

REPORT OF EXAMINATION
OF THE
THE DOCTORS COMPANY,
AN INTERINSURANCE EXCHANGE
AS OF
DECEMBER 31, 2015

Filed February 21, 2017

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San Francisco, California
January 6, 2017

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 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 Exchange. The previous examination of the Exchange was made as of December 31, 2011. This examination covers the period from January 1, 2012 through December 31, 2015.

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 includes 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 may 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 Michigan, Ohio, Oklahoma, Oregon, and the District of Columbia.

COMPANY HISTORY

The Exchange is the ultimate parent of the entities within The Doctors Company Group (Group). A summary of the significant changes to the Group, which occurred since the prior examination follows:

On April 30, 2014, SCIPE Indemnity Company (SCIPE), a California domiciled insurance company, was merged into American Healthcare Indemnity Company (AHIC), with AHIC being the surviving entity. AHIC issued 53,678 shares of common stock to the Exchange in exchange for all the common stock shares of SCIPE. The California Department of Insurance (CDI) consented to the merger on April 24, 2014.

Effective August 13, 2015, Intermed Insurance Company, an indirect subsidiary of the Exchange, was merged into First Professionals Insurance Company (FPIC), with FPIC being the surviving entity. The merger was approved by the Florida Office of Insurance Regulation and Missouri Department of Insurance.

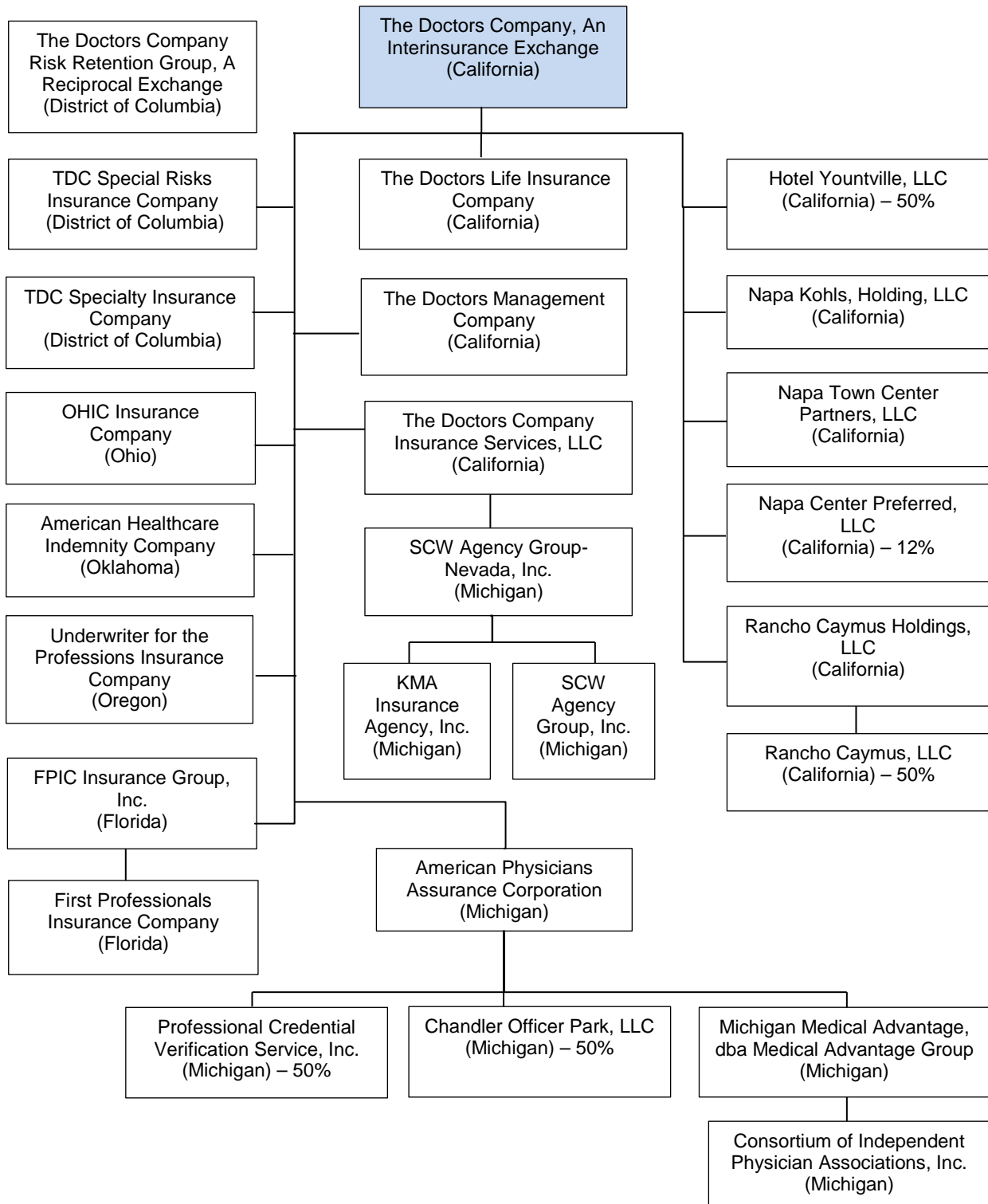
Effective August 25, 2015, American Physicians Capital, Inc., a direct subsidiary of the Exchange, was merged into American Physicians Assurance Corporation (APA), with APA being the surviving entity. As a result of the merger, APA became a direct subsidiary of the Exchange.

On January 1, 2016, The Doctors Life Insurance Company was sold to Companion Life Insurance Company, an unaffiliated insurer domiciled in South Carolina. The CDI consented to the acquisition on November 23, 2015 pursuant to California Insurance Code Section 1215.2.

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 its officers and members of the Board of Governors are physicians. 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, 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, 2015 (all ownership is 100% unless otherwise noted):



The fifteen members of the Board of Governors, who are elected annually, manage the business and affairs of the Exchange. Following are members of the board and principal officers serving at December 31, 2015:

Board of Governors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Richard E. Anderson, MD Napa, 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, Former Executive Vice President and Chief Financial Officer Hanover Insurance Group, Inc.
David M. Charles, MD 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, MD Salem, Oregon	Orthopedic Surgeon; Senior Vice President and Regional Medical Director The Doctors Company, An Interinsurance Exchange
Charles R. Kossman, MD La Mesa, California	Physician and Owner East County Hematology/Oncology Associates
Donald J. Palmisano, MD Jefferson Parish, Louisiana	Surgeon and President Intrepid Resources/The Medical Risk Manager Company

Board of Governors (continued)

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Robert W. Pike Lake Forest, Illinois	Retired Insurance Executive Allstate Insurance Company
Kathleen D. Ricord Empire, Michigan	Retired Insurance Marketing Executive Nationwide Mutual Insurance Company
William C. Rupp, MD Jacksonville, Florida	Retired Chief Executive Officer Mayo Clinic
Mary Ann Thode Brentwood, California	Retired Health Care Executive Kaiser Foundation Health Plan and Hospitals
David B. Troxel, MD Lafayette, California	Pathologist; Secretary of the Board of Governors and Medical Director The Doctors Company, An Interinsurance Exchange
Ronald H. Wender, MD Encino, California	Co-Chairman, Department of Anesthesiology Cedars-Sinai Medical Center

Principal Officers

<u>Name</u>	<u>Position</u>
Richard E. Anderson, MD	Chairman and Chief Executive Officer
David G. Preimesberger	Treasurer and Chief Financial Officer
David B. Troxel, MD	Secretary

Management Agreements

Management Agreement: The Exchange entered into a management 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.

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 TDMC responsibilities under the aforementioned Management Agreement for the solicitation of application, 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. Effective May 1, 2013, Amendment No.1 was incorporated to the Agreement with certain safeguard provisions and was approved by the California Department of Insurance (CDI) on March 27, 2013 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Tax Sharing Agreement: The Exchange and its affiliates are parties to a Second Amended and Restated Federal Income Tax Allocation Agreement (Agreement) entered into on December 1, 2013. This Agreement was amended to reflect the addition of new subsidiaries and replaces the Amended and Restated Federal Income Tax Allocation Agreement dated July 1, 2007. Under the terms of the Agreement, the Exchange agrees to file a consolidated federal income tax return on behalf of all affiliates. 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 CIC Section 1215.5(b)(4), the CDI approved the Agreement on July 30, 2014.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, 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, and healthcare facilities nationwide.

Direct premiums written during 2015 totaled \$654.8 million. The majority of the business was written on an admitted basis in California (26.1%) and Florida (18.3%) with the remaining 55.6% written in all other states and territory where the Exchange is licensed. The Exchange's principal line of business during 2015 was medical professional liability claims-made (91.0%).

Business is written on a direct basis as well as marketed through captive agencies, independent agents and brokers. The standard and core business is written by the Exchange on a direct basis. The non-standard book of business is written through its subsidiaries: TDC Specialty Insurance Company (on an excess and surplus line basis) and through The Doctors Company Risk Retention Group, A Reciprocal Exchange.

REINSURANCE

Assumed

The Exchange assumes the net retained liability of policies issued by three of its subsidiaries under separate quota share agreements. The following table is a summary of the assumed reinsurance agreements as of December 31, 2015:

Type of Contract	Ceding Company	Ceding Company's Retention	Exchange's Limits
Quota Share Reinsurance Agreement	TDC Specialty Insurance Company	10% of net retained liability	90% of net retained liability
Quota Share Reinsurance Agreement	The Doctors Company Risk Retention Group, a Reciprocal	10% of net retained liability	90% of net retained liability
Property, Casualty, and Accident and Health Quota Share Reinsurance Agreement	Underwriter for the Professions Insurance Company	10% of net retained liability	90% of net retained liability

Ceded

The following is a summary of the principal reinsurance agreements in-force as of December 31, 2015:

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
<i>Per Event Excess of Loss Reinsurance Contract</i>	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Hannover Ruck SE (12.50%) Partner Reinsurance Company of the U.S. (11.50%) Transatlantic Reinsurance Company (5.50%) Platinum Underwriters Reinsurance, Inc. (5.00%) Scor Reinsurance Company (3.50%) Munich Reinsurance America, Incorporated (7.00%) Odyssey Reinsurance Company (5.00%) Swiss Reinsurance America Corporation (7.00%) Everest Reinsurance Company (4.00%) Endurance Reinsurance Corporation of America (4.00%) Axis Reinsurance Company (3.00%) Berkley Insurance Company (4.00%) Lloyd's Syndicate (18%)	\$2 million ultimate net loss each loss event, 10% participation of \$9 million excess of \$2 million any one loss event	\$9 million excess of \$2 million any one loss event
<i>Per Event Excess of Loss Captive Reinsurance Contract</i>	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Unauthorized</u> TDC Special Risks Insurance Company	\$2 million ultimate net loss each loss event	\$9 million excess of \$2 million any one loss event
	<i>This agreement indemnifies the remaining portion (10% participation) of ultimate net loss in above per event reinsurance contract</i>			

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
<i>Excess Casualty Catastrophe Reinsurance Contract</i>				
First Excess	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Hanover Ruck SE (5.50%) Partner Reinsurance Company of the U.S. (5.00%) Transatlantic Reinsurance Company (3.00%) Platinum Underwriters Reinsurance, Inc. (5.00%) Scor Reinsurance Company (8.10%) Odyssey Reinsurance Company (2.00%) Swiss Reinsurance America Corporation (2.50%) Everest Reinsurance Company (2.50%) Berkley Insurance Company (3.00%) Lloyd's Syndicate (60.90%) <u>Unauthorized</u> Amlin Bermuda, A Branch of Amlin AG (2.50%)	\$11 million ultimate net loss each loss event	\$10 million excess of \$11 million ultimate net loss each loss event
Second Excess	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Partner Reinsurance Company of the U.S. (5.00%) Transatlantic Reinsurance Company (3.00%) Platinum Underwriters Reinsurance, Inc. (5.00%) Scor Reinsurance Company (12.50%) Munich Reinsurance America, Incorporated (1.50%) Odyssey Reinsurance Company (1.00%) Swiss Reinsurance America Corporation (1.00%) Lloyd's Syndicate (67.50%) <u>Unauthorized</u> Catlin Insurance Company Ltd. (3.50%)	\$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> Hannover Ruck SE (8.00%) Transatlantic Reinsurance Company (3.00%) Platinum Underwriters Reinsurance, Inc. (5.00%) Scor Reinsurance Company (3.40%) Munich Reinsurance America, Incorporated (2.00%)	\$31 million ultimate net loss each loss event	\$10 million excess of \$31 million ultimate net loss each loss event

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
		Swiss Reinsurance America Corporation (2.00%) Lloyd's Syndicate (70.10%)		
		<u>Unauthorized</u> Amlin Bermuda, A Branch of Amlin AG (3.00%) Catlin Insurance Company Ltd. (3.50%)		
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
<i>Awards Made Excess of Loss Reinsurance Contract</i>				
First Excess Layer	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Hannover Ruck SE (10.00%) Scor Reinsurance Company (5.50%) Lloyd's Syndicate (69.50%)	\$10 million ultimate net loss each award made, 10% participation of \$10 million excess of \$10 million ultimate net loss each award made	\$10 million excess of \$10 million ultimate net loss each award made, \$20 million term limit
		<u>Unauthorized</u> Amlin Bermuda, A Branch of Amlin AG (5.00%)		
Second Excess Layer	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Scor Reinsurance Company (11.00%) Lloyd's Syndicate (74.00%)	\$20 million ultimate net loss each award made, 10% participation of \$10 million excess of \$20 million ultimate net loss each award made	\$10 million excess of \$20 million ultimate net loss each award made, \$20 million term limit
		<u>Unauthorized</u> Amlin Bermuda, A Branch of Amlin AG (5.00%)		
<i>Awards Made Excess of Loss Reinsurance Contract</i>				
First Excess Layer	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Unauthorized</u> TDC Special Risks Insurance Company	\$10 million ultimate net loss each award made	\$10 million excess of \$10 million ultimate net loss each award made, \$20 million term limit
	<i>This agreement indemnifies the remaining portion (10% participation) of ultimate net loss in above award made reinsurance contract</i>			
Second Excess Layer	Medical Professional Liability – Claims	<u>Unauthorized</u> TDC Special Risks Insurance Company	\$20 million ultimate net loss each award made	\$10 million excess of \$20 million ultimate net loss

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
	Made, TailGard or Occurrence <i>This agreement indemnifies the remaining portion (10% participation) of ultimate net loss in above award made reinsurance contract</i>			each award made, \$20 million term limit
<i>Common Loss Excess of Loss Reinsurance Contract</i>	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
<i>Aggregate Extended Reporting Endorsement Reinsurance Agreement</i>	Deceased, Disabled, or Retired Insureds	<u>Authorized</u> Underwriter For The Professions Insurance Company	None	\$1 million per claim, \$3 million policy aggregate limit of liability

Assumption Reinsurance Agreement

Effective October 1, 2014, the Exchange and its subsidiary, American Healthcare Indemnity Company (AHIC) entered into an Assumed Reinsurance Agreement with Providence Washington Insurance Company (PWIC) to sell and transfer their assumed reinsurance business to PWIC. On October 8, 2015, the California Department of Insurance (CDI) granted the Exchange a permitted practice for the accounting of this assumption agreement whereby the Exchange recorded no reserves, but is required to disclose a contingent liability. The Oklahoma Insurance Department granted AHIC similar permitted accounting practice.

Upon receipt of the approval, the Exchange, AHIC, and PWIC entered into an Amended and Restated Assumption Reinsurance Agreement (Agreement) effective November 24, 2015. This Agreement was approved by the CDI on November 9, 2015. As of December 31, 2015, the Exchange and AHIC disclosed \$8.7 million and \$21.8 million of contingent liability, respectively, related to this Agreement.

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, 2015. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. No examination adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2015

Underwriting and Investment Exhibit for the Year Ended December 31, 2015

Reconciliation of Surplus as Regards Policyholders from December 31, 2011
through December 31, 2015

Statement of Financial Condition
as of December 31, 2015

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,351,469,047	\$	\$1,351,469,047	
Preferred stocks	45,700,410		45,700,410	
Common stocks	1,629,340,761		1,629,340,761	
Mortgage Loans on real estate first liens	27,374,581		27,374,581	
Real estate properties occupied by the company	12,703,238		12,703,238	
Cash, cash equivalents and short-term investments	139,273,764		139,273,764	
Derivatives	235,531		235,531	
Other invested assets	122,467,272	7,000,000	115,467,272	
Receivables for securities	3,752,406		3,752,406	
Investment income due & accrued	14,380,108		14,380,108	
Uncollected premiums and agents' balances in course of collection	41,382,255	374,145	41,008,110	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	132,959,178		132,959,178	
Amount recoverable from reinsurers	3,427,537		3,427,537	
Other amounts receivable under reinsurance contracts	1,516,685		1,516,685	
Current federal and foreign income tax recoverable and interest thereon	40,757,465		40,757,465	
Net deferred tax asset	37,238,363	13,434,362	23,804,001	
Receivables from parent, subsidiaries and affiliates	1,209,028		1,209,028	
Aggregate write-ins for other than invested assets	<u>1,802,639</u>	<u>821,774</u>	<u>980,865</u>	
Total assets	<u>\$ 3,606,990,268</u>	<u>\$ 21,630,281</u>	<u>\$3,585,359,987</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 945,135,876	(1)
Reinsurance payable on paid losses and loss adjustment expenses			485,917	
Loss adjustment expenses			470,766,202	(1)
Other expenses (excluding taxes, licenses and fees)			3,512,344	
Taxes, licenses and fees (excluding federal and foreign income taxes)			3,382,926	
Unearned premiums			267,965,593	
Advance premium			45,941,003	
Dividends declared and unpaid: Policyholders			18,320,931	
Ceded reinsurance premiums payable			6,205,117	
Funds held by company under reinsurance treaties			108,073	
Amounts withheld or retained by company for account of others			1,684,135	
Provision for reinsurance			3,538,480	
Payable to parent, subsidiaries and affiliates			5,491,295	
Payable for securities			1,375,302	
Aggregate write-ins for liabilities			<u>2,542,726</u>	
Total liabilities			1,776,455,920	
Surplus Notes		\$ 200,000,000		
Unassigned funds (surplus)		<u>1,608,904,067</u>		
Surplus as regards policyholders			<u>1,808,904,067</u>	
Total liabilities, surplus and other funds			<u>\$3,585,359,987</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2015

Statement of Income

Underwriting Income

Premiums earned		\$ 628,266,492
Deductions:		
Losses incurred	\$ 221,808,941	
Loss adjustment expenses incurred	246,403,806	
Other underwriting expenses incurred	<u>150,717,918</u>	
Total underwriting deductions		<u>618,930,665</u>
Net underwriting gain		9,335,827

Investment Income

Net investment income earned	\$ 27,685,904	
Net realized capital losses	<u>(97,976,091)</u>	
Net investment loss		(70,290,187)

Other Income

Net gain from agents' or premium balances charged off	\$ 7,807	
Finance and service charges not included in premiums	379,149	
Aggregate write-ins for miscellaneous income	<u>84,000</u>	
Total other income		<u>470,956</u>
Net income before dividends to policyholders, after capital gains taxes and before federal and foreign income taxes		(60,483,404)
Dividends to policyholders		23,709,837
Federal and foreign income taxes incurred		<u>(11,390,547)</u>
Net loss		<u>\$ (72,802,694)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2014		\$1,821,868,983
Net loss	\$ (72,802,694)	
Change in net unrealized capital gain	78,320,870	
Change in net deferred income tax	6,709,765	
Change in nonadmitted assets	(13,515,432)	
Change in provision for reinsurance	(1,110,314)	
Aggregate write-ins for gains and losses in surplus	<u>(10,567,111)</u>	
Change in surplus as regards policyholders for the year		<u>(12,964,916)</u>
Surplus as regards policyholders, December 31, 2015		<u>\$1,808,904,067</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, 2015 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, 2015 were reasonable and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

On February 3, 2016, the Exchange's subsidiary TDC Specialty Insurance Company (TDCSI) incorporated a subsidiary, TDC Specialty Underwriters, Inc., with an initial capital of \$10.0 million.

On May 23, 2016 and December 1, 2016, the Exchange contributed \$1.5 million and \$14.0 million in additional paid-in-capital to TDCSI, respectively.

Effective January 1, 2016, the Exchange's subsidiary, TDC Special Risks Insurance Company (TDCSR) entered into a quota share reinsurance agreement with an affiliate, The Doctors Company Risk Retention Group, a Reciprocal Exchange (TDCRRG), whereby TDCSR assumes ninety percent of all losses incurred on business written by TDCRRG.

On June 21, 2016, the Exchange contributed \$40.0 million in additional paid-in-capital to TDCSR to support the assumption of business from TDCRRG.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous 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 (CIC) Section 1215.5(b)(4). The Exchange has complied with the recommendation.

Accounts and Records – Information Systems Controls (Page 11): Some weaknesses were noted in the Exchange's information system 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. The Company has taken steps to address the recommendations.

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/_____

Li S. Lim, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

/S/_____

Ber Vang, CFE, AES, CISA
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California