REPORT OF EXAMINATION

OF THE

SCPIE INDEMNITY COMPANY

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

SCPIE INDEMNITY COMPANY

(hereinafter also referred to as the Company) at its parent company's (The Doctors Company, An Interinsurance Exchange) 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 its parent, The Doctors Company, An Interinsurance Exchange, as well as its affiliates: 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: corporate records, fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; and statutory deposits.

COMPANY HISTORY

The Company was a wholly-owned subsidiary of SCPIE Holdings, Inc. (Holdings), a shell holding company that had been the parent of the Company prior to the Company's acquisition by The Doctors Company, An Interinsurance Exchange (TDC) in 2008. The Company had three wholly-owned subsidiaries: American Healthcare Indemnity Company (AHI), American Healthcare Specialty Insurance Company (AHSIC) and SCPIE Underwriting Limited (SUL).

The Company, AHI, and AHSIC operated under a Pooling Agreement from 1996-2008. In 2008, the amounts allocated to each of the entities were 55%, 30%, and 15% for the Company, AHI, and AHSIC, respectively. At December 31, 2008, the participants terminated the pooling agreement on a run-off basis by mutual consent. Beginning January 1, 2009, each of the companies retained their direct business on a written basis.

On September 30, 2009, the Company and AHSIC entered into an intercompany pooling commutation as described in the Reinsurance Assumed section on Page 7. On

December 1, 2010, the Company and AHI also entered in an intercompany pooling commutation as described in the Reinsurance Assumed section on Page 7.

In December 2010, in conjunction with the intercompany pooling commutation, the Company made a capital contribution of $50 million to AHI. The contribution was made to provide AHI adequate surplus to support its direct liabilities on a post-commutation basis.

An extraordinary cash dividend of $100 million was declared and paid to its parent, Holdings, in 2010, which Holdings in turn declared and paid a cash dividend to TDC in the same amount. The extraordinary dividend was approved by the California Department of Insurance (CDI) on September 1, 2010.

Following approval from the CDI, on December 30, 2010, Holdings was merged into the Company in a downstream transaction. The merger resulted in an $8.5 million increase in the Company's paid-in capital.

The Company sold AHSIC in February 2010 and sold SUL in June 2010 after obtaining approval from the CDI.

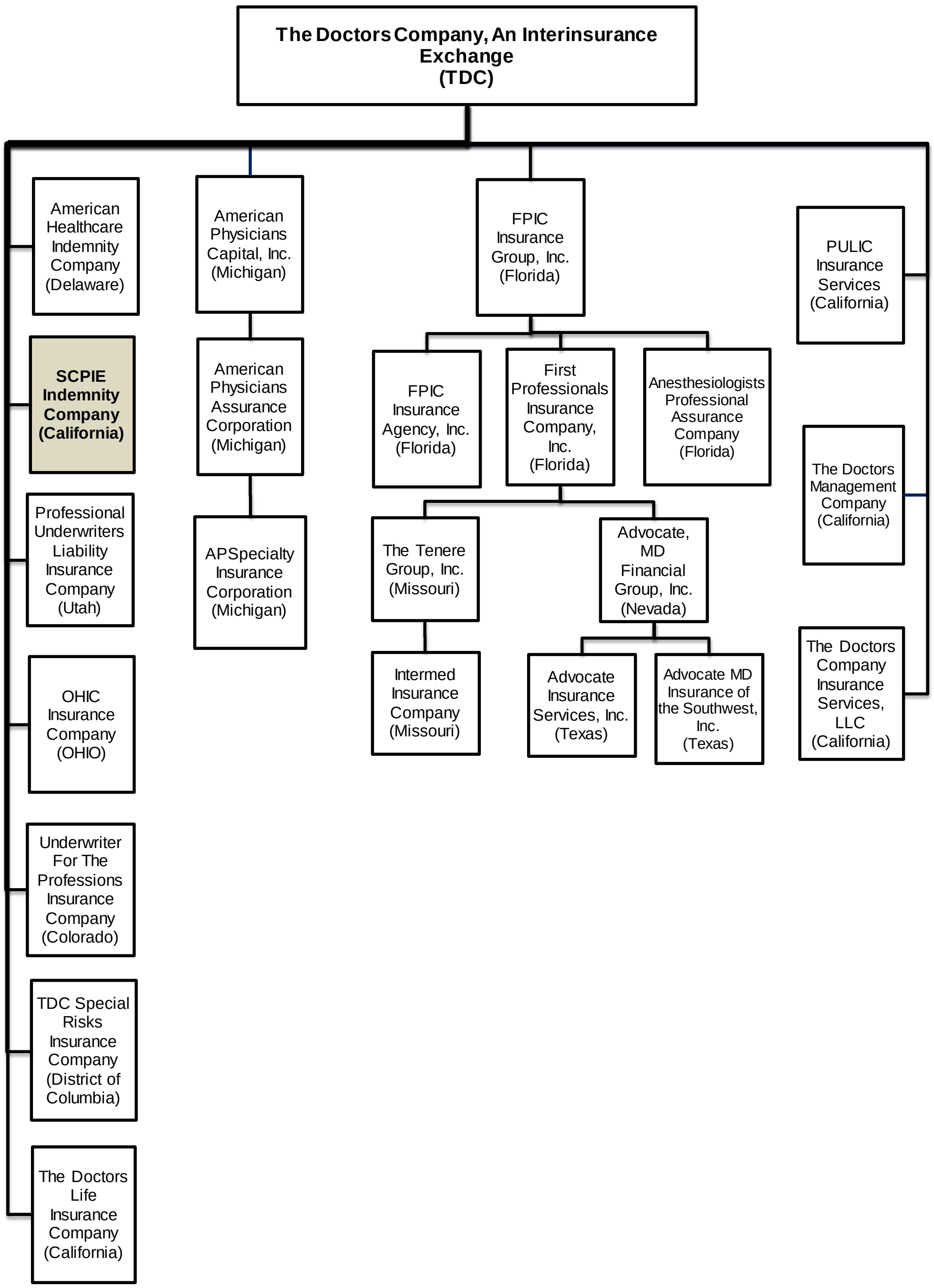
On September 30, 2011, the CDI approved a dividend and return of contributed capital totaling $192,135,000 from the Company to TDC. The transaction was comprised of $75,000,000 cash and 100% of the outstanding stock of its subsidiary, AHI, which had a statutory value of $117,135,000. As a result of this transaction, AHI became a wholly-owned subsidiary of TDC.

MANAGEMENT AND CONTROL

The Company is part of a holding company system and is owned by The Doctors Company, An Interinsurance Exchange (TDC). Except for its officers, the Company has no employees. The day-to-day operation of the Company is managed by its affiliate, The

Doctors Management Company (TDMC), in accordance with a management services agreement.

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



Members of the Board of Directors, who are elected annually, manage the business and affairs of the Company. Following are members of the Board and principal officers of the Company serving at December 31, 2011:

Directors

Name and Residence	Principal Business Affiliation
Richard E. Anderson, M.D. Napa, California	Chairman and Chief Executive Officer The Doctors Company, an Interinsurance Exchange
Robert D. Francis Napa, California	Chief Operating Officer The Doctors Company, An Interinsurance Exchange
Dennis B. Lawton, Ph.D. Sausalito, California	Chief Governance Officer The Doctors Company, An Interinsurance Exchange
David G. Preimesberger, CPA Napa, California	Chief Financial Officer The Doctors Company, An Interinsurance Exchange

Principal Officers

Name	Title
Richard E. Anderson, M.D.	President and Chief Executive Officer
Robert D. Francis	Chief Operating Officer
David G. Preimesberger, CPA	Treasurer and Chief Financial Officer
David A. McHale	Secretary

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

Management Agreements

Management Agreement: The Doctors Management Company (TDMC) provides management and administrative services to the Company under the terms of the

Management Agreement between the Company and TDMC. This agreement has been in force since January 1, 2009. The Company 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 Company paid $3.7 million, $5.2 million and $2.4 million, respectively, in fees to TDMC under the terms of this agreement.

Tax Allocation Agreement: Effective July 1, 2008, the Company entered into a Joinder Agreement to the Tax Allocation Agreement by and among TDC and its affiliates. Allocation of taxes is based upon separate return calculation with inter-company tax balances that are to be settled in the quarter subsequent to the filing of the consolidated return. This agreement was approved by the California Department of Insurance in 2008.

TERRITORY AND PLAN OF OPERATION

The Company writes healthcare facility business on both an occurrence basis and claims-made basis. 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, and $300,000 - $13,000,000 in the aggregate. Effective with the January 1, 2009 renewals, all of the Company's physician medical malpractice business was written by the Company's parent, The Doctors Company, An Interinsurance Exchange, leaving only the healthcare facility business in the Company.

At December 31, 2011, the Company was licensed to write in California only. Direct premiums written were $11,825,294 in 2009, $9,934,082 in 2010 and $8,091,514 in 2011.

Approximately ten percent of the direct business is written through 27 agencies. The primary agency the Company uses is The Doctors Company Insurance Services, an affiliate. Premium collection is primarily through direct bill.

REINSURANCE

Assumed

On September 30, 2009, the Company and its then subsidiary, American Healthcare Specialty Insurance Company (AHSIC), entered into an intercompany pooling commutation whereby AHSIC's net loss and loss adjustment expense (LAE) reserves of $32.1 million were commuted and assumed by the Company. AHSIC's net loss and LAE reserves included amounts previously assumed from the Company as part of a Pooling Agreement. The commutation was accounted for on a prospective basis in accordance with Statement of Statutory Accounting Principles (SSAP) No. 62R, *Property and Casualty Reinsurance,* and no gain or loss was recognized on the transaction. The agreement was approved by the Arkansas, California, and Delaware Departments of Insurance. The $32.1 million due under the agreement was a receivable from AHSIC at December 31, 2009, and was settled in early 2010.

On December 1, 2010, the Company and its remaining intercompany pooling participant, American Healthcare Indemnity Company (AHI), also entered into an intercompany pooling commutation whereby net insurance liabilities of $60.4 million previously assumed from AHI per the Pooling Agreement were commuted and transferred to AHI. The commutation was accounted for on a prospective basis in accordance with SSAP No. 62R, and no gain or loss was recognized on the transaction. The agreement was approved by the California and Delaware Departments of Insurance. The unsettled amount of $45.4 million related to the commutation was recorded as a payable to AHI at December 31, 2010, and was settled in early 2011.

Ceded

The Doctors Company, An Interinsurance 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
Deceased, Disabled & Retired Insured	Underwriters for the Professions Insurance Company	None	$1 million per claim / $3 million per policy

ACCOUNTS AND RECORDS

Information Systems Controls

During the course of the examination, a review was made of the Company'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 Company along with recommendations to strengthen its controls. It is recommended the Company 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

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$153,825,130	$	$153,825,130	
Preferred stocks	6,587,223		6,587,223	
Cash and short-term investments	6,540,435		6,540,435	
Other invested assets	34,302		34,302	
Investment income due and accrued	880,855		880,855	
Premiums and agents' balances in course of collection	3,672,101		3,672,101	
Premiums, agents' balances and installments booked but deferred and not yet due (including $0 earned but unbilled premiums)	112,296		112,296	
Net deferred tax asset	1,259,235	608,734	650,501	
Receivables from parent, subsidiaries and affiliates	940		940	
Aggregate write-ins for other than invested assets	1,274		1,274	
Total assets	$172,913,791	$ 608,734	$172,305,057	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 28,705,265	(1)
Other expenses		1,662,030	
Taxes, licenses and fees		680	
Current federal and foreign income taxes		3,514,592	
Unearned premiums		289,963	
Advance premiums		87,374	
Dividends declared and unpaid: Stockholders		49,120,852	
Ceded reinsurance premiums payable		428,044	
Funds held by company under reinsurance treaties		59,424	
Amounts withheld or retained by company for account of others		3,088	
Provision for reinsurance		31,000	
Payable to parent, subsidiaries and affiliates		862,308	
Payable for securities		216,683	
Aggregate write-ins for liabilities		25,879,149	
Total liabilities		110,860,452	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	48,628,240		
Unassigned funds (surplus)	10,216,365		
Surplus as regards policyholders		61,444,605	
Total liabilities, surplus and other funds		$172,305,057	

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

Statement of Income

Underwriting Income		
Premiums earned		$ 7,916,832
Deductions:		
Losses and loss expenses incurred	$ (3,612,387)	
Other underwriting expenses incurred	2,654,986	
Total underwriting deductions		(957,401)
Net underwriting gain		8,874,233
Investment Income		
Net investment income earned	3,020,712	
Net realized capital gain	30,777,052	
Net investment gain		33,797,764
Other Income		
Aggregate write-ins for miscellaneous income	500,723	
Total other income		500,723
Net income after capital gains tax and before federal and foreign income taxes		43,172,720
Federal and foreign income taxes incurred		1,492,379
Net income		$ 41,680,341

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		$238,170,603
Net income	$ 41,680,341	
Change in net unrealized capital gains	(25,555,909)	
Change in net deferred income tax	(2,979,291)	
Change in nonadmitted assets	2,261,280	
Change in provision for reinsurance	2,516	
Surplus adjustment: Paid in	(25,879,149)	
Dividends to stockholders	(166,255,786)	
Change in surplus as regards policyholders for the year		(176,725,998)
Surplus as regards policyholders, December 31, 2011		$ 61,444,605

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			$200,519,779
Net income	$143,923,928	$	
Net unrealized capital gains	53,206,858		
Change in net unrealized foreign exchange capital gain	199,930		
Change in net deferred income tax		14,321,993	
Change in nonadmitted assets	11,383,027		
Change in provision for reinsurance	137,992		
Surplus adjustments: Paid-in		17,349,131	
Dividends to stockholders		266,255,785	
Capital contribution to subsidiary		50,000,000	
Total gains and losses	$208,851,735	$347,926,909	
Net decrease in surplus as regards policyholders			(139,075,174)
Surplus as regards policyholders, December 31, 2011, per Examination			$ 61,444,605

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) 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 Company's independent actuary and concurred with the independent actuary's conclusion that the loss and loss adjustment expense reserves carried by the Company as of December 31, 2011 are reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Information Systems Controls (Page 8): Some weaknesses were noted in the Company's information systems controls and recommendations for improving these controls were presented to the Company. It is recommended the Company evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

Previous Report of Examination

Accounts and Records – Ceded (Page 8): It was recommended that the Company adhere to all regulations and laws prior to executing any new reinsurance agreements. The Company is now in compliance.

ACKNOWLEDGEMENT

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

Respectfully submitted,

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