

REPORT ON EXAMINATION
OF
HEALTHCARE UNDERWRITERS GROUP
OF FLORIDA
DANIA, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 23, 2007

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 629, 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, 2005, of the financial condition and corporate affairs of:

HEALTHCARE UNDERWRITERS GROUP OF FLORIDA
1815 Griffin Road, Suite 401
Dania, Florida 33004

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, 2005 through December 31, 2005. This was the Company's second financial examination by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on January 8, 2007, to January 12, 2007. The fieldwork commenced on January 15, 2007, and was concluded as of March 23, 2007. 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 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 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 Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the quality, value and integrity of the amounts of the Company's assets and liabilities that could affect the financial solvency of the Company as reported in its annual

statement as of December 31, 2005. Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

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

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

HISTORY

General

The Company was a non-assessable reciprocal where subscribers jointly entered into agreements of indemnity, essentially insuring each other. The Company applied for a certificate of authority in Florida on August 19, 2003 and was issued a full license to bind coverage or issue insurance contracts for professional medical malpractice on March 23, 2004 in accordance with Chapters 625 and 629 of the Florida Statutes.

The subscribers formed a Subscribers Advisory Committee (SAC) that was responsible for the supervision of the Company. The Company was not a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact Medical Malpractice insurance coverage in Florida on December 31, 2005.

The SAC Charter was not amended during the period covered by this examination.

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 Statement.

	2005	2004
Premiums Earned	6,131,409	2,055,638
Net Underwriting Gain/(Loss)	(395,011)	(528,818)
Net Income	(205,689)	(668,236)
Total Assets	22,770,839	12,739,663
Total Liabilities	10,709,751	4,402,571
Surplus As Regards Policyholders	12,061,088	8,337,092

Contributions to Insurers

The Company received from its Attorney-in-Fact (AIF) or other third parties, those advances or funds that may be required from time to time during operations, in accordance with Section 629.161, Florida Statutes. These advances were not to be treated as a liability of the Company except upon liquidation of the insurer and were not to be withdrawn or repaid except from the Company's realized earned surplus in excess of its minimum required surplus. No withdrawal or repayment can be made without the advance approval of the Office.

Management

The annual SAC meeting for the election of members was held in accordance with Section 629.201, Florida Statutes. Members serving as of December 31, 2005, were:

Subscriber Advisory Committee Members

Name and Location	Principal Occupation
Scot N. Ackerman, MD Jacksonville, Florida	Radiation Oncology
Siva P. Bellam, MD Port St. Lucie, Florida	Oncology/Hematology
Mario S. Cuervo, MD Miami, Florida	Psychiatrist
Edward J. Feller, MD Miami, Florida	Gastroenterology
Alicia R. Jorge, MD Miami, Florida	Internal Medicine
Steven L. Salman, JD Dania, FL	President/CEO Global Insurance Management Company
Steven D. Shapiro, MD Palm Beach Gardens, FL	Dermatology

The SAC in accordance with its charter appointed the following senior officers:

Senior Officers

Name	Title
Edward J. Feller, MD	President
David W. Lester, CPA	Vice President & CFO
Steven D. Shapiro, MD	Chairperson
Siva P. Bellam, MD	Vice-Chairperson
Alicia R. Jorge, MD	Secretary

Scot N. Ackerman, MD

Treasurer

Steven L. Salman, JD

Chief Executive Officer

The Company's SAC appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal committees and their members as of December 31, 2005:

Investment Committee	Audit Committee	Claims Committee	Underwriting Committee
Steven Shapiro, MD *	Steven Shapiro, MD *	Edward J. Feller, MD *	Scot Ackerman, MD *
Scot Ackerman, MD	Siva P. Bellam, MD	Scot N. Ackerman, MD	Edward J. Feller, MD
Siva P. Bellam, MD	Mario S. Cuervo, MD	Siva P. Bellam, MD	Roberto Palenzuela, JD
Mario S. Cuervo, MD	Edward J. Feller, MD	Leonard Calodney, MD	Albert R. Tano, MD
Edward J. Feller, MD	Alicia R. Jorge, MD	Scott Plantz, MD	
Alicia R. Jorge, MD	Steven Salman, JD	Richard A. Proctor, DO	
Steven Salman, JD	Scot Ackerman, MD	Ronald J. Trapani, MD	
		Raul I. Vila, MD	

*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. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the SAC and certain internal committee were reviewed for the period under examination. The recorded minutes adequately documented meetings and approval of Company transactions 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

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

Surplus Debentures

The Company had no surplus debentures at December 31, 2005.

AFFILIATED COMPANIES

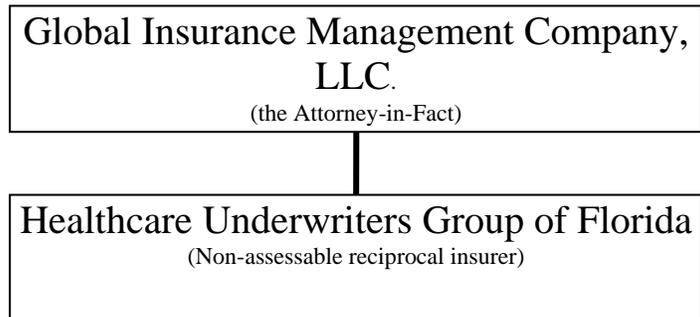
The Company was not a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

There were no agreements in effect between the Company and its affiliates.

A simplified organizational chart as of December 31, 2005, reflecting the Company's system as a non-assessable reciprocal insurer, was shown below. Schedule Y of the Company's 2005 annual statement was not applicable due to the company not being a member of a holding company group.

**HEALTHCARE UNDERWRITERS GROUP OF FLORIDA
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



ATTORNEY’S BOND

Global Insurance Management Company, LLC, (Global) the Company’s AIF, managed all the affairs of the Company. The AIF filed with the Office a bond in the sum of \$100,000 in aggregate form in favor of the State of Florida, for the benefit of all persons damaged as a result of a breach by the AIF from the conditions of the bond. This adequately adhered to the suggested minimum amount of coverage as required by Section 629.121, Florida Statutes.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Global managed all of the business affairs of the Company by providing administrative, underwriting and claims services. Global offered health and dental insurance, an optional defined 401(K) benefit plan and also had a defined Section 125 cafeteria plan that covered all eligible employees.

STATUTORY DEPOSITS

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

<u>STATE</u>	<u>DESCRIPTION</u>	<u>PAR VALUE</u>	<u>MARKET VALUE</u>
FL	CASH	\$ 250,000	\$ 250,000
TOTAL FL DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance only in the State of Florida. The certificate of authority was issued to the AIF in accordance with Section 629.091, Florida Statutes.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), 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

The Company had no assumed business at December 31, 2005.

Ceded

Effective April 1, 2005, the Company amended the original agreement through Addendum No. 3, such that the minimum adjusted premium was \$1,850,000 for the period from December 31, 2003 to March 31, 2006. Under the terms of the original agreement, the minimum premium was \$1,300,000 for each underwriting year. The underwriting year was defined as the period from

December 31, 2003 through March 31, 2005. During 2004, the Company entered into separate excess of loss reinsurance treaties covering losses in excess of \$200,000 per occurrence for the Company. The contracts contained the required statutory clauses and were signed by the lead reinsurers within nine months of the effective date. The contracts had a three-year term, but were cancelable by either party at June 30, given 90 days notice.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004 and 2005, 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 maintained its principal operational offices in Dania, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company entered into a custodial agreement with Regions National Bank dated July 21, 2004, which was amended on March 2, 2007. The custodial agreement provided the proper safeguards

and controls indemnifying the Company as provided by Rule 69O-143.042, Florida Administrative Code.

Attorney-in-Fact Agreement

The Company, being a non-assessable reciprocal insurer and as prescribed by Chapter 629, Florida Statutes, entered into an AIF agreement with Global on December 28, 2003. The agreement stipulated that Global manage all affairs of the Company to include the following: premiums and claims administration services, and periodic reporting of the Company's financials to the SAC.

Intercompany Expense Allocation and Repayment Agreement

The Company, through its AIF, Global, entered into an intercompany expense allocation and repayment agreement with the AIF affiliates, Global Insurance Management Company of Ohio and Global Insurance Management Company of Kentucky, who had employees common to each company.

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, 2005, 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."

HEALTHCARE UNDERWRITERS GROUP OF FLORIDA
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 16,462,407		\$ 16,462,407
Cash and Short-term investments	5,567,204		5,567,204
Investment income due and accrued	147,022		147,022
Net deferred tax asset	546,418		546,418
Receivable from parents, subsidiaries and affiliates	36,272		36,272
Aggregate write-ins for other than invested assets	11,516		11,516
Totals	\$ 22,770,839	\$0	\$ 22,770,839

HEALTHCARE UNDERWRITERS GROUP OF FLORIDA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,785,254		\$2,785,254
Loss adjustment expenses	2,703,182		2,703,182
Commissions payable	94,468		94,468
Other expenses	117,341		117,341
Taxes, licenses and fees	40,587		40,587
Current federal and foreign income taxes	188,031		188,031
Unearned premium	3,853,510		3,853,510
Advanced premium	454,185		454,185
Ceded reinsurance premiums payable	<u>473,193</u>		<u>473,193</u>
Total Liabilities	\$10,709,751		\$10,709,751
Gross paid in and contributed surplus	\$13,450,376		\$13,450,376
Unassigned funds (surplus)	<u>(1,389,288)</u>		<u>(1,389,288)</u>
Surplus as regards policyholders	<u>\$12,061,088</u>		<u>\$12,061,088</u>
Total liabilities, capital and surplus	<u><u>\$22,770,839</u></u>	<u>\$0</u>	<u><u>\$22,770,839</u></u>

HEALTHCARE UNDERWRITERS GROUP OF FLORIDA
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$6,131,409
DEDUCTIONS:	
Losses incurred	1,617,891
Loss expenses incurred	2,763,588
Other underwriting expenses incurred	2,144,941
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$6,526,420</u>
Net underwriting gain or (loss)	(\$395,011)
Investment Income	
Net investment income earned	\$508,353
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$508,353</u>
Other Income	
Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	\$113,342
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$113,342</u>
Federal & foreign income taxes	<u>319,031</u>
Net Income	(\$205,689)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$8,337,092
Gains and (Losses) in Surplus	
Net Income	(\$205,689)
Net unrealized capital gains or losses	0
Change in net deferred income tax	427,656
Change in non-admitted assets	(690,838)
Surplus adjustments: Paid in	4,192,867
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$3,723,996</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$12,061,088</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$5,488,436

An outside actuarial firm appointed by the SAC, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2005, make 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.

**HEALTHCARE UNDERWRITERS GROUP OF FLORIDA
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

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, 2005, Annual Statement	\$	12,061,088
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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:			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$ 12,061,088

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest and/or corrective action that needed to be taken by the Company as of December 31, 2005.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Healthcare Underwriters Group of Florida** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$12,061,088, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Owen A. Anderson
Financial Examiner/Analyst II
Florida Office of Insurance Regulation