

REPORT OF EXAMINATION
OF
THE DOCTORS COMPANY,
AN INTERINSURANCE EXCHANGE

AS OF
DECEMBER 31, 2008

Participating States
and Zones:

California

Filed January 11, 2010

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San Francisco, California
November 19, 2009

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, Zone IV-Western
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of

THE DOCTORS COMPANY, AN INTERINSURANCE EXCHANGE

(also referred to as the Exchange) at its home office located at 185 Greenwood Road, Napa, California 94558.

SCOPE OF EXAMINATION

The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The previous examination of the Exchange was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2008.

The present examination of the Exchange included a review of the Exchange's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Company's subsidiary, The Doctors Life Insurance Company. Examinations of other affiliated insurance companies were performed by the domiciliary state departments of insurance with some reliance upon the procedures performed for The Doctors Company. Those companies, states, and examination dates include:

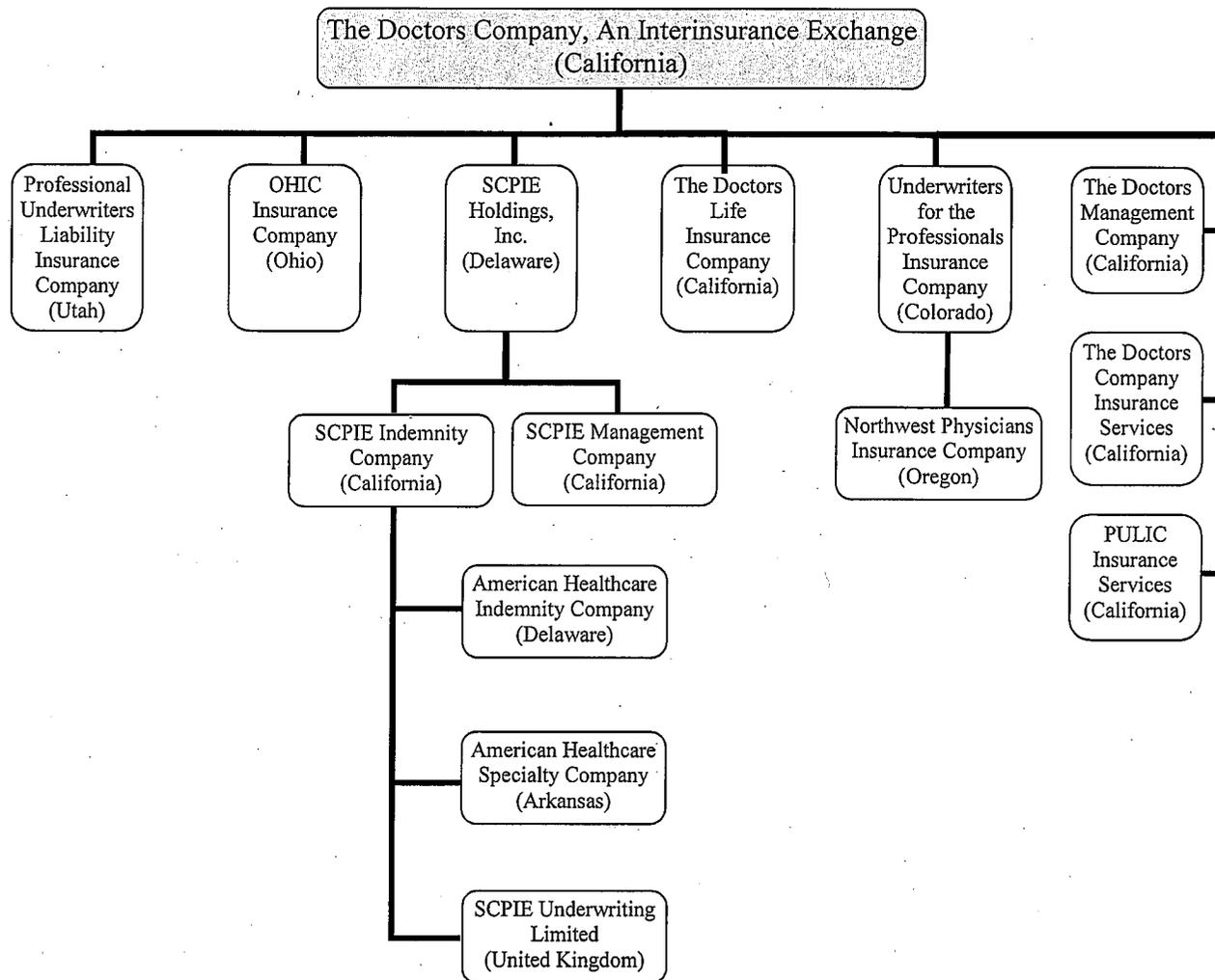
Company	State	Examination Date
Northwest Physicians Insurance Company	Oregon	December 31, 2008
OHIC Insurance Company	Ohio	December 31, 2008
Professional Underwriters Liability Insurance Company	Utah	December 31, 2007
SCPIE Indemnity Company	California	December 31, 2008
Underwriters for the Professionals Insurance Company	Colorado	December 31, 2008

