

REPORT OF EXAMINATION  
OF THE  
THE DOCTORS COMPANY, AN INTERINSURANCE EXCHANGE  
AS OF  
DECEMBER 31, 2019

Filed on January 25, 2021

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Oakland, California  
January 6, 2021

Honorable Ricardo Lara  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

THE DOCTORS COMPANY, AN INTERINSURANCE EXCHANGE

(hereinafter also referred to as the Exchange) at its home office located at 185 Greenwood Road, Napa, California 94558.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Exchange was as of December 31, 2015. This examination covered the period from January 1, 2016 through December 31, 2019.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Exchange's financial condition, assess corporate governance, identify current and prospective risks, 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.

All accounts and activities of the Exchange 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 Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is

identified, the impact of such adjustment will be documented separately following the Exchange's financial statements.

This examination report includes findings of fact and general information about the Exchange and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Exchange.

This was a coordinated examination whereby California was the lead state. The examination was conducted concurrently with the examinations of the Exchange's subsidiaries and affiliates in The Doctors Company Group. The participating states included in this group examination were Florida, Michigan, Oregon, and the District of Columbia.

### COMPANY HISTORY

The Exchange is the ultimate parent of the entities within the Doctors Company Group (Group). The following is a summary of the significant changes to the Group since the prior examination:

On October 4, 2016, FPIC Insurance Group, Inc. was merged into First Professional Insurance Company, Inc.

Effective November 2, 2016, KMA Insurance Agency, Inc., SCW Agency Group, Inc., and SCW Agency Group – Nevada, Inc. were merged into The Doctors Company Insurance Services, LLC.

On March 15, 2018, American Healthcare Indemnity Company was sold to Services Insurance Holdings, Inc., an unaffiliated insurance holding company domiciled in Delaware. The Oklahoma Insurance Department consented to the sale on February 28, 2018.

On July 31, 2019, the Exchange acquired Hospital Insurance Company, Inc. (HIC), a private insurer domiciled in New York. HIC provides medical professional liability insurance to physicians and hospitals in New York. The acquisition was part of the Exchange's effort to expand into the New York market. The New York Department of Financial Services approved the transaction on June 20, 2019. Pursuant to California Insurance Code Section 1215.1, the California Department of Insurance acknowledged receipt of its notice of acquisition on January 31, 2019.

On December 20, 2019, OHIC Insurance Company was sold to Obsidian Insurance Holdings, Inc., an unaffiliated Delaware corporation. The Ohio Department of Insurance consented to the sale on December 20, 2019.

### MANAGEMENT AND CONTROL

The Exchange is a member of an insurance holding company system. As a reciprocal, the Exchange is owned by its policyholders. The majority of the members of the Board of Governors are physicians. The Exchange has no employees. The day-to-day operations of the Exchange is managed by its attorney-in-fact and wholly-owned subsidiary, The Doctors Management Company, in accordance with a management services agreement.

The following organizational chart depicts the Exchange's relationship within the holding company system as of December 31, 2019 (all ownership is 100% unless otherwise noted):

## **The Doctors Company, An Interinsurance Exchange (California)**

### Insurance Subsidiaries and their Affiliates

- American Physicians Assurance Corporation (Michigan)
- First Professional Insurance Company, Inc. (Florida)
- Hospitals Insurance Company, Inc. (New York)
- TDC National Assurance Company (Oregon)
- TDC Special Risks Insurance Company (District of Columbia)
- TDC Specialty Insurance Company (District of Columbia)
  - TDC Specialty Underwriters, Inc. (Connecticut)
- The Doctors Company Risk Retention Group, A Reciprocal Exchange (District of Columbia) (0.0%)
  - TDCRRG Attorney In Fact, Inc. (District of Columbia)

### Sales and Administration Subsidiaries

- HealthCare Risk Advisors, Inc. (New York)
- The Doctors Company Insurance Services, LLC (California)
- The Doctors Management Company (California)

