

**REPORT ON EXAMINATION**  
**OF**  
**FCCI COMMERCIAL INSURANCE**  
**COMPANY**  
**SARASOTA, FLORIDA**

**AS OF**  
**DECEMBER 31, 2010**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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**TALLAHASSEE, FLORIDA**

**October 27, 2011**

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 Rule 69O-138.05, Florida Administrative Code, 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, 2010, of the financial condition and corporate affairs of:

**FCCI COMMERCIAL INSURANCE COMPANY  
6300 UNIVERSITY PARKWAY  
SARASOTA, FLORIDA 34240**

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, 2006, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office from July 18, 2011, to July 22, 2011. The fieldwork commenced on July 25, 2011, and concluded as of October 27, 2011.

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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no material findings or exceptions noted during the examination as of December 31, 2010.

### **Prior Exam Findings**

The following is a brief summary of items of interest, findings, and corrective action contained in the Office's prior examination report as of December 31, 2005, along with resulting action taken by the Company in connection therewith.

#### **General**

The Company wrote earthquake insurance coverage without authorization. **Resolution: The Company discontinued writing business in any line in which it was not authorized in compliance with Section 624.401(1), Florida Statutes.**

#### **Reinsurance Recoverable**

The Company did not accurately compute and report the amount of reinsurance recoverable. **Resolution: The Company computed the amount of reinsurance recoverable in accordance with NAIC Quarterly and Annual Statement Instructions as adopted by Rule 690-137.001 (4), Florida Administrative Code.**

## **Bonds**

The Company's custodial agreement with The Northern Trust Company was not in compliance with Rule 69O-143.042(2) (o), Florida Administrative Code, which states that the agreement must be terminable by the insurance company on not more than thirty (30) days' notice.

**Resolution: The Company amended the custodial agreement to comply with all parts of Rule 69O-143.042, Florida Administrative Code.**

## **HISTORY**

### **General**

The Company is a Florida-domiciled property and casualty insurer that was organized in 1988, as FCCI Commercial Fund. On February 18, 2000, the Company was converted to a stock property and casualty company and the name was changed to FCCI Property and Casualty Insurance Company. The Company's name was changed to FCCI Commercial Insurance Company effective on January 1, 2001. The Company began writing commercial property and casualty lines in the State of Florida during 2001.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Fire	Allied lines
Commercial multi peril	Farmowners multi peril
Inland marine	Workers' compensation
Other liability (including Product liability)	Glass
Burglary and theft	Boiler and machinery
Commercial automobile liability	Fidelity
Commercial auto physical damage	

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

## **Dividends to Stockholders**

No dividends were declared or paid during the period covered by this examination.

## **Capital Stock and Capital Contributions**

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$100,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, FCCI Insurance Group, Inc., who owned 100% of the stock issued by the Company; they in turn were 100% owned by FCCI Insurance Company (FIC); 100% owned by FCCI Group, Inc.; 100% owned by FCCI Mutual Insurance Holding Company, a Florida mutual holding company.

## **Surplus Debentures**

The Company did not issue any surplus debentures.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during this examination.

## **CORPORATE RECORDS**

The recorded minutes of the shareholder, Board of Directors (Board), 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, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## **MANAGEMENT AND CONTROL**

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

#### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Charles Robert Baumann Sarasota, Florida	Director / CPA
Robert Weld Benjamin Sarasota, Florida	Vice President / Attorney
Timothy Joseph Clarke Sarasota, Florida	President / Marketing Consultant
Robert Winthrop Flanders Sarasota, Florida	President / Business Owner
Marvin Stephen Haber Sarasota, Florida	Retired
Gordon William Jacobs Sarasota, Florida	CEO, FCCI Mutual Insurance Holding Co.
John Thomas Stafford Sarasota, Florida	Vice Chairman / Director
Roy Allan Yahraus Sarasota, Florida	Sales Manager

In accordance with the Company's bylaws, the Board appointed the following senior officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
Gordon William Jacobs	President & CEO
Debra Horner Douglas	Executive Vice President & Secretary
Craig Allan Johnson	Executive Vice President, CFO & Treasurer
Rupert Lee Willis	Executive Vice President & Chief Regional Officer
Joseph Anthony Keene	Executive Vice President
Christopher Samir Shoucair	Senior Vice President, Controller & Assistant Treasurer

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2010:

<b>Executive Committee</b>	<b>Audit Committee</b>	<b>Investment Committee</b>
John Stafford <sup>1</sup>	Charles Baumann <sup>1</sup>	Marvin Haber <sup>1</sup>
G.W. Jacobs	Robert Flanders	Charles Baumann
	Timothy Clarke	Timothy Clarke
	Robert Benjamin	Robert Benjamin

<sup>1</sup> Chairman

### Subsequent Events

There have been changes in the management of the Company subsequent to the examination date. Effective in May 2011: Gordon "G.W." Jacobs, President and Chief Executive Officer retired. Craig Johnson was promoted to President and Chief Executive Officer, Chris Shoucair was promoted Chief Financial Officer and Treasurer and Michelle Jalbert was promoted to Controller and Assistant Treasurer.

## **Affiliated Companies**

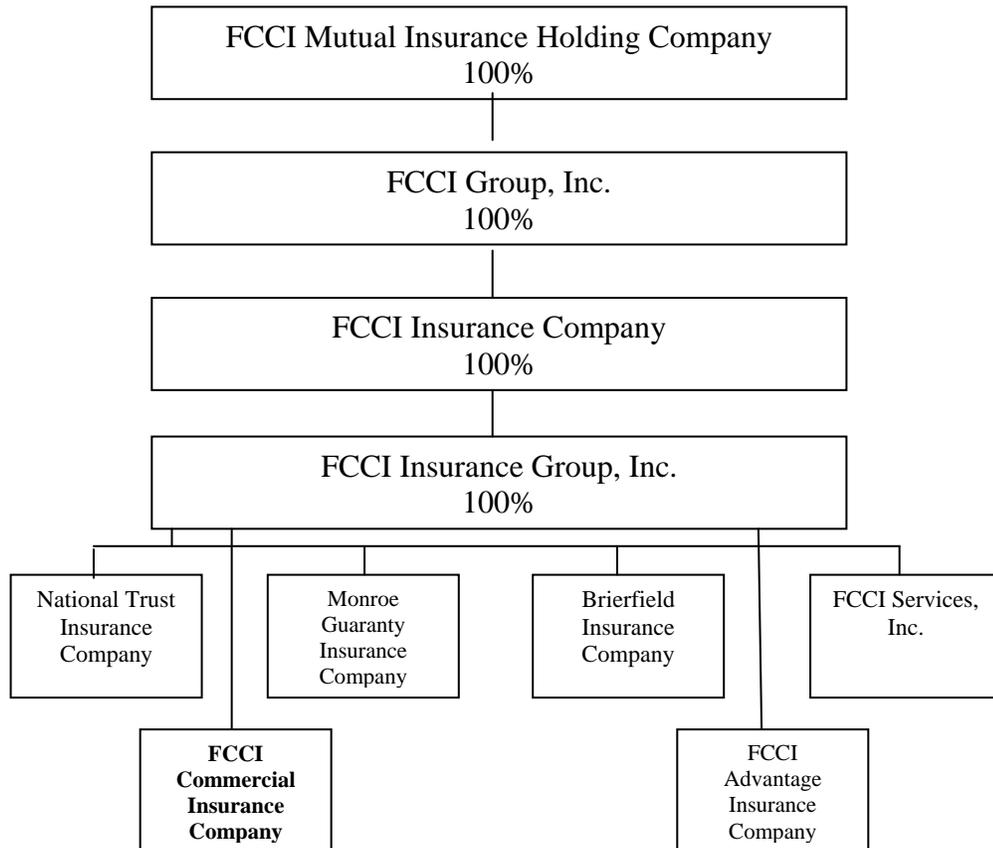
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 28, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

# FCCI COMMERCIAL INSURANCE COMPANY

## Organizational Chart

DECEMBER 31, 2010



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

### **Tax Allocation Agreement**

The Company, along with its affiliates, filed a consolidated federal income tax return. On December 31, 2010, the method of allocation was the “separate-entity” basis described in Internal Revenue Code Section 1552(a)(2) and Treasury Regulation 1552-1(a)(2) which was the percentage of tax each member would bear compared to the total tax of all members, if computed on separate returns.

### **Management Services Agreement**

The Company, along with its parents and affiliates, had a management services agreement with FCCI Services, Inc., an affiliate, which provided insurance and general management services including, but not limited to: underwriting, premium formulation, collection services, loss control, claims management, portfolio investment management, actuarial services, accounting services, internal auditing, treasury and banking services, legal services, regulatory affairs, internal operations, personnel, information systems, marketing, facilities management, tax services, reinsurance services, corporate governance, and other services related to the effective management of the Company’s business.

### **Reinsurance Agreements**

The Company participates in a 100% quota share ceded reinsurance and loss portfolio transfer agreements with FIC.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company's ultimate parent, FCCI Mutual Insurance Holding Company, maintained fidelity bond coverage, which included the Company, up to \$5,000,000 with a deductible of \$50,000, which met the suggested minimum as recommended by the NAIC.

The Company also was a named insured on a commercial property and general liability policy, workers' compensation and employer's liability policy, commercial umbrella liability policy, and business auto policy.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

Pension, stock ownership, and insurance plans did not apply to the Company, as it did not have any employees. FCCI Services, Inc. employed all the personnel and through an allocation agreement charged each of the subsidiary companies.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance only in the State of 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.

## COMPANY GROWTH

All premiums were ceded to and earned by the parent company. Commissions payable decreased as a result of a decrease in retail agent commission payable and a decrease in contingent commission payable. Advanced premiums decreased due to a reduction in direct written premiums. The underwriting loss relates to expenses which were in excess of ceded reinsurance commissions. Net income increased primarily due to net realized capital gains. The decrease in total assets was primarily attributable to the decrease in bonds and cash. The decrease in total liabilities was primarily attributable to the decrease in ceded reinsurance premiums payable. Surplus as regards policyholders increased nearly 25%.

### Profitability of Company

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

	2010	2009	2008	2007	2006
Premiums Earned	0	0	0	0	0
Net Underwriting Gain/(Loss)	(\$192,087)	(\$323,536)	(\$140,259)	(\$491,421)	(\$510,480)
Net Income	\$406,560	\$266,035	\$281,351	\$205,636	\$235,760
Total Assets	\$12,899,183	\$12,731,629	\$11,832,266	\$12,463,514	\$13,915,483
Total Liabilities	(\$3,146,867)	(\$2,881,369)	(\$3,532,725)	(\$2,629,247)	\$1,040,160
Surplus As Regards Policyholders	\$16,046,050	\$15,612,998	\$15,364,991	\$15,092,761	\$12,875,323

## LOSS EXPERIENCE

There were no significant changes to the Company's loss experience

## **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 did not assume any reinsurance.

### **Ceded**

The Company ceded 100% of written premium to an upstream parent, FIC. In this agreement, the reinsurer, FIC, would indemnify 100% of the Company's losses under the Company's policies.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Sarasota, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2009 and 2010, 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 had a custodial agreement with Northern Trust Company, dated March 13, 2006. It was amended September 7, 2006 and January 1, 2009. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

## **INFORMATION TECHNOLOGY REPORT**

RSM McGladrey 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.

## **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	USTNTS 4.25%, 08/15/2014	\$325,000	\$358,592

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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."

**FCCI COMMERCIAL INSURANCE COMPANY**

**Assets**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$12,315,413		\$12,315,413
Cash and Short-Term Investments	(107,855)		(107,855)
Investment income due & accrued	107,004		107,004
Net deferred tax asset	38,579		38,579
other than invested assets	546,042		546,042
	<hr/>		
Totals	\$12,899,183	\$0	\$12,899,183
	<hr/> <hr/>		

**FCCI COMMERCIAL INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Commissions payable, contingent commissions and other similar charges	\$1,163,362		\$1,163,362
Taxes, licenses and fees	182,653		182,653
Current federal and foreign income taxes	259,675		259,675
Advance premium	135,874		135,874
Ceded reinsurance premiums payable	(5,566,790)		(5,566,790)
Amounts withheld or retained by company for account of others	230,423		230,423
Remittances and itmes not allocated	14,524		14,524
Aggregate write-ins for liabilities	433,412		433,412
<b>Total Liabilities</b>	<b>(\$3,146,867)</b>	<b>\$0</b>	<b>(\$3,146,867)</b>
Aggregate write-ins for special surplus funds	\$5,446		\$5,446
Common capital stock	100,000		100,000
Gross paid in and contributed surplus	16,150,000		16,150,000
Unassigned funds (surplus)	(209,396)		(209,396)
Surplus as regards policyholders	\$16,046,050	\$0	\$16,046,050
<b>Total liabilities, surplus and other funds</b>	<b>\$12,899,183</b>	<b>\$0</b>	<b>\$12,899,183</b>

**FCCI COMMERCIAL INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2010**

**Underwriting Income**

Premiums earned		\$0
	<b>Deductions:</b>	
Losses incurred		\$0
Loss expenses incurred		0
Other underwriting expenses incurred		192,087
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$192,087
Net underwriting gain or (loss)		(\$192,087)

**Investment Income**

Net investment income earned		\$342,418
Net realized capital gains or (losses)		225,740
Net investment gain or (loss)		\$568,158

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$288,292)
Finance and service charges not included in premiums		451,659
Aggregate write-ins for miscellaneous income		5,244
Total other income		\$168,611
Net income before dividends to policyholders and before federal & foreign income taxes		\$544,682
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$544,682
Federal & foreign income taxes		138,122
Net Income		\$406,560

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$15,612,998
Net Income		\$406,560
Net unrealized capital gains or losses		0
Change in non-admitted assets		0
Change in net deferred income tax		26,492
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$433,052
Surplus as regards policyholders, December 31 current year		\$16,046,050

A comparative analysis of changes in surplus is shown below.

**FCCI COMMERCIAL INSURANCE COMPANY**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2010**

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, 2010, per Annual Statement	\$16,046,050
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u>\$16,046,050</u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$0

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, 2010, 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 engaged an independent actuarial firm, RSM McGladrey, Inc., to review the loss and loss expense obligations carried in the Company's balance sheet as of December 31, 2010. They were in concurrence with this opinion.

### Capital and Surplus

The amount reported by the Company of \$16,046,050 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FCCI Commercial Insurance Company** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$16,046,050, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John J. D'Amato, CPA, Examiner-In-Charge; Michael C. Dubin, FCAS MAAA, Consulting Actuary; Jared Rubinstein, Participating Examiner; Amber Webster, Participating Examiner; Philip E. McMurray, CISA IT Manager; and Margaret C. Spencer, CFE, all of RSM McGladrey; and Kyra Brown, APIR, Financial Specialist; and Syntia King, APIR, Financial Examiner/Analyst II of the Office participated in the examination.

Respectfully submitted,

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