

REPORT OF EXAMINATION  
OF THE  
THE DOCTORS COMPANY, AN INTERINSURANCE EXCHANGE  
AS OF  
DECEMBER 31, 2023

A handwritten signature in blue ink, appearing to be 'P. Hefner', is written over a horizontal line.

Filed on January 27, 2025

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Oakland, California  
January 15, 2025

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). The Exchange's home office is 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 as of December 31, 2019. This examination covered the period from January 1, 2020 through December 31, 2023.

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 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 as follows:

<u>Company</u>	<u>State of Domicile</u>
TDC Specialty Insurance Company	DC
The Doctors Company RRG, a Reciprocal Exchange	DC
TDC Special Risks Insurance Company	DC
Hospitals Insurance Company Inc.	NY
TDC National Assurance Company	OR

The participating states included in this group examination were: District of Columbia, New York, and Oregon.

## COMPANY HISTORY

### Capitalization

On December 22, 2021, the California Department of Insurance approved the Exchange's submission for a security permit for authorization to issue surplus notes in the amount of

\$500 million pursuant to California Insurance Code Section 839. On January 18, 2022, the Exchange issued \$500 million of surplus notes to Wells Fargo Securities, LLC and U.S. Bancorp Investment, Inc. pursuant to Rule 144A under the Security Act of 1933. The notes have a ten-year term and a fixed interest rate of 4.5%. The net proceeds from the sale of surplus notes, approximately \$494 million, were used to increase the Exchange's surplus, fund its general operations in support of the business, fund growth opportunities, and redeem the prior surplus notes. The redemption price of the prior surplus notes was approximately \$222 million.

### Sale of a Subsidiary

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 May 31, 2022, American Physicians Assurance Corporation (APA) was sold to Openly Holdings Corp. APA was renamed Openly Insurance Company and redomesticated from Michigan to South Carolina.

On October 31, 2022, First Professionals Insurance Company (FPIC) was sold to Verde Capital. FPIC was renamed Verde Insurance Company and redomesticated from Florida to Texas.

On May 1, 2024, Medical Advantage (MA) was sold to Aledade, a public benefit corporation and the largest network of physician-led value-based care in the country.

## MANAGEMENT AND CONTROL

The Exchange is the ultimate controlling person for all entities within this holding company group. Both the Exchange and The Doctors Company RRG, a Reciprocal Exchange are owned by policyholders. The Exchange has no employees and the day-to-day operations

are 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 relationship of the companies within the holding company system as of December 31, 2023 (all ownership is 100% unless otherwise indicated):

The Doctors Company, An Interinsurance Exchange (California)

Insurance Subsidiaries and their Affiliates

- 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) (74.9%)
- Chandler Office Park, LLC (Michigan) (50.0%)
- Michigan Medical Advantage, Inc., dba Medical Advantage (Michigan)
- Consortium of Independent Physician Associations, Inc. (Michigan)
- MA-TDC Group ACO, Inc. (Michigan)
- Napa Center Preferred, LLC (California) (12.0%)
- Napa Town Center Partners, LLC (California)
- Gordon Venture, LLC (California) (80.0%)
- Pier 88 Investment Partners, LLC (Delaware) (29.15%)
- Wake Forest Investments, LLC (California)
- Market of Wake Forest, LLC (North Carolina) (70.0%)

The fifteen-member board of governors, who are elected annually, oversee the business and affairs of the Exchange. Following are members of the board and principal officers serving at December 31, 2023:

## 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 Risk Analysis Informed Decision Engineering, 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	Partner and Senior Advisor Howden Tiger
Eugene M. Bullis, CPA Eliot, Maine	Retired Executive Vice President and Chief Financial Officer Hanover Insurance Group, Inc.
Daniel K. Cassavar, MD Bowling Green, Ohio	Cardiologist ProMedica Physicians
Charles R. Kossman, MD La Mesa, California	Retired Physician
Megan Mahoney, MD San Francisco, California	Chair, Department of Family and Community Medicine University of California, San Francisco
Ellen H. Masterson, CPA Dallas, Texas	Retired Senior Partner PricewaterhouseCoopers
Howard Mills Goshen, New York	Retired Managing Director and Global Insurance Regulatory Leader Deloitte
William C. Rupp, MD Eau Claire, Wisconsin	Retired Chief Executive Officer Mayo Clinic
Christa L. Steele Scottsdale, Arizona	Vice Chair National Association of Corporate Directors Northern California Chapter

Name and LocationPrincipal Business Affiliation

Mary A. Thode  
Walnut Creek, California

Retired Health Care Executive  
Kaiser Foundation Health Plan and Hospitals

Ethel G. Vandecruze  
New York, New York

Managing Director  
Grace Global Capital LLC

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

Retired Physician

Principal OfficersNameTitle

Richard E. Anderson, MD

Chairman and Chief Executive Officer

Dennis B. Lawton

Secretary

Marco A. Vanderlaan

Treasurer

Robert E. White Jr.

President

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. This Agreement does not require approval from the California Department of Insurance because it is effective prior to 1997. Total fees incurred by the Exchange in 2020, 2021, 2022, and 2023 for services rendered under this Agreement were \$185,670,391, \$195,759,649, \$197,000,543, and \$201,682,465, respectively.

Tax Allocation Agreement: The Exchange and its affiliates are parties to a Sixth Amended and Restated Federal Income Tax Allocation Agreement (Agreement) entered into on October 31, 2022. This Agreement replaces the Fifth Amended and Restated Federal



Income Tax Allocation Agreement dated May 31, 2022 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 December 8, 2022. Total taxes incurred by the Exchange in 2020, 2021, 2022, and 2023 under the agreement were (\$4,342,034), \$9,353,029, \$6,198,924, and \$24,661,865, 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 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 CDI on March 27, 2013 pursuant to CIC Section 1215.5(b)(4). Total fees incurred by the Exchange in 2020, 2021, 2022, and 2023 for services rendered under this Agreement were \$44,698,208, \$52,509,022, \$54,146,443, and \$57,673,469.

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. Under the terms of the Agreement, Pier 88 agrees to provide investment management services to the Exchange. Effective January 1, 2020, a Third Amendment was incorporated into the Agreement to amend the management rate for the Exchange's convertible bond strategy account. Pursuant to CIC Section 1215.5(b)(4), this amendment was approved by the CDI on August 30, 2021. Total fees incurred by the

Exchange in 2020, 2021, 2022, and 2023 for services rendered under this agreement were \$798,120, \$935,379, \$934,080, and \$888,853, respectively.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2023, 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, and healthcare facilities nationwide.

Direct premiums written during 2023 totaled \$789.7 million. The majority of the business was written in California (22.6%) and Florida (17.6%) with the remaining 59.8% written in all other states and territories where the Exchange is licensed. The Exchange's principal line of business during 2023 was medical professional liability claims-made insurance (81.8%). The Exchange generates revenue through three primary distribution channels: direct sales by salaried employed agents, commission-based captive agents, and commission-based independent agents and brokers.

The Exchange's home office is located in Napa, California, with regional offices located in Sherman Oaks, California; Jacksonville, Florida; East Lansing, Michigan; Oswego, Oregon; Mechanicsburg, Pennsylvania; and Austin, Texas. Underwriting, claims, and business development are conducted at both the home office and regional offices.

### REINSURANCE

#### Assumed

In 2023, the Exchange's total assumed premiums written were \$186.6 million, which consisted of \$184.1 million from affiliates and \$2.5 million from non-affiliates. The Exchange assumes the 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, 2023, not including the assumed facultative reinsurance agreements with non-affiliates:

<u>Type of Contract</u>	<u>Ceding Company</u>	<u>Ceding Company's Retention</u>	<u>Exchange's Limits</u>
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 the Exchange's ceded reinsurance agreements in-force as of December 31, 2023:

<u>Type of Contract</u>	<u>Line(s) of Business</u>	<u>Reinsurer(s) and Participation</u>	<u>Exchange's Retention</u>	<u>Reinsurer's Limits</u>
Per Event Excess of Loss Reinsurance	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Hannover Ruck SE (15%) Transatlantic Reinsurance Company (11%) Renaissance Reinsurance U.S. Inc. (10%) Axis Reinsurance Company (10%) Swiss Re America Corporation (6%) Lloyd's Syndicates (5%) Allied World Insurance Company (5%) Endurance Assurance Corporation (Sompo International) (5%) Safety National Casualty Corporation (5%) XL Reinsurance America (5%) Various reinsurers (3%)  <u>Unauthorized</u> TDC Special Risks Insurance Company (15%) Peak Reinsurance Company Limited (5%)	\$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

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Exchange's Retention	Reinsurer's Limits
Excess Casualty Catastrophe				
First Excess	Medical Professional Liability – Claims Made, TailGard or Occurrence	<u>Authorized</u> Lloyd's Syndicates (49%) Hannover Ruck SE (10%) SCOR Reinsurance Company (5%) Renaissance Re Europe AG (6%) XL Re Europe SE (5%) Various reinsurers (10%)  <u>Unauthorized</u> TDC Special Risks Insurance Company (10%) Peak Reinsurance Company Limited (5%)	\$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> Lloyd's Syndicates (43.5%) Hannover Ruck SE (10%) SCOR Reinsurance Company (7.5%) Renaissance Re Europe AG (6%) Safety National Casualty Corporation (5%) XL Re Europe SE (5%) Various reinsurers (6%)  <u>Unauthorized</u> TDC Special Risks Insurance Company (10%) Peak Reinsurance Company Limited (7%)	\$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> Lloyd's Syndicates (50.5%) Hannover Ruck SE (10%) Renaissance Re Europe AG (6%) XL Re Europe SE (6%) Various reinsurers (10.5%)  <u>Unauthorized</u> TDC Special Risks Insurance Company (10%) Peak Reinsurance Company Limited (7%)	\$31 million ultimate net loss each loss event	\$10 million excess of \$31 million ultimate net loss each loss event
Fourth Excess	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

<b>Type of Contract</b>	<b>Line(s) of Business</b>	<b>Reinsurer(s) and Participation</b>	<b>Exchange's Retention</b>	<b>Reinsurer's Limits</b>
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 and in aggregate
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 Company with the California Department of Insurance for the period ending December 31, 2023. The accompanying comments to the amounts reported in the annual 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, 2023

Underwriting and Investment Exhibit for the Year Ended December 31, 2023

Reconciliation of Surplus as Regards Policyholders from December 31, 2019  
through December 31, 2023

Statement of Financial Condition  
as of December 31, 2023

	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 2,521,772,231	\$	\$ 2,521,772,231	
Preferred stocks	76,217,788		76,217,788	
Common stocks	1,828,089,381		1,828,089,381	
Real estate properties occupied by the company	8,604,818		8,604,818	
Cash, cash equivalents, and short-term investments	231,713,579		231,713,579	
Other invested assets	226,071,365	5,000,000	221,071,365	
Receivables for securities	11,572,925		11,572,925	
Securities lending reinvested collateral assets	3,719,485	420	3,719,065	
Investment income due and accrued	22,365,054		22,365,054	
Uncollected premiums and agents' balances in the course of collection	24,966,827	72,640	24,894,187	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	168,107,802		168,107,802	
Amounts recoverable from reinsurers	40,110,444		40,110,444	
Funds held by or deposited with reinsured companies	517,764		517,763	
Current federal and foreign income tax recoverable and interest thereon	26,026,144		26,026,144	
Net deferred tax asset	35,790,398	2,947,048	32,843,350	
Receivables from parent, subsidiaries and affiliates	14,578,739		14,578,739	
Aggregate write-ins for other than invested assets	<u>3,052,420</u>	<u>882,270</u>	<u>2,170,150</u>	
Total assets	<u>\$ 5,243,277,162</u>	<u>\$ 8,902,378</u>	<u>\$ 5,234,374,785</u>	

Liabilities, Surplus and Other Funds

Notes

Losses		\$ 1,097,053,224	(1)
Reinsurance payable on paid loss and loss adjustment expenses		7,739,204	
Loss adjustment expenses		754,121,180	(1)
Other expenses		3,110,650	
Taxes, licenses and fees		2,589,683	
Borrowed money		100,000,000	
Unearned premiums		305,334,830	(1)
Advance premiums		31,098,107	
Dividends declared and unpaid: Policyholders		6,060,610	
Ceded reinsurance premiums payable		8,793,070	
Funds held by company under reinsurance treaties		931	
Amounts withheld or retained by company for account of others		2,591,430	
Provision for reinsurance		994,000	
Payable to parent, subsidiaries and affiliates		8,255,660	
Payable for securities		28,932,153	
Aggregate write-ins for liabilities		<u>936,783</u>	
Total liabilities		2,357,611,515	
Surplus notes	\$ 500,000,000		
Unassigned funds (surplus)	<u>2,376,763,270</u>		
Surplus as regards policyholders		<u>2,876,763,270</u>	
Total liabilities, surplus, and other funds		<u>\$ 5,234,374,785</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2023

Statement of Income

Underwriting Income

Premium earned		\$ 855,295,789
Deductions:		
Losses incurred	\$ 264,983,482	
Loss adjustment expenses incurred	322,631,901	
Other underwriting expenses incurred	227,533,444	
Aggregate write-ins for underwriting deductions	<u>(55,265)</u>	
Total underwriting deductions		<u>815,093,562</u>
Net underwriting gain		40,202,227

Investment Income

Net investment income earned	\$ 95,571,971	
Net realized capital gain	<u>52,788,876</u>	
Net investment gain		148,360,847

Other Income

Net loss from agents' or premium balances charged off	\$ (63,085)	
Finance and service charges not included in premiums	412,434	
Aggregate write-ins for miscellaneous income	<u>294,669</u>	
Total other income		<u>644,018</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		189,207,092
Dividends to policyholders		8,203,820
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		181,003,272
Federal and foreign income taxes incurred		<u>24,661,865</u>
Net income		<u>\$ 156,341,407</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022		\$ 2,716,057,188
Net income	\$ 156,341,407	
Change in net unrealized capital gains	32,340,553	
Change in net deferred income tax	(8,225,788)	
Change in nonadmitted assets	(2,499,874)	
Change in provision for reinsurance	(213,000)	
Aggregate write-ins for gains and losses in surplus	<u>(17,037,216)</u>	
Change in surplus as regards policyholders for the year		<u>160,706,082</u>
Surplus as regards policyholders, December 31, 2023		<u>\$ 2,876,763,270</u>



Reconciliation of Surplus as Regards Policyholders  
from December 31, 2019 through December 31, 2023

Surplus as regards policyholders, December 31, 2019			\$ 2,205,265,009
	Gain in Surplus	Loss in Surplus	
Net income	\$ 678,574,662	\$	
Change in net unrealized capital losses		229,635,542	
Change in net deferred income tax	7,632,654		
Change in nonadmitted assets		6,524,568	
Change in provision in reinsurance	1,032,000		
Change in surplus notes	300,000,000		
Aggregate write-ins for gains and losses in surplus		79,580,945	
Total gains and losses	\$ 987,239,316	\$ 315,741,055	
Net increase in surplus as regards policyholders			<u>671,498,261</u>
Surplus as regards policyholders, December 31, 2023			<u>\$ 2,876,763,270</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses, Loss Adjustment Expenses, and Unearned Premiums – Death, Disability, and Retirement

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2023 prepared by the Exchange's Chief Actuary, and concurred with the actuary's conclusion that the Exchange's loss, loss adjustment expense, and death, disability, and retirement reserves as of December 31, 2023 were reasonable and have been accepted for purpose of this examination.

## 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,

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Sam Chiu, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California

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Ber Vang, CFE, AES, CISA  
Bureau Chief  
Department of Insurance  
State of California