### Real Estate and Other Investments

- Asheville Marketplace Holdings, LLC (North Carolina)
  - Asheville Marketplace, TIC (North Carolina) (74.9%)
- Chandler Office Park, LLC (Michigan) (50.0%)
- Michigan Medical Advantage, Inc., dba Medical Advantage Group (Michigan)
  - Consortium of Independent Physician Associations, Inc. (Michigan)
- Napa Center Preferred, LLC (California) (12.0%)
- Napa Kohl's Holdings, LLC (California)
  - Napa Parkway Plaza, LLC (California) (58.0%)
- Napa Town Center Partners, LLC (California)
  - Gordon Venture, LLC (California) (80.0%)
- Pier 88 Investment Partners, LLC (Delaware) (29.4%)
- Wake Forest Investments, LLC (California)
  - Market of Wake Forest, LLC (North Carolina) (70.0%)

The fourteen members Board of Governors, who are elected annually on a rolling basis, manage the business and affairs of the Exchange. Following are members of the board and principal officers serving at December 31, 2019.

Board of Governors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Richard E. Anderson, MD Yountville, California	Chairman and Chief Executive Officer The Doctors Company, An Interinsurance Exchange
James P. Bagian, MD Northville, Michigan	Director, Center for Healthcare Engineering and Patient Safety and Professor, Medical School and the College of Engineering University of Michigan
Steven J. Bensinger New York, New York	Senior Advisor TigerRisk Partners
Eugene M. Bullis Amesbury, Massachusetts	Retired Executive Vice President and Chief Financial Officer Hanover Insurance Group, Inc.
Daniel K. Cassavar, MD Green, Ohio	President and Chief Medical Officer ProMedica Physicians
David M. Charles, MD Denver, Colorado	Retired Physician
Charles R. Kossman, MD La Mesa, California	Retired Physician
Ellen H. Masterson Dallas, Texas	Retired Senior Partner PricewaterhouseCoopers
Howard Mills Goshen, New York	Retired Managing Director and Global Insurance Regulatory Leader Deloitte
Kathleen D. Ricord Traverse City, Michigan	Retired Insurance Marketing Executive Nationwide Mutual Insurance Company

Name and Location

Principal Business Affiliation

William C. Rupp, MD  
Eau Claire, Wisconsin

Retired Chief Executive Officer  
Mayo Clinic

Mary A. Thode  
Walnut Creek, California

Retired Health Care Executive  
Kaiser Foundation Health Plan and  
Hospitals

Robert M. Wachter, MD  
San Francisco, California

Professor and Chairman of the  
Department of Medicine  
University of California, San Francisco

Ronald H. Wender, MD  
Encino, California

Chairman Emeritus and Professor of  
Anesthesiology  
Cedars-Sinai Medical Center

Principal Officers

Name

Title

Richard E. Anderson, MD  
Dennis B. Lawton  
Marco A. Vanderlaan

Chairman and Chief Executive Officer  
Secretary  
Treasurer

Management Agreements

Management Agreement: The Exchange entered into a Management Agreement (Agreement) with the Doctors Management Company (TDMC) effective October 17, 1996. Under the terms of the Agreement, TDMC agrees to provide management and administrative services and the Exchange reimburses TDMC for the actual cost of these services. Total fees incurred by the Exchange in 2016, 2017, 2018, and 2019 for services rendered under this Agreement were \$179,321,112, \$171,853,204, \$166,674,524, and \$181,471,148, respectively.

Tax Allocation Agreement: The Exchange and its affiliates are parties to a Fourth Amended and Restated Federal Income Tax Allocation Agreement (Agreement) entered into on February 1, 2020. This Agreement replaces the Third Amended and Restated Federal Income Tax Allocation Agreement dated July 1, 2018 to reflect the updated affiliated participants to the Agreement. Under the terms of the Agreement, the Exchange



°agrees to °file a consolidated federal income tax return on behalf of the other companies. °Allocation of tax liability is based upon separate return calculations with inter-company tax liabilities to be settled no later than 30 days after the month in which the tax payment has been made or after the filing of the consolidated return if any additional payments are due. Pursuant to California Insurance Code (CIC) Section 1215.5(b)(4), the California Department of Insurance (CDI) approved the Agreement on January 16, 2020. Total taxes incurred by the Exchange in 2016, 2017, 2018, and 2019 for services under the agreement were (\$14,306,773), \$1,863,473, (\$6,959,900), and (\$11,218,659), respectively.

Production and Administrative Services Agreement: The Exchange, TDMC, and The Doctors Company Insurance Services, LLC (TDCIS) are parties to a Production and Administrative Services Agreement (Agreement) that has been in place since July 1, 1985 and revised as of July 26, 2010. The purpose of the Agreement is to delegate certain of TDMC's responsibilities under the aforementioned Management Agreement for the solicitation of application for, as well as the production and servicing of insurance contracts issued by the Exchange. TDMC reimburses TDCIS for its actual expenses incorporated to the Agreement with certain safeguard provisions and was approved by the CDI on March 27, 2013 pursuant to CIC Section 1215.5(b)(4). There were no fees incurred by the Exchange during the examination period for services rendered under the Agreement.

Investment Management Agreement: The Exchange and Pier 88 Investment Partners LLC (Pier 88) are parties to an Investment Management Agreement (Agreement) entered into on March 30, 2016 and amended as of January 1, 2017. Under the terms of the Agreement, Pier 88 agrees to provide investment management services to the Exchange. Effective January 1, 2019, a Second Amendment was incorporated to the Agreement to include certain receivership provisions and was approved by the CDI on June 6, 2019 pursuant to CIC Section 1215.5(b)(4). Total fees incurred by the Exchange in 2016, 2017, 2018, and 2019 for services rendered under this agreement were \$288,266, \$802,003, \$1,000,000, and \$1,005,831, respectively.

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Exchange is licensed to transact property and casualty insurance business in all fifty states, the District of Columbia, and the territory of Guam. The Exchange writes medical professional liability insurance on claims made and reported basis for private practice doctors, large physician groups, surgeons, dentists, and healthcare facilities nationwide.

Direct premiums written during 2019 totaled \$637.3 million. The majority of the business was written on an admitted basis in California (26.4%) and Florida (17.5%) with the remaining 56.1% written in all other states and territories where the Exchange is licensed. The Exchange's principal line of business during 2019 was medical professional liability claims-made insurance (87.9%).

Standard and core business is written on a direct basis as well as marketed through captive agencies, independent agents and brokers as is the business written on The Doctors Company Risk Retention Group, A Reciprocal Exchange. TDC Specialty Insurance Company and TDC National Assurance Company write medical professional liability coverages on an excess and surplus line basis for hospitals and other healthcare facilities and providers.

## REINSURANCE

### Assumed

The Exchange assumes that net retained liability of policies issued by two of its subsidiaries under separate quota share agreements. The following table is a summary of the assumed reinsurance agreements as of December 31, 2019.

<b>Type of Contract</b>	<b>Ceding Company</b>	<b>Ceding Company's Retention</b>	<b>Exchange's Limits</b>
Quota Share Reinsurance Agreement	TDC Specialty Insurance Company	10% of net retained liability	90% of net retained liability
Property, Casualty, and Accident and Health Quota Share Reinsurance Agreement	TDC National Assurance Company	10% of net retained liability	90% of net retained liability

### Ceded

The following is a summary of principal reinsurance agreements in-force as of December 31, 2019:

<b>Type of Contract</b>	<b>Line(s) of Business</b>	<b>Reinsurer(s) and Participation</b>	<b>Company's Retention</b>	<b>Reinsurer's Limit</b>
Per Event Excess of Loss Reinsurance Contract – Section A	Medical Professional Liability – Claims Made, TailGard or Occurrence – All insured except Excess Hospital Business	<u>Authorized:</u> Axis Reinsurance Company (10.00%) Endurance Assurance Corporation (2.00%) Partner Reinsurance Company of the U.S. (10.00%) Renaissance Reinsurance U.S. Inc. (10.00%) Swiss Re America Corporation (12.00%) Transatlantic Resinurance Company (7.00%) General Re Corporation (7.00%) Hannover Ruck SE (12.50%) Scor Reinsurance Company (1.50%) Lloyd's Syndicate (5.50%)	\$2 million ultimate net loss each loss event non-California or Florida insured \$3 million ultimate net loss each loss event California or Florida insured	\$9 million excess of \$2 million any one loss event non-California or Florida insured \$8 million excess of \$3 million any one loss event California or Florida insured
		<u>Unauthorized:</u> Peak Reinsurance Company Limited (5.50%) TDC Special Risks Insurance Company (15.00%)		

