

REPORT ON EXAMINATION
OF
FLORIDA LAWYERS MUTUAL
INSURANCE COMPANY

OVIEDO, FLORIDA

AS OF
DECEMBER 31, 2011

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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April 2, 2013
Tallahassee, Florida

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 and Chapter 628, Florida Statutes, Rule 69O-138.005, 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, 2011, of the financial condition and corporate affairs of:

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
541 EAST MITCHELL HAMMOCK ROAD
OVIEDO, FL 32765-5525**

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, 2007, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced with planning at the Office on January 7, 2013 to January 11, 2013. The fieldwork commenced on January 14, 2013 and concluded on April 2, 2013.

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

The finding noted during this examination period has been resolved by the Company subsequent to the examination date. However, the finding or exception is discussed in detail in the body of the examination report.

Prior Exam Findings

There were no findings, exceptions, or corrective action to be taken by the Company for the examination as of December 31, 2006.

SUBSEQUENT EVENTS

Effective September 1, 2012, the custodial agreement with Mellon Bank was replaced by an agreement with Regions Bank that complied with the requirements of 69O-143.042, Florida Administrative Code.

On May 15, 2012, subsidiaries, FLMIC Real Property, LLC and FLMIC-RP, LLC, were dissolved.

On January 1, 2012, William Hiram Robbinson, Jr. became President, subsequently resigned on December 15, 2012, and was replaced by William Earl Loucks.

There were two changes in the Company's Board members Domenick Ralph Lioce and Mayanne Downs were approved by the Office and the Board of Directors (Board) as new directors to the Board on June 20, 2012. Ms. Downs subsequently resigned effective September 19, 2012.

HISTORY

General

The Company was incorporated in Florida on May 27, 1987, and commenced business on November 25, 1988, as Florida Lawyers Mutual Insurance Company.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact other liability insurance coverage in Florida on November 18, 1988 and continued to be authorized as of December 31, 2011. The Company wrote only professional liability coverage for private law firms in Florida.

The Articles of Incorporation were not amended during the period covered by this examination. The bylaws were amended once during the period covered by this examination. The amendment, made December 16, 2011, gave the Board the authority to amend the articles, unless such provision is not allowed to be amended. The amendment was approved by the Board and the Office.

Dividends to Policyholders

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

The Company is a mutual insurance company and, therefore, has no outstanding capital stock.

Surplus Notes

When incorporated in 1987, the Company offered \$15,000,000 in Series A surplus certificates at \$500 per certificate. This offering was terminated on June 5, 1989, after the issuance of \$3,335,000 of certificates. On June 6, 1989, the Company offered an additional \$5,000,000 of Series C surplus certificates in denominations of \$500 per certificate. This offering was terminated in June 1997 after the issuance of \$3,406,000 of certificates. The certificates were subject to interest; however, the certificates were repaid without interest at the discretion of the Board of Directors. In 1999, the Company revised its certificate redemption policy and developed a plan to redeem all outstanding certificates. The redemption process began in 2002.

As of December 31, 2011 the Company had redeemed all of the surplus certificates.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the 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, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code and 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 meeting of members for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2011, were:

Directors

Name and Location	Principal Occupation
Donald Layton Braddock Jacksonville, Florida	Lawyer
Philip Allan Disque Fort Lauderdale, Florida	CPA
Ava Kirshenbaum Doppelt Orlando, Florida	Lawyer

Raymond Frank Ferrero, Jr. Fort Lauderdale, Florida	Lawyer
John Dudley Goodlette Naples, Florida	Lawyer
William Earl Loucks Daytona Beach, Florida	Lawyer
Lake Henry Lytal, Jr. West Palm Beach, Florida	Lawyer
Stephen Andrew Rappenecker Gainesville, Florida	Lawyer
Robert Max Sondak Miami, Florida	Lawyer
Clyde Lawrence Stagg Tampa, Florida	Lawyer
Clyde Gary Williams Tallahassee, Florida	Lawyer
Craig Anthony Gibbs Jacksonville, Florida	Lawyer
Ramon Alberto Abadin Miami, Florida	Lawyer
Juliet Murphy Roulhac Plantation, Florida	Lawyer
Alan Bart Bookman Pensacola, Florida	Lawyer
Kimberly Alario Bald Bradenton, FL	Lawyer

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

Senior Officers

Name	Title
Raymond Frank Ferrero, Jr.	Chairman
William Earl Loucks	Vice-Chairman
William Hiram Robinson, Jr. (a)	President
Philip Allan Disque	Treasurer
Ava Kirshenbaum Doppelt	Secretary

(a) Resigned as President on December 15, 2012, and was replaced by William Earl Loucks.

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal Board committees and their members as of December 31, 2011:

Audit Committee

Alan Bart Bookman
 Donald Layton Braddock¹
 Kim Alario Bald
 Domenick Ralph Lioce
 Juliet Murphy Roulhac
 Robert Max Sondak
 Clyde Gary Williams
 Craig Anthony Gibbs

Investment Committee

Ramon Alberto Abadin
 Alan Bart Bookman
 Donald Layton Braddock
 Philip Allan Disque¹
 Domenick Ralph Lioce
 Lake Henry Lytal Jr.

