman, CEO BCBSFL Senior VP/CFO
Bruce Noel Bagni Ponte Vedra Beach, Florida	BCBSFL Senior VP/General Counsel
Joseph Lester Grantham Green Cove Springs, Florida	BCBSFL Senior VP/CSO
Barbara Greene Benevento Jacksonville, Florida	Diversified Business Group VP
Robert Ian Lufrano, MD Jacksonville, Florida	BCBSFL President/COO

Note: BCBSFL refers to Blue Cross and Blue Shield of Florida, Inc.

In accordance with the Company's by-laws, the Board of Directors appointed the following officers:

Senior Officers

Name	Title
Barbara Greene Benevento	President
Suzanne Underberg Horne	Secretary
Robert Alan Pallais	Treasurer/VP

The Company did not establish an audit committee in 2003. The Company stated that the BCBSFL Audit and Compliance Committee served as the Company's audit committee; however, the Company did not provide the BCBSFL 2003 audit committee minutes.

Conflict of Interest Procedure

The Company had adopted a formal policy statement for conflict of interests, in compliance with Rule 69O-138.001(1), FAC. The Company maintained electronic conflict of interest statements for officers and directors.

Corporate Records

The recorded minutes of the Board of Directors meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions.

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

The Company did not have any acquisitions, mergers, disposals, dissolutions, 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, 2008.

AFFILIATED COMPANIES

The Company is a wholly owned subsidiary of Diversified Health Services, Inc., which is owned by BCBSFL. The Company was organized in 1997 to market and underwrite workers' compensation insurance in the State of Florida.

Tax Allocation Agreement

The Company maintained a consolidated federal income tax agreement with its affiliates.

The Company failed to maintain a consolidated Florida income tax agreement with its affiliates and the transactions between each party could not be verified.

The Company failed to record the correct inter-company transactions on Schedule Y, Part 2 of its annual statement.

Administrative Services Agreement

The Company maintained an administrative services agreement with Florida Combined Life Insurance Company (FCL). FCL agreed to provide finance, accounting, contract compliance, human resources and clerical services to the Company.

Marketing and Administrative Services Agreement

The Company maintained a marketing and administrative services agreement with Florida Combined Insurance Agency (FCIA). FCIA agreed to provide managed care/provider network administration for contracting and certification, and also clerical services.

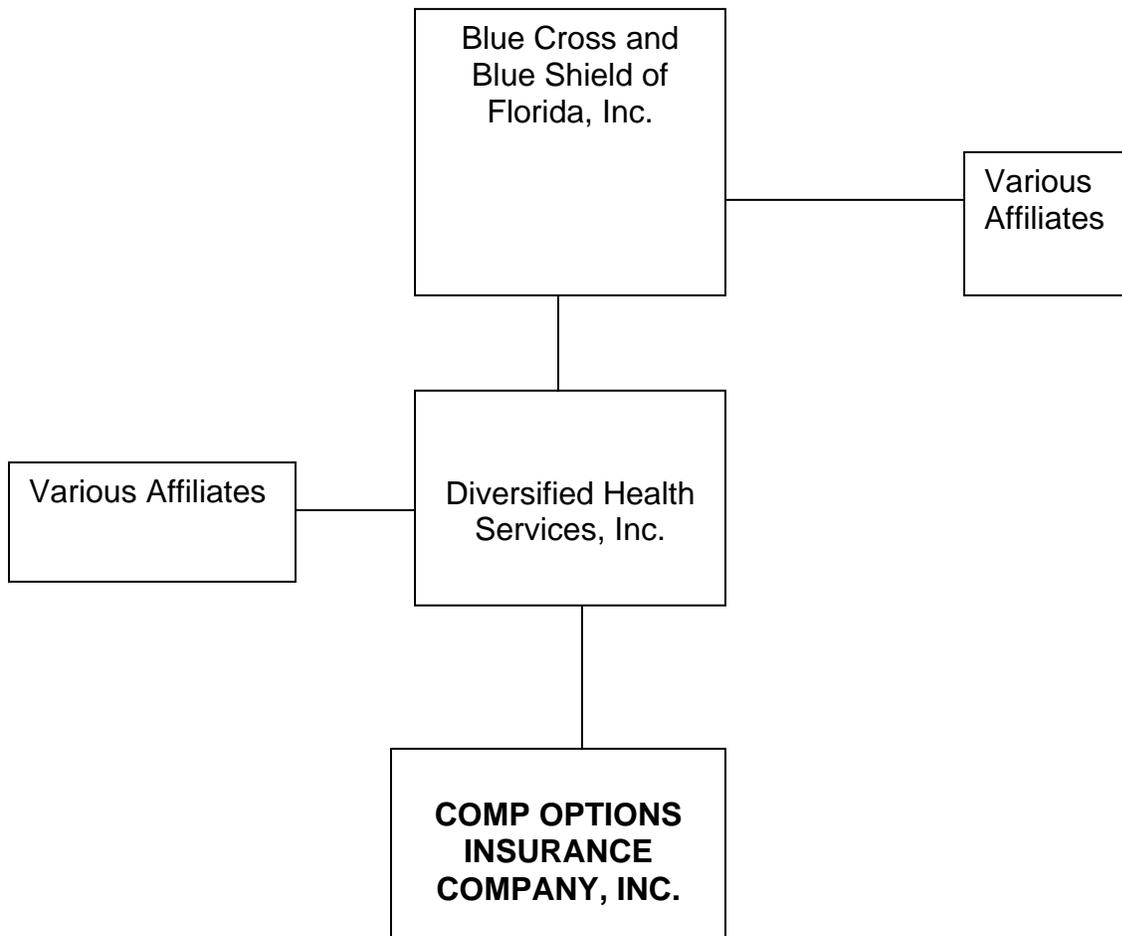
The Company maintained a marketing and administrative services agreement with BCBSFL Florida. BCBSFL agreed to provide billing, collection, marketing, sales, payroll processing, legal, data processing, accounting, investment management services, and also general management services.

The basis for the amounts paid by the Company pursuant to the three administrative and marketing services agreements was determined by the use of the cost for pricing system.

During the test of claim files, it was discovered that one claim number was used for two different claims, and that the Company issued the same policy number for two different policyholders.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system is shown below. Schedule Y of the Company's 2003 Annual Statement provided a list of related companies of the holding company group.

**COMP OPTIONS INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART
DECEMBER 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage under its parent's bond in the amount of \$10,000,000, for individuals with the authority to disburse Company funds. This fidelity bond amount adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

All of the Company's staff were paid by and provided benefits by, the parent, BCBSFL.

STATUTORY DEPOSITS

The Company maintained a security deposit with the State of Florida, in accordance with the dollar requirement of Section 624.411, FS.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	US T Note 6.125% 8/15/07	<u>\$ 600,000</u>	<u>\$ 643,620</u>
TOTAL DEPOSIT		<u>\$ 600,000</u>	<u>\$ 643,620</u>

Territory and Plan of Operation

The Company was authorized to transact workers' compensation insurance in Florida, in accordance with Section 624.401(2), FS.

REINSURANCE

The reinsurance agreements as of December 31, 2003, were reviewed and complied with NAIC standards with respect to the standard insolvency clause (except as noted below), arbitration clause, transfer of risk, and reporting and settlement information deadlines.

Assumed

The Company assumed no insurance.

Ceded

The Company maintained a quota share agreement with an affiliate, BCBSFL. The agreement did not contain an insolvency clause as required in SSAP No. 62, paragraph 8.

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

The Company incorrectly reported Affiliates US Inter-company Pooling on Schedule F, Part 4 of its annual statement. The Company should have reported all balances as Affiliates US Non-pooling.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2001, 2002 and 2003, in accordance with Section 624.424(8), FS. The CPA work papers were used where applicable during this examination.

The supporting CPA work papers were prepared as required by Rule 69O-137.002, FAC.

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 financial statements submitted to the Office, except where noted within this report.

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Wachovia Bank. The agreement did not comply with Rule 690-143.042, FAC, since it contained a clause which blanketed the terms of the agreement to comply to state and/or federal guidelines rather than being specific to the requirements of Rule 690-43.042, FAC.

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), FS.

Risk-Based Capital

The Company reported its risk-based capital requirements at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, 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.
Analysis of Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$12,168,154		\$12,168,154
Cash	5,789,634		5,789,634
Investment income due and accrued	134,378		134,378
Agents' balances	1,041,424		1,041,424
Deferred agents' balances	8,787,731		8,787,731
Reinsurance recoverable	248,635		248,635
Net deferred tax asset	502,327		502,327
Receivable from parent, subsidiaries and affiliates	762,637		762,637
Aggregate write-ins assets	20,325		20,325
Totals	<u>\$29,455,245</u>	<u>\$0</u>	<u>\$29,455,245</u>

COMP OPTIONS INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds
DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$4,586,611		\$4,586,611
Loss adjustment expense	1,136,627		1,136,627
Commission payable	377,119		377,119
Other expenses	163,628		163,628
Taxes, licenses and fees	790,318		790,318
Federal income taxes payable	602,220		602,220
Unearned premiums	4,651,540		4,651,540
Dividends declared	169,050		169,050
Ceded reinsurance premiums payable	6,367,359		6,367,359
Amounts withheld by company for account of others	33,134		33,134
Payble to parent, subsidiaries and affiliates	809,025		809,025
	<hr/>		<hr/>
Total Liabilities	\$19,686,631		\$19,686,631
Common capital stock	\$1,000,000		\$1,000,000
Surplus notes	1,400,000		1,400,000
Gross paid in and contributed surplus	13,800,000		13,800,000
Unassigned funds (surplus)	(6,431,385)		(6,431,385)
	<hr/>		<hr/>
Surplus as regards policyholders	\$9,768,615		\$9,768,615
	<hr/>		<hr/>
Total liabilities and surplus	\$29,455,246	\$0	\$29,455,246

COMP OPTIONS INSURANCE COMPANY, INC.
Statement of Income
DECEMBER 31, 2003

Underwriting Income

Premiums earned	\$10,555,374
DEDUCTIONS	
Losses incurred	2,572,312
Loss expenses incurred	1,246,676
Other underwriting expenses incurred	4,953,477
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$8,772,465</u>
Net underwriting gain or (loss)	<u>\$1,782,909</u>

Investment Income

Net investment income earned	\$495,000
Net realized capital gains or (losses)	<u>108,068</u>
Net investment gain or (loss)	<u>\$603,068</u>
Net income before dividends to policyholders and before Federal income tax	\$2,385,977
Dividends to policyholders	<u>364,711</u>
Net income, after dividends to policyholders but before Federal income tax	<u>\$2,021,266</u>
Federal and foreign income taxes	<u>556,513</u>
Net Income	<u>\$1,464,753</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, prior year	\$6,394,822
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Gains and (Losses) In Surplus

Net income	\$1,464,753
Changes in net deferred income tax	(232,802)
Change in nonadmitted assets	741,840
Change in surplus notes	<u>1,400,000</u>
Change in surplus as regards policyholders for the year	<u>\$3,373,791</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$9,768,613</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash \$5,789,634

The general ledger account balances were not correctly stated individually.

Agents' Balances \$1,041,424

The Company could not provide an accurate Agents' Balances aging schedule. Rule 69O-138.024, FAC, requires agents' balances be maintained on a policy-to-policy basis. The aged receivable report from the Company did not agree to the premium receivable balance. The year end excel spreadsheet supplied by the Company excluded current receivable amounts. The account was found to be materially accurate; therefore, no examination adjustment was made to this account.

Liabilities

Losses and LAE \$5,723,238

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, 2003, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and rendered an opinion which agreed with the outside actuarial firm. However, the Company did not properly report the ceded amounts for Adjusting and Other (AO) Reserves for accident year 2003 as required in the NAIC statutory accounting procedures. The ceded amount was greater than the direct and assumed amount. The amounts held for AO Reserves should be accurately presented, and charged to the proper year in the 2004 annual statement, as well as in future annual statement filings.

Taxes, Licenses & Fees

\$ 790,318

The Company did not accrue in their annual statement the premium taxes due at year-end totaling \$22,805, as required by Section 625.041(4), FS. No adjustment will be made by this examination due to the immateriality of the amount.

The Company erroneously reported an amount for Florida state income taxes on the line item for Payable to Parent, Subsidiaries and Affiliates in non-compliance with the NAIC's annual statement instructions.

Advance Premiums

The Company did not accrue in the annual statement the liability for advance premiums totaling \$379,458 as required by Section 625.041(4), FS. No adjustment will be made by this examination due to the immateriality of the amount.

COMP OPTIONS INSURANCE COMPANY, INC.
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2003

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 per December 31, 2003, Financial Statement	\$9,768,615
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	INCREASE (DECREASE) <u>IN SURPLUS</u>
ASSETS:			
No adjustment needed.			
LIABILITIES:			
No adjustment needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$9,768,615

SUMMARY OF FINDINGS

Compliance with Previous Directives

The Company did not comply with the finding in the previous examination report regarding the cash balances.

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 of the examination as of December 31, 2003.

General

The Company did not have a Florida Consolidated Income Tax Agreement in place in 2003. **It is recommended that the Company enter into a written agreement and provide a copy to the Office within 90 days after this report is issued.**

The Company did not provide audit committee minutes of its parent BCBSFL, who had an audit committee serving on the behalf of the Company. **It is recommended that the Company comply with Section 624.318(2), FS. and provide access to the minutes to the Office within 90 days after this report is issued.**

Subsequent event:

The Company agreed to make available to the Office, the audit committee minutes.

The Company's quota share reinsurance contract with BCBSFL did not contain an insolvency clause. **It is recommended that the Company insure that all future reinsurance agreements contain the appropriate insolvency clause.**

The Company inaccurately reported "Affiliates US Inter-company Pooling" on Part 4 of Schedule F. **It is recommended that the Company correctly report such in Schedule F in all future filings.**

The Company's custodial agreement with Wachovia Bank contained a noncompliant clause. **It is recommended that the Company amend their custodial agreement to comply with Rule 690-143.042(2), FAC. The Company should provide a copy of the amended agreement to the Office within 90 days after this report is issued.**

The Company failed to record inter-company transaction balances correctly on Schedule Y, Part 2 of their annual statement. **It is recommended that the Company correctly report such in all future filings with the Office.**

The Company used one claim number for two different claims. **It is recommended that the Company enhance controls to address this error.**

The Company issued the same policy number for two different policyholders. **It is recommended that the Company enhance controls to address this error.**

The general ledger account balances for cash were not correctly stated individually.

It is recommended that the Company review the reconciliation process and insure that the individual general ledger account balances are correctly stated.

The Company's agents' balances aging schedule was inaccurate. **It is recommended that the Company comply with Rule 69O-138.024(2), FAC. and develop a new aging report on their Instar system. The Company should provide documentation of compliance to the Office within 90 days after this report is issued.**

The Company did not accrue premium taxes or advance premiums on their annual statement. **It is recommended that the Company comply with Section 625.041(4), FS. and accrue for such in all future filings with the Office.**

The Company incorrectly reported income taxes on the line item for Payable to parent, subsidiary and affiliates on their annual statement. **It is recommended that the Company correctly report income taxes in all future filings with the Office.**

The Company did not properly report the ceded amounts for Adjusting and Other (AO) Reserves for accident year 2003. **It is recommended that the Company correctly present and charge amounts for AO Reserves in all future annual statement filings.**

CONCLUSION

The customary 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, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$9,768,615, which was in compliance with Section 624.408, FS.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Joe Boor, FCAS, Actuary, Richard Shaffer, Financial Examiner/Analyst I, Jerry Golden, Financial Examiner/Analyst II, Joel Bengo, Financial Examiner/Analyst II and Kimberly Ferrell, Financial Examiner/Analyst II participated in the examination.

Respectfully submitted,

Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation