

REPORT OF EXAMINATION
OF THE
MEDICAL INSURANCE EXCHANGE OF CALIFORNIA
AS OF
DECEMBER 31, 2024

Commissioners Signature

A handwritten signature in blue ink, appearing to be 'D. DeLoe', written over a horizontal line.

Filed on April 28, 2026

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Sacramento, California
April 27, 2026

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

MEDICAL INSURANCE EXCHANGE OF CALIFORNIA

(hereinafter also referred to as the Exchange). The Exchange's home office is located at 6250 Claremont Avenue, Oakland, California 94618.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Exchange. The previous examination of the Exchange was as of December 31, 2020. This examination covered the period from January 1, 2021 through December 31, 2024.

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. The examination also includes identifying and evaluating significant risks that could cause the Exchange'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.

COMPANY HISTORY

The Exchange is a reciprocal insurance exchange that was formed in 1975. The Exchange was licensed and began writing business in California on July 11, 1975. Effective January 1, 2019, MIEC Underwriters, LLC, a single-member limited liability corporation, was created and became the Exchange's attorney-in-fact. The transaction was approved by the California Department of Insurance on December 20, 2018, pursuant to California Insurance Code Section 1215.5(b)(7).

MANAGEMENT AND CONTROL

The Exchange is a member of an insurance holding company system. The following organizational chart depicts the relationships of the Exchange within the holding company system as of December 31, 2024 (all ownership is 100%):

Medical Insurance Exchange of California (California)

MIEC Underwriters, LLC (California)

MIEC Investment Company, Inc. (Nevada)

The twelve members of the Board of Governors (Board), who are elected for a three-year term, oversee the business and affairs of the Exchange. Following are members of the Board and principal officers of the Exchange serving on December 31, 2024:

Board of Governors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
George R. Bruno, Jr., MD ^(a) Honolulu, Hawaii	Self-Employed Physician
Ronald V. Dorn III, MD ^(a) Boise, Idaho	Physician (retired)
Katherine L. Gregory, MD, MPH San Francisco, California	Physician San Francisco Gynecology, Inc.
Scott A. Hoffinger, MD Colorado Springs, Colorado	Self-Employed Physician
Robert J. Margolin, MD San Francisco, California	Physician MD ² (MD Squared)
Lamont D. Paxton, MD ^(a) San Leandro, California	Physician (retired)
Gene R. Quinn, MD Anchorage, Alaska	Physician Alaska Heart and Vascular Institute
Vinod K. Sawhney, MD San Leandro, California	Self-Employed Physician
Ted Shen, MD Pasadena, California	Physician Huntington Memorial Hospital
Jerry R. Tanner, DO Salida, Colorado	Physician Heart of the Rockies Regional Medical Center
Ann L. Vercoutere, MD Greenbrae, California	Self-Employed Physician
Darin L. Weyhrich, MD Boise, Idaho	Physician St. Luke's Regional Medical Center

^(a) *In June 2025, Dr. Ronald Dorn stepped down as Chairperson and subsequently retired from the Board in December 2025. Dr. Lamont Paxton, who served as the Vice Chairperson of the Board, succeeded Dr. Dorn as Chairperson of the Board. Dr. George Bruno became Vice Chairperson of the Board in June 2025.*

Principal Officers

<u>Name</u>	<u>Title</u>
Andrew F. J. Firth	President and Chief Executive Officer
Daniel A. Belbusti	Chief Financial Officer, Secretary, and Treasurer
Janice M. Ginley	Vice President of Claims and Patient Safety Risk Management
Wesley J. Butler	Vice President of Underwriting

Management Agreements

Administrative Services Agreement: January 1, 2019, the Exchange entered into an Administrative Services Agreement (Agreement) with MIEC Underwriters, LLC (MIEC Underwriters), a wholly owned subsidiary of the Exchange. MIEC Underwriters serves as attorney-in-fact for the Exchange pursuant to the Agreement. Under the supervision and direction of the Exchange's Board, MIEC Underwriters monitors the finances and manages the daily operations of the Exchange to such extent as to assure their conformity with the Agreement and duties as members' power of attorney. MIEC Underwriters is also responsible for monitoring the procurement of the audit of the accounts and records of the Exchange and to review and ensure that the Exchange maintains complete and accurate records of all policies written by the Exchange in accordance with the law, good insurance practices, and reasonable standards established by the Board. This Agreement was approved by the California Department of Insurance (CDI) on December 20, 2018, pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). The total fees incurred by the Exchange for services under this Agreement were: \$434, \$89, \$74, and \$19,469 in 2021, 2022, 2023, and 2024, respectively.

Amended and Restated Tax Allocation Agreement: The Exchange is party to an Amended and Restated Tax Allocation Agreement (Agreement) with its subsidiaries, MIEC Investment Company, Inc. (MIECIC) and Medical Underwriters of California (MUC)*, effective September 1, 2013. The Agreement was filed and approved by the CDI on March 5, 2014, pursuant to CIC Section 1215.5(b)(4). 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 federal income tax incurred/(recovered) by the Exchange for 2021, 2022, 2023, and 2024 were \$423,318, \$(113,755), \$978,677, and \$1,613,557, respectively.

**As a result of merger, effective December 31, 2018, MUC ceased to exist and the Agreement only covers one subsidiary, MIECIC.*

TERRITORY AND PLAN OF OPERATION

As of December 31, 2024, the Exchange is licensed to write liability insurance in the following states: Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, and Washington, and disability insurance in California and Idaho. However, it only writes business in Alaska, California, Hawaii, Idaho, and Washington. The Exchange specializes in underwriting medical professional liability (MPL) and legal defense coverage for physicians, group practices, blood banks, acupuncturists, and clinics.

Generally, the MPL policies are written on a claims-made basis at limits below \$5.0 million, but the Exchange can issue policies with limits up to \$10.0 million that are subject to specific underwriting and reinsurance restrictions. The Exchange also provides "Tail" coverage without additional premium in the event an individually insured physician dies or is permanently disabled, or in the event of retirement from practice at age 55 or older (for physicians insured for at least five consecutive years). For all other cancellations or non-renewals, unlimited length "Tail" coverage is contractually available for an additional premium.

Direct premiums written during 2024 totaled \$56.8 million. The primary lines of business were medical professional liability – claims-made at \$52.5 million (92.3%) and medical professional liability – occurrence at \$3.3 million (5.8%). Direct premiums were written in California (46.46%), Hawaii (22.02%), Alaska (16.33%), Idaho (15.16%), and Washington (0.03%). The Exchange's home office is located in Oakland, California, and it has regional offices in Anchorage, Alaska, and Boise, Idaho. The Exchange generates its business

from state, county, and specialty medical societies' sponsorship and trade journals, via direct solicitations, through the Exchange's website, and through a small number of brokers.

REINSURANCE

Assumed

The Exchange has an assumed reinsurance agreement with Transatlantic Reinsurance Company that has been in runoff since 2013. At year-end 2024, the Exchange reported \$27,000 in assumed loss and loss adjustment expense (LAE) reserves related to this reinsurance agreement.

Effective July 1, 2024, the Exchange completed a Loss Portfolio Transfer (LPT) with Physicians Reimbursement Fund, Inc., a Risk Retention Group (PRF), covering medical professional liability contracts issued by PRF on or before December 31, 2020. The consideration received was \$5.3 million. In accordance with the National Association of Insurance Commissioners' Statement of Statutory Accounting Principles (SSAP) No. 62, the Exchange recorded \$5.3 million of assumed Loss & LAE reserves and an offsetting negative Loss & LAE paid for the same amount, resulting in zero net impact to the income statement at the effective date.

Ceded

The following is a summary of the Exchange's ceded reinsurance agreements in-force as of December 31, 2024:

<u>Type of Contract</u>	<u>Line of Business</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limits</u>
Excess of Loss Reinsurance Agreement	Healthcare providers liability policies, hospital general liability, and professional liability policies	<u>Authorized:</u> Renaissance Reinsurance U.S. Inc. (20%) Transatlantic Reinsurance Company (20%) Partner Reinsurance Company of the US (12.5%)	\$2.0 million	\$4.0 million excess of \$2.0 million of the sum of contractual loss and/or loss adjustment and defense cost expenses; and/or \$4.0 million excess of \$2.0 million in respect

		<p>Safety National Casualty Corporation (8%) Lloyds Syndicates (5.0%) Aspen American Insurance Company (4.0%)</p> <p><u>Reciprocal:</u> Hannover Ruck SE (20.0%)</p> <p><u>Unauthorized:</u> Peak Reinsurance Company Limited (6.5%) Convex Re Limited (4.0%)</p>		<p>of extra contractual obligations and/or loss in excess of the original policy limit; and/or</p> <p>\$4.0 million excess of \$10.0 million for an award made; and/or</p> <p>\$4.0 million excess of \$2.0 million where two or more original insureds and/or policies and/or claimants are involved in the same occurrence</p>
Quota Share Reinsurance Agreement Continuous Contract	DataGuard, including multimedia liability, security and privacy liability, privacy regulatory defense and penalties, network asset protection, cyber, etc.	<u>Authorized:</u> Houston Casualty Company	10%	90%, \$50 thousand per claim, with excess limits up to \$1.0 million per claim and up to \$1.0 million in the aggregate.

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, 2024. The accompanying comments to the amounts in the financial 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, 2024

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2024

Reconciliation of Capital and Surplus from December 31, 2020 through
December 31, 2024

Statement of Financial Condition
as of December 31, 2024

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 350,670,625	\$	\$ 350,670,625	
Common stocks	69,602,399	200,497	69,401,903	
Properties occupied by the company	3,419,457		3,419,457	
Cash, cash equivalents, and short-term investments	18,153,747		18,153,747	
Other invested assets	25,000	25,000	0	
Investment income due and accrued	2,384,957		2,384,957	
Uncollected premiums and agents' balances in the course of collection	919,966	469,949	450,017	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,253,525		4,253,525	
Amounts recoverable from reinsurers	859,532		859,532	
Funds held by or deposited with reinsured companies	4,957		4,957	
Net deferred tax asset	494,592		494,592	
Guaranty funds receivable or on deposit	391		391	
Electronic data processing equipment and software	66,497	8,498	57,999	
Furniture and equipment, including health care delivery assets	151,195	151,195	0	
Aggregate write-ins for other-than-invested assets	5,240,928	5,240,927	0	
Total assets	<u>\$ 456,247,768</u>	<u>\$ 6,096,066</u>	<u>\$ 450,151,702</u>	

Liabilities, Surplus, and Other Funds

Notes

Losses		\$ 111,036,482	(1)
Loss adjustment expenses		59,905,133	(1)
Commissions payable, contingent commissions and other similar charges		240,065	
Other expenses (excluding taxes, licenses and fees)		4,114,456	
Taxes, licenses and fees (excluding federal and foreign income taxes)		321,481	
Current federal and foreign income taxes		1,115,474	
Unearned premiums		31,619,289	(1)
Advance premium		6,108,220	
Dividends declared and unpaid: Policyholders		6,560,160	
Ceded reinsurance premiums payable		4,969,566	
Amounts withheld or retained by company for account of others		5,105,202	
Provision for reinsurance		153,888	
Payable to parent, subsidiaries and affiliates		488	
Aggregate write-ins for liabilities		1,391	
Total liabilities		<u>231,251,295</u>	
Unassigned funds (surplus)	<u>218,900,407</u>		
Surplus as regards policyholders		<u>218,900,407</u>	
Total liabilities, surplus, and other funds		<u>\$ 450,151,702</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2024

Underwriting Income

Premiums earned		\$ 48,851,578
Deductions:		
Losses incurred	\$ 16,908,840	
Loss adjustment expenses incurred	17,498,709	
Other underwriting expenses incurred	<u>10,623,096</u>	
Total underwriting deductions		<u>45,030,645</u>
Net underwriting gain		3,820,933

Investment Income

Net investment income earned	\$ 12,159,201	
Net realized capital gain	<u>359,519</u>	
Net investment gain		12,518,720

Other Income

Net loss from agents' or premium balances charged off	\$ (145,533)	
Aggregate write-ins for miscellaneous income	<u>275</u>	
Total other income		(145,258)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		16,194,395
Dividends to policyholders		<u>6,500,000</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		9,694,395
Federal and foreign income taxes incurred		<u>1,523,840</u>
Net income		<u>\$ 8,170,555</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2023		\$ 209,613,791
Net income	\$ 8,170,555	
Change in net unrealized capital gains	508,208	
Change in net deferred income tax	(528,853)	
Change in nonadmitted assets	(3,702,089)	
Change in provision for reinsurance	300,112	
Aggregate write-ins for gains and losses in surplus	<u>4,538,683</u>	
Change in surplus as regards policyholders for the year		<u>9,286,616</u>
Surplus as regards policyholders, December 31, 2024		<u>\$ 218,900,407</u>

Reconciliation of Capital and Surplus
from December 31, 2020 through December 31, 2024

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2020			\$ 197,307,776 <u>Notes</u>
Net income	\$ 16,776,165	\$	
Change in net unrealized capital gains			3,437,502
Change in net deferred income tax			2,776,087
Change in nonadmitted assets			3,513,734
Change in provision in reinsurance			120,888
Aggregate write-ins for gains in surplus	14,664,677		
Total gains and losses in surplus	\$ 31,440,842	\$ 9,848,211	
Net increase in surplus as regards policyholders			21,592,631
Surplus as regards policyholders, December 31, 2024			\$ 218,900,407

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses, Loss Adjustment Expenses, and Death, Disability, and Retirement

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2024 prepared by the Exchange's independent actuary and concurred with the actuary's conclusion that the Exchange's losses, loss adjustment expense, and death, disability, and retirement reserves as of December 31, 2024 were reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

Effective April 25, 2025, the Exchange received regulatory approval from the Washington D.C. Department of Insurance, Securities, and Banking to create a new entity, MIEC Mutual Risk Retention Group (MIEC RRG). MIEC RRG is 100% owned by its policyholders and was funded with a surplus note from the Exchange in the amount of \$1.5 million.

Effective June 4, 2025, a Management Services Agreement (Agreement) was entered into between MIEC Underwriters, LLC (MIEC Underwriters), a wholly-owned subsidiary of the Exchange, and MIEC RRG, a Washington D.C. domiciled RRG. Pursuant to the Agreement, MIEC Underwriters acts as a "Captive Manager" with responsibilities including, but not limited to: (1) Monitoring the finances of RRG; (2) Managing the insurance operations and handling the funds of RRG and ensuring its conformity with applicable law; (3) Monitoring the procurement of the audit of the accounts and records of RRG on annual basis; (4) Ensuring RRG is maintaining complete and accurate records of all policies in accordance with the law and good practices; (5) Preparing quarterly and annual financial statements and other regulatory filings; and (6) Settling claims on behalf of RRG.

Effective August 1, 2025, a Primary Quota Share Reinsurance Agreement (Agreement) was entered into between MIEC RRG and the Exchange. Under the Agreement, the Exchange assumes 95% of premiums and losses on a quota share basis from MIEC RRG for limits of up to \$1 million per claim.

Effective August 1, 2025, an Excess Cession Reinsurance Agreement (Agreement) was entered into between MIEC RRG and the Exchange. Under the Agreement, MIEC RRG retains losses up to \$1 million per claim and \$3 million in the aggregate for each policy. The Exchange provides excess reinsurance coverage for losses resulting from policy limits above those amounts, up to \$2 million per claim and \$6 million in the aggregate for each policy. Losses falling below the excess retention limits are reinsured separately under the Primary Quota Share Reinsurance Agreement described above.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records – (Page 12): It was recommended that the Exchange enter into a new custodial agreement with Principal Bank and submit the custodial agreement to the California Department of Insurance for approval in accordance to California Insurance Code Section 1104.9(c). The Exchange is now in compliance.

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,

Jack Lee, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California