REPORT OF EXAMINATION
OF THE

THE DOCTORS COMPANY,
AN INTERINSURANCE EXCHANGE

AS OF
DECEMBER 31, 2011

Filed April 24, 2013

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San Francisco, California
April 2, 2013

Honorable Dave Jones
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 Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination and was conducted concurrently with the examination of the Exchange's subsidiaries: SCPIE Indemnity Company, The Doctors Life Insurance Company, American Healthcare Indemnity Company, OHIC Insurance Company, and Professional Underwriters Liability Insurance Company, with participation from the Insurance Departments of Delaware, Ohio, and Utah.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; and statutory deposits.

SUBSEQUENT EVENTS

On October 29, 2012, the Exchange entered into a merger agreement to acquire Utah Medical Insurance Association (UMIA) through its wholly owned subsidiary, Underwriter for the Professions Insurance Company. On January 28, 2013, the agreement to acquire UMIA was terminated.

In July 2012, the California Department of Insurance received a corporate application from The Doctors Company Risk Retention Group, a Reciprocal Exchange (RRG), a new affiliate created in 2012. In the application, it was stated the purpose of the formation of the RRG was greater flexibility in rates for the Exchange. The application included a proposed quota share reinsurance agreement between the Exchange and the RRG. Under the terms of the reinsurance agreement, the Exchange would assume a 95% quota share of the RRG's contractual and extra-contractual liability under all medical professional liability insurance plans and policies. The RRG has been advised that this reinsurance arrangement appears to be noncompliant with California Insurance Code Section 803.

COMPANY HISTORY

The Exchange received cash dividends from its wholly-owned subsidiaries in the following amounts during the examination period:

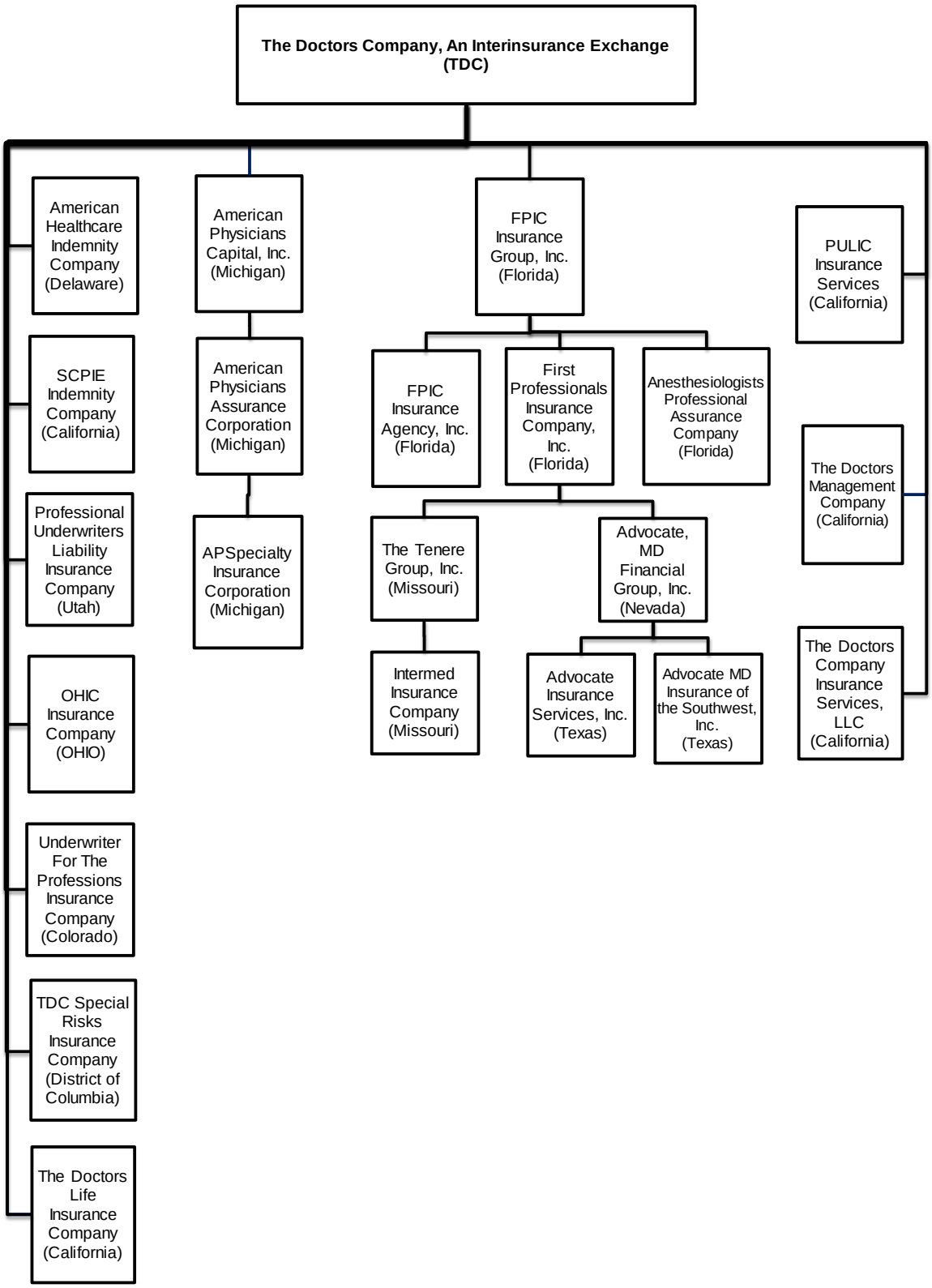
Year	Cash Dividends Received
2009	$ 43,140,000
2010	103,478,000
2011	101,672,000
Total	$ 248,290,000

In addition, during 2011, the Exchange received an extraordinary dividend from SCPIE Indemnity Company which was comprised of $75,000,000 in cash and 100% of the outstanding shares of American Healthcare Indemnity Company (AHI). The statutory value of AHI at the time of the transaction was $117,135,000. As a result of this transaction, AHI became a wholly-owned subsidiary of the Exchange. Dividends received in the examination period were reported in the Insurance Holding Company System Annual Registration Statement as required by California Insurance Code Section 1215.4(b)(3).

MANAGEMENT AND CONTROL

The Exchange is part of a holding company system and is owned by its policyholders. The majority of its officers and members of the Board of Governors are physicians. Except for its officers, the Exchange has no employees. The day-to-day operation of the Exchange is managed by its attorney-in-fact and wholly-owned subsidiary, The Doctors Management Company (TDMC), in accordance with a management services agreement.

The following organization chart depicts the Exchange's relationship within the holding company system (all ownership is 100%) as of December 31, 2011:


The Doctors Company, An Interinsurance Exchange (TDC)
American Healthcare Indemnity Company (Delaware)
SCPIE Indemnity Company (California)
Professional Underwriters Liability Insurance Company (Utah)
OHIC Insurance Company (OHIO)
Underwriter For The Professions Insurance Company (Colorado)
TDC Special Risks Insurance Company (District of Columbia)
The Doctors Life Insurance Company (California)
American Physicians Capital, Inc. (Michigan)
American Physicians Assurance Corporation (Michigan)
APSpecialty Insurance Corporation (Michigan)
FPIC Insurance Group, Inc. (Florida)
FPIC Insurance Agency, Inc. (Florida)
First Professionals Insurance Company, Inc. (Florida)
Anesthesiologists Professional Assurance Company (Florida)
The Tenere Group, Inc. (Missouri)
Intermed Insurance Company (Missouri)
Advocate, MD Financial Group, Inc. (Nevada)
Advocate Insurance Services, Inc. (Texas)
Advocate MD Insurance of the Southwest, Inc. (Texas)
PULIC Insurance Services (California)
The Doctors Management Company (California)
The Doctors Company Insurance Services, LLC (California)

Members of the Board of Governors, who are elected annually, manage the business and affairs of the Exchange. The following are members of the Board and principal officers of the Exchange serving at December 31, 2011:

Governors

Name and Residence	Principal Business Affiliation
Richard E. Anderson, M.D. Napa, California	Chairman and Chief Executive Officer The Doctors Company, An Interinsurance Exchange
James B. Bagian, M.D. Northville, Michigan	Professor, Department of Anesthesia, Chief Patient Safety and Systems Innovation Officer University of Michigan
Eugene M. Bullis Amesbury, Massachusetts	Retired, Former Executive Vice President and Chief Financial Officer Hanover Insurance Group
David M. Charles, M.D. Denver, Colorado	Self Employed Plastic Surgeon
Kenneth R. Chrisman Pleasanton, California	Retired Technology Executive; Lead Director of the Board of Governors The Doctors Company, An Interinsurance Exchange
William J. Gallagher, M.D. Salem, Oregon	Orthopedic Surgeon; Senior Vice President and Regional Medical Director The Doctors Company, An Interinsurance Exchange
Charles R. Kossman, M.D. La Mesa, California	Physician and Owner East County Hematology/Oncology Associates
Donald J. Palmisano, M.D. Jefferson Parish, Louisiana	Surgeon and President Intrepid Resources/The Medical Risk Manager Company

Name and Residence	Principal Business Affiliation
Robert W. Pike Lake Forest, Illinois	Retired Insurance Executive Allstate Insurance Company
Kathleen D. Ricord Empire, Michigan	Retired Insurance Marketing Executive Nationwide Insurance Company
Robert B. Sheppard Carmel, California	Retired Insurance Executive The Doctors Company, An Interinsurance Exchange
Mary Ann Thode Brentwood, California	Retired Health Care Executive Kaiser Foundation Health Plan and Hospitals
David B. Troxel, M.D. Lafayette, California	Pathologist; Secretary of the Board of Governors and Medical Director The Doctors Company, An Interinsurance Exchange
Ronald H. Wender, M.D. Encino, California	Co-Chairman, Department of Anesthesiology Cedars-Sinai Medical Center

Principal Officers

Name	Title
Richard E. Anderson, M.D.	Chairman and Chief Executive Officer
David G. Preimesberger, CPA	Treasurer and Chief Financial Officer
David B. Troxel, M.D.	Secretary

The Company requires annual conflict of interest statements from all governors and officers.

Management Agreements

Management Agreement: The Doctors Management Company (TDMC) provides management and administrative services to the Exchange under the terms of the Management Agreement between the Exchange and TDMC. This agreement has been in force since October 17, 1996. The Exchange and its affiliates have separate agreements

with TDMC and each company reimburses TDMC for the actual cost of these services. For 2009, 2010, and 2011, the Exchange paid $124.3 million, $126.3 million, and $131 million, respectively, in fees to TDMC under the terms of this agreement.

Production and Administrative Services Agreement: The Exchange, TDMC and The Doctors Company Insurance Services (TDCIS) are parties to a Production and Administrative Services Agreement, which has been in force since January 21, 1997. It was amended effective July 26, 2010, to recognize TDCIS' legal structure change from a corporation to a limited liability company (LLC). The purpose of the agreement is to delegate certain of TDMC's responsibilities under the 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 incurred for the service it provides. For 2009, 2010, and 2011, TDMC paid $29.7 million, $32.6 million, and $34.5 million, respectively, in fees to TDCIS under the terms of this agreement. The amended agreement was approved by the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) on March 27, 2013.

Binding Authority Agreement: The Exchange has a Binding Authority Agreement with its wholly-owned subsidiary, PULIC Insurance Services (PULIS). The purpose of this agreement is to grant PULIS authority to underwrite substandard medical malpractice insurance for the Exchange. The original agreement was effective on November 1, 2005, and approved by the CDI on January 11, 2006. The agreement was revised and renewed effective November 1, 2008 and filed with the CDI for approval on January 15, 2009. No decision by the CDI was provided to the Company. The agreement was revised and renewed effective November 1, 2011. The Company did not file the agreement with the CDI as required by CICS 1215.5(b)(4). PULIS was dissolved on September 30, 2012, therefore, no subsequent filing will be required.

Tax Allocation Agreement: The Exchange and its affiliates are parties to a Federal Income Tax Allocation Agreement under which the federal income tax returns of the Exchange and all affiliates are consolidated and filed by the Exchange. 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. The original tax allocation agreement was effective December 1992. The original agreement was replaced with an Amended and Restated Tax Allocation Agreement on May 19, 2007. The Exchange has made several acquisitions since that date and executed joinder amendments adding participants to the agreement. The Joinders were filed with the Financial Analysis Division for informational purposes. .

CIC Section 1215.5(b) requires that certain related party agreements and subsequent amendments be filed with the CDI at least 30 days prior to the effective date of the agreement or amendment. It is recommended that the Exchange submit amended filings within the required timeframe to the CDI when it amends related party agreements as required by CIC Section 1215.5(b).

CORPORATE RECORDS

On December 9, 2009, the Company amended its Rules and Regulations to update the structure and wording of the document. The number of governors was set to be no less than nine and no more than fifteen members.

TERRITORY AND PLAN OF OPERATION

The Exchange writes medical professional liability insurance and hospital professional liability insurance for physicians, surgeons, and health care facilities throughout the nation. Each policyholder may purchase extended reporting (tail) coverage for losses reported after policy expiration for incidents occurring during the coverage period. Generally, policies are written on a claims–made basis with basic coverage of $1,000,000 per claim up to $3,000,000 in the aggregate per year, with other limit options ranging from $100,000 - $11,000,000 per claim to $300,000 - $13,000,000 in the aggregate.

At December 31, 2011, the Exchange was licensed to write professional liability insurance in Guam, the District of Columbia and all states except New York. Direct premiums written were $556,156,000 in 2009, $551,859,622 in 2010 and $591,165,194 in 2011. The states producing the most business in 2011 were:

California	34.3%
Ohio	10.5%
Florida	7.9%
Virginia	6.9%
Oregon	4.8%
Georgia	4.5%
Maryland	3.8%
Washington	3.8%

Approximately 26% of the Exchange's business is written on a direct basis, 14% is produced through captive agencies, and the remainder is produced by approximately 355 independent agents and brokers, including endorsed medical societies. Premium collection is primarily through direct bill.

REINSURANCE

Assumed

The Exchange assumes 90% of the net retained liability from its subsidiaries, Professional Underwriters Liability Insurance Company (PULIC), Underwriter for the Professions Insurance Company (UFTP), and OHIC Insurance Company (OHIC) under separate quota share agreements.

The agreement with PULIC was first entered into on January 1, 2005. This agreement has been superseded by an agreement effective June 1, 2009, to comply with recommendation in the report of examination issued by the Utah Department of Insurance to increase the ceding commission. This agreement was approved by the California Department of Insurance (CDI) on July 17, 2009.

The agreement with UFTP was effective January 1, 2006. During the examination period, UFTP did not write any direct business and did not cede any premium to the Exchange.

The agreement with OHIC was effective January 1, 2007, and filed with the CDI on March 15, 2007. The approval of the agreement by the CDI was given on July 15, 2011.

The Exchange also has a number of other assumption agreements, most of which are in run-off. In 2011, the total assumed premium under these agreements amounted to approximately $19,000.

Ceded

The Exchange places reinsurance for itself and all affiliated insurers. Listed below are the major principal treaties, coverages, retentions and limits in effect as of December 31, 2011.

Line of Business and Type of Contract	Reinsurers	Company's Retention	Reinsurer's Limits
Excess of Loss			
Primary Per Event	Lloyd's; 6 domestic, foreign and alien companies	$2,000,000 ultimate net loss (UNL) plus 15% of $9,000,000 excess $2,000,000 each loss event	85% of $9,000,000 UNL excess $2,000,000 each loss event.
Secondary Per Event	TDC Special Risks Insurance Company (TDCSR)	$2,000,000 UNL each loss event	15% of $9,000,000 UNL excess $2,000,000 each loss event
Common Loss			
Primary Common Loss	Lloyd's; 2 domestic, foreign and alien companies	$5,000,000 UNL each common loss	$20,000,000 UNL excess $5,000,000 each common loss
Secondary Common Loss	TDCSR	$25,000,000 UNL each common loss	$25,000,000 UNL excess of $25,000,000 each common loss
Excess Casualty Catastrophe			
First Layer -	Lloyd's, 7 domestic, foreign and alien companies	$11,000,000 UNL each loss event	$10,000,000 UNL excess $11,000,000 each loss event.
Second Layer -	Lloyd's, 6 domestic, foreign and alien companies	$21,000,000 UNL each loss event	$10,000,000 UNL excess $21,000,000 each loss event
Third Layer -	TDCSR	$31,000,000 UNL each loss event	$19,000,000 UNL excess $31,000,000 each loss event

Line of Business and Type of Contract	Reinsurers	Company's Retention	Reinsurer's Limits
Deceased, Disabled & Retired Insured	Underwriters for the Professions Insurance Company	None	$1 million per claim / $3 million per policy
Insurance Policies of CCHS Indemnity Co., Ltd	CCHS Indemnity Co, Ltd	50% of each claim up to $300,000 and any loss in excess of $300,000	50% of each claim up to $300,000

ACCOUNTS AND RECORDS

Information Systems Controls

During the course of the examination, a review was made of the Exchange's general controls over its information systems. As a result of this review, several low risk findings were noted in controls over logical security. These findings were presented to the Exchange along with recommendations to strengthen its controls. It is recommended the Exchange evaluate the recommendations and make appropriate changes to strengthen its information systems controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Underwriting and Investment Exhibit for the Year Ended December 31, 2011

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2011

Reconciliation of Examination Changes as of December 31, 2011

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 740,220,717	$	$ 740,220,717	
Preferred stocks	11,449,484		11,449,484	
Common stocks	1,299,446,725	129,025,836	1,170,420,889	
Mortgage loans on real estate	39,298,896		39,298,896	(1)
Real estate – properties occupied by the company	12,558,388		12,558,388	
Cash and short-term investments	98,390,672		98,390,672	
Other invested assets	110,947,525		110,947,525	
Receivable for securities	3,881,330		3,881,330	
Securities lending reinvested collateral assets	9,426,421	912,678	8,513,743	
Investment income due and accrued	40,940,481	18,822	40,921,659	
Premiums and agents' balances in course of collection	31,007,176	504,859	30,502,317	
Premiums, agents' balances and installments booked but deferred and not yet due (including $0 earned but unbilled premiums)	124,091,063		124,091,063	
Amount recoverable from reinsurers	7,774,124		7,774,124	
Funds held by or deposited with reinsured companies	33,682,626		33,682,626	
Current federal and foreign income tax recoverable and interest thereon	28,806,997		28,806,997	
Net deferred tax asset	43,328,108	14,086,805	29,241,303	
Receivables from parent, subsidiaries and affiliates	254,821		254,821	
Aggregate write-ins for other than invested assets	76,698,775	1,217,009	75,481,766	
Total assets	$2,712,204,329	$ 145,766,009	$2,566,438,320	

Liabilities, Surplus and Other Funds			
Losses and loss adjustment expenses		$ 973,515,343	(2)
Reinsurance payable on paid loss and loss adjustment expenses		2,538,854	
Other expenses		3,162,032	
Taxes, licenses and fees		2,351,885	
Borrowed money		146,349	
Unearned premiums		243,157,397	
Advance premiums		30,759,338	
Dividends declared and unpaid: Policyholders		15,915,438	
Ceded reinsurance premiums payable		(2,239,209)	
Funds held by company under reinsurance treaties		107,140	
Amounts withheld or retained by company for account of others		3,204,084	
Provision for reinsurance		7,786,746	
Payable to parent, subsidiaries and affiliates		18,901,826	
Payable for securities		37,577,608	
Payable for securities lending		9,426,422	
Aggregate write-ins for liabilities		63,223,190	
Total liabilities		1,409,534,443	
Surplus notes	$ 13,000,000		
Unassigned funds (surplus)	1,143,903,877		
Surplus as regards policyholders		1,156,903,877	
Total liabilities, surplus and other funds		$2,566,438,320	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2011

Statement of Income

Underwriting Income		
Premiums earned		$ 536,671,691
Deductions:		
Losses and loss expenses incurred	$ 338,084,015	
Other underwriting expenses incurred	120,861,889	
Total underwriting deductions		458,945,904
Net underwriting income		77,725,787
Investment Income		
Net investment income earned	$ 140,035,865	
Net realized capital gain	104,359	
Net investment gain		140,140,224
Other Income		
Aggregate write-ins for miscellaneous income	$ 1,637,576	
Total other income		1,637,576
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		219,503,587
Dividends to policyholders		17,898,564
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		201,605,023
Federal and foreign income taxes incurred		26,484,127
Net income		$ 175,120,896

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		$1,241,236,952
Net income	$ 175,120,896	
Change in net unrealized capital losses	(135,089,387)	
Change in net deferred income tax	8,379,447	
Change in nonadmitted assets	(129,728,651)	
Change in provision for reinsurance	(664,603)	
Aggregate write-ins for losses in surplus	(2,350,777)	
Change in surplus as regards policyholders for the year		(84,333,075)
Surplus as regards policyholders, December 31, 2011		$1,156,903,877

Reconciliation of Surplus as Regards Policyholders
from December 31, 2008 through December 31, 2011

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2008 per Examination			$ 785,696,416
Net income	$618,871,959	$	
Net unrealized capital losses		114,945,525	
Change in net deferred income tax		22,034,885	
Change in nonadmitted assets		101,470,841	
Change in provision for reinsurance		5,245,175	
Aggregate write-ins for gains and losses in surplus		3,968,072	
Total gains and losses	$618,871,959	$247,664,497	
Net increase in surplus as regards policyholders			371,207,462
Surplus as regards policyholders, December 31, 2011, per Examination			$1,156,903,877

Reconciliation of Examination Changes
as of December 31, 2011

	Per Company	Per Examination	Surplus Increase (Decrease)	Notes
Assets				
Mortgage loans	$74,346,396	$39,298,896	$ (35,047,500)	(1)
Net decrease to surplus			(35,047,500)	
Surplus as regards policyholders, December 31, 2011, per Company			1,191,951,377	
Surplus as regards policyholders, December 31, 2011, per Examination			$1,156,903,877	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Mortgage Loans

In early 2012, the Exchange determined that its mortgage loan portfolio was collaterally impaired and recognized a $7 million write-off for its December 31, 2011 audited statutory financial statements. In the third quarter of 2012, the Exchange obtained appraisals of the underlying collateral and determined that an additional $35,047,500 write-off was necessary and recorded it as of September 30, 2012. The loans are still performing; however, interest is no longer being accrued for the affected loans. For this examination, an adjustment was made to reduce the mortgage loans by $35,047,500 to recognize the collateral deficiency. As a result, the loan to value ratio has been lowered to 78 percent. The Company needs to closely monitor the portfolio for any further decreases in value.

(2) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Statement of Actuarial Opinion and Actuarial Analysis of Loss and Loss Adjustment Expense Reserves prepared by the Exchange's independent actuary and concurred with the independent actuary's conclusion that the loss and loss adjustment expense reserves and extended reporting endorsement policy reserve carried by the Exchange as of December 31, 2011 are reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements (Page 6): It is recommended that the Exchange submit amended filings within the required time frame to the California Department of Insurance when it amends related party agreements as required by California Insurance Code Section 1215.5(b)(4).

Accounts and Records – Information Systems Controls (Page 11): Some weaknesses were noted in the Exchange's information systems controls, and recommendations for improving these controls were presented to the Exchange. It is recommended the Exchange evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

Previous Report of Examination

Accounts and Records – (Page 10): It was recommended that the Exchange comply with California Insurance Code Section 735. The Exchange is now in compliance.

ACKNOWLEDGEMENT

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

Respectfully submitted,

_____

Wayne Leiran, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California