



**EXAMINATION REPORT
OF
FD INSURANCE COMPANY**

NAIC Company Code: 12441

**Jacksonville, Florida
as of
December 31, 2016**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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December 1, 2017

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, Florida Administrative Code, 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, 2016, of the financial condition and corporate affairs of

FD Insurance Company
4651 Salisbury Road
Suite 410
Jacksonville, Florida 32256-6187

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, 2014 through December 31, 2016 and commenced with planning at the Florida Office of Insurance Regulation ("Office") on March 21, 2017 to March 23, 2017. The fieldwork commenced on March 21, 2017 and concluded as of December 1, 2017. The Company's last full scope examination by representatives of the Office covered the period of January 1, 2009 through December 31, 2013.

The examination was a coordinated holding company group examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively. The lead state for this examination was California. Florida, Pennsylvania, and Texas participated.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles ("SSAP").

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report, but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material findings or exceptions noted during the examination as of December 31, 2016.

Previous Examination Findings

The following is an update on other significant regulatory information disclosed in the previous examination.

Change among Company Principal Management

The Company did not provide written notification to the Office for all changes among the principal officers, which was not in compliance with Section 628.261, Florida Statutes.

Resolution: The Company provided written notification to the Office within the application for the acquisition of FD Insurance Company by NORCAL Mutual Insurance Company ("NORCAL"). The Office approved this acquisition by Consent Order # 183631-15-CO on December 23, 2015.

Custodial Affiliate

The Company did not identify all affiliates and affiliated agreements within the Holding Company Registration Statements filed with the Office concerning one of its investment custodians, Investors' Security Trust Company, which was not in compliance with Rule 69O-143.046, Florida Administrative Code. The Company also did not notify the Office in writing of its intention to enter into a custodial arrangement with an affiliated custodian, which was not in compliance with Rule 69O-143.047, Florida Administrative Code.

Resolution: The Company identified all affiliates and affiliated agreements with the Holding Company Registration Statements filed with the Office on January 13, 2016. The affiliated custodian is no longer used by the Company.

Custodial Agreement

The Company had a custodial agreement with Investors' Security Trust Company dated November 1, 2005, amended January 30, 2007. The agreement did not contain all the required provisions of Rule 69O-143.042(2)(j), Florida Administrative Code.

Resolution: The Company's current custodial agreement contains all the provisions of Rule 69O-143.042(2)(j), Florida Administrative Code.

COMPANY HISTORY

General

The Company was incorporated in Florida on October 28, 2005 and commenced business on November 3, 2005 as Florida Doctors Insurance Company. The Company provides protection against losses arising from profession liability claims and the related defense costs with respect to injuries alleged to have been caused by medical error or malpractice on a claims-made basis. Covered policyholders include physicians, surgeons, dentists, ancillary health care professionals, healthcare facilities, and directly affiliated corporations, partnerships, and associations. As of August 22, 2014, the Company changed its name to FD Insurance Company from Florida Doctors Insurance Company. The Company obtained a Certificate of Authority as of August 29, 2014 to reflect the name change.

Dividends

The Company did not declare or pay any dividends during the period of this examination. However, a return of capital in the amount of \$1,000,000 and \$325,000 was approved by the Office and paid by the Company on February 13, 2015 and March 12, 2014, respectively.

Capital Stock and Capital Contributions

As of December 31, 2016, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$10,000,000
Par value per share	\$10.00

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

Acquisitions, Mergers, Disposals, Dissolutions

The Company is a one hundred percent (100%) owned subsidiary of Florida Doctors Holding Company ("FDHC") LLC. NORCAL purchased FDHC and its subsidiaries on December 31, 2015. FDHC is one hundred percent (100%) owned subsidiary of NORCAL.

The Company entered into a Loss Portfolio Transfer Agreement and a Quota Share Reinsurance Agreement with NORCAL effective January 1, 2016. Under the Loss Portfolio Transfer Agreement, NORCAL assumed one hundred percent (100%) of the Company's net loss and loss adjustment expense reserves (excluding adjusting & other expenses) and unearned premium reserves at December 31, 2015. For the Quota Share Reinsurance Agreement, NORCAL assumed one hundred percent (100%) of the Company's net premiums written and earned, in return for assuming one hundred percent (100%) of the net loss and loss adjustment expenses incurred (excluding adjusting & other expenses) thereafter.

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. The Directors serving as of December 31, 2016 are shown below:

Directors

Name	City, State	Principal Occupation, Company Name
Sandra Lynn Beretta M.D. ¹	Hillsborough, California	Physician Sandra Beretta, MD, Inc. & Medical Arts Obstetrics & Gynecology
Fabiola Cobarrubias M.D.	San Francisco, California	Physician Pacific Inpatient Medical Group
Patricia Ann Dailey M.D.	Hillsborough, California	Physician Anesthesia Care Associations Medical Group

Theodore Scott Diener	Greenbrae, California	President and Chief Executive Officer NORCAL Insurance Group
Alice Hardy Gannon	San Antonio, Texas	Actuary (retired)
Roger Mark Hayashi M.D.	Los Gatos, California	Physician (retired)
Steven Jeffrey Packer M.D.	Monterey, California	President & Chief Executive Officer Community Hospital Foundation
Rebecca Jean Patchin M.D.	Clinton, Washington	Physician (retired)
Jaan Erik Sidorov M.D. (a) ¹	Harrisburg, Pennsylvania	Physician Sidorov Health Solutions
Scott Carter Syphax	Elk Grove, California	President and Chief Executive Officer Nehemiah Companies

¹ Chairperson

(a) Jaan Erik Sidorov M.D. resigned on June 2, 2017 and was replaced by Sandra Lynn Beretta M.D as Chairperson on June 3, 2017.

In accordance with the Company's Bylaws, the Board of Directors ("Board") appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
Theodore Scott Diener	Greenbrae, California	President, Chief Executive Officer
Mark David Johnson	Dripping Springs, Texas	Senior Vice President & Chief Financial Officer
Kara Marie Ricci	San Anselmo, California	Senior Vice President, Chief Legal Officer, Corporate Secretary & Chief Compliance Officer
Timothy James Friers (a)	Mechanicsburg, Pennsylvania	Senior Vice President & Chief Operating Officer

Dennis Allen Meisel	Elliottsburg, Pennsylvania	Vice President, Finance & Controller
Ronald Carl Rumin (a)	Phoenix, Arizona	Senior Vice President & Chief Business Development Officer

(a) Timothy James Friers left the Company in January 2017 and was replaced by Ronald Carl Rumin effective November 1, 2017.

The Company's Board has no internal committees. The Company's Board delegated authority to the NORCAL Audit, Governance, Compensation & Benefits, and Investment Committees shortly after the acquisition.

Holding Company System

The NORCAL Group is comprised of NORCAL and its wholly-owned insurance subsidiaries, NORCAL Specialty Insurance Company ("NORCAL Specialty"), Medicus Insurance Company ("Medicus"), and the Company.

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

Intercompany Affiliate Service Agreement

The Company, NORCAL Specialty, NORCAL Management Company, NORCAL Specialty Insurance Services, LLC, Medicus Insurance Holdings, Inc., Medicus, and Medicus Risk Purchasing Group are party to an Intercompany Affiliate Service Agreement that has been in effect since January 1, 2009. Under the terms of this agreement, all the companies may share in and use the services of personnel and facilities of the other in carrying out the Group's business. The services rendered under this agreement may include accounting, taxes, auditing, underwriting, claims, investment, and functional support services. Compensation for the services is based on the actual cost. Indirect and shared expenses are allocated in accordance with a method of cost allocation in conformity with SSAP No. 70 – Allocation of Expenses.

Effective January 1, 2016, the agreement was amended and restated to include Florida Doctors Holding Company, LLC, the Company, Insurance Company Managers, LLC, and FLDIC Practice Solutions, LLC. The Office approved the amendment on December 23, 2015. The total fees

reimbursed to the Company for services rendered under this agreement in 2015 and 2016 were \$3,547,329 and \$510,698 respectively.

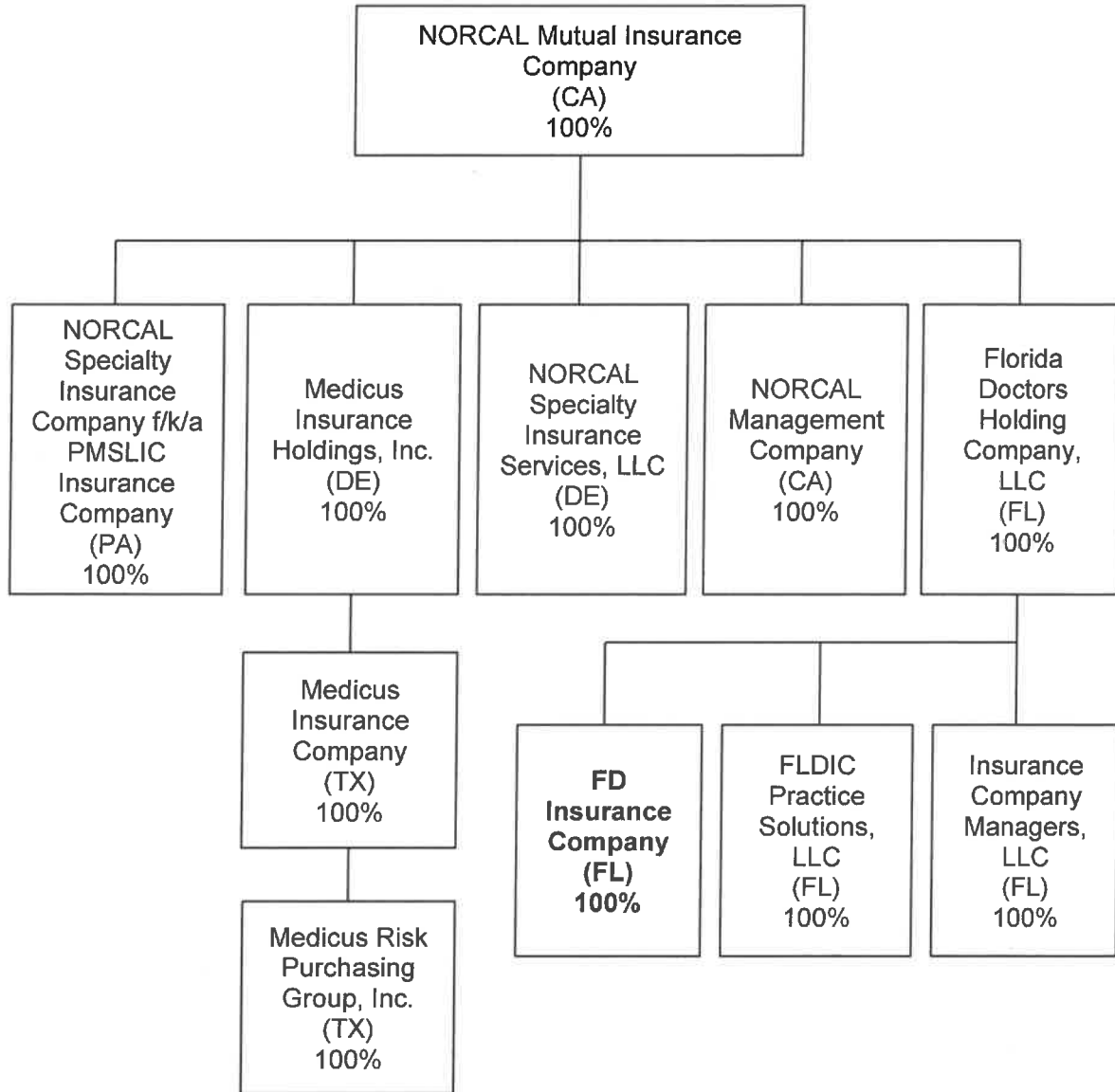
Tax Sharing Agreement

The Company, NORCAL Management Company, NORCAL Specialty, Medicus Holdings, Inc., Medicus Insurance Company, and Medicus Risk Purchasing Group are party to a Tax Sharing Agreement that was in effect since January 1, 2010. The agreement sets forth the manner in which the total combined federal income tax is allocated to each entity that is a party to the agreement. Pursuant to the agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years, in the event of future net losses that it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. The allocation is based upon separate return calculations with current credit for net losses and/or credit where the losses and/or credits result in an actual reduction in tax liability of the consolidated group.

On November 5, 2015, the Company submitted an Amended and Restated Tax Sharing Agreement to the Office to add Florida Doctors Holding Company, LLC; the Company; Insurance Company Managers, LLC; and FLDIC Practice Solutions, LLC to the agreement. The Office approved the amendment on December 23, 2015.

A simplified organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2016 annual statement provided a list of all related companies of the holding company group.

**FD Insurance Company
Organizational Chart
December 31, 2016**



ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida.

Corporate Records Review

The recorded minutes of the Shareholder(s), Board, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook, adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest, in accordance with the Handbook, adopted by Rule 69O-138.001, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained custodial agreements with Wells Fargo Bank executed on September 1, 2015, Bank of New York Mellon executed on March 2, 2016 and Merrill Lynch, Pierce, Fenner & Smith Inc. executed on August 29, 2011. The agreements complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, KPMG audited the Company's statutory basis financial statements annually for 2016, in accordance with Section 624.424(8), Florida Statutes. Johnson Lambert LLP performed the audit for 2014 and 2015. Supporting workpapers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to transact insurance only in the states of Florida and Georgia.

The Company was authorized to transact insurance in Florida on November 3, 2005 and in Georgia on June 15, 2015. They are currently authorized for medical malpractice and other liability coverages as of December 31, 2016.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)(3)(a), Florida Statutes. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim 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, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Reinsurance Assumed

The Company did not assume any reinsurance during the period of this examination.

Reinsurance Ceded

The Company entered into a Loss Portfolio Transfer Agreement and a Quota Share Reinsurance Agreement with NORCAL effective January 1, 2016. Under the Loss Portfolio Transfer agreement, NORCAL assumed one hundred percent (100%) of the Company's net loss and loss adjustment expense reserves (excluding adjusting & other expenses) and unearned premium reserves at December 31, 2015. For the Quota Share Reinsurance Agreement, NORCAL assumed one hundred percent (100%) of the Company's net premiums written and earned, in

return for assuming one hundred percent (100%) of the net loss and loss adjustment expenses incurred (excluding adjusting & other expenses) thereafter.

INFORMATION TECHNOLOGY REPORT

Richard Sowalsky, CISA, IT Manager, Eric Cortese, CISA, Senior IT Examiner, and Tyler Kaphingst, IT Examiner, of Baker Tilly Virchow Krause, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected on the following pages.

FD Insurance Company

Assets

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Bonds	\$23,124,222		\$23,124,222
Cash, cash equivalents and short-term investments	2,062,825		2,062,825
Other investmented Assets	458,546		458,546
Investment income due and accrued	184,213		184,213
Deferred premiums, agents' balances and installments booked but not yet due	817,636		817,636
Amounts recoverable from reinsurers	8,703,183		8,703,183
Current federal and foreign income tax recoverable and interest thereon	2,006,776		2,006,776
Net deferred tax asset	582,102		582,102
Total	<u>\$37,939,503</u>	<u>\$0</u>	<u>\$37,939,503</u>

FD Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Loss adjustment expenses	789,439		789,439
Commissions payable, contingent commissions and other similar charges	3,000		3,000
Other expenses	3,200		3,200
Taxes, licenses and fees	85,838		85,838
Ceded reinsurance premiums payable	11,598,708		11,598,708
Provision for reinsurance	127,032		127,032
Payable to parent, subsidiaries and affiliates	4,622,353		4,622,353
Aggregate write-ins for liabilities	<u>15,568</u>		<u>15,568</u>
Total Liabilities	\$17,245,138	\$0	\$17,245,138
Common capital stock	\$10,000,000		\$10,000,000
Gross paid in and contributed surplus	10,633,014		10,633,014
Unassigned funds (surplus)	<u>61,351</u>		<u>61,351</u>
Surplus as regards policyholders	<u>\$20,694,365</u>	<u>\$0</u>	<u>\$20,694,365</u>
Total liabilities, surplus and other funds	<u><u>\$37,939,503</u></u>	<u><u>\$0</u></u>	<u><u>\$37,939,503</u></u>

FD Insurance Company
Statement of Operations
December 31, 2016

Underwriting Income

Premiums earned		(\$37,021,275)
	Deductions:	
Losses incurred		(\$27,160,978)
Loss expenses incurred		(8,940,458)
Other underwriting expenses incurred		(906,571)
Total underwriting deductions		(\$37,008,007)
Net underwriting gain or (loss)		(\$13,268)

Investment Income

Net investment income earned		\$506,281
Net realized capital gains or (losses)		(154,773)
Net investment gain or (loss)		\$351,508

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$13,478)
Finance and service charges not included in premiums		10,609
Aggregate write-ins for miscellaneous income		16,136
Total other income		\$13,267

Net income before dividends to policyholders and before federal & foreign income taxes		\$351,507
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$351,507
Federal & foreign income taxes		(1,848,811)
Net Income		\$2,200,318

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$18,788,699
Net Income		\$2,200,318
Change in net unrealized capital gains or (losses)		(15,357)
Change in net dererred tax assets		(1,965,621)
Change in nonadmitted assets		9,155,081
Change in provision for reinsurance		(127,032)
Aggregate write-ins for gains and losses in surplus		(7,341,723)
Change in surplus as regards policyholders for the year		\$1,905,666
Surplus as regards policyholders, December 31 current year		\$20,694,365

FD Insurance Company
Reconciliation of Capital and Surplus
December 31, 2016

No adjustments were made to surplus as regards policyholders as a result of this examination.

Surplus as regards policyholders December 31, 2013 per Examination			\$22,657,795
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net Income (loss)	\$1,743,312		
Change in net unrealized capital gain (loss)		\$545,778	
Change in net deferred income tax		\$2,046,495	
Change in non-admitted assets	\$7,679,286		
Change in provision for reinsurance		\$127,032	
Change in paid in surplus		\$1,325,000	
Aggregate write-ins for gains and losses in surplus		\$7,341,723	
Total Gains and Losses	<u>\$9,422,598</u>	<u>\$11,386,028</u>	
Net Increase/(Decrease) in surplus as regards policyholders			<u>(\$1,963,430)</u>
Surplus as regards policyholders December 31, 2016 per Examination			<u>\$20,694,365</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Bryan Young, FCAS, MAAA, of Willis Towers Watson, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016 made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Based on an analysis by a Casualty Actuary from the CDI, the Company's loss, loss adjustment expense, and death, disability, and retirement reserves as of December 31, 2016 were found to be reasonably stated and have been accepted for this examination.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$20,694,365, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Dividend

On November 27, 2017, the Office approved a \$10,000,000 extraordinary dividend from the Company to FDHC with further distribution to its ultimate parent, NORCAL.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FD Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards policyholders was \$20,694,365, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Michael Nadeau, CFE, CPA, CISA, AES, Examiner-in-Charge, Ryan Havick, CFE, MCM, and James Menck, CFE, CPA, CIA, MCM, CFE (Fraud), Participating Examiners, of Eide Bailly LLP also participated in the examination. Member(s) of the Office who participated in the examination included Connie Hare, CFE (Fraud), AFE, Financial Examiner/Analyst Supervisor, Examination Manager.

Respectfully submitted,



Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation