

REPORT OF EXAMINATION
OF
MEDICAL INSURANCE EXCHANGE OF CALIFORNIA
AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 13, 2011

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San Francisco, California
May 31, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

MEDICAL INSURANCE EXCHANGE OF CALIFORNIA

(hereinafter also referred to as the Company) at its home office located at 6250 Claremont Avenue, Oakland, California 94618.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2009. 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.

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: company history; corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; statutory deposits; accounts and records; and sales and advertising. The examination was conducted concurrently with that of the Company's subsidiary, Claremont Liability Insurance Company.

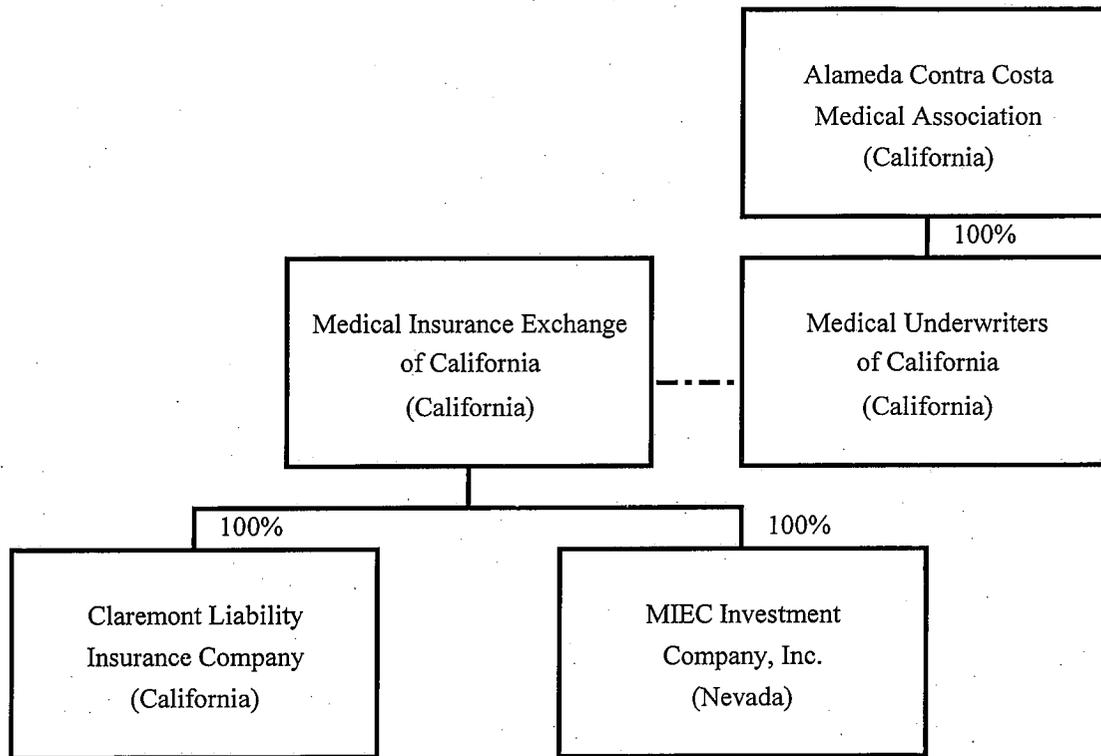
SUBSEQUENT EVENTS

Effective December 31, 2010, the Company sold its insurance subsidiary, Claremont Liability Insurance Company (CLIC), to CLIC Holdings, Inc., a Delaware corporation and indirect subsidiary of Enstar Group Limited (Enstar), a public Bermuda corporation. This transaction was approved by the California Department of Insurance (CDI) on the same date. The purchase price was \$14.1 million. The Company incurred a loss of \$740,659 on the transaction, after adjusting book value to cost. Other transactions made part of the sale included: (1) novation of CLIC's prior assumed medical malpractice business in runoff since 2001 to the Company for \$2.6 million; and (2) 100% coinsurance of CLIC's remaining reinsurance assumed and medical malpractice direct reserves to the Company for \$1.5 million. These transactions were approved by the CDI as part of the sale. This will leave Enstar with run-off of the contractors' liability business directly written by CLIC from 2000 to 2003, which continues to be 100% reinsured by syndicates at Lloyd's of London.

MANAGEMENT AND CONTROL

The Company was formed as a reciprocal and is owned by its policyholders. All officers and

members of the board of governors are physicians. The Company has no employees. It is managed by its attorney-in-fact, Medical Underwriters of California (MUC) under the terms of an administrative services agreement. MUC is 100% owned by the Alameda Contra-Costa Medical Association (ACCMA). The Company was part of a holding company system. Companies existing within the system at December 31, 2009 were as follows:



----- Attorney-in-Fact for Medical Insurance Exchange of California

The Company is managed by a fifteen-member Board of Governors. A listing of the board members and principal officers serving on December 31, 2009 follows:

Board of Governors

Name and Residence

Principal Business Affiliation

Toni J. Brayer, M.D.
Mill Valley, California

Physician

Name and Residence

Principal Business Affiliation

Thayer E. Cleaver, M.D.
Mt. Shasta, California

Retired Physician

Ronald V. Dorn III, M.D.
Boise, Idaho

Physician

Fernando V. Dulay, M.D.
San Francisco, California

Retired Physician

James O. Gemmer, M.D., Chairman
Fairfield, California

Retired Physician

Scott A. Hoffinger, M.D.
Moraga, California

Physician

Robert J. Margolin, M.D.
Tiburon, California

Physician

Mark Oscherwitz, M.D., Secretary
San Francisco, California

Physician

Lamont D. Paxton, M.D., Vice Chairman
Orinda, California

Physician

Vinod K. Sawhney, M.D.
Hayward, California

Physician

Douglas G. Smith, M.D.
Anchorage, Alaska

Physician

Russell T. Stodd, M.D.
Kahului, Hawaii

Retired Physician

Cheryl A. Tanasovich, M.D.
Larkspur, California

Physician

Steven R. Una, M.D.
Danville, California

Physician

Ann L. Vercoutare, M.D.
Larkspur, California

Physician

Principal Officers

<u>Name</u>	<u>Title</u>
James O. Gemmer, M.D.	Chairman
Mark Oscherwitz, M.D.	Secretary
Lamont D. Paxton	Vice Chairman

Inter-Company Agreements

Administrative Services Agreement: Subject to supervision and direction by the board of governors, the Company's attorney-in-fact, Medical Underwriters of California (MUC), manages the daily operations of the Company and its subsidiaries on a cost reimbursement basis. MUC is responsible for the production, underwriting, reserving, and claims handling of insurance for the Company, as well as accounting, financial reporting, and providing adequate personnel and facilities to perform these services. The agreement was effective January 1, 2000 and approved by the California Department of Insurance (CDI) on August 11, 2004.

Tax Allocation Agreement: The Company is party to a tax allocation agreement with its subsidiaries Claremont Liability Insurance Company and MIEC Investment Company, Inc. The agreement provides for the federal tax returns of the parties to be filed on a consolidated basis. Allocation is based on a separate company return basis with current credit given to a company for net losses or tax credits to the extent losses and/or credits result in an actual reduction to the consolidated group's tax liability. The agreement was effective May 26, 1996. CDI approval was not required at that time.

TERRITORY AND PLAN OF OPERATION

The Company writes medical professional liability and legal defense insurance coverage on a claims-made basis for physicians, group practices, blood banks, acupuncturists, and clinics. Prior acts "nose" coverage is written for claims arising from occurrences prior to the effective date of the policy. "Tail" policies are also written for claims occurring before, but reported after termination of a policy. Tail coverage is provided at no additional charge to certain deceased, disabled, and retired

physicians who meet predetermined requirements. The unearned premium reserve reported by the Company includes a death, disability, and retirement reserve to fund future utilization of the free tail coverage. States in which the Company was licensed in 2009 and direct premiums written was as follows: Alaska \$10.7 million (15%), Arizona \$0, California \$36.9 million (51%), Hawaii \$14.3 million (20%), Idaho \$10.0 (14%), Montana \$0, Nevada \$0, Oregon \$0, and Washington \$.06 million (.01%). The Company was licensed to write disability, legal insurance, and liability in California. No disability coverage was written.

REINSURANCE

Assumed

The Company assumed medical professional liability on an excess basis from several entities during the examination period. As of December 31, 2009, the Company's participation was reduced to only one cedent, a blood bank. Assumed amounts were not material.

Ceded

Following is a summary of the principal ceded reinsurance treaties in force as of December 31, 2009.

Type of Contract	Reinsurers All authorized except as noted by (U)	Company Retention	Reinsurer's Limits
Combined Excess of Loss Covering: Per Risk - up to \$5 million policy limit plus LAE,	Hannover Ruckversicherung AG	27.50%	\$2 million
	Platinum Underwriters Reinsurance, Inc.	22.50%	
	Transatlantic Reinsurance Company	22.50%	
	Lloyd's Syndicate #4472	20.00%	
ECO/XPL – loss in excess of policy limit, and Clash - more than one policy involved in one event	Lloyd's Syndicate #4020	7.50%	
		100.00%	
Catastrophe Awards Made Excess of Loss covering ECO/XPL	Transatlantic Reinsurance Company Lloyd's Syndicates (nine total)	15.00% 75.00% 90.00%	\$4 million, plus 10% of \$10 million

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 286,976,713	\$	\$ 286,976,713	
Stocks:				
Preferred stocks	2,788,805		2,788,805	
Common stocks	45,253,596	748,493	44,505,103	
Real estate:				
Properties occupied by the company	2,226,468		2,226,468	
Cash and short-term investments	4,235,955		4,235,955	
Investment income due and accrued	3,295,097		3,295,097	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	60,713	1,873	58,840	
Deferred premiums, agents' balances and installments booked but deferred and not yet due (EBUB)	597,016		597,016	
Reinsurance:				
Amounts recoverable from reinsurers	1,631,384		1,631,384	
Funds held by or deposited with reinsured companies	176,283		176,283	
Net deferred tax asset	16,005,163	13,593,084	2,412,079	
Guaranty funds receivable or on deposit	12,663		12,663	
Receivables from parent, subsidiaries and affiliates	326,974		326,974	
Aggregate write-ins for other than invested assets	<u>70,260</u>	<u>70,260</u>		
Total assets	\$ <u>363,657,090</u>	\$ <u>14,413,710</u>	\$ <u>349,243,380</u>	

Liabilities, Surplus and Other Funds

Losses		\$ 84,871,930	(1)
Loss adjustment expenses		42,683,683	(1)
Other expenses		283,521	
Taxes, licenses and fees		(22,600)	
Current federal and foreign income taxes		1,343,344	
Unearned premiums		32,789,416	
Advance premiums		7,113,742	
Dividends declared and unpaid: Policyholders		23,885,886	
Ceded reinsurance premiums payable		5,323,093	
Amounts withheld or retained by company for account of others		4,023,362	
Payable to parent, subsidiaries, and affiliates		1,118,326	
Aggregate write-ins for liabilities		<u>396,000</u>	
Total liabilities		203,809,703	
Unassigned funds (surplus)		\$ <u>145,433,677</u>	
Surplus as regards policyholders		<u>145,433,677</u>	
Total liabilities, surplus and other funds		\$ <u>349,243,380</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Premiums earned	\$ 65,330,030
<u>Deductions:</u>	
Losses incurred	\$ 17,337,099
Loss expenses incurred	25,376,209
Other underwriting expenses incurred	<u>10,180,266</u>
Total underwriting deductions	<u>52,893,574</u>
Net underwriting gain	12,436,456

Investment Income

Net investment income earned	\$ 18,806,426
Net realized capital gains	<u>5,602,928</u>
Net investment gain	24,409,354

Other Income

Net loss from agents' balances charged off	\$ <u>(73)</u>
Total other loss	<u>(73)</u>
Net income before policyholder dividends, after capital gains tax and before federal income taxes	36,845,737
Dividends to policyholders	20,600,000
Federal income taxes incurred	<u>3,301,943</u>
Net income	<u>\$ 12,943,794</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008	\$ 123,785,248
Net income	\$ 12,943,794
Change in net unrealized gains less capital gains tax of \$3,173,116	5,726,799
Change in net deferred income tax	(1,766,186)
Change in nonadmitted assets	4,629,022
Change in provision for reinsurance	63,000
Aggregate write-ins for gains in surplus	<u>52,000</u>
Change in surplus as regards policyholders for the year	<u>21,648,429</u>
Surplus as regards policyholders, December 31, 2009	<u>\$ 145,433,677</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2009

Surplus as regards policyholders, December 31, 2005, per Examination				\$ 108,354,867
		<u>Gain in</u>	<u>Loss in</u>	
		Surplus	Surplus	
Net income	\$ 32,913,184	\$		
Change in net unrealized capital gains	3,747,130			
Change in net deferred income tax	6,164,176			
Change in nonadmitted assets			8,198,913	
Change in provision for reinsurance	2,359,231			
Aggregate write-ins for gains in surplus	<u>94,002</u>			
Total gains and losses	\$ <u>45,277,723</u>	\$	<u>8,198,913</u>	
Net increase in surplus as regards policyholders				<u>37,078,810</u>
Surplus as regards policyholders, December 31, 2009, per Examination				\$ <u>145,433,677</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2009 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records – Information Systems Controls (Page 7): It was recommended the Company review the recommendations made regarding its information systems and make appropriate changes to strengthen its controls. The Company has adopted the recommendations.

Bonds and Stocks (Page 12): It was recommended the Company deposit its securities with a qualified custodian pursuant to California Insurance Code Section 1104.9. The Company has adopted the recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination is gratefully acknowledged.

Respectfully submitted,

/S/

Isabel Spiker, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California