Executive Committee

Donald Layton Braddock
 Philip Allan Disque
 Raymond Frank Ferrero Jr.¹
 Robert Max Sondak
 Clyde Lawrence Stagg
 Clyde Gary Williams
 William Earl Loucks

Business Development

Kim Alario Bald
 Ava Kirshenbaum Doppelt
 John Dudley Goodlette²
 Robert Max Sondak¹
 Juliet Murphy Roulhac
 Stephen Andrew Rappenecker

Claims Committee

Ramon Alberto Abadin
 Donald Layton Braddock
 Philip Allan Disque
 Alan Bart Bookman
 Lake Henry Lytal Jr.²
 Craig Anthony Gibbs
 Clyde Lawrence Stagg¹

Nominating Committee

Ramon Alberto Abadin
 Ava Kirshenbaum Doppelt¹
 Craig Anthony Gibbs
 Lake Henry Lytal, Jr.
 Robert Max Sondak
 Clyde Gary Williams

Underwriting Committee

John Dudley Goodlette
Ava Kirshenbaum Doppelt
Kim Alario Bald
Robert Max Sondak²
Clyde Gary Williams¹
Juliet Murphy Roulhac
Stephen Andrew Rappenecker

¹ Chairman

² Vice-chairman

Affiliated Companies

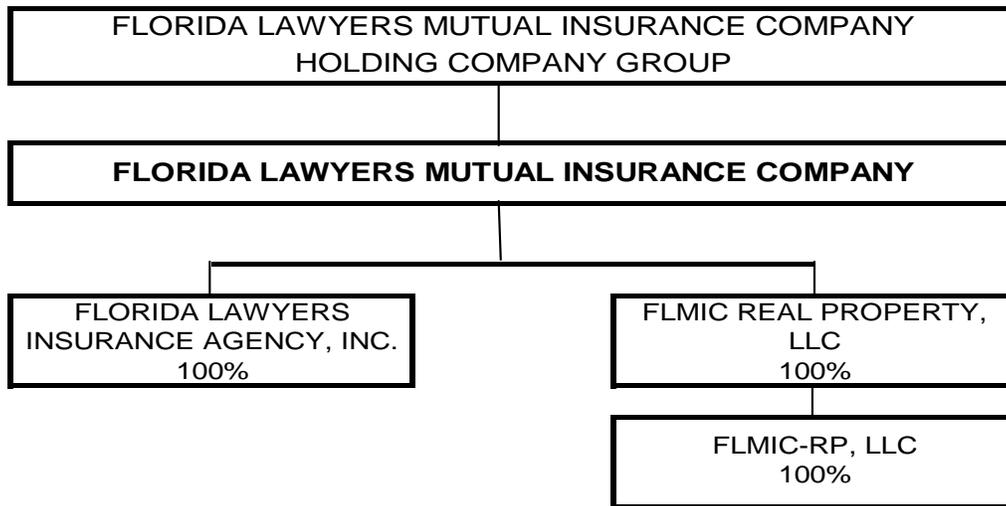
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 27, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2011, reflecting the holding company system, is shown below.

Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
Organizational Chart**

DECEMBER 31, 2011



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$25,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Business Personal Property, Professional Liability and Directors and Officers (D&O) liability insurance coverage with aggregate limits of \$2,000,000 and deductible of \$100,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's employees were transferred to an employee leasing corporation in 2003. Under that agreement, the Company contributes 3% to each employees' defined contribution savings plan.

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

The decrease in the Company's earned premiums was due substantially to the downturn in the economy, with fewer lawyers purchasing liability insurance and an influx of large carriers into the market with lower rates. The decrease in net underwriting income was due to the economic downturn and the increase in the number of legal malpractice lawsuits primarily relating to real estate transactions. Surplus continued to grow with positive, though declining, net income.

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.

	2011	2010	2009	2008	2007
Premiums Earned	8,438,531	10,259,500	11,311,849	11,197,229	10,201,166
Net Underwriting Gain/(Loss)	(720,951)	2,742,625	1,745,328	1,639,121	(219,943)
Net Income	1,209,070	3,905,260	2,090,872	1,724,459	1,690,079
Total Assets	63,300,240	62,559,196	56,859,920	53,334,378	52,740,071
Total Liabilities	33,047,704	32,993,328	32,737,758	34,081,344	31,590,186
Surplus As Regards Policyholders	30,252,539	29,565,868	24,122,161	19,253,034	21,149,885

LOSS EXPERIENCE

During the current examination period, the Company showed favorable development. During 2011, the Company experienced an increase in number and severity of malpractice claims primarily relating to handling of real estate transactions.

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 during the period of this examination.

Ceded

The Company ceded risk on an excess of loss basis via three reinsurance treaties: a casualty excess of loss treaty (\$650,000 excess of \$350,000), a second casualty excess of loss treaty (\$4,000,000 excess of \$1,000,000), and a casualty excess facility (\$5,000,000 excess of \$5,000,000). The ceded business includes all policies written by the Company. The Company uses Willis Re, as the reinsurance intermediary.

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 Oviedo, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 2008, 2009, 2010 and 2011, 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 MS Dynamics Great Plains, which served as the General Ledger software. eFreedom from Stone River supported financial reporting, and SunGard's iWorks was used for investment management. 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

As of December 31, 2011, the Company had a custodial agreement with Mellon Bank that did not comply with the provisions of 69O-143.042, Florida Administrative Code in that it did not comply with the requirements of Paragraphs j or o. The requirements of 69O-143.042, Florida Administrative Code, Paragraphs j and o are 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.

Subsequent Event: In 2012, the custodial agreement with Mellon Bank was replaced by an agreement with Regions Bank that was in compliance with the requirements of 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

Paul Berkebile, CISA, CFSA, CRISC, IT Senior Manager of INS Services, 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.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	SunTrust Bank CD	\$ 75,000	\$ 75,000
FL	SunTrust Bank CD	<u>175,000</u>	<u>175,000</u>
Total Florida Special Deposits		<u>\$ 250,000</u>	<u>\$ 250,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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 LAWYERS MUTUAL INSURANCE COMPANY
Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$42,412,395		\$42,412,395
Stocks:			
Preferred	1,118,027		1,118,027
Common	8,419,006		8,419,006
Real estate:			
Properties			
occupied by company	1,309,744		1,309,744
Cash and short-term investments	5,481,974		5,481,974
Investment income due and accrued	448,465		448,465
Premiums and considerations:			
Deferred premium	1,482,464		1,482,464
Reinsurance recoverable	988,166		988,166
Other amounts receivables	27,902		27,902
Federal and foreign income tax			
recoverable	168,959		168,959
Net deferred tax asset	476,891		476,891
Aggregate write-in for other than invested assets	966,247		966,247
Totals	\$63,300,240	\$0	\$63,300,240

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$11,788,771		\$11,788,771
Loss adjustment expenses	10,478,158		10,478,158
Other expenses	168,649		168,649
Taxes, licenses and fees	1,448		1,448
Unearned premium	4,069,079		4,069,079
Advance premium	829,873		829,873
Ceded reinsurance premiums payable	1,326,468		1,326,468
Provision for reinsurance	86,686		86,686
Aggregate write-ins for liabilities	4,298,572		4,298,572
Total liabilities	\$33,047,704	\$0	\$33,047,704
Gross paid in and contributed surplus	\$299,235		\$299,235
Unassigned funds (surplus)	29,953,304		29,953,304
Surplus as regards policyholders	\$30,252,539	\$0	\$30,252,539
Total liabilities, surplus and other funds	\$63,300,243	\$0	\$63,300,243

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2011

Underwriting Income

Premiums earned	\$8,438,531
Deductions:	
Losses incurred	\$2,779,954
Loss adjustment expenses incurred	3,514,163
Other underwriting expenses incurred	2,865,365
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	\$9,159,482
Net underwriting gain or (loss)	(\$720,951)

Investment Income

Net investment income earned	\$1,118,393
Net realized capital gains or (losses)	604,685
Net investment gain or (loss)	\$1,723,078

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	159,499
Aggregate write-ins for miscellaneous income	(34,413)
Total other income	\$125,086
Net income before dividends to policyholders and before federal & foreign income taxes	\$1,127,213
Net income, after dividends to policyholders, but before federal & foreign income taxes	\$1,127,213
Federal & foreign income taxes	(81,857)
Net income	\$1,209,070

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$29,565,867
Net income	\$1,209,070
Net unrealized capital gains or losses	0
Change in net unrealized capital gains or losses	(709,391)
Change in net deferred income tax	(42,774)
Change in non-admitted assets	(331,180)
Change in provision for reinsurance	560,947
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Change in surplus as regards policyholders for the year	\$686,672
Surplus as regards policyholders, December 31 current year	\$30,252,539

A comparative analysis of changes in surplus is shown below.

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

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, 2011, per Annual Statement \$30,252,539

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2011, Per Examination			<u><u>\$30,252,539</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$22,266,929

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, 2011, 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 consulting actuary, Robert W. Gardner, FCAS, MAAA of INS Consultants, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$30,252,539, 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 **Florida Lawyers Mutual Insurance Company** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$30,252,539, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Kelly M. Willison, CPA, CFE, Examiner-In-Charge and Pat Casey Davis, CPA, CFE, CMA, CIA, CRMS, CICA of INS Regulatory Insurance Services, Inc.; Robert Gardner, FCAS, MAAA, Actuary of INS Consultants, Inc.; and Paul Berkebile, CISA, CFSA, CRISC, IT Manager of INS Services, Inc. participated in the examination. Chibueze Alutu, Financial Examiner/Analyst II; Vetrechia Smith, Financial Specialist; and Jonathan Frisard, Financial Examiner/Analyst Supervisor of the Office also participated in the examination.

Respectfully submitted,

Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation