REPORT ON EXAMINATION

OF THE

FIRST PROFESSIONALS INSURANCE COMPANY

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2004

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
May 27, 2005

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 (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), a limited scope examination has been made as of December 31, 2004, of the loss and loss adjustment expense reserves of the:

FIRST PROFESSIONALS INSURANCE COMPANY
1000 RIVERSIDE AVENUE
JACKSONVILLE, FL 32204

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

SCOPE OF EXAMINATION

This limited scope examination was conducted as of December 31, 2004 of the net loss and loss adjustment expense reserves. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002. This examination commenced on February 25, 2005, and was concluded as of May 27, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The only annual statement balance of the Company examined in this limited scope examination was the loss and loss adjustment expense reserves. This balance totaled $212,913,000 pursuant to the December 31, 2004 annual statement. To the extent reinsurance contracts would affect net reserves calculations, the reinsurance contracts provided by the Company were reviewed. We did not subject the loss and loss adjustment expense reserves to all of the normal examination procedures.

The reported surplus to policyholders of the Company as of December 31, 2004 was $145,402,294.

This examination represented a limited scope statutory examination conducted in accordance with the NAIC 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 (FAC), with due regard to the statutory requirements of the insurance laws, rules and regulations of the State of Florida.

HISTORY

General

The Company was incorporated under the laws of the State of Florida. The Company is a multi-line carrier specializing in medical professional liability coverage for physicians, dentists and other health care providers, primarily in Florida. In 1999, the Company and its U.S. insurance company affiliates, Anesthesiologists Professional Assurance Company, Intermed Insurance Company and Interlex Insurance Company entered into an intercompany pooling agreement.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida. However, the examination was conducted at the Office, Tallahassee, Florida.

SUMMARY OF FINDINGS

Loss and Loss Adjustment Expenses **$212,913,000**

The Office actuary performed an actuarial analysis on the Company's loss and loss adjustment expense reserves and concluded that the amount reported by the Company in the 2004 annual statement was reasonable stated.

The Office actuary identified the following findings:

1. The insolvency clause contained in the Company's 2004 Benfield Blanch excess of loss treaty contained language allowing the reinsurer to interpose itself in the defense of any potential excess claim and offset a pro-rata portion of the costs it incurs. This violated the rehabilitator/liquidator right to control the activities of the Company in the event of an insolvency.

2. The reserve for free tail coverage in the event of a physician's death, disability, or retirement (DDR) reserves was based upon an assumption that malpractice costs will rise by only 2% per annum (300 basis points below the 5% interest rate they assume) in the future. It is the Office actuary's opinion that a rate in the 6-9% range (100-400 basis points above the interest rate) is more appropriate.

3. The data reconciliation included in the Company actuary's report compared the opining actuary's main triangle data to Schedule P. The reconciliation did not include descriptions and amounts of all the reconciling items needed to balance the data in the triangles to Schedule P. As such, unexplained differences of material size (some over $1 million) were posted in the actuarial report without subsequent reconciliation of the unexplained differences.

We recommend that the Company:

1. **Remove the "interpose" language from the insolvency clause in all future reinsurance agreements.**

2. **Use a malpractice loss cost inflation rate that is either 6%; or the assumed interest rate plus 1% (100 basis points); or the Insurance Services Office medical malpractice loss cost trend rate; which ever is more appropriate, as part of the Company's future Annual Statement DDR reserve calculation.**

3. **Include a data reconciliation to within an immaterial difference, per item in the future actuarial reports.**

4. **Exclude all tail coverage data from the physician's malpractice loss development triangles and create the tail coverage development triangle beginning with future actuarial reports**.

In addition to the undersigned, Lou Sobers, Financial Examiner/Analyst Supervisor, Joseph Boor, FCAS, Office Actuary and March Fisher, Office Senior Actuarial Analyst participated in the examination.

Respectfully submitted,

Mary M. James, CFE, CPM
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation