

REPORT ON EXAMINATION
OF
FLORIDA HEALTHCARE PROVIDERS
INSURANCE EXCHANGE

WESTON, FLORIDA

AS OF
DECEMBER 31, 2004

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 14, 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 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:

**FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
2400 N. COMMERCE PARKWAY, SUITE 305
WESTON, FLORIDA 33326**

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

SCOPE OF EXAMINATION

This examination covered the period of December 31, 2003 through December 31, 2004. This was the Company's first financial examination by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on February 13, 2006, through February 17, 2006. The fieldwork commenced on February 20, 2006, and was concluded as of April 14, 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 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 report was 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 was confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which were deemed to require special explanation or description.

HISTORY

General

The Company is a domestic reciprocal insurance exchange. The Company was licensed to write business in Florida on December 31, 2003 and commenced operations on December 31, 2003 as Florida Healthcare Providers Insurance Exchange. The Company's attorney-in-fact was Florida Healthcare Providers Insurance Services Company, LLC in accordance with Section 629.091, Florida Statutes.

In accordance with Section 629.041, Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2004:

Medical Malpractice

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

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

In accordance with Section 629.061, Florida Statutes, the Company was managed by a Florida Attorney-in-Fact (FL-AIF) pursuant to the terms of an attorney-in-fact agreement between the Company and the FL-AIF. A majority interest in the FL-AIF was owned by American Healthcare Providers Insurance Services Company, LLC (American). A majority interest membership in American was owned by Wescott Holding Company, LLC (Wescott). Wescott was wholly owned by Duane Morris, LLP, who provided legal services to the Company and to the FL-AIF.

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 of the Company.

	2004	2003
Premiums Earned	1,816,801	0
Net Underwriting Gain/(Loss)	(447,377)	(456,579)
Net Income	(378,248)	(456,445)
Total Assets	9,575,276	5,038,516
Total Liabilities	2,342,711	494,961
Surplus As Regards Policyholders	7,232,565	4,543,555

Management

The Subscribers' Advisory Committee (SAC) members were selected in accordance with Section 629.201, Florida Statutes. Committee members serving as of December 31, 2004, were:

Subscribers' Advisory Committee

Name and Location	Principal Occupation
Michael Shapiro, MD Island Harbor Beach, FL	Committee Member Florida Healthcare Providers Insurance Exchange
Dudley Teel, MD Vero Beach, FL	Committee Member Florida Healthcare Providers Insurance Exchange

The SAC selected the following senior officers:

Senior Officers

Name	Title
Thomas Gaudiosi	CEO
Tammy Pappariella	Treasurer/Secretary
Karl Detwieler	VP
Mark Etter, MD	VP

The Company's SAC appointed several internal committees. The following was the principal internal committee and the members as of December 31, 2004:

Audit Committee

Michael Shapiro, MD
Dudley Teel, MD

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 and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had two surplus debentures totaling \$3,929,125 as of December 31, 2004. The debentures were pledged from three of the Company's members, Steven Brooks, Frank Kronberg and Helene Kronberg.

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 and the Commonwealth of Pennsylvania on October 14, 2004, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The following agreements were in effect between the Company and its affiliates:

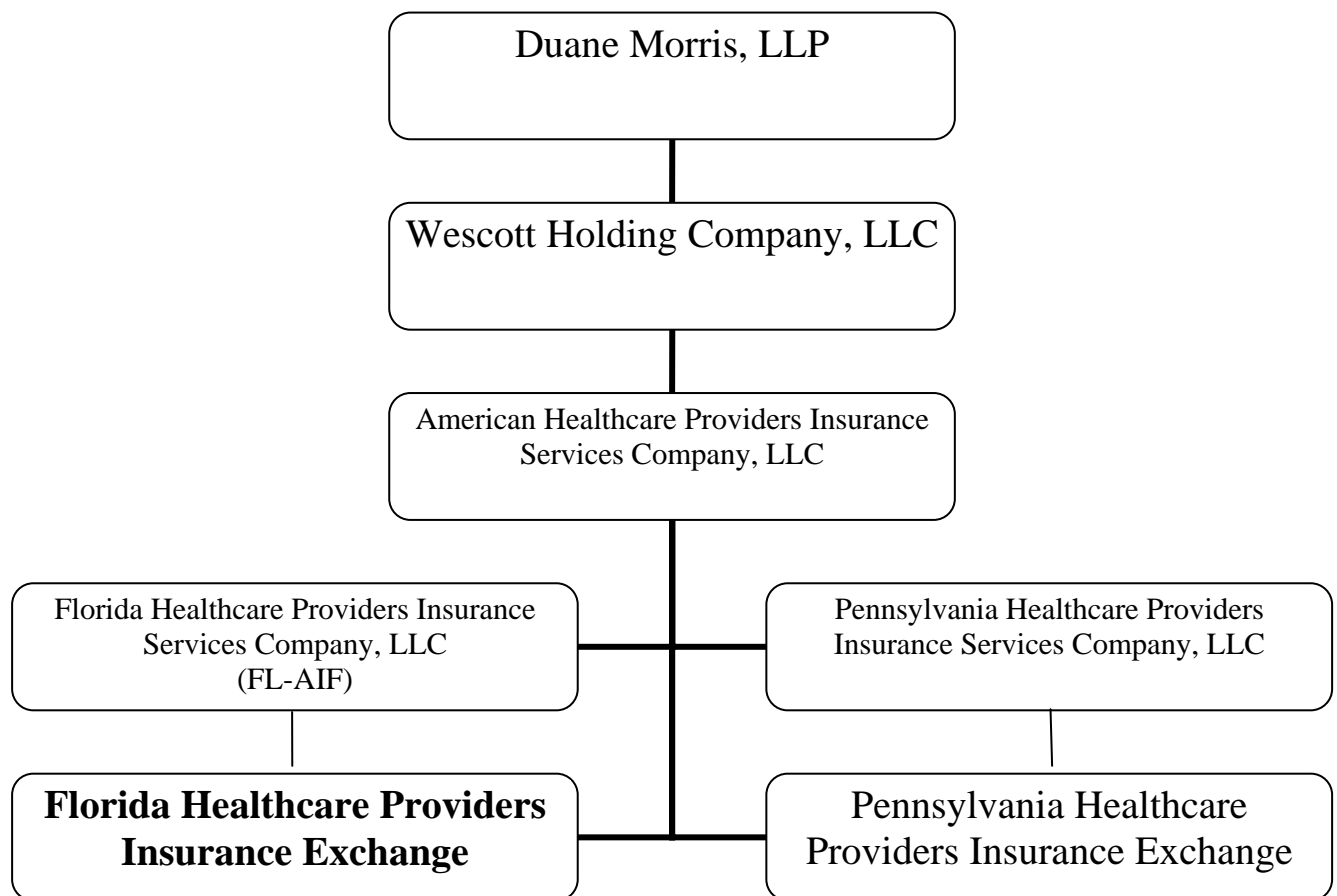
Attorney-in-Fact Agreement

On August 18, 2003, the Company entered into an FL-AIF agreement with Florida Healthcare Providers Insurance Services Company, LLC. The agreement stipulated that the FL-AIF pay all costs of providing management services including agents and other sales commissions, salaries and benefit expenses of the FL-AIF employees, rent and other occupancy expenses, supplies and data processing. This agreement included all of the required contract provisions in accordance with Section 626.7451, Florida Statutes.

An organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

**FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
ORGANIZATIONAL CHART**

DECEMBER 31, 2004



ATTORNEY'S BOND

The Company maintained an attorney's bond with coverage up to \$100,000 with a zero deductible in accordance with 629.121(2) Florida Statutes.

PENSION AND INSURANCE PLANS

The Company provided a 401K plan, health insurance and long-term disability insurance to all eligible employees.

STATUTORY DEPOSITS

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

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	Cash Deposit	<u>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact only medical malpractice insurance in Florida.

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 risk during the period covered by this examination.

Ceded

Effective January 1, 2004, the Company executed an excess of loss reinsurance agreement. According to the agreement, the policies issued were on a per occurrence basis with limits of either \$250,000 or \$500,000. The Company retained liability for the first \$200,000 per insured for each claim or occurrence.

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 statutory basis financial statements for the year ended 2004.

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 Weston, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company utilized the investment and custodial services of Regions Morgan Keegan Trust Company. The safekeeping agreement between the Company and Regions Morgan Keegan Trust Company provided the proper safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, Florida Administrative Code.

Tax Preparation Agreement

On January 21, 2005, the Company entered into a tax preparation agreement with Ernst & Young, LLP. The agreement stipulated that Ernst & Young, LLP provide tax services to include extension requests and preparation of tax forms for the Company and its parent and affiliates.

Bowne Printing Agreement

On December 22, 2004, the Company entered into an agreement with Bowne Insurance Division (Bowne). The agreement stipulated that Bowne provide services to include annual statement printing, CD ROM archival services and annual statement preparation seminars.

Financial Compilation Agreement

During 2004, the Company entered into a financial compilation agreement with Smart and Associates LLP (Smart). The agreement stipulated that Smart compile in accordance with

attestation standards established by the AICPA, the projected balance sheet and related statements of income, surplus and cash flow information.

Investment Advisory Agreement

On August 1, 2004, the Company entered into an investment advisory agreement with Parkway Advisors, LLP (Parkway). The agreement stipulated that the Company appoint Parkway as an investment adviser for its accounts and that Parkway provide investment advice and execute trades.

Investment Management Agreement

On December 12, 2003, the Company entered into an investment management agreement with Prime Advisors, Inc. (Prime). The agreement stipulated that Prime supervise, direct or make recommendations to the investments of Company accounts in accordance with investment objectives of the 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, 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."

FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$6,693,812		\$6,693,812
Cash:			
On hand	2,706,255		2,706,255
Investment income due and accrued	52,808		52,808
Agents' Balances:			
Uncollected premium	17,139		17,139
Deferred premiums	4,391		4,391
Current federal & foreign income tax	100,871		100,871
Totals	\$9,575,276	\$0	\$9,575,276

FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$909,099		\$909,099
Loss adjustment expenses	339,041		339,041
Other expenses	76,179		76,179
Taxes, licenses and fees	(21,739)		(21,739)
Unearned premium	723,220		723,220
Advanced premium	297,186		297,186
Ceded reinsurance premiums payable	15,038		15,038
Payable to parent, subsidiaries and affiliates	<u>4,687</u>		<u>4,687</u>
Total Liabilities	\$2,342,711		\$2,342,711
Aggregate write-ins for other than special surplus	\$4,138,125		\$4,138,125
Surplus notes	3,929,125		3,929,125
Unassigned funds (surplus)	<u>(834,685)</u>		<u>(834,685)</u>
Surplus as regards policyholders	<u>\$7,232,565</u>		<u>\$7,232,565</u>
Total liabilities, capital and surplus	<u>\$9,575,276</u>	<u>\$0</u>	<u>\$9,575,276</u>

FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
Statement of Income

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$1,816,801
DEDUCTIONS:	
Losses incurred	909,099
Loss expenses incurred	494,619
Other underwriting expenses incurred	860,459
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$2,264,177</u>
Net underwriting gain or (loss)	(\$447,376)

Investment Income

Net investment income earned	\$19,564
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$19,564</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	6,822
Aggregate write-ins for miscellaneous income	2,881
Total other income	<u>\$9,703</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$418,110)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$418,110)
Federal & foreign income taxes	<u>(39,870)</u>
Net Income	(\$378,240)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$4,543,555
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Gains and (Losses) in Surplus

Net Income	(\$378,240)
Net unrealized capital gains or losses	0
Change in net deferred income tax	241,170
Change in non-admitted asset	(241,170)
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	3,067,250
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$2,689,010</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$7,232,565</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$1,248,140

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

**FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
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	\$7,232,565
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			\$0
LIABILITIES:			
No Adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2004, Per Examination			\$7,232,565

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest and corrective action to be taken by the Company in the 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 **Florida Healthcare Providers Insurance Exchange, Inc.** 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 \$7,232,565 which was in compliance with Section 629.071, Florida Statutes.

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

Respectfully submitted,

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