In addition to those items specifically commented upon in this report, other phases of the Exchange's operations were reviewed including the following areas that require no further comment: company history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

MANAGEMENT AND CONTROL

The Exchange is part of an insurance holding company system and is owned by its policyholders with the majority of its officers and members of the board of governors being 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, in accordance with a management services agreement.

The following abridged organization chart depicts the Exchange's relationship within the holding company system (all ownership is 100%) as of December 31, 2008:



Management of the Exchange is vested in a board of governors. Board members elected hold office for four years. Members of the board of governors and principal officers serving at December 31, 2008 (and subsequent changes through the date of this report) were as follows:

Governors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard E. Anderson, M.D. Napa, California	Chairman and Chief Executive Officer The Doctors Company, an Interinsurance Exchange
David M. Charles, M.D. Denver, Colorado	Self Employed Surgeon
Kenneth R. Chrisman Pleasanton, California	Retired Financial Executive Wells Fargo Bank
William J. Gallagher, M.D. Salem, Oregon	President Northwest Physicians Insurance Company
Charles R. Kossman, M.D. La Mesa, California	Physician and Owner East County Hematology/Oncology Associates
Donald J. Palmisano, M.D. Metairie, Louisiana	President Intrepid Resources/The Medical Risk Manager Company
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 Allstate Insurance Company
Mary Ann Thode* Brentwood, California	Retired Health Care Executive Kaiser Foundation Health Plan and Hospitals

Name and Residence

Principal Business Affiliation

David B. Troxel, M.D.
Lafayette, California

Secretary and SVP - Medical Services
The Doctors Company, an Interinsurance
Exchange

Ronald H. Wender, M.D.*
Encino, California

Co-Chairman, Department of Anesthesiology
Cedars-Sinai Medical Center

Randall K. Zeller
Lexington, Kentucky

Managing Director of Institutional Client
Service
Voyageur Asset Management

**These directors were added in 2009.*

Principal Officers

Name

Title

Richard E. Anderson, M.D.

Chairman and Chief Executive Officer

David B. Troxel, M.D.

Secretary

David G. Preimesberger, CPA

Treasurer and Chief Financial Officer

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

Intercompany 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 2006, 2007 and 2008, the Exchange paid \$81,997,796, \$92,421,882, and \$100,533,722, respectively, in fees to TDMC under the terms of this agreement.

Production and 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. The purpose of the agreement is to delegate certain 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. In 2008, TDMC paid TDCIS \$30,084,753 for services rendered under this agreement.

Federal Income Tax Allocation Agreement: The Exchange and its affiliates are parties to a Federal Income Tax Allocation Agreement. The Exchange files the consolidated federal tax return representing all affiliates. Allocation of tax liability is based upon separate return calculations with inter-company tax liabilities normally 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. It was noted in the previous Report of Examination that an amended agreement effective December 13, 2006, was submitted to the California Department of Insurance (CDI) for approval. This filing was withdrawn and replaced with an Amended and Restated Federal Income Tax Allocation Agreement on May 19, 2007, which was approved by the CDI on October 23, 2007.

Binding Authority Agreement: The Exchange has a Binding Authority Agreement with its wholly-owned subsidiary, PULIC Insurance Services (PULICIS). The purpose of this agreement is to grant PULICIS authority to underwrite substandard medical malpractice insurance for the Exchange. The original agreement was effective November 1, 2005, and approved by the CDI January 11, 2006. The agreement was revised and renewed effective November 1, 2008 and filed with the CDI for approval on January 15, 2009. The filing is currently being reviewed by the CDI.

TERRITORY AND PLAN OF OPERATION

The Exchange writes medical professional liability insurance, with incidental office premise liability coverage on a claims-made basis for physicians, surgeons and health care facilities throughout the nation. Each policyholder may purchase extended reporting (tail) coverage for losses reported after policy expiration. Generally, policies are written on a claims-made basis with basic coverage of \$250,000 per claim up to \$1.5 million in the aggregate per year. Policies are issued with limits up to \$5 million per claim up to \$10 million or \$12 million aggregate per year.

At December 31, 2008, 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 \$449,298,519 in 2006, \$474,587,226 in 2007 and \$485,018,731 in 2008. The states producing the most business in 2008 were:

California	31.2%
Ohio	12.2%
Florida	10.0%
Virginia	8.7%
Georgia	5.7%
Maryland	5.4%
Washington	5.3%

The Exchange writes business on a direct basis and has approximately 430 independent agents and brokers to produce business. The Exchange continues to expand its distribution system and the amount of premium produced through agents and brokers supported through endorsements by medical societies. The breakdown of the business by source is: brokerage 64%, captive 24%, and direct (without agents) 12%. Premium collection is primarily through direct bill.

REINSURANCE

Assumed

The Exchange assumes 90% of the net retained liability from its affiliates, Professional Underwriters Liability Insurance Company (PULIC), Northwest Physicians Insurance Company (NPIC) and OHIC Insurance Company (OHIC) under separate quota share agreements.

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

The agreement with NPIC was effective January 1, 2006, but not filed with CDI until September 28, 2006. The agreement was revised March 26, 2007, pursuant to CDI a request. The approval of the agreement remains pending.

The agreement with OHIC was effective January 1, 2007, and filed with CDI March 15, 2007. The approval of the agreement by the CDI remains pending.

The Exchange also has a number of other assumption agreements, most of which are in run-off. In 2008, the total assumed premium under these agreements amounted to approximately (\$700,000).

Ceded

As of December 31, 2008, the Exchange had the following ceded reinsurance contracts in force:

Line of Business and Type of Contract	Reinsurer's Name	Exchange's Retention	Reinsurer's Limit
Medical Malpractice:			
Excess of Loss Primary Per Event	Liberty Mutual Insurance Company (7.5%) Platinum Underwriters Reinsurance Inc. (10%) Aspen Insurance UK Ltd. (15.5%) Paris Re (20%)* Hannover Ruckversicherungs (12.5%) Underwriters at Lloyd's (34.5%)	\$2 million ultimate net loss (UNL) each loss event	\$9 million UNL excess \$2 million, each loss event.
Common Loss	Platinum Underwriters Reinsurance Inc. (2%) Aspen Insurance UK Ltd. (13.37%) Paris Re (20%)* Underwriters at Lloyd's (64.63%)	\$5 million UNL each common loss	\$20 million UNL excess \$5 million each common loss.
Excess Casualty Catastrophe First Layer	Liberty Mutual Insurance Company (5%) Platinum Underwriters Reinsurance Inc. (3.5%) Renaissance Reinsurance Ltd. (5%)* Catlin Insurance Company Ltd. (5%)* Aspen Insurance UK Ltd. (11.17%) Paris Re (12%)* Hannover Ruckversicherungs (5%) Underwriters at Lloyd's (53.33%)	\$11 million UNL each loss event	\$10 million UNL excess \$11 million, each loss event.
Second Layer	Liberty Mutual Insurance Company (5%) Platinum Underwriters Reinsurance Inc. (3.5%) Renaissance Reinsurance Ltd. (5%)* Catlin Insurance Company Ltd. (5%)* Aspen Insurance UK Ltd. (10.47%) Paris Re (12%)* Underwriters at Lloyd's (59.03%)	\$21 million UNL each loss event	\$10 million UNL excess \$21 million each loss event.
Deceased, Disabled & Retired (DD&R) Insured	Underwriters for the Professions Insurance Company (UFTP) (100%)	None	\$1 million per claim / \$3 million per policy
Insurance Policies of CCHS Indemnity Co., Ltd	CCHS Indemnity Co, Ltd (100%) *	50% of each claim up to \$300,000 and any loss in excess of \$300,000	50% of each claim up to \$300,000

Line of Business and Type of Contract	Reinsurer's Name	Exchange's Retention	Reinsurer's Limit
Greater Houston Anesthesiology, PA	Physicians' Guarantee Insurance Company SPC, Ltd. (100%)*	Claims excess of Reinsurer's indemnity subject to the policy limits as follows: Each scheduled physician \$1 million each claim \$3 million annual aggregate Each scheduled Certified Registered Nurse Anesthetist (CRNA) \$200,000 each claim \$600,000 annual aggregate Vicarious Coverage for GHA \$1 million each claim \$3 million annual aggregate	\$500,000 each claim \$4 million annual aggregate

* Denotes Unauthorized Reinsurer

ACCOUNTS AND RECORDS

The Exchange notified its audit committee that the previous Report of Examination had been received, but there was no such notification recorded in the board of governors meeting minutes nor was a notice recorded in the minutes that the report was available for review by the members of the board as required by California Insurance Code (CIC) Section 735. It is recommended that the Exchange comply with CIC Section 735.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus from December 31, 2005 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 634,336,315	\$	\$ 634,336,315	
Stocks:				
Preferred	10,868,764		10,868,764	
Common	757,099,084	3,908,530	753,190,554	
Mortgage loans on real estate: First liens	66,604,656	4,277,439	62,327,218	
Real Estate: Properties occupied by the company	11,617,312		11,617,312	
Cash on deposit and short-term investments	71,747,755		71,747,755	
Other invested assets	120,992,115	334,000	120,658,115	
Receivable for securities	8,092,257		8,092,257	
Investment income due and accrued	54,832,570		54,832,570	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	34,012,654	208,777	33,803,877	
Deferred premiums, agents balances and installments booked but deferred and not yet due	99,547,039		99,547,039	
Reinsurance:				
Amounts recoverable from reinsurers	681,962		681,962	
Funds held by or deposited with reinsured companies	91,423,421		91,423,421	
Current federal and foreign income tax recoverable and the interest thereon	20,745,041		20,745,041	
Net deferred tax asset	62,795,064	34,989,800	27,805,264	
Receivable from parent, subsidiaries and affiliates	142,904		142,904	
Aggregate write-ins for other than invested assets	<u>10,651,060</u>	<u>576,622</u>	<u>10,074,438</u>	
Total assets	<u>\$2,056,189,973</u>	<u>\$44,295,168</u>	<u>\$2,011,894,805</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 573,468,355	(1)
Reinsurance payable on paid losses and loss adjustment expenses			4,120,294	
Loss adjustment expenses			288,401,611	(1)
Other expenses			4,194,057	
Taxes, licenses and fees			1,226,661	
Borrowed money			273,756	
Unearned premiums			205,423,887	
Advance premiums			25,213,287	
Dividends declared and unpaid: Policyholders			15,084,385	
Ceded reinsurance premiums payable			9,891,772	
Funds held by company under reinsurance treaties			8,973,390	
Amounts withheld or retained by company for account of others			2,189,785	
Provisions for reinsurance			2,541,571	
Payable to parent, subsidiaries and affiliates			6,373,155	
Payable for securities			28,693,119	
Aggregate write-ins for other liabilities			<u>50,129,304</u>	
Total liabilities			1,226,198,389	
Surplus Notes		\$ 13,000,000		
Unassigned funds (surplus)		<u>772,696,416</u>		
Surplus as regards policyholders			<u>785,696,416</u>	
Total liabilities, surplus and other funds			<u>\$2,011,894,805</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income

Premiums earned		\$ 499,926,491
Deductions:		
Losses incurred	\$ 127,805,484	
Loss adjustment expenses incurred	111,143,744	
Aggregate write-ins for underwriting deductions	<u>101,299,086</u>	
Total underwriting deductions		<u>340,248,314</u>
Net underwriting gain		159,678,177

Investment Income

Net investment income earned	\$ 94,665,140	
Net realized capital losses	<u>(128,623,415)</u>	
Net investment loss		(33,958,275)

Other Income

Aggregate write-ins for miscellaneous income	<u>\$ 421,599</u>	
Total other income		<u>421,599</u>
Net income before dividends to policyholders		126,141,501
Dividends to policyholders		<u>121,450</u>
Net income after dividends and before income taxes		126,020,051
Federal income taxes incurred		<u>53,328,742</u>
Net income		<u>\$ 72,691,309</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2007		\$ 804,145,814
Net income	\$ 72,691,309	
Change in net unrealized capital gains or losses	(68,078,420)	
Change in unrealized foreign exchange capital loss	(283,747)	
Change in net deferred income tax	16,123,420	
Change in nonadmitted assets	(39,991,341)	
Change in provision for reinsurance	1,623,426	
Aggregate write-ins for gains and losses in surplus	<u>(534,045)</u>	
Change in surplus as regards policyholders for the year		<u>(18,449,398)</u>
Surplus as regards policyholders, December 31, 2008		<u>\$ 785,696,416</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2008

Surplus as regards policyholders, December 31, 2005, per Examination			\$ 503,158,970
	<u>Gain in</u>	<u>Loss in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$ 366,884,651	\$	
Change in net unrealized capital losses		65,546,624	
Change in net unrealized foreign exchange capital loss		3	
Change in net deferred income tax	12,261,375		
Change in nonadmitted assets		31,143,174	
Change in provision for reinsurance	775,667		
Aggregate write-in for loss in surplus	<u> </u>	<u>694,446</u>	
Total gains and losses in surplus	<u>\$ 379,921,693</u>	<u>\$ 97,384,247</u>	
Increase in surplus as regards policyholders			<u>282,537,446</u>
Surplus as regards policyholders, December 31, 2008, per Examination			<u>\$ 785,696,416</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Exchange's loss and loss adjustment expense reserves, as of December 31, 2008, were evaluated by a Casualty Actuary from the California Department of Insurance. Based on the analysis performed, the Exchange's loss and loss adjustment expense reserves as of December 31, 2008, were deemed reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – (Page 10): It is recommended that the Exchange comply with California Insurance Code (CIC) Section 735.

Previous Report of Examination

Subsequent Events – Northwest Physicians Mutual (Page 2): It was recommended that the Exchange take a proactive approach and get all issues resolved and obtain approval for this reinsurance agreement. The Exchange is working with the California Department of Insurance (CDI) to obtain the approval.

Subsequent Events – Capital Corner, LLP (Page 3): It was recommended that the Exchange submit its capital contribution of \$18.9 million in Capital Corner, LLP to the CDI for approval as required by California Insurance Code (CIC) Section 1215.5. The Exchange filed for approval on June 17, 2007, but has withdrawn this application on November 19, 2009.

Reinsurance - Assumed (Page 9): It was recommended that the Exchange obtain approval for its reinsurance agreement with its affiliates as required by CIC Section 1215.5. The Exchange is working with the CDI to obtain its approval.

Reinsurance - Ceded (Page 10): It was recommended that the Exchange amend its primary excess of loss agreement to conform to the requirements of CIC Section 922.2. The Exchange is now in compliance.

Accounts and Records – Information System Controls - (Page 12): It was recommended the Exchange review its information systems and make appropriate changes to strengthen internal controls. The Exchange is now in compliance.

Comments on Financial Statement Items – Other Expenses (Page 17): It was recommended the Exchange properly record contingencies pursuant to Statements of Statutory Accounting Practices No. 5, paragraph 7a and 7b. The Exchange is now in compliance.

ACKNOWLEDGEMENT

The undersigned would like to thank the Exchange's officers and employees of The Doctors Management Company for their cooperation and assistance during the course of this examination.

Respectfully Submitted,

/s/

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