

Report of Examination of

OHIC Insurance Company
Columbus, Ohio

As of December 31, 2011

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Columbus, Ohio
April 2, 2013

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

OHIC Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2008. The Department’s current examination covers the period of January 1, 2009 through December 31, 2011.

Representatives of the California Department of Insurance (“CA DOI”), as the coordinating state regulator of the insurance company affiliates of The Doctors Company, an Interinsurance Exchange, (“Exchange”), led the multi-state coordinated examination that included representatives from the States of Colorado, Delaware, Ohio, Texas and Utah. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Ernst and Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Richard E. Anderson, M.D.	Chairman and Chief Executive Officer, The Doctors Company
Robert D. Francis	Chief Operating Officer, The Doctors Company
Dennis B. Lawton, Ph.D.	Chief Governance Officer and Chief of Corporate Development, The Doctors Company
David A. McHale	Senior Vice President and General Counsel, The Doctors Company
David G. Preimesberger	Treasurer, The Doctors Company

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Principal Occupation
Richard E. Anderson, M.D.	President and Chief Executive Officer
David G. Preimesberger	Chief Financial Officer
Robert D. Francis	Chief Operating Officer
Michael Yacob	Senior Vice President
Thomas G. Luffy	Vice President and Treasurer
Douglas C. Will	Vice President
Darrell B. Ranum	Regional Vice President
Douglas W. Boltz	Assistant Vice President
David A. McHale	Secretary

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32 and is wholly-owned by the Exchange, a California domiciled reciprocal insurer. The Exchange, owned by its policyholders, is the ultimate controlling person in the holding company system. The chart below illustrates key companies within the holding company system and the respective state of domicile for insurers:

- The Doctors Company, an Interinsurance Exchange (CA)
 - American Physicians Capital, Inc.
 - American Physicians Assurance Corporation (MI)
 - APSpecialty Insurance Corporation (MI)
 - Doctors Life Insurance Company (CA)
 - The Doctors Management Company
 - FPIC Insurance Group, Inc.
 - Anesthesiologists Professional Assurance Company (FL)
 - First Professionals Insurance Company, Inc. (FL)
 - Advocate, MD Financial Group Inc.
 - Advocate, MD Insurance of the Southwest, Inc. (TX)
 - Tenere Group, Inc.
 - Intermed Insurance Company (MO)
 - FPIC Insurance Agency, Inc.
 - OHIC Insurance Company (OH)
 - Professional Underwriters Liability Insurance Company (UT)
 - SCPIE Indemnity Company (CA)
 - TDC Special Risk Insurance Company (DC)
 - Underwriter for the Professions Insurance Company (CO)
 - American Healthcare Indemnity Company (DE)

Territory and Plan of Operations

The Company is licensed in thirty-three states; however, during the examination period, all business was written in Ohio. The Company's core business is medical professional liability insurance for small and rural hospitals and certain health care facilities and the employed staff physicians at those facilities. Effective January 1, 2012, all of the Company's business will be underwritten by the Exchange at renewal.

The Doctors Management Company ("TDMC"), attorney-in-fact for the Exchange, provides services to the Company under the terms of a Management Services Agreement ("Agreement"), effective July 1, 2009. Services provided by TDMC include, but are not limited to, (a) issuance of policies; (b) premium collection; (c) management of investments; (d) establishing reserves; (e) claims adjusting and payment; and (f) preparation of financial reports. During 2011, the Company paid \$2.4 million to TDMC for management services performed under the Agreement.

The following schedule illustrates the Company's premium written in 2011 by line of business:

	Premium
Medical Professional Liability:	
Hospitals	\$ 4,576,304
Physicians	761,103
Other Health Care Facilities	654,636
Other Health Care Professionals	<u>864</u>
Direct premiums written	5,992,907
Premiums ceded to affiliates / non-affiliates	<u>5,385,059</u>
Net premiums written	<u>\$ 607,848</u>

Reinsurance

The Exchange and certain affiliates, including the Company, cede reinsurance under the terms of a Per Event Excess of Loss Reinsurance Contract ("Per Event") and Excess Casualty Catastrophe Reinsurance Contracts ("Excess Casualty") to unaffiliated reinsurers. The Per Event contract provides reinsurance up to \$9 million in ultimate net loss in excess of the Company's \$2 million retention. The Exchange maintains a 15% participation in the Per Event contract. The Excess Casualty contracts provide reinsurance up to \$20 million in excess of \$11 million. In addition, common loss event reinsurance for \$20 million in excess of \$5 million is in place.

The Company also cedes 90% of its net retained liability, after non-affiliated reinsurance, to the Exchange under a quota share agreement effective January 1, 2007.

Financial Statements

The Company's financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by its external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2011**

Assets

Bonds	\$ 100,679,591
Cash and short term investments	4,343,080
Receivables for securities	<u>465,864</u>
Subtotal, cash and invested assets	105,488,535
Investment income due and accrued	1,045,320
Uncollected premiums in course of collection	395,656
Deferred premiums and installments booked, not yet due	415,068
Amounts recoverable from reinsurers	1,186,658
Net deferred tax asset	1,746,162
Miscellaneous assets	<u>289,033</u>
Total admitted assets	<u><u>\$ 110,566,432</u></u>

Liabilities

Losses	\$ 21,795,340
Loss adjustment expenses	6,271,867
Other expenses	452,735
Taxes, licenses and fees	83,901
Current federal income taxes	649,647
Unearned premiums	1,101,978
Ceded reinsurance premiums payable	1,767,801
Funds held by company under reinsurance treaties	33,355,205
Provision for reinsurance	17,221
Payable to parent, subsidiaries and affiliates	285,047
Miscellaneous liabilities	<u>5,539</u>
Total liabilities	<u><u>65,786,281</u></u>

Capital and Surplus

Common capital stock	3,591,990
Gross paid in and contributed surplus	58,000,000
Unassigned funds	<u>(16,811,839)</u>
Total capital and surplus	<u><u>44,780,151</u></u>
Total liabilities, capital and surplus	<u><u>\$ 110,566,432</u></u>

Statement of Income
As of December 31, 2011

Premiums earned	\$ <u>756,573</u>
Losses incurred	(8,193,629)
Loss adjustment expenses incurred	4,913,372
Other underwriting expenses incurred	<u>4,222,548</u>
Total underwriting deductions	<u>942,291</u>
Net underwriting gain (loss)	<u>(185,718)</u>
Net investment income earned	6,250,142
Net realized capital gains	<u>3,000,607</u>
Net investment gain	<u>9,250,749</u>
Other expenses	(1,615,707)
Miscellaneous income	<u>256</u>
Total other income (loss)	<u>(1,615,451)</u>
Net income before federal income taxes	7,449,580
Federal income taxes incurred	<u>(948,477)</u>
Net income	<u>\$ 8,398,057</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, beginning of year	\$ <u>102,769</u>	\$ <u>80,380</u>	\$ <u>92,401</u>
Net income	8,398	30,760	6,275
Change in net unrealized capital gains	0	0	122
Change in net deferred income tax	(2,595)	(4,434)	(1,461)
Change in non-admitted assets	5,101	3,559	2,289
Change in provision for reinsurance	1,106	2,104	(546)
Dividends to stockholder	<u>(70,000)</u>	<u>(9,600)</u>	<u>(18,700)</u>
Change in surplus during the year	<u>(57,989)</u>	<u>22,389</u>	<u>(12,021)</u>
Capital and surplus, end of the year	<u>\$ 44,780</u>	<u>\$ 102,769</u>	<u>\$ 80,380</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The majority of the Company's medical professional liability business has been in runoff since January 1, 2008. The Company's Board of Directors appointed James Votta, FCAS, MAAA, associated with the firm of Ernst and Young LLP, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Votta prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement.

Robert Hallstrom, FCAS, MAAA, Senior Casualty Actuary with the CA DOI, performed an actuarial review of the loss and loss adjustment expense reserves the Exchange and its subsidiaries, including the Company. Based on his analysis, Mr. Hallstrom concluded the Company's carried reserves fall within a reasonable range of reserves estimates at December 31, 2011.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Assets	<u>\$ 110,566,432</u>
Liabilities	65,786,281
Capital and Surplus	<u>44,780,151</u>
Total Liabilities, Capital and Surplus	<u>\$ 110,566,432</u>

Subsequent Events

The Company and the Exchange entered into a commutation and release agreement, effective February 28, 2013, resulting in a final settlement, release and discharge of all amounts due between the parties related to the 90% quota share agreement. No gain or loss was recognized by either the Company or the Exchange. The Department approved the transaction on February 27, 2013.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Exchange and its affiliates during the course of this examination.

Respectfully,



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

Jeffrey K. Ebert 4/3/2013
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 3 day of April, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires