

**REPORT ON EXAMINATION**  
**OF**  
**FLORIDA DOCTORS INSURANCE**  
**COMPANY**  
**JACKSONVILLE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2008**

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

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Tallahassee, Florida

May 07, 2010

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:

**FLORIDA DOCTORS INSURANCE COMPANY  
4655 SALISBURY ROAD  
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, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on February 22, 2010 to February 26, 2010. The fieldwork commenced on March 1, 2010 and concluded as of May 7, 2010.

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 Demotech rating 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, 2007, along with resulting action taken by the Company.

#### **Management**

The Company did not have an independent audit committee. **Resolution:** The Company replaced the member of management from the audit committee with a non-management director.

#### **Aggregate write-ins for invested assets**

Aggregate write-ins for invested assets reported as \$16,107,372, were reduced by \$497,808 to record the adjustment carried to the 2007 audited financial statements. **Resolution:** The Company booked the adjustments in the subsequent accounting period.

#### **Uncollected Premiums**

Uncollected premiums reported as \$5,335,380, were reduced by \$196,801 to record the adjustment carried to the 2007 audited financial statements. **Resolution:** The Company booked the adjustments in the subsequent accounting period.

**Reinsurance: Funds held by or deposited with reinsured companies**

Reinsurance: Funds held by or deposited with reinsured companies reported as \$0, were increased by \$372,805 to record the adjustment carried to the 2007 audited financial statements.

**Resolution:** The Company booked the adjustments in the subsequent accounting period.

**Taxes, licenses and fees**

The amount reported by the Company of \$43,869, was decreased by \$23,019 to record the adjustment carried to the 2007 audited financial statements. **Resolution:** The Company booked the adjustments in the subsequent accounting period.

**Current federal and foreign income taxes**

The amount reported by the Company of \$440,737, was decreased by \$134,477 to record the adjustment carried to the 2007 audited financial statements. **Resolution:** The Company booked the adjustments in the subsequent accounting period.

**Unearned premiums**

The amount reported by the Company of \$9,969,904, was increased by \$1,338,372 to record the adjustment carried to the 2007 audited financial statements. **Resolution:** The Company booked the adjustments in the subsequent accounting period.

**Advance premiums**

The amount reported by the Company of \$941,706, was decreased by \$224,619 to record the adjustment carried to the 2007 audited financial statements. **Resolution:** The Company booked the adjustments in the subsequent accounting period.

### **Ceded reinsurance premiums payable**

The amount reported by the Company of \$568,625, was increased by \$301,219 to record the adjustment carried to the 2007 audited financial statements. **Resolution:** The Company booked the adjustments in the subsequent accounting period.

### **Aggregate write-ins for liabilities: Retroactive reinsurance reserve**

The amount reported by the Company of \$10,992,400, was decreased by \$1,333,800 to record the adjustment carried to the 2007 audited financial statements. **Resolution:** The Company booked the adjustments in the subsequent accounting period.

## **HISTORY**

### **General**

The Company was incorporated in Florida on October 28, 2005, and commenced business on November 3, 2005 as Florida Doctors Insurance Company.

The Company was a party to Consent Order 83771-05, filed October 24, 2005, regarding the application for the issuance of a Certificate of Authority. The Company was also party to Consent Order 90311-07, filed May 23, 2007, regarding the acquisition of all the issued and outstanding membership interest in Florida Healthcare Providers Insurance Services Company, LLC, the Attorney-in-Fact of Florida Healthcare Providers Insurance Exchange (FLHPIX), by Florida Doctors Holding Company, LLC. The Company was in compliance with both Consent Orders.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Medical Malpractice  
Other Liability  
Reinsurance Medical Malpractice  
Reinsurance Other Liability

In 2008, the Company requested to amend its Certificate of Authority to add the lines of Other Liability, Reinsurance Medical Malpractice, and Reinsurance Other Liability. The Office granted the request effective September 29, 2008. In 2009, the Company removed the lines of Reinsurance Medical Malpractice and Reinsurance Other Liability. In 2009, the Company did not write business in Other Liability, and the Office requested that the Company remove that line from its Certificate of Authority. The Company responded that it would commence writing Other Liability business and would seek a rate filing for it. In 2010, the Company has written in the line of Medical Malpractice.