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Per Event Excess of Loss Reinsurance Contract Section B	Medical Professional Liability – Claims made, TailGard or Occurrence	<u>Authorized</u> Axis Reinsurance Company (10.00%) Endurance Assurance Corporation (2.00%) Odyssey Reinsurance Company (2.00%) Partner Reinsurance Company of the U.S. (10.00%) Renaissance Reinsurance U.S. Inc. (10.00%) Swiss Re America Corporation (12.00%) Transatlantic Reinsurance Company (7.00%) General Re Corporation (7.00%) Hannover Ruck SE (12.50%) Scor Reinsurance Company (1.50%) Lloyd's Syndicate (5.50%)  <u>Unauthorized</u> Peak Reinsurance Company Limited (5.50%) TDC Special Risks Insurance Company (15.0%)	\$11 million ultimate net loss each loss event	\$10 million excess of \$11 million any one loss event, \$30 million aggregate
Per Event Excess of Loss Reinsurance Contract Section C	Medical Professional Liability – Claims Made, TailGard or Occurrence – Excess hospital and related Excess Healthcare Business	<u>Authorized</u> Axis Reinsurance Company (10.00%) Endurance Assurance Corporation (2.00%) Odyssey Reinsurance Company (2.00%) Partner Reinsurance Company of the U.S. (10.00%) Renaissance Reinsurance U.S. Inc. (10.00%) Swiss Re America Corporation (12.00%) Transatlantic Reinsurance Company (7.00%) General Re Corporation (7.00%) Hannover Ruck SE (12.50%) Scor Reinsurance Company (1.50%) Lloyd's Syndicate (5.50%)  <u>Unauthorized</u> Peak Reinsurance Company Limited (5.50%) TDC Special Risks Insurance Company (15.00%)	\$25 million each loss occurrence	\$25 million excess of \$25 million each loss occurrence, \$25 million in aggregate
Excess Casualty Catastrophe Reinsurance Contract				

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
First Excess	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Hanover Ruck SE (10.00%) Partner Reinsurance Company of the U.S. (7.50%) Scor Reinsurance Company (8.00%) Swiss Reinsurance America Corporation (2.50%) XL Bermuda Ltd. (5.00%) Renaissance Reinsurance U.S. Inc. (4.00%) Lloyd's Syndicate (57.00%)  <u>Unauthorized</u> Peak Reinsurance Company Limited (6.00%)	\$11 million ultimate net loss each loss event	\$10 million excess of \$11 million ultimate net loss each event
Second Excess	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Hanover Ruck SE (5.25%) Partner Reinsurance Company of the U.S. (7.50%) Scor Reinsurance Company (12.50%) Swiss Reinsurance America Corporation (1.00%) XL Bermuda Ltd. (5.00%) Renaissance Reinsurance U.S. Inc. (4.00%) Lloyd's Syndicate (57.75%)  <u>Unauthorized</u> Peak Reinsurance Company Limited (7.00%)	\$21 million ultimate net loss each loss event	\$10 million excess of \$21 million ultimate net loss each loss event
Third Excess	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Hanover Ruck SE (11.00%) Scor Reinsurance Company (3.40%) Swiss Reinsurance America Corporation (1.00%) XL Bermuda Ltd (5.00%) Renaissance Reinsurance U.S. Inc. (4.00%) Lloyd's Syndicate (68.50%)  <u>Unauthorized</u> Peak Reinsurance Company Limited (7.10%)	\$31 million ultimate net loss each loss event	\$10 million excess of \$31 million ultimate net loss each loss event
Fourth Excess Casualty Catastrophe Captive Reinsurance Contract	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Unauthorized</u> TDC Special Risks Insurance Company	\$41 million ultimate net loss each loss event	\$10 million excess of \$41 million ultimate net loss each loss event

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limit
Quota Share Reinsurance Contract	Liabilities as a result of loss(es) for policies underwritten by or through TDC Specialty Underwriters for and on behalf of the Exchange	<u>Authorized</u> Axis Reinsurance Company (5.00%) Munich Reinsurance America Inc. (5.00%) Partner Reinsurance Company of the U.S. (1.00%)	None	100% of \$2 million ultimate net loss per policy, any one occurrence or claims made, 100% of \$4 million ultimate net loss per policy including ECO and/or EPL
Excess Cession Reinsurance Contract	Liabilities as a result of loss(es) for policies underwritten by or through TDC Specialty Underwriters for and on behalf of the Exchange	<u>Authorized</u> Axis Reinsurance Company (15.00%) Munich Reinsurance America Inc. (15.00%) Navigators Insurance Company (5.00%) Partner Reinsurance Company of the U.S. (5.00%) Renaissance Reinsurance U.S. Inc. (5.50%) Endurance Assurance Corp. (5.00%) SCOR Reinsurance Company (1.50%) Hannover Ruck SE (13.00%) Lloyd Syndicate (20.00%)	\$2 million ultimate net loss per non-cyber liability policy, per occurrence or claims made  \$2 million ultimate net loss per non-cyber liability policy, per occurrence or claims made  \$1 million ultimate net loss per cyber liability policy per occurrence or claims made	\$18 million excess of \$2 million ultimate net loss per non-cyber liability policy, per occurrence or claims made  \$23 million excess of \$2 million ultimate net loss for up to 5 additional policies classified as complex risk by the Exchange  \$9 million excess of \$1 million ultimate net loss per cyber liability policy, per occurrence or claims made
Common Loss Excess of Loss Reinsurance Contract	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Unauthorized</u> TDC Special Risks Insurance Company	\$5 million ultimate net loss each common loss	\$40 million excess of \$5 million ultimate net loss each common loss
Aggregate Extended Reporting Endorsement Reinsurance Agreement	Deceased, Disabled, or Retired Insureds	<u>Authorized</u> TDC National Assurance Company	None	\$1 million per claim, \$3 million policy aggregate limit of liability

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Exchange with the California Department of Insurance for the period ending December 31, 2019. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2015 through December 31, 2019

Statement of Financial Condition  
as of December 31, 2018

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,590,729,882	\$	\$ 1,590,729,882	
Preferred stocks	121,787,343		121,787,343	
Common stocks	1,881,443,221		1,881,443,221	
Real estate properties occupied by the company	17,177,167		17,177,167	
Cash, cash equivalents and short-term investments	173,438,086		173,438,086	
Other invested assets	181,277,115		181,277,115	
Receivables for securities	251,514		251,514	
Securities lending reinvested collateral assets	166,128,538		166,128,538	
Investment income due and accrued	13,534,255		13,534,255	
Uncollected premiums and agents' balances in the course of collection	54,474,925	1,140,323	54,474,925	
Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	126,450,367		126,450,367	
Amount recoverable from reinsurers	9,288,687		9,288,687	
Funds held by or deposited with reinsured companies	1,706,679		1,706,679	
Current federal and foreign income tax recoverable and interest thereon	50,050,198		50,050,198	
Receivables from parent, subsidiaries and affiliates	17,253,134		17,253,134	
Aggregate write-ins for other than invested assets	6,118,804	1,237,486	4,881,318	
<b>Total assets</b>	<b>\$ 4,411,109,915</b>	<b>\$ 2,377,809</b>	<b>\$ 4,408,732,106</b>	
 <u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Losses			\$ 1,088,606,172	(1)
Reinsurance payable on paid loss and loss adjustment expenses			6,864,639	
Loss adjustment expenses			509,603,781	(1)
Other expenses			5,227,512	
Taxes, licenses and fees			4,221,887	
Net deferred tax liability			4,048,451	
Borrowed money			100,000,000	
Unearned premiums			259,940,855	
Advance premiums			30,405,822	
Dividends declared and unpaid: Policyholders			10,741,432	
Ceded reinsurance premiums payable			8,920,807	
Funds held by company under reinsurance treaties			108,073	
Amounts withheld or retained by company for account of others			1,294,613	
Provision for reinsurance			2,026,000	
Payable to parent, subsidiaries and affiliates			1,777,810	
Payable for securities			3,672,333	
Payable for securities lending			166,128,538	
Aggregate write-ins for liabilities			878,372	
<b>Total liabilities</b>			<b>2,203,467,097</b>	
Surplus notes		\$ 200,000,000		
Unassigned funds (surplus)		2,005,265,009		
<b>Surplus as regards policyholders</b>			<b>2,205,265,009</b>	
<b>Total liabilities, surplus, and other funds</b>			<b>\$ 4,408,732,106</b>	



Underwriting and Investment Exhibit for  
the Year Ended December 31, 2019

Underwriting Income

Premium earned		\$ 623,780,051
Deductions:		
Losses incurred	\$ 248,635,775	
Loss adjustment expenses incurred	256,875,685	
Other underwriting expenses incurred	<u>177,189,797</u>	
Total underwriting deductions		<u>682,701,257</u>
Net underwriting loss		(58,921,206)

Investment Income

Net investment income earned	\$ 70,777,877	
Net realized capital gains	<u>74,525,871</u>	
Net investment gain		145,303,748

Other Income

Net loss from agents' or premium balances charged off	\$ (23,914)	
Finance and service charges not included in premiums	254,991	99,204
Aggregate write-ins for miscellaneous income	<u>412,318</u>	
Total other income		<u>\$ 643,394</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		87,025,936
Dividends to policyholders		<u>8,854,372</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		<u>78,171,564</u>
Federal and foreign income taxes incurred		<u>(11,218,658)</u>
Net income		<u>\$ 89,390,222</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		\$ 2,014,940,627
Net income	\$ 89,390,222	
Change in net unrealized capital losses	121,332,472	
Change in net deferred income tax	(7,069,145)	
Change in nonadmitted assets	2,565,013	
Change in provision for reinsurance	(501,000)	
Aggregate write-ins for gains and losses in surplus	<u>(15,393,180)</u>	
Change in surplus as regards policyholders for the year		<u>190,324,382</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 2,205,265,009</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2015 through December 31, 2019

Surplus as regards policyholders, December 31, 2015			\$ 1,808,904,067
	Gain in Surplus	Loss in Surplus	
Net income	\$ 227,118,955	\$	
Change in unrealized capital gains	224,125,884		
Change in unrealized foreign exchange capital gains	156,777		
Change in net deferred income tax		47,232,215	
Change in nonadmitted assets	19,252,471		
Change in provision for reinsurance	1,512,480		
Aggregate write-ins for losses in surplus	<u>                    </u>	<u>48,573,410</u>	
Total gains and losses	\$ 492,166,567	\$ 95,805,625	
Net increase in surplus as regards policyholders			<u>396,360,942</u>
Surplus as regards policyholders, December 31, 2019			<u>\$ 2,205,265,009</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2019 prepared by the Exchange's independent actuary and concurred with the actuary's conclusion that the Exchange's loss and loss adjustment expense reserves as of December 31, 2019 were reasonable and have been accepted for purposes of this examination.

### SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a pandemic. Since the emergence of COVID-19, the Exchange has worked with a number of its insured members to extend payment terms and/or accommodate reductions in their risk profiles related to COVID-19. These exposure changes resulted in decreased earned premiums which were accounted for in accordance with INT-20-08. The Exchange also complied with the California Department of Insurance's Bulletin 2020-03 which requires insurers writing Medical Professional Liability Insurance in California to issue premium refunds and/or credits to its California insureds. The refunds and credits were also accounted for as a reduction in earned premium in accordance with INT 20-08. The total reduction in earned premium related to COVID-19 was approximately \$16.4 million.

On June 29, 2020, American Physicians Assurance Corporation declared a \$24.0 million dividend to the Exchange, which was received on July 27, 2020. The Exchange recorded \$3,883,327 of the dividend as dividend income and the remaining \$20,116,673 as a return of capital.

On July 27, 2020, the Exchange was accepted into membership of the Federal Home Loan Bank (FHLB) of San Francisco following the standard prescribed application, review, and approval procedures. The Exchange may utilize its borrowing capacity to supplement its existing credit facilities, employ a spread investing program, or for other

corporate purposes as deemed prudent by management. Based on its initial stock purchase, the Exchange has an estimated maximum borrowing capacity of \$238,339,892. As of the date of this examination report, the Exchange has not drawn upon this facility.

### SUMMARY OF COMMENTS AND RECOMMENDATIONS

#### Current Report of Examination

None.

#### Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Exchange's officers and employees during the course of this examination.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_

Allen Lau, CFE  
Examiner-In-Charge  
Senior Insurance Examiner, Specialist  
Department of Insurance  
State of California

\_\_\_\_\_/S/\_\_\_\_\_

Li Lim, CFE  
Senior Insurance Examiner, Supervisor  
Department of Insurance  
State of California