

**REPORT ON EXAMINATION**  
**OF THE**  
**FCCI COMMERCIAL INSURANCE COMPANY**

**SARASOTA, FLORIDA**

**AS OF**

**DECEMBER 31, 2002**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida  
October 30, 2003

Kevin M. McCarty  
Director  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0300

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316/641.27, Florida Statutes (FS), 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, 2002, of the financial condition and corporate affairs of the:

**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, 2002 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2001. This examination commenced with planning at the Office on August 14, 2003. The fieldwork commenced on August 17, 2003 and was concluded as of October 30, 2003. 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 a statutory financial examination conducted in accordance with the Financial Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 4-137.001(4) and 4-138.001, Florida Administrative Code (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. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant 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 annual statement as of December 31, 2002. Transactions subsequent to year-end 2002 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.

### **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, 2001, along with resulting action taken by the Company in connection therewith.

### **Reinsurance**

The Company was in violation of Rule 4-143.047, FAC and its reinsurance agreement in that the accounts and records maintained by the Company did not clearly and accurately disclose the precise nature and details of the transactions for each company in the holding company system. The Company had not settled its outstanding reinsurance obligations, recoverable or payables, as reported on its 2001 annual statement. The Company's reinsurance agreement stated that amounts due are to be settled within 30 days after receipt of statement.

### **Resolution:**

The inter-company reinsurance balances have been settled, and are settled on a monthly basis. The Company no longer use offsets in accounting for the reinsurance recoverable and payable.

## **Administration and Claims Service Agreement**

As of December 31, 2001, the Company was party to an Administration and Claims Service Agreement with its affiliate, FCCI Services, Inc. (FSI) formerly known as Florida Employers Insurance Service Corporation, a licensed third party administrator, to act as the Company's Administrator and Service Agent. However, the agreement, originally executed in 1990, did not reflect the correct names of the Company's trustees or the correct Company name and address.

### **Resolution:**

The Administrative and Claims Service Agreement was updated to reflect the correct names and addresses.

## **HISTORY**

### **General**

In 1999, the Trustees of FCCI Commercial Fund submitted an application for a Plan of Reorganization to the Office. On February 18, 2000, a consent order was issued allowing the FCCI Commercial Fund to convert to a stock property and casualty company. At the same time, the stock company was issued a Certificate of Authority for the same lines of business as the FCCI Commercial Fund had and an additional three new lines of business which had been requested in the Plan of Reorganization. In accordance with the Plan of Reorganization and the Consent Order, a certificate for the stock of FCCI Property and Casualty Insurance Company was issued to its parent, FCCI Insurance Group, Inc. FCCI Property and Casualty Insurance Company was incorporated in Florida on March 7, 2000.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in the State of Florida on December 31, 2002:

Fire  
Commercial Multi Peril  
Workers Compensation  
Commercial Auto Liability  
Fidelity  
Burglary and Theft

Allied Lines  
Inland Marine  
Other Liability  
Commercial Auto Physical  
Glass  
Boiler & Machinery

The articles of incorporation were amended and restated on January 24, 2001, to reflect the Company's name change to FCCI Commercial Insurance Company. The by-laws were amended and restated on July 25, 2002.

FCCI Commercial Insurance Company's certificate of authority included Boiler & Machinery provided they submit a rate filing demonstrating that they would be writing in this line, a business plan, and a copy of reinsurance placement slip and executed reinsurance agreement with Hartford Steam Boiler.

A business plan, rate filing, and executed copies of the reinsurance agreement with Hartford Steam Boiler were provided to the Office.

### **Capital Stock**

As of December 31, 2002, 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

Control of the Company was maintained by its parent, FCCI Insurance Group, Inc., who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by FCCI Insurance Company, a Florida corporation.

### **Profitability of Company**

The Company's net underwriting gain (loss) for 2000, 2001, 2002 was (\$70,517), (\$90,565), and (\$856,721), respectively. Net income (loss) during the same period was (\$65,738), \$65,982, and (\$661,657).

### **Dividends to Shareholders/Policyholders**

Dividends were not paid to policyholders or shareholders during this examination period.

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2002, were:

#### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Russell Ashmore Currin, Jr. Sarasota, Florida	President CFS Management Corp.
Albert Lee Conyers Sarasota, Florida	Architect
Robert Winthrop Flanders Sarasota, Florida	President/owner Quality Walls
Harvey Ronald Foxworthy Sarasota, Florida	Retired – Former Chairman Rusty Plumbing

Marvin Stephen Haber Sarasota, Florida	Retired – Former President Haber Management
John Thomas Stafford Sarasota, Florida	President Suncoast National Bank
Charles Edward Stottlemeyer Sarasota, Florida	Retired – former President Stottlemeyer & Shoemaker Lumber
Gordon William Jacobs Sarasota, Florida	President FCCI Mutual Holding Company and subsidiaries
William Eugene Getzen Sarasota, Florida	Retired – Former Attorney Williams, Parker, Harrison, Dietz & Getzen

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

#### **Senior Officers**

<b>Name</b>	<b>Title</b>
Gordon W. Jacobs	President and CEO
Charles Bachand	Executive VP, CFO, Treasurer
Debra Douglas	Executive Vice President
Joseph Keene	Executive Vice President
Robert McManus	Executive VP, Secretary
David Webber	Executive VP, COO
Olivia Thomas	Senior VP & Asst. Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. The following are the principal internal board committees and their members as of December 31, 2002:

#### **Investment Committee**

Albert Conyers, Chairman	Harvey Foxworthy
William Getzen	Charles Stottlemeyer

## **Audit Committee**

Harvey Foxworthy, Chairman  
William Getzen

Robert Flanders  
Charles Stottlemeyer

### **Conflict of Interest Procedure**

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

### **Corporate Records**

The recorded minutes of the shareholder, Board of Directors, and Investment Committee meetings were reviewed for the period under examination. The recorded minutes of the board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

### **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through**

#### **Reinsurance**

There were no mergers, disposals, dissolutions, purchase, or sales through reinsurance as of December 31, 2002.

### **Surplus Debentures**

The Company had no surplus debentures as of December 31, 2002,

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 4-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on August 20, 2002, as required by Section 628.801, FS, and Rule 4-143.046, FAC.

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

### **Tax Allocation Agreement**

The Company, along with its parent, FCCI Group Inc, and its affiliates filed a consolidated federal income tax return. On December 31, 2002, the method of allocation between the Company and its parent was based upon separate return calculations with current credit for net losses, in accordance with Treasury Regulation Sections. Inter-company tax balances were settled annually in the first quarter.

### **Administration and Claims Service Agreement**

As of December 31, 2002, the Company was party to an Administration and Claims Service Agreement with its affiliate, FSI, a licensed third party administrator, to act as the Company's administrator and service agent.

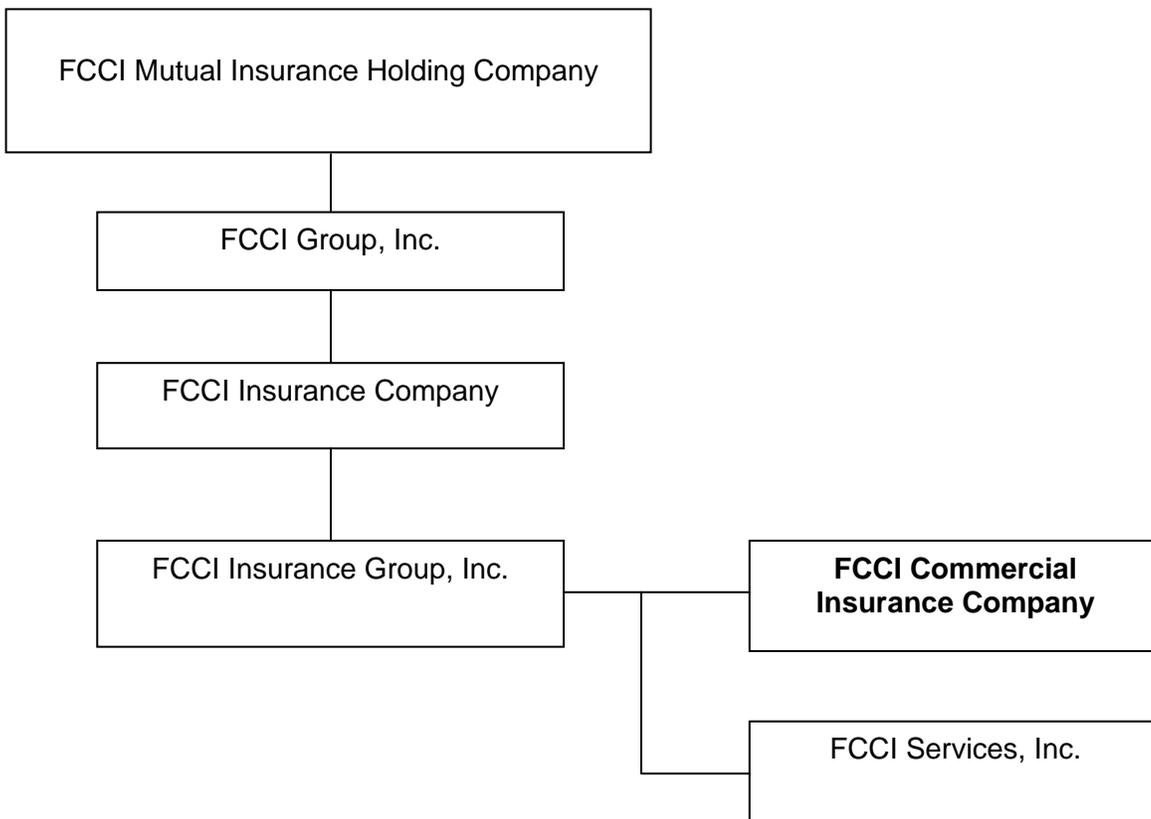
Under the agreement, FSI implemented the policies and carried out the instructions of the directors and officers of the Company with respect to the management of the Company. FSI supervised and was responsible for all activities of all legal entities and personnel involved in the services provided for loss control, claims management, actuarial loss development, sales promotion, systems design, rehabilitation, data processing, accounts receivable, auditing and billing, accounts payable, general office operation, publication of newsletters, service to the officers and board of directors,

bookkeeping and other services associated with the claims arising against the Company. In consideration of FSI's performance of work, FSI was paid for the costs incurred.

A simplified organizational chart as of December 31, 2002, reflecting the holding company system is shown below. Schedule Y of the 2002 Annual Statement provided a list of all related companies of the holding company group.

**FCCI COMMERCIAL INSURANCE COMPANY**

**ORGANIZATIONAL CHART  
DECEMBER 31, 2002**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$1,500,000 with a single loss deductible of \$30,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company had no other insurance coverage in effect as of December 31, 2002.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company was authorized to transact insurance in the State of Florida, in accordance with Section 624.401(2), FS.

### **Treatment of Policyholders**

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

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

The Company was a wholly owned subsidiary of FCCI Group, Inc. (FIG). Insurance and non-insurance related services were provided through FIG, a wholly owned subsidiary. The Company did not have a defined benefit or contribution plan in effect as December 31, 2002.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	CD, 2.08%, 02/03/2003	\$ 70,000	\$ 70,000
FL	CD, 1.64%, 09/21/2003	\$130,000	\$130,000
FL	CD, 1.64%, 09/21/2003	<u>\$100,000</u>	<u>\$100,000</u>
TOTAL FLORIDA DEPOSITS		\$300,000	\$300,000
Total Special Deposits		<u>\$300,000</u>	<u>\$300,000</u>

## REINSURANCE

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

### Assumed

The Company did not assume risk.

### Ceded

The Company ceded risk on a quota share basis. The Company ceded 90% of its written business to FCCI Insurance Company, an affiliate, and authorized reinsurer.

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

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statement for the year 2002 in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 4-137.002, FAC.

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

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

The Company had no agreements with non-affiliated companies.

### **Risk-Based Capital**

The Company reported its Risk-Based Capital at an adequate level.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2002, 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, 2002**

<b>Classification</b>	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Cash:			
On deposit	\$4,742,935		\$4,742,935
Short-term Investments	3,479,879		3,479,879
Agents' Balances:			
Uncollected premium	2,325,412		2,325,412
Deferred premium	11,364,772		11,364,772
Reinsurance Recoverable	309,575		309,575
Federal income tax recoverable	219,658	\$6,580	213,078
Interest and dividend income due & accrued	8,506		8,506
Receivable from PSA	2,191,410		2,191,410
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Totals	\$24,642,147	\$6,580	\$24,635,567
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**FCCI COMMERCIAL INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2002**

**Liabilities**

Losses		\$1,658,625
Loss adjustment expenses		220,890
Commissions Payable		1,297,246
Other expenses		435,174
Taxes, licenses and fees		483,099
Unearned premium		1,865,642
Advanced Premiums		101,621
Ceded reinsurance premiums payable		12,932,809
Amounts Withheld or Retained by Company		21,195
Remittances and items not allowed		16,515
Payable to parent, subsidiaries and affiliates		367,974
 Total Liabilities		 \$19,400,790
 Common capital stock	 \$100,000	
Gross paid in and contributed surplus	6,150,000	
Unassigned funds (surplus)	(1,015,223)	
Surplus as regards policyholders	<u>5,234,777</u>	
 Total liabilities, capital and surplus		 <u><u>\$24,635,567</u></u>

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

**DECEMBER 31, 2002**

**Underwriting Income**

Premiums earned	\$2,562,550
DEDUCTIONS:	
Losses incurred	2,074,413
Loss expenses incurred	373,884
Other underwriting expenses incurred	970,974
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$3,419,271</u>
Net Underwriting Income	<u>0</u>
Net underwriting gain or (loss)	(\$856,721)

**Investment Income**

Net investment income earned	\$62,768
Net realized capital gains or (losses)	269
Net investment gain or (loss)	<u>\$63,037</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	65,152
Aggregate write-ins for miscellaneous income	0
Total other income	<u>\$65,152</u>

Net income before dividends to policyholders and before federal & foreign income taxes	(\$728,532)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$728,532)
Federal & foreign income taxes	<u>(66,875)</u>
Net Income	(\$661,657)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$5,775,516
<b>Gains and (Losses) in Surplus</b>	
Net Income	(\$661,657)
Net unrealized capital gains or losses	0
Change in net deferred income tax	125,555
Change in non-admitted assets	(4,637)
Examination Adjustment	
Change in surplus as regards policyholders for the year	<u>(\$540,739)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$5,234,777</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

**\$1,879,515**

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried on the balance sheet as of December 31, 2002, 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 was in concurrence with this opinion.

**FCCI COMMERCIAL INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2002**

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, 2002, Annual Statement	\$5,234,777
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	\$24,635,567	\$24,635,567	\$0
LIABILITIES:	\$19,400,790	\$19,400,790	\$0

Net Change in Surplus:	\$0
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Surplus as Regards Policyholders December 31, 2002, Per Examination	\$5,234,777
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## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company had taken the necessary actions to comply with the comments made in the 2001 Examination Report issued by the Office.

### **Current examination comments and corrective action**

No corrective action required to be taken by the Company.

## **SUBSEQUENT EVENTS**

As of August 2003, Craig Johnson replaced Olivia Thomas as Vice President.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **FCCI Commercial Insurance Company** as of December 31, 2002, consistent with the Insurance Laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,234,777, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CFE, CPA, DABFA, CFE, Financial Examiner/Analyst Supervisor, and Doug Hazeltine, Actuary, participated in the examination.

Respectfully submitted,

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James D. Collins  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation