

REPORT ON EXAMINATION
OF
FIRST PROFESSIONALS INSURANCE
COMPANY
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

August 6, 2010

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, Rule 69O-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, 2009, of the financial condition and corporate affairs of:

**FIRST PROFESSIONALS INSURANCE COMPANY
1000 RIVERSIDE AVENUE, SUITE 800
JACKSONVILLE, FLORIDA 32204**

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, 2006, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office on April 28, 2010, to April 30, 2010. The fieldwork commenced on May 4, 2010, and concluded as of August 6, 2010.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

Holding Company System Registration Statement

The Company did not disclose its intercompany pooling agreement with affiliates in the annual filing of the holding company system registration statement. The Company was not in compliance with Rule 69O-143.046, (2)(c)6, Registration of Insurers, Florida Administrative Code.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2005, along with resulting action taken by the Company.

Losses

The Company recorded a portion of their paid loss costs to the year the payment was made instead of the report year in Schedule P. **Resolution:** The Company changed its procedures so that paid loss costs were recorded to the report year in schedule P.

SUBSEQUENT EVENTS

On March 31, 2010, the Company resolved two related claims from the 2002 accident year against an insured with payments in excess of each claim's \$1.0 million policy limit. The amount paid by the Company in excess of the policy limit was \$10.0 million for each of the two claims, net of applicable reinsurance of \$2.0 million per claim. Such amounts had been fully contemplated in previously established liabilities for losses and loss adjustment expense.

HISTORY

General

The Company was incorporated in Florida on October 10, 1985, and organized by conversion of the Florida Physician Insurance Reciprocal, a Florida reciprocal insurer, on January 1, 1986. Florida Physicians Insurance Reciprocal originally commenced business on December 13, 1976. The Company changed its name to First Professionals Insurance Company on May 8, 2001. It was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

Medical malpractice – occurrence
Medical malpractice – claims made
Other liability – claims made

Dividends to Stockholders

In 2009, the Company paid dividends of \$32 million. The Company requested and was approved to pay an extraordinary dividend of \$10 million in addition to the remaining \$22 million dividend which was less than the 10% of available surplus in Compliance with Section 628.371, Florida Statutes.

Capital Stock and Capital Contributions

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	\$5,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, FPIC Insurance Group, Inc. (FIG), who owned one hundred percent of the stock issued by the Company. The parent contributed gross paid in capital and contributed surplus of \$11, 341,980 as of December 31, 2009.

Surplus Debentures

The Company did not have any surplus debentures.

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

In November, 2009, the Company acquired all of the issued and outstanding stock of Advocate MD. At acquisition, the statutory value of Advocate MD was \$21.7 million which increased to \$30.7 million after a \$9 million payoff of Advocate MD's debt by FIG. In accordance with SSAP 68, the accounting for the acquisition of Advocate MD resulted in \$11.9 million of goodwill to the Company.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in

accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

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

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

Directors

Name and Location	Principal Occupation
John Ray Byers Jacksonville, Florida	Chairman of the Board, FPIC Insurance Group
Robert Elwood White, Jr. Jacksonville, Florida	President, FPIC
Charles Divita, III St. John's County, Florida	Chief Financial Officer, FIG
T. Malcom Graham Jacksonville, Florida	General Counsel and Secretary, FIG
Louis Vincent Sicilian Jacksonville, Florida	Sr. Vice President/Treasurer, FPIC

The Board in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Robert E. White, Jr.	President
Robert L. Wortelboer, Jr.	Secretary
Louis V. Sicilian	Treasurer

The Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal committees and their members as of December 31, 2009:

Executive Committee

Kenneth M. Kirschner¹
John K. Anderson, Jr.
Robert O. Baratta, M.D.
John R. Byers
Joan D. Ruffier

¹ Chairman

Audit Committee

John K. Anderson, Jr. ¹
Terence P. McCoy, M.D.
John G. Rich
Joan D. Ruffier

Investment Committee

Terence P. McCoy, M.D. ¹
John K. Anderson, Jr.
M.C. Harden III
Kenneth M. Kirschner
David M. Shapiro, M.D.

Affiliated Companies

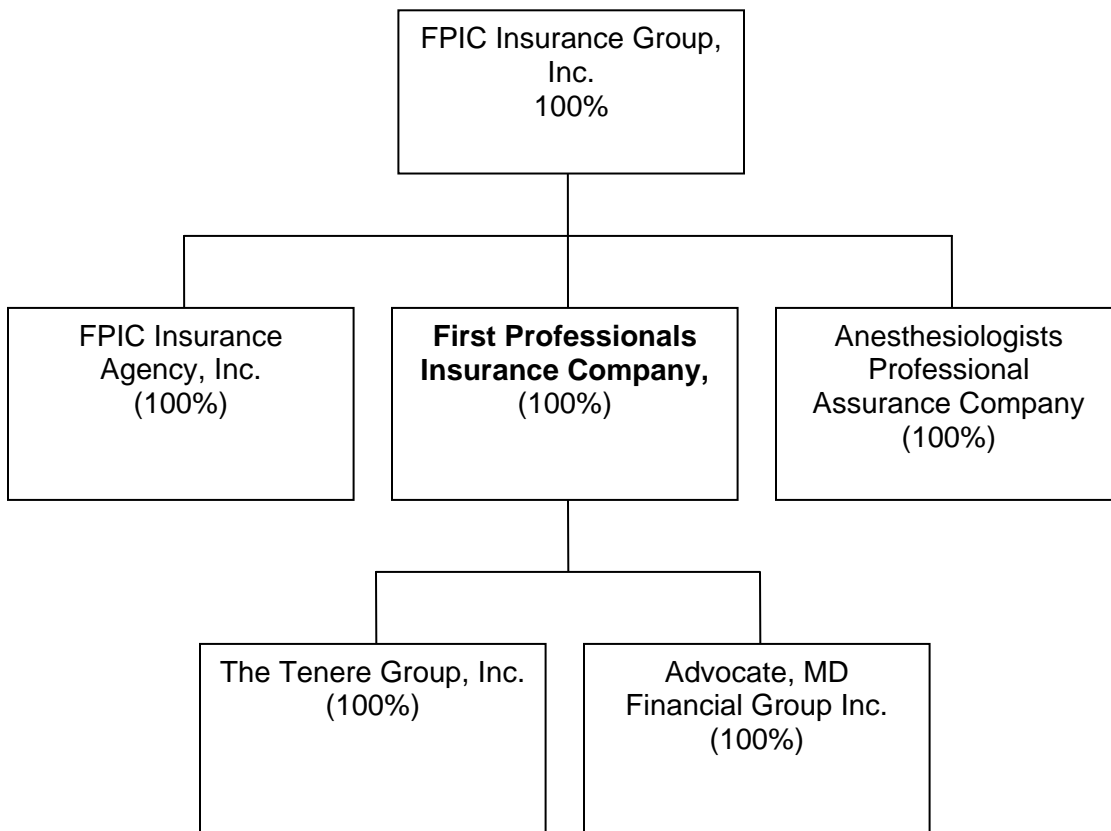
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

FIRST PROFESSIONALS INSURANCE COMPANY

ORGANIZATIONAL CHART

DECEMBER 31, 2009



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

Management Services Agreement

The Company had an agreement with FPIC Insurance Group, Inc. (FIG), the parent, at December 31, 2009, whereby FIG would provide management services to the Company. The agreement called for the Company to pay a monthly fee due upon the first day of each month on an estimated basis equal to one hundred and fifteen percent (115%) of the actual costs incurred by FIG as a result of providing the services to the Company.

Tax Allocation Agreement

The Company, along with its parent and affiliates, filed a consolidated federal income tax return. As of December 31, 2009, the method of allocation between the Company, its parent, and affiliates, was that each member of the affiliated group would bear its appropriate portion of the liability that each would incur if they filed income tax returns separately. The Company amended the tax allocation agreement on June 3, 2005 to reference specific affiliates as having been included in the agreement since March 17, 1999. There was a second amendment effective November 13, 2009, to include additional affiliates.

Investment Advisor Agreement

The Company maintained an investment advisor agreement with the parent, FIG, effective December 18, 1996.

Inter-company Pooling Agreement

The Company was a participant with its U.S. insurance company affiliates in an Inter-Company Pooling Agreement whereby each member ceded 100% of its net written premium, after deducting premiums ceded to non-affiliates and one non-participating affiliate. The Company then allocated to itself and the participating affiliates a pro-rata portion of the premiums, losses, and administrative expenses based on the participant's proportionate surplus to total surplus of the participants prior to pooling. This agreement was not disclosed in the holding company statement filed March 10, 2010, as required by Rule 69O-143.046 (2) (c) 6, Florida Administrative Code.

Agency Agreement

The Company had an Agency Agreement with its parent, FIG, effective December 31, 1996. The agreement stated that FIG would solicit sales of and sell certain insurance policies issued by the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage through its parent up to \$2,500,000 with a deductible of \$100,000. The Company was listed as a named insured on the fidelity bond with the parent and the affiliated companies. This insurance was considered adequate by NAIC guidelines.

The Company also had D&O coverage up to \$35,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore, it did not have a pension, stock, or insurance plan.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Florida	Alabama	Arizona	Arkansas
Colorado	Delaware	Georgia	Illinois
Indiana	Kansas	Kentucky	Maryland
Michigan	Minnesota	Mississippi	Missouri
Montana	Nevada	New Jersey	North Carolina
Ohio	Oklahoma	Oregon	Pennsylvania
South Carolina	Tennessee	Texas	Utah
Virginia	Washington	Wyoming	West Virginia

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

COMPANY GROWTH

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.

	2009	2008	2007	2006	2005
Premiums Earned	106,880,908	123,877,243	153,423,354	165,314,808	164,961,075
Net Underwriting Gain/(Loss)	11,144,722	16,480,350	38,255,068	14,210,347	7,516,273
Net Income	21,396,034	20,798,129	41,948,095	19,487,692	9,926,183
Total Assets	613,143,427	625,212,945	669,092,678	753,144,928	713,885,816
Total Liabilities	373,732,167	404,436,918	434,015,676	552,700,447	541,032,544
Surplus As Regards Policyholders	239,411,260	220,776,027	235,077,002	200,444,482	172,853,272

LOSS EXPERIENCE

There have not been any significant changes in the company's loss experience.

REINSURANCE

The reinsurance agreements complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed risk through its inter-company pooling agreement.

Ceded

The Company ceded risk under reinsurance arrangements, primarily on an excess of loss basis to authorized and unauthorized reinsurers under various contracts that cover individual risks, or entire classes of business. The unauthorized reinsurers were covered by letters of credit in compliance with Rule 69O-144.005, Florida Administrative Code.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006, 2007, 2008 and 2009, 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 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 and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Brown Brothers Harriman & Co. to perform investment custodian duties. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Managing General Agent Agreement

The Company utilized a non-affiliated managing general agent (MGA) to produce insurance business. The MGA was responsible for quoting policies to customers, claims administration and billing and collecting premiums on behalf of the insurer. The Company retained the right for binding authority and ensured all policies meet company underwriting guidelines.

Independent Auditor Agreement

The Company entered into an independent auditor agreement with PricewaterhouseCoopers for annual statutory audit services for the year ending December 31, 2009.

Information Technology Report

ParenteBeard 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.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

State	Par Value	Market Value
FL	<u>\$8,174,519</u>	<u>\$8,265,571</u>
TOTAL FLORIDA DEPOSITS	\$8,174,519	\$ 8,265,571
AZ	\$ 111,794	\$ 122,487
AR	123,429	146,230
DE	100,005	100,005
GA	25,002	25,002
NV	822,525	861,408
NC	200,001	200,001
OR	120,261	125,296
VA	<u>223,966</u>	<u>263,214</u>
TOTAL OTHER DEPOSITS	<u>\$1,726,983</u>	<u>\$ 1,843,643</u>
TOTAL SPECIAL DEPOSITS	<u>\$9,901,502</u>	<u>\$10,109,214</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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."

FIRST PROFESSIONALS INSURANCE COMPANY
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
BONDS	\$390,005,758		\$390,005,758
STOCKS			
PREFERRED STOCKS	1,170,469		1,170,469
COMMON STOCKS	106,754,881		106,754,881
REAL ESTATE (Schedule A)			
PROPERTIES OCCUPIED BY THE COMPANY	4,830,394		4,830,394
PROPERTIES HELD FOR THE PRODUCTION OF INCOME	58,414		58,414
CASH & ST INVESTMENTS	26,159,421		26,159,421
OTHER INVESTED ASSETS(Schedule BA)	77,028		77,028
INVESTMENT INCOME DUE AND ACCRUED	5,143,221		5,143,221
PREMIUMS AND CONSIDERATIONS:			
UNCOLLECTED PREMIUM	5,383,658		5,383,658
DEFERRED PREMIUMS,	39,739,055		39,739,055
REINSURANCE			
AMOUNTS RECOVERABLE FROM REINSURERS	12,333,373		12,333,373
OTHER AMOUNTS RECEIVABLE	387,662		387,662
NET DEFERRED TAX ASSET	17,354,566		17,354,566
GUARANTY FUNDS RECEIVABLE OR ON DEPOSIT	136,031		136,031
EDP EQUIPMENT AND SOFTWARE	60,385		60,385
RECEIVABLE FROM PSA	3,487,717		3,487,717
AG WRITE-INS OTHR THAN INV'D ASSETS	61,394		61,394
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TOTAL ASSETS	\$613,143,427	\$0	\$613,143,427
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FIRST PROFESSIONALS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
LOSSES	\$172,912,065		\$172,912,065
REINSURANCE PAYABLE ON PAID LOSS/LAE	5,274,336		5,274,336
LOSS ADJUSTMENT EXPENSES	107,338,914		107,338,914
COMMISSION PAYABLE, CONTIGENT COMMISSIONS	1,433,326		1,433,326
OTHER EXPENSES	152,599		152,599
TAXES, LICENSES AND FEES	558,982		558,982
UNEARNED PREMIUMS	66,082,011		66,082,011
ADVANCE PREMIUMS	4,598,436		4,598,436
CEDED REINSURANCE PAYABLE	10,805,573		10,805,573
REMITTANCES NOT ALLOCATED	3,844,445		3,844,445
PROVISION FOR REINSURANCE	153,067		153,067
PAYABLE TO PSA	425,811		425,811
AGGREGATE WRITE-INS FOR LIABILITIES	152,602		152,602
	<hr/>		
TOTAL LIABILITIES	\$373,732,167	\$0	\$373,732,167
Common capital stock	\$5,000,000		\$5,000,000
Gross paid in and contributed surplus	76,741,272		76,741,272
Unassigned funds (surplus)	157,669,988		157,669,988
	<hr/>		
Surplus as regards policyholders	\$239,411,260	\$0	\$239,411,260
	<hr/>		
Total liabilities, surplus and other funds	\$613,143,427	\$0	\$613,143,427
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FIRST PROFESSIONALS INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned		\$106,880,908
	Deductions:	
Losses incurred		\$28,388,382
Loss expenses incurred		33,479,674
Other underwriting expenses incurred		33,868,130
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$95,736,186
Net underwriting gain or (loss)		\$11,144,722

Investment Income

Net investment income earned		\$17,899,475
Net realized capital gains or (losses)		1,437,565
Net investment gain or (loss)		\$19,337,040

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$454,762)
Finance and service charges not included in premiums		156,065
Aggregate write-ins for miscellaneous income		288,896
Total other income		(\$9,801)

Net income before dividends to policyholders and before federal & foreign income taxes		\$30,471,961
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$30,471,961
Federal & foreign income taxes		9,075,927
Net Income		\$21,396,034

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$220,776,028
Net Income		\$21,396,034
Net unrealized capital gains or losses		8,987,381
Change in Net Deferred Income Tax		(219,897)
Change in non-admitted assets		9,224,926
Change in provision for reinsurance		(95,192)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		11,341,980
Dividends to stockholders		(32,000,000)
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$18,635,232
Surplus as regards policyholders, December 31 current year		\$239,411,260

A comparative analysis of changes in surplus is shown below.

FIRST PROFESSIONALS INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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, 2009, per Annual Statement \$239,411,260

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	NO ADJUSTMENT		
LIABILITIES:	NO ADJUSTMENT		
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination			<u><u>\$239,411,260</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses **\$280,250,979**

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, 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 engaged an independent actuarial firm, **AMI Risk Consultants**, to review the Losses and Loss Adjustment Expense Reserve carried in the Company's balance sheet as of December 31, 2009 and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$239,411,260, exceeded the minimum of \$36,731,700 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Holding Company System Registration Statement

We recommend the Company file an amended holding company system registration statement disclosing the intercompany pooling agreement in accordance with Rule 690-143.046, Florida Administrative Code.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **First Professionals Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$239,411,260, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Mark Laccetti, CPA, Examiner In Charge, John Romano, CPA, Participating Examiner, Steven Dioguardi, Participating Examiner, Michelle Blau, CPA, Participating Examiner, Andrew Wittig, CISA, IT Senior Manager and Gail Flannery, FCAS, MAAA, Consulting Actuary representing ParenteBeard LLC participated in the examination.

Respectfully submitted,

Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation