

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

AS OF
DECEMBER 31, 2004

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
HISTORY	2
GENERAL	2
CAPITAL STOCK.....	3
PROFITABILITY OF COMPANY	3
CONTRIBUTIONS TO INSURERS	3
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	6
ORGANIZATIONAL CHART	7
ATTORNEY'S BOND	8
PENSION AND INSURANCE PLANS	8
STATUTORY DEPOSITS.....	8
INSURANCE PRODUCTS	9
TERRITORY	9
TREATMENT OF POLICYHOLDERS.....	9
REINSURANCE	9
ASSUMED.....	9
CEDED	9
ACCOUNTS AND RECORDS.....	10
INVESTMENT SERVICE AGREEMENT.....	11
ATTORNEY-IN-FACT AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT.....	11
RISK-BASED CAPITAL.....	11
FINANCIAL STATEMENTS PER EXAMINATION.....	11
ASSETS	12
LIABILITIES, SURPLUS AND OTHER FUNDS	13
STATEMENT OF INCOME.....	14
COMMENTS ON FINANCIAL STATEMENTS.....	15
LIABILITIES.....	15

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 16
SUBSEQUENT EVENTS..... 17
SUMMARY OF FINDINGS 17
CONCLUSION 18

Tallahassee, Florida

April 7, 2006

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Sections 629.401(6)(b)(1) and 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, 2004, 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, 2004 through December 31, 2004. This is the first examination of the Company. This examination commenced, with planning at the Office, on January 30, 2006, to February 3, 2006. The fieldwork commenced on February 6, 2006, and was concluded as of April 7, 2006. 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.

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 and 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 amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 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 work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

- Investment Income Due and Accrued
- Net Deferred Tax Asset
- Commission Payable
- Other Expenses
- Taxes, Licenses and Fees
- Ceded Reinsurance Premium Payable
- Payable to Parent, Subsidiaries and Affiliates

HISTORY

General

The Company is a non-assessable reciprocal insurance exchange where subscribers jointly enter into agreements of indemnity, essentially insuring each other. The Company was licensed to write business in Florida and commenced operations on March 23, 2004. The Company's Attorney-in-Fact was Global Insurance Management Company (GIMC), in accordance with Section 629.061, Florida Statutes.

The subscribers selected a Subscribers' Advisory Committee (SAC) responsible for supervising the Company.

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

Capital Stock

The Company was organized as a reciprocal insurer company and therefore has no capital stock.

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.

	2004
Premiums Earned	2,055,638
Net Underwriting Gain/(Loss)	(528,818)
Net Income	(668,236)
Total Assets	12,739,663
Total Liabilities	4,402,571
Surplus As Regards Policyholders	8,337,092

Contributions to Insurers

In accordance with Section 629.161, Florida Statutes, the Company received advances or funds required from time to time for its operations from its Attorney-in-Fact and from other parties. All advances were repaid by the Company with the approval of the Office. Advances of \$3,000,000 and

\$300,000 were made by Dr. Dipak Desai and Trean Corporation, respectively, to the Company in March 2004 and were all repaid in 2004 with the approval by the Office.

Management

The SAC members were selected in accordance with Section 629.201, Florida Statutes. Members serving as of December 31, 2004, were:

Subscribers' 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 Rodriguez-Jorge, MD Miami, Florida	Internal Medicine
Steven L. Salman, JD Dania, Florida	President/CEO Global Insurance Management Company, LLC
Steven D. Shapiro, MD Palm Beach Gardens, Florida	Dermatology

The SAC 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 Rodriguez-Jorge, MD	Secretary
Scot N. Ackerman, MD	Treasurer
Steven L. Salman, JD	Chief Executive Officer

The Company's SAC appointed several internal committees. Following are the principal internal committees and their members as of December 31, 2004:

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	
Edward J. Feller, MD	Alicia Rodriguez-Jorge MD	Scott Plantz, MD	
Alicia Rodriguez-Jorge, MD	Steven Salman, JD	Richard A. Proctor, DO	
Steven Salman, JD	Scot Ackerman, MD	Ronald J. Trapana, MD	
		Raul I. Vila, MD	

*Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest.

Corporate Records

The recorded minutes of the SAC, and certain internal committees were reviewed for the period under examination. The recorded minutes of the SAC adequately documented its meetings and approval of Company transactions, including the authorization of investments.

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

The Company had no acquisitions, mergers, disposals, dissolutions, purchase or sales through reinsurance.

Surplus Debentures

The Company had no outstanding surplus debentures at December 31, 2004.

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.

A simplified organizational chart as of December 31, 2004, reflecting the Company's system as a non-assessable reciprocal insurer, is shown below. Schedule Y of the Company's 2004 annual statement was not applicable because the Company was not a member of a holding company group.

**HEALTHCARE UNDERWRITERS GROUP OF FLORIDA
ORGANIZATIONAL CHART**

DECEMBER 31, 2004



ATTORNEY'S BOND

GIMC, the attorney-in-fact, managed all the affairs of the Company. Under Section 629.121, Florida Statutes, the attorney of a domestic reciprocal insurer should file 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 breach by the attorney-in-fact of the conditions of the bond. The sum adequately covered the suggested minimum amount of coverage required in Section 629.121 (2), Florida Statutes.

PENSION AND INSURANCE PLANS

GIMC handled the business affairs of the Company by providing administrative, underwriting and claims services. GIMC did not have a defined 401(K) benefit plan but had a defined Section 125 Cafeteria Plan that covered all eligible employees and met the IRS requirements.

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	Certificate of deposit, 1.05%	<u>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL FLORIDA DEPOSITS		<u><u>\$ 250,000</u></u>	<u><u>\$ 250,000</u></u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact only medical malpractice insurance in the State of Florida. The certificate of authority was issued to its attorney-in fact 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.

A market conduct examination was performed in November 2005. This examination report does not include any market conduct examination findings.

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 business during the period covered by the examination.

Ceded

The losses and a pro rata share of allocated loss adjustment expense on such losses were reinsured under a primary excess of loss reinsurance contract. The Company reinsured all risks in excess of its initial \$200,000 retention up to \$1,000,000 through a primary excess of loss

contract. The recovery of losses from reinsurers under this contract was limited to 250% of the maximum reinsurance premiums paid or payable in the contract period.

The Company's payment of the ultimate reinsurance premiums on the primary excess of loss contract were based on 105% of the cumulative losses, loss adjustment expenses paid and reserved, plus a percentage of premiums written, subject to certain minimum and maximum limitations. Estimates of ultimate reinsurance premiums to be paid were continually reviewed by management and independent actuaries. The estimates were updated, with any resulting adjustment reflected in current operating results.

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 2004 statutory basis financial statements. 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. 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:

Investment Service Agreement

The Company maintained an investment service agreement with Union Planters Bank which merged with Regions Morgan Keegan Trust on May 19, 2005. The agreement was in compliance with Rule 69O-143.042(1), Florida Administrative Code.

Attorney-in-Fact Agreement

The Company maintained an attorney-in-fact agreement with GIMC, as prescribed by Section 629, Florida Statutes.

Independent Auditor Agreement

The Company maintained an agreement with an external CPA to perform the annual audit.

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, 2004, 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, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$3,936,789		\$3,936,789
Cash:			
On deposit	619,523		619,523
Short-term investments	6,468,005		6,468,005
Other investments	1,317,200		1,317,200
Interest and dividend income due & accrued	5,407		5,407
Net deferred tax asset	368,428		368,428
Aggregate write-in for other than invested assets	24,311		24,311
	<hr/>		
Totals	\$12,739,663	\$0	\$12,739,663
	<hr/> <hr/>		

HEALTHCARE UNDERWRITERS GROUP OF FLORIDA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$1,142,419		\$1,142,419
Loss adjustment expenses	413,088		413,088
Commissions payable	65,988		65,988
Other expenses	13,564		13,564
Taxes, licenses and fees	24,456		24,456
Unearned premium	2,205,099		2,205,099
Advance premiums	166,210		166,210
Ceded reinsurance premiums payable	286,571		286,571
Payable to parent, subsidiaries and affiliates	<u>85,176</u>		<u>85,176</u>
Total Liabilities	\$4,402,571		\$4,402,571
Gross paid in and contributed surplus	9,257,509		9,257,509
Unassigned funds (surplus)	<u>(920,417)</u>		<u>(920,417)</u>
Surplus as regards policyholders	<u>\$8,337,092</u>		<u>\$8,337,092</u>
Total liabilities, capital and surplus	<u>\$12,739,663</u>	<u>\$0</u>	<u>\$12,739,663</u>

HEALTHCARE UNDERWRITERS GROUP OF FLORIDA
Statement of Income

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$2,055,638
DEDUCTIONS:	
Losses incurred	1,142,419
Loss expenses incurred	484,410
Other underwriting expenses incurred	957,627
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$2,584,456</u>
Net underwriting gain or (loss)	(\$528,818)

Investment Income

Net investment income earned	(\$139,418)
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>(\$139,418)</u>

Other Income

Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	(\$668,236)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>(\$668,236)</u>
Federal & foreign income taxes	0
Net Income	(\$668,236)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$0
--	-----

Gains and (Losses) in Surplus

Net Income	(\$668,236)
Change in deferred income tax	393,264
Change in non-admitted assets	(645,445)
Surplus adjustments: Paid in	9,257,509
Change in surplus as regards policyholders for the year	\$8,337,092
Surplus as regards policyholders, December 31 current year	<u><u>\$8,337,092</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$1,555,507

An outside actuarial firm appointed by the SAC, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2004, 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.

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

DECEMBER 31, 2004

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, 2004, Annual Statement	\$8,337,092
---	-------------

	<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, 2004, Per Examination			\$8,337,092

SUBSEQUENT EVENTS

Changes were made to the SAC of the Company subsequent to the examination date. As of November 20, 2005, the SAC changed as follows: Mario S. Cuervo, MD resigned and the following additional members were selected to serve: James V. Talano, MD, Kenneth Budowsky, MD, and Albert R. Tano, MD.

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no material findings or corrective actions to be taken with regard to this examination as of December 31, 2004.

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, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$8,337,092, which was in compliance with Section 629.071, Florida Statutes.

In addition to the undersigned, Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Joel V. Bengo
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM
Financial Examiner/Supervisor
Florida Office of Insurance Regulation