The Articles of Incorporation and the Bylaws 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	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$10,000,000
Par value per share	\$10.00

Control of the Company was maintained by its parent, Florida Doctors Holding Company (FDHC), who owned 100% of the stock issued by the Company.

## Profitability of Company

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Premiums Earned	20,129,667	5,582,148	1,956,950
Net Underwriting Gain/(Loss)	3,360,027	114,029	(678,746)
Net Income	2,844,591	(561,652)	(281,489)
Total Assets	45,227,006	36,918,604	13,572,662
Total Liabilities	32,567,768	26,895,048	3,716,453
Surplus As Regards Policyholders	12,659,240	10,023,556	9,856,209

## Dividends to Stockholders

There were no dividends declared or paid to its stockholder during the period covered by this examination. **Subsequent event:** On April 6, 2009, the Company authorized a dividend of \$1.75 million to be paid to its Shareholder, Florida Doctors Holding Company. This dividend was approved by the Office and paid on April 13, 2009.

## Management

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

### Directors

#### Name and Location

Elizabeth Proctor Kagan  
Ft Myers, Florida

Clay Morris Biddinger  
Palm Harbor, Florida

#### Principal Occupation

Attorney

Entrepreneur

Jose Ramon Foradada Tampa, Florida	Doctor
Wayne Isaacson Ft Myers, Florida	Doctor
Charles Hamilton Knox Ft Myers, Florida	Certified Public Accountant
William Richard Russell Ponte Vedra Beach, Florida	CEO, Florida Doctors Insurance Company

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

#### **Senior Officers**

<b>Name</b>	<b>Title</b>
Kurt John Cetin	President
William Richard Russell	CEO
Mark Cecil Shealy	CFO
Melodee Susanne Dixon	COO

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

<b>Executive Committee</b>	<b>Audit Committee</b>	<b>Finance, Budget, and Investment Committee</b>
Elizabeth Proctor Kagan <sup>1</sup>	Charles Hamilton Knox <sup>1</sup>	Charles Hamilton Knox <sup>1</sup>
Charles Hamilton Knox	Clay Morris Biddinger	Clay Morris Biddinger
Clay Morris Biddinger	Wayne Isaacson	Wayne Isaacson
Wayne Isaacson		
William Richard Russell		

<sup>1</sup> Chairman

### **Conflict of Interest Procedure**

The Company adopted a 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**

There were no mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period covered by this examination.

### **Surplus Debentures**

The Company had no surplus debentures.

## **AFFILIATED COMPANIES**

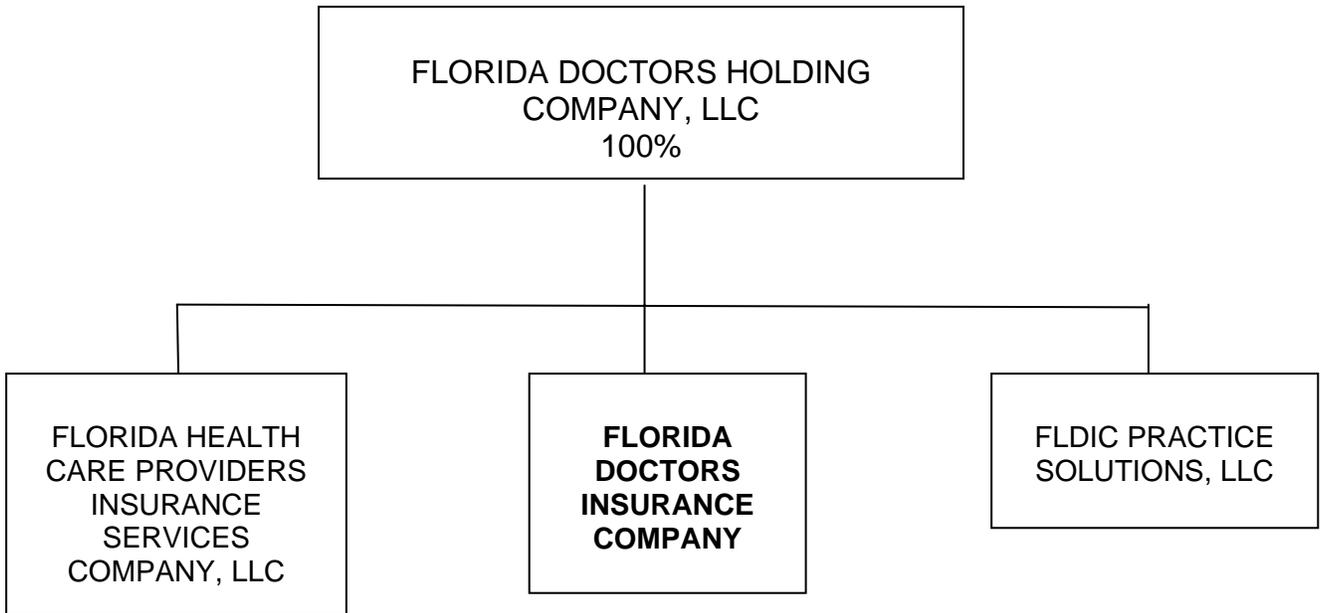
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration

statement was filed with the State of Florida on January 13, 2010, 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.

**FLORIDA DOCTORS INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2008**



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

### **Cost Sharing Agreement**

Effective June 1, 2007, but entered into on February 22, 2008, the Company was party to a Cost Allocation Agreement with Florida Healthcare Providers Insurance Services Company (FLHPISC) and FLHPIX. This agreement covered shared expenses related to IT, accounting, executive management, and actuarial. The agreement was in place covering expenses incurred from June 1, 2007, to December 31, 2007, terminating as of December 31, 2007, for most expenses as FLHPIX operations were rolled into the Company. The agreement continued in force, until December 31, 2008, with regards to the payment of commissions to independent retail agents on business placed with FLHPIX by FLHPISC. FLHPISC agreed to fully disclose these commissions to the Company and transfer the assets needed to pay any commissions related to business placed with FLHPIX until December 31, 2008.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained professional Errors and Omissions (E&O) liability insurance with limits of \$1,000,000, employment practices liability with limits of \$1,000,000, a Package Policy which includes property, umbrella and extension of coverage with a general aggregate of \$2,000,000, and workers compensation insurance with limits of \$500,000.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension plans or stock ownership plans; however, the Company sponsors a defined contribution plan covering substantially all employees, i.e., a "SIMPLE Plan" as defined by the Internal Revenue Service Code. The plan allows employees to contribute a percentage of their salary. The Plan may be terminated at any time with the Company not having any continuing obligation.

## 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	Cash	<u>\$ 500,000</u>	<u>\$ 500,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 500,000</u>	<u>\$ 500,000</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$500,000</u></u>	<u><u>\$500,000</u></u>

## INSURANCE PRODUCTS

### Territory

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.

## **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**

Effective December 31, 2007, the Company entered into a portfolio reinsurance agreement with FLHPIX, an entity under common control and that has common business interests, to assume all prior and future liabilities related to FLHPIX's liabilities on prior and in force policies. Under the agreement, the Company assumed loss reserves of \$9,658,600; unearned premiums of \$5,528,122; death, disability, and retirement reserves of \$1,333,800; premiums receivable of \$1,837,921; and other liabilities of \$922,638. The Company was due \$15,605,239 from FLHPIX at December 31, 2007. **Subsequent event:** The Company received \$15,605,239 in cash and securities related to the FLHPIX portfolio reinsurance agreement during 2008.

### **Ceded**

As a result of the portfolio reinsurance agreement with FLHPIX, effective January 1, 2008, the Company renegotiated excess of loss treaty covering both itself and assumed business from FLHPIX with various reinsurers. In addition, the Company entered into an Awards Made treaty covering the period January 1, 2008, through January 1, 2009, which provides supplementary coverage for both FLDIC and assumed FLHPIX policies on a retroactive and going forward

basis. The Company utilized the services of a properly licensed reinsurance intermediary, Axiom Re, Inc.

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 Jacksonville, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 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 had a custodial agreement with Investors Security Trust Company, dated November 1, 2005, amended January 30, 2007. The agreement did not contain all of the required provisions of Rule 143.042(2),(j) and (o), Florida Administrative Code. The administrative code was amended May, 2008 as follows:(j) A national bank, state bank or trust company shall secure and maintain

insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurer's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker/dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the Securities Investor Protection Corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities.(o) The custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.

### **Managing General Agent Agreement**

The Company had no managing general agent (MGA) agreement during the period covered by this examination.

### **Independent Auditor Agreement**

The Company had an agreement with Thomas, Howell, Ferguson, PA to perform an audit of its statutory financial statements for the years 2008 and 2007.

### **Independent Actuarial Agreement**

The Company had an agreement with James D. Hurley, of Towers Perrin Tillinghast for actuarial services.

## **Information Technology Report**

Computer Aid, Inc. 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."

**FLORIDA DOCTORS INSURANCE COMPANY**  
**Assets**  
**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$23,883,565		\$23,883,565
Cash:	11,941,083	(5,807)	11,935,276
Investment Income	235,408		235,408
Agents' Balances:			
Uncollected premium	618,437	3,256	621,693
Deferred premium	5,664,536		5,664,536
Reinsurance recoverable	78,318	502,308	580,626
Funds held or deposited with reinsured companies	1,690,815	(969,002)	721,813
Net deferred tax asset	943,518	(3,110)	940,408
EDP Equipment	170,821		170,821
Receivable from parents, subsidiaries and affiliates	505	(500)	5
	<hr/>		
Totals	\$45,227,006	(\$472,855)	\$44,754,151

**FLORIDA DOCTORS INSURANCE COMPANY**

**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Losses	\$8,493,634		\$8,493,634
Loss adjustment expenses	4,323,556		4,323,556
Commissions payable	787,456		787,456
Other expenses	92,750	(\$7,874)	84,876
Taxes, licenses and fees	473,550	(58,068)	415,482
Unearned premium	10,784,616		10,784,616
Advance premium	656,502		656,502
Payable to parent, subsidiaries and affiliates	1,697	263,225	264,922
Aggregate write-ins for liabilities	6,954,007	38,138	6,992,145
Total Liabilities	\$32,567,768	\$235,421	\$32,803,189
Aggregate write-ins for special surplus funds	\$17,277		17,277
Common capital stock	10,000,000		10,000,000
Gross paid in and contributed surplus	500,000		500,000
Unassigned funds (surplus)	2,141,963	(708,276)	1,433,687
Surplus as regards policyholders	\$12,659,240		\$11,950,964
Total liabilities, surplus and other funds	\$45,227,008	(\$472,855)	\$44,754,153

**FLORIDA DOCTORS INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2008**

**Underwriting Income**

Premiums earned		\$20,129,667
	<b>Deductions:</b>	
Losses incurred		6,637,946
Loss expenses incurred		3,743,313
Other underwriting expenses incurred		6,388,381
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$16,769,640
Net underwriting gain or (loss)		\$3,360,027

**Investment Income**

Net investment income earned		\$991,764
Net realized capital gains or (losses)		(67,683)
Net investment gain or (loss)		\$924,081

**Other Income**

Aggregate write-ins for miscellaneous income		22,120
Total other income		\$22,120
Net income before dividends to policyholders and before federal & foreign income taxes		\$4,306,228
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$4,306,228
Federal & foreign income taxes		1,461,637
Net Income		\$2,844,591

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$9,778,073
Net Income		\$2,844,591
Change in net deferred income tax		(27,052)
Change in non-admitted assets		(144,491)
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		208,119
Aggregate write-ins for gains and losses in surplus		(708,276)
Examination Adjustment		(708,276)
Change in surplus as regards policyholders for the year		\$2,172,891
Surplus as regards policyholders, December 31 current year		\$11,950,964

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

**Cash** \$11,935,276

Cash and Cash Equivalents reported as \$11,941,083, were reduced by \$5,807, to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. Cash was not being recorded in accordance with NAIC Annual Statement Instructions, SSAP 2 and Rule 69O-137.001(4) (a), Florida Administrative Code.

**Premiums Receivable** \$6,286,229

Uncollected premiums reported as \$6,282,973 were increased by \$3,256 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. Uncollected premiums was not being recorded in accordance with NAIC Annual Statement Instructions, SSAP 6 and 53, and Rule 69O-137.001(4)(a).

**Reinsurance Recoverable** \$580,626

Reinsurance recoverable reported as \$78,318 was increased by \$502,308 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. Reinsurance recoverable was not was not being recorded in accordance with NAIC Annual Statement Instructions, Rule 69O-137.001(4) (a), Florida Administrative Code, and SSAP 62.

**Funds deposited with reinsurers**\$721,813

Funds deposited with reinsurers reported as \$1,690,815 was decreased by \$969,002 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent accounting period. Funds deposited with reinsurers was not being recorded in accordance with NAIC Annual Statement Instructions, Rule 69O-137.001(4) (a), Florida Administrative Code, and SSAP 62.

**Deferred Tax Asset**\$940,408

Deferred tax asset reported as \$943,518 was reduced by \$3,110 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. Deferred tax Asset was not being recorded in accordance with NAIC Annual Statement Instructions, SSAP 10, and Rule 69O-137.001(4) (a), Florida Administrative Code.

**Receivable from Parent, Subsidiaries, and Affiliate**\$5

Receivable from Parent, Subsidiaries, and Affiliates reported as \$505 was reduced by \$500 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. Receivable to related parties were not being recorded in accordance with NAIC Annual Statement Instructions, Rule 69O-137.001(4)(a), Florida Administrative Code, and SSAP 28.

## **Liabilities**

### **Losses & Loss Adjustment Expenses**

**\$12,817,190**

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 Office engaged an independent actuarial firm, EVP Advisors, Inc, Chuck C. Emma, FCAS, MAAA, to review the Statutory Premium Reserve carried in the Company's balance sheet as of December 31, 2008 and was in concurrence with this opinion.

### **Other Expenses**

**\$84,876**

The amount reported by the Company of \$92,750, was decreased by \$7874 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. Other Expenses were not recorded in accordance with the NAIC Annual Statement instructions, and Rule 69O-137.001 (4) (a), Florida Administrative Code.

### **Federal Income Tax**

**\$415,482**

Federal income tax was reported as \$473,550 was decreased by \$58,068 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. Federal Income tax was not calculated in accordance with the NAIC annual Statement Instructions, Rule 69O-137.001 (4)(a), Florida Administrative Code, and SSAP 10.

**Payables due to related parties** \$264,922

Payables to related parties reported as \$1,697 was increased by \$263,225 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. Payables to related parties was not recorded in accordance with the NAIC Annual Statement Instructions, Rule 69O-137.001 (4) (a), Florida Administrative Code, and SSAP 28.

**Aggregate write-ins for liabilities (Retroactive reinsurance reserve)** \$6,992,145

Aggregate write-ins for liabilities reported as \$6,954,007, was increased by \$38,138 to record the CPA's adjustment carried to the 2008 audited financial statements, which were booked by the Company in the subsequent period. Aggregate write-ins for liabilities (retroactive reinsurance reserve) were not reported in accordance with the NAIC Annual Statement Instructions, SSAP 62 and Rule 69O-137.001 (4) (a), Florida Administrative Code.

**Capital and Surplus**

The adjusted capital and surplus of \$11,950,966, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FLORIDA DOCTORS INSURANCE COMPANY  
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	\$12,659,240
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
	\$45,227,006	\$44,754,151	(\$472,855)
LIABILITIES:			
	\$32,567,768	\$32,803,189	(\$235,421)
Net Change in Surplus:			<u>(708,276)</u>
Surplus as Regards Policyholders December 31, 2008, Per Examination			<u><u>\$11,950,964</u></u>

## SUMMARY OF FINDINGS

### **Compliance with previous directives**

The Company had taken the necessary actions to comply with the comments made in the 2007 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.

### **Custodial Agreement**

The Company had a custodial agreement with Investors Security Trust Company, dated November 1, 2005, amended January 30, 2007. The agreement did not contain all of the required provisions of Rule 143.042(2), (j) and (o), Florida Administrative Code. **We recommend that the Company comply with Rule 69O-143.042, (2), (j) and (o), Florida Administrative Code.**

### **Cash**

Cash and Cash Equivalents reported as \$11,941,083, were reduced by \$5,807, to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. **We recommend that the Company continue to report Cash in accordance with NAIC Annual Statement Instructions, SSAP 2 and Rule 69O-137.001(4) (a), Florida Administrative Code.**

### **Premiums Receivable**

Uncollected premiums reported as \$6,282,973 were increased by \$3,256 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. **We recommend that the Company continue to report Uncollected Premiums in accordance with NAIC Annual Statement Instructions, SSAP 6 and 53, and Rule 69O-137.001(4)(a).**

### **Reinsurance Recoverable**

Reinsurance recoverable reported as \$78,318 was increased by \$502,308 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. **We recommend that the Company continue report Reinsurance Recoverable in accordance with NAIC Annual Statement Instructions, Rule 69O-137.001(4) (a), Florida Administrative Code, and SSAP 62.**

### **Funds deposited with reinsurers**

Funds deposited with reinsurers reported as of \$1,690,815 was decreased by \$969,002 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent accounting period. **We recommend that the Company continue to report Funds deposited with reinsurers in accordance with NAIC Annual Statement Instructions, Rule 69O-137.001(4) (a), Florida Administrative Code, and SSAP 62.**

### **Deferred Tax Asset**

Deferred tax asset reported as \$943,518 was reduced by \$3,110 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. **We recommend that the Company continue to report Deferred Tax Asset in accordance with NAIC Annual Statement Instructions, SSAP 10, and Rule 69O-137.001(4) (a), Florida Administrative Code.**

### **Receivable from Parent, Subsidiaries, and Affiliate**

Receivables from Parent, Subsidiaries, and Affiliates reported as \$505 was reduced by \$500 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. **We recommend that the Company continue to report Receivables from related parties in accordance with NAIC Annual Statement Instructions, Rule 69O-137.001(4)(a), Florida Administrative Code, and SSAP 28.**

### **Other Expenses**

The amount reported by the Company of \$92,750, was decreased by \$7874 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. **We recommend that the Company continue to report Other Expenses in accordance with the NAIC Annual Statement instructions, and Rule 69O-137.001 (4) (a), Florida Administrative Code.**

### **Federal Income Tax**

Federal income tax was reported as \$473,550 was decreased by \$58,068 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. **We recommend that the Company calculate Federal Income Tax**

**in accordance with the NAIC annual Statement Instructions, Rule 69O-137.001 (4)(a), Florida Administrative Code, and SSAP 10.**

**Payables due to related parties**

Payables to related parties reported as \$1,697 was increased by \$263,225 to record the CPA's adjustment carried to the 2008 audited financial statements, which was booked by the Company in the subsequent period. **We recommend that the Company that the Company report Payable to related parties in accordance with the NAIC Annual Statement Instructions, Rule 69O-137.001 (4) (a), Florida Administrative Code, and SSAP 28.**

**Aggregate write-ins for liabilities (Retroactive reinsurance reserve)**

Aggregate write-ins for liabilities reported as \$6,954,007, was increased by \$38,138 to record the CPA's adjustment carried to the 2008 audited financial statements, which were booked by the Company in the subsequent period. **We recommend that the Company continue to report Aggregate write-ins for liabilities (retroactive reinsurance reserve) in accordance with the NAIC Annual Statement Instructions, SSAP 62 and Rule 69O-137.001 (4) (a), Florida Administrative Code.**

## **SUBSEQUENT EVENTS**

Effective December 29, 2009, the Company completed a merger with Physician Preferred Insurance Company. Effective December 29, 2009, Insurance Company Managers, LLC (ICM) was formed by Florida Doctors Holding Company (parent) for the purpose of providing insurance service (MGA) to the Company.

## CONCLUSION

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

Per examination findings, the Company's adjusted Surplus as regards policyholders was \$11,950,966, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Jim Pafford, Financial Examiner/Analyst Supervisor, Mike Young, AFE, Financial Examiner/Analyst II, and Chuck C. Emma, FCAS, MAAA of EVP Advisors, Inc. participated in the examination. We also recognize Earl Garner, CAI, of Computer Aid, Inc participation in the examination.

Respectfully submitted,

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Samita Lamsal  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation