

REPORT ON EXAMINATION
OF
PHYSICIANS PREFERRED INSURANCE
RECIPROCAL
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	2
GENERAL	2
PROFITABILITY OF RECIPROCAL.....	3
DISTRIBUTION OF SUBSCRIBERS SAVINGS.....	4
MANAGEMENT.....	4
CONFLICT OF INTEREST.....	6
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	7
ATTORNEY-IN-FACT AGREEMENT	7
FIDELITY BOND AND OTHER INSURANCE.....	7
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....	8
STATUTORY DEPOSITS.....	8
INSURANCE PRODUCTS AND RELATED PRACTICES.....	8
TERRITORY	8
TREATMENT OF POLICYHOLDERS.....	8
REINSURANCE.....	9
ASSUMED.....	9
CEDED	9
ACCOUNTS AND RECORDS.....	9
CUSTODIAL AGREEMENT	10
SUBSCRIBERS AGREEMENT	10
FINANCIAL STATEMENTS PER EXAMINATION.....	10
ASSETS	11
LIABILITIES, SURPLUS AND OTHER FUNDS	12
STATEMENT OF INCOME.....	13
COMMENTS ON FINANCIAL STATEMENTS.....	14
CAPITAL AND SURPLUS.....	14
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	15
SUMMARY OF FINDINGS	16

SUBSEQUENT EVENTS.....	16
CONCLUSION.....	17

Tallahassee, Florida

December 2, 2008

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 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, 2007, of the financial condition and corporate affairs of:

**PHYSICIANS PREFERRED INSURANCE RECIPROCAL
9310 OLD KINGS ROAD, SUITE 702
JACKSONVILLE, FLORIDA 32257**

Hereinafter referred to as the "Reciprocal". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2007 through December 31, 2007. The Reciprocal 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 September 22, 2008, to September 26, 2008. The fieldwork commenced on September 29, 2008, and was concluded as of December 2, 2008.

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 Reciprocal by obtaining information about the Reciprocal including corporate governance, identifying and assessing inherent risks within the Reciprocal, 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 Reciprocal were considered in accordance with the risk-focused surveillance examination approach.

The examination included a review of the corporate records and other selected records deemed pertinent to the Reciprocal's operations and practices. In addition, the NAIC reports, the Reciprocal's independent audit reports and certain work papers prepared by the Reciprocal'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 is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

There were no significant adverse findings contained in the Office's prior examination report as of December 31, 2006.

HISTORY

General

The Reciprocal was organized in Florida on April 21, 2004 as a reciprocal insurer and commenced business on August 27, 2004, as Physicians Preferred Insurance Reciprocal. The Reciprocal is a non-assessable, unincorporated aggregation of subscribers governed by a Subscribers Advisory Committee (SAC), which is similar to a Board of Directors and comprised of at least two-thirds physician subscribers, insured by the Reciprocal.

All of the operations of the Reciprocal were managed by its Attorney-in-Fact (AIF), Physicians Preferred Insurance Management, LLC, which is similar to a Managing General Agent (MGA). The

Reciprocal was initially capitalized with a \$5 Million surplus note and was owned by the physicians and surgeons it insured. The Reciprocal collected a one time surplus contribution from each new subscriber, which could be paid over a three-year period, if requested by the subscriber.

The Reciprocal was party to Consent Order 77469-04-CO filed August 27, 2004 with the Office regarding the application for the issuance of a Certificate of Authority. At December 31, 2007, the Reciprocal was in compliance with all of the provisions of this consent order.

The Reciprocal was authorized to transact medical malpractice insurance coverage in Florida at December 31, 2007.

Subsequent event: On January 1, 2008, the Reciprocal converted to a privately held stock company or “Company”. As a result, Physicians Preferred Insurance Management, LLC, became the Company’s Managing General Agent (MGA), formerly the Reciprocal’s Attorney-in-Fact (AIF). In addition, the Reciprocal’s Subscribers Advisory Committee (SAC) became the Company’s Board of Directors.

Profitability of Reciprocal

The following table shows the profitability (in dollars) of the Reciprocal for the period of operations, as reported in the filed Annual Statements.

	2007	2006	2005
Premiums Earned	13,284,351	10,876,572	4,872,989
Net Underwriting Gain/(Loss)	(889,541)	(197,658)	(657,447)
Net Income	(88,391)	(96,559)	(785,148)
Total Assets	33,522,641	25,227,370	13,418,484
Total Liabilities	23,619,330	16,061,401	7,934,542
Surplus As Regards Policyholders	9,903,311	9,165,969	5,483,944

Distribution of Subscribers Savings

The Reciprocal did not distribute from subscribers saving account balances in 2007.

Management

The Subscribers Advisory Committee meetings were held in accordance with the document entitled Powers of the Subscribers Advisory Committee. Members of the Subscribers Advisory Committee serving as of December 31, 2007, were:

Subscribers Advisory Committee Members

Name and Location	Principal Occupation
Anthony Louis Capasso, M.D. Jacksonville, Florida	Physician
Jeffrey Scott Grove, D.O. Largo, Florida	Physician
Elliott Sidney Horovitz Jacksonville, Florida	CEO and President, Physicians Preferred Insurance Reciprocal
Kenneth Michael Sekine, M.D. Jacksonville, Florida	Physician

Michael Jon Cohen, M.D.
Orlando, Florida

Physician

Subsequent event: In 2008, as a Company, the members of the Subscribers Advisory Committee became members of the Board of Directors. In addition, the Company added Dr. James Henry Barker, William Tuttle Montei and Edward Walter Buttner, to the Board of Directors in 2008.

The Reciprocal was managed by its Attorney-in-Fact (AIF). The following were senior officers of the AIF:

Senior Officers

Name	Title
Elliott Sidney Horovitz	CEO and President
Howard Bruce Horovitz	Executive Vice President
Zachory Ralph Bushong	CFO

Subsequent event: In 2008, the Company's senior officers of the Managing General Agent (MGA), formerly the Reciprocal's Attorney-in-Fact (AIF), changed as reflected below:

Senior Officers

Name	Title
Elliott Sidney Horovitz	CEO
William Tuttle Montei	President
Howard Bruce Horovitz	Executive Vice President
Bradley Erik Taman	CFO

The Reciprocal's SAC members appointed an audit committee in accordance with Section 624.424(8), Florida Statutes. The following are the members of the audit committee as of December 31, 2007:

Audit Committee

Kenneth Michael Sekine, M.D.
Anthony Louis Capasso, M.D.

Jeffrey Scott Grove, D.O.

Conflict of Interest

There was no evidence provided by the Reciprocal of conflicts of interest being disclosed by senior management as required by the NAIC Financial Condition Examiners Handbook.

Corporate Records

There was no documentation in the 2007 minutes that the Reciprocal's Subscribers Advisory Committee, or in the 2008 minutes that the Board of Directors, approved investment transactions May 8, 2007 through December 31, 2007 of the examination year, as required by Section 625.304, Florida Statutes.

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

As of December 31, 2007, there were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

Surplus Debentures

On August 24, 2004, the Reciprocal issued a surplus debenture in the amount of \$5 Million to AIF in return for cash used to capitalize the Reciprocal. Terms of the note included interest rate of prime plus 1% per annum commencing January 1, 2005. The note indicated that repayments shall be made in minimum increments of \$250,000 with prior approval from the Office. During the six months ended June 30, 2007, the Reciprocal paid the remaining principal balance of \$1,350,000 and interest of \$70,921 to the AIF with approval from the OIR.

AFFILIATED COMPANIES

The Reciprocal's Attorney-in-Fact (AIF) was an affiliated party as defined by Rule 69O-143.045(1), Florida Administrative Code. The following affiliated agreement was in effect at December 31, 2007:

Attorney-In-Fact Agreement

The Reciprocal maintained an agreement appointing Physicians Preferred Insurance Management LLC, as Attorney in Fact (AIF). The AIF provided administrative, claims, underwriting and management of the day-to-day insurance business for remuneration by retaining 25% of the insurer's gross written premium.

Subsequent event: In 2008, as a Company, the former affiliated AIF agreement was replaced with an MGA agreement having similar provisions and remuneration.

FIDELITY BOND AND OTHER INSURANCE

The Reciprocal maintained an attorney-in-fact bond in the amount of \$100,000 in accordance with Section 629.121 Florida Statutes. The Reciprocal along with AIF maintained fidelity bond coverage with an aggregate limit of \$250,000 and a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage as recommended by the NAIC.

The Reciprocal also maintained Directors and Officers, and Errors & Omissions coverage with limits of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Reciprocal had no employees, and therefore, no pension, stock ownership or insurance plans.

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>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

At December 31, 2007, the Reciprocal was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

During 2007, the Reciprocal formalized and documented procedures for handling complaints against the Reciprocal in accordance with Section 626.9541 (1) (j), Florida Statutes.

REINSURANCE

Assumed

The Reciprocal did not assume risk for the period covered by this examination.

Ceded

During 2007, the Reciprocal ceded premium of \$268,000, in connection with a Medical Professional Liability Excess of Loss Reinsurance Agreement through Aon Limited to various Lloyd's syndicates and a London company.

Subsequent Event: In 2008, the Company canceled the Excess of Loss Reinsurance Agreement in effect at December 31, 2007 and replaced it with an Insurance Company Management and Professional Liability Insurance Policy. This policy was extended to Physicians Preferred Insurance Management, LLC, the Company's Managing General Agent.

ACCOUNTS AND RECORDS

The Reciprocal maintained its principal operational offices in Jacksonville, Florida, where this examination was conducted.

An independent CPA audited the Reciprocal's statutory basis financial statements for the year 2007, 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 Reciprocal's accounting records were maintained on a computerized system. The Reciprocal's balance sheet accounts were verified with the line items of the Annual Statement submitted to the Office.

The Reciprocal and non-affiliates had the following agreements in effect at December 31, 2007:

Custodial Agreement

The Reciprocal maintained a custodial agreement with Mercantile Bank Trust Division effective March 22, 2005. The agreement was in compliance with the requirements of Rule 69O-143.042, Florida Administrative Code.

Subscribers Agreement

The Reciprocal maintained an agreement with each subscriber during the period covered by this examination. The subscriber or policyholder agreed to pay their premiums, compensate the AIF for its services and make a one-time surplus contribution to the Reciprocal.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Reciprocal's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. There were no adjustments made as a result of the examination.

**PHYSICIANS PREFERRED INSURANCE RECIPROCAL
Assets**

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$22,820,482		\$22,820,482
Cash	8,317,551		8,317,551
Investment income due and accrued	353,487		353,487
Premiums and considerations:			
Uncollected premium	908,852		908,852
Net deferred tax asset	855,556		855,556
Aggregate write-in for other than invested assets:			
FIGA 2007 Recoupment	266,714		266,714
Totals	\$33,522,641	\$0	\$33,522,641

PHYSICIANS PREFERRED INSURANCE RECIPROCAL
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$11,116,385		\$11,116,385
Loss adjustment expenses	2,989,767		2,989,767
Other expenses	216,246		216,246
Taxes, licenses and fees	75,800		75,800
Current federal and foreign income taxes	4,187		4,187
Unearned premium	7,987,355		7,987,355
Advance premium	1,228,178		1,228,178
Payable to parent, subsidiaries and affiliates	1,411		1,411
Total Liabilities	<u>\$23,619,330</u>	\$0	<u>\$23,619,330</u>
Aggregate write-ins for other than special surplus funds:			
Subscriber Surplus Contributions	\$10,920,410		\$10,920,410
Unassigned funds (surplus)	<u>(1,017,099)</u>		<u>(1,017,099)</u>
Surplus as regards policyholders	<u>\$9,903,311</u>		<u>\$9,903,311</u>
Total liabilities, surplus and other funds	<u><u>\$33,522,641</u></u>	\$0	<u><u>\$33,522,641</u></u>

PHYSICIANS PREFERRED INSURANCE RECIPROCAL
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned		\$13,284,351
	Deductions:	
Losses incurred		8,799,981
Loss expenses incurred		999,961
Other underwriting expenses incurred		4,373,950
Total underwriting deductions		\$14,173,892
Net underwriting gain or (loss)		(\$889,541)

Investment Income

Net investment income earned		\$1,132,295
Net realized capital gains or (losses)		29,906
Net investment gain or (loss)		\$1,162,201

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$390)
Total other income		(\$390)
Net income before dividends to policyholders and before federal & foreign income taxes		\$272,270
Net Income, after dividends to policyholders, but before all other federal and foreign income taxes		\$272,270
Federal and foreign income taxes incurred		360,661
Net Income		(\$88,391)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$9,165,968
Net Income		(\$88,391)
Change in net deferred income tax		252,325
Change in non-admitted assets		(43,904)
Change in surplus notes		(1,350,000)
Aggregate write-ins for gains and losses in surplus		1,967,313
Change in surplus as regards policyholders for the year		\$737,343
Surplus as regards policyholders, December 31 current year		\$9,903,311

COMMENTS ON FINANCIAL STATEMENTS

Capital and Surplus

The amount reported by the Reciprocal of \$9,903,311, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**PHYSICIANS PREFERRED INSURANCE RECIPROCAL
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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, 2007, per Annual Statement	\$9,903,311
---	-------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment	\$33,522,641	\$33,522,641	\$0
LIABILITIES:			
No Adjustment	\$23,619,330	\$23,619,330	\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2007, Per Examination			\$9,903,311

SUMMARY OF FINDINGS

Compliance with previous directives

There were no items of interest or corrective action to be taken by the Reciprocal regarding findings in the examination as of December 31, 2006.

Current examination comments and corrective action

There are no items of interest or corrective action to be taken by the Reciprocal regarding findings in the examination as of December 31, 2007.

SUBSEQUENT EVENTS

As noted throughout this report, as a result of the conversion from a reciprocal insurer to a privately held stock company as of January 1, 2008, many changes have occurred subsequent to the examination date.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Physicians Preferred Insurance Reciprocal** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Reciprocal's Surplus as Regards Policyholders was \$9,903,311, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Jerry Golden, Financial Examiner/Analyst II, OIR, Patricia Casey Davis, CFE, CPA, Matt Perkins, CFE, and Ed Payne, CFE, of INS Regulatory Insurance Services, Inc., and Michael W. Morro, ACAS, MAAA, of INS Consultants, Inc., participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation