



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**NORTHWEST PHYSICIANS INSURANCE COMPANY  
SALEM, OREGON**

**NAIC CODE 12486**

AS OF

DECEMBER 31, 2008

## TABLE OF CONTENTS

<b>SALUTATION .....</b>	<b>3</b>
<b>SCOPE OF EXAMINATION .....</b>	<b>4</b>
<b>COMPANY HISTORY .....</b>	<b>4</b>
<i>Capital Stock .....</i>	<i>5</i>
<i>Dividends to Stockholders and Other Distributions .....</i>	<i>5</i>
<b>MANAGEMENT AND CONTROL .....</b>	<b>6</b>
<i>Board of Directors .....</i>	<i>6</i>
<i>Officers .....</i>	<i>6</i>
<b>CONFLICT OF INTEREST .....</b>	<b>7</b>
<b>CORPORATE RECORDS .....</b>	<b>7</b>
<i>Board of Director Minutes .....</i>	<i>7</i>
<i>Articles of Incorporation .....</i>	<i>7</i>
<i>Bylaws .....</i>	<i>8</i>
<i>Holding Company Registration Statement .....</i>	<i>8</i>
<i>Parent, Subsidiaries and Affiliates .....</i>	<i>8</i>
<b>INTERCOMPANY AGREEMENTS.....</b>	<b>10</b>
<i>Management Agreement .....</i>	<i>10</i>
<i>Physicians and Surgeons Professional Liability, Owners, Landlords, and Tenants</i>	
<i>Liability Quota Share Reinsurance Agreement .....</i>	<i>11</i>
<i>Federal Income Tax Allocation Agreement .....</i>	<i>11</i>
<b>FIDELITY BOND AND OTHER INSURANCE.....</b>	<b>11</b>
<b>TERRITORY AND PLAN OF OPERATION .....</b>	<b>12</b>
<b>GROWTH OF THE COMPANY .....</b>	<b>12</b>
<b>LOSS EXPERIENCE .....</b>	<b>13</b>
<b>REINSURANCE .....</b>	<b>13</b>
<i>Assumed Business .....</i>	<i>13</i>
<i>Ceded Business .....</i>	<i>14</i>
<i>Risk Retention and Transfer .....</i>	<i>14</i>
<i>Insolvency Clause .....</i>	<i>14</i>
<b>ACCOUNTS AND RECORDS .....</b>	<b>14</b>
<b>COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS .....</b>	<b>14</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>15</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>15</b>
<b>NOTES TO THE FINANCIAL STATEMENTS.....</b>	<b>20</b>
<i>Note 1 - Investments .....</i>	<i>20</i>
<i>Note 2 – Actuarial Reserves .....</i>	<i>20</i>
<b>SUMMARY OF COMMENTS AND RECOMMENDATIONS .....</b>	<b>21</b>
<b>CONCLUSION .....</b>	<b>21</b>
<b>ACKNOWLEDGMENT .....</b>	<b>22</b>
<b>AFFIDAVIT .....</b>	<b>23</b>

## SALUTATION

July 30, 2009

Alfred W. Gross, Commissioner  
Chairman, NAIC Financial Condition (E) Committee  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
PO Box 1157  
Richmond, Virginia 23218

Morris J. Chavez, Superintendent  
Secretary, NAIC Western Zone IV  
PO Drawer 1269  
Santa Fe, New Mexico 87504-1269

Honorable Cory Streisinger, Director  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE, Room 440  
Salem, Oregon 97301-3883

Dear Commissioner, Superintendent and Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**NORTHWEST PHYSICIANS INSURANCE COMPANY**  
**2965 Ryan Drive SE**  
**Salem, Oregon 97301-5074**

**NAIC Company Code 12486**

hereinafter referred to as the "Company." The following report is respectfully submitted.

## **SCOPE OF EXAMINATION**

This regularly scheduled examination of the Company was conducted as of December 31, 2008, covered the five year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the NAIC for the purpose of determining the Company's financial condition, ability to fulfill and the manner of fulfillment of its obligations, nature of operations, and compliance with the insurance code. Accounting methods, internal control procedures, records and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume and complexity of the accounting system and operations utilized by the Company. The record testing included, but was not limited to, assets, liabilities, income and expense related items. A review was also made of the corrective actions taken by the Company with respect to comments and recommendations in the previous financial report of examination as of December 31, 2003, by the Oregon Insurance Division.

## **COMPANY HISTORY**

The Company's predecessor, Northwest Physicians Mutual Insurance Company ("NPMIC"), was incorporated on December 30, 1982, and received its Certificate of Authority to write property and casualty business (excluding workers' compensation) as a mutual insurer on November 23, 1983.

The Company is the successor insurer of the demutualization of NPMIC (NAIC #43583), a property/casualty insurer writing medical malpractice insurance. The present Company was formed on October 11, 2005, and received a certificate of authority on December 15, 2005. Effective January 1, 2006, it acquired all of the assets of NPMIC. The Company was formed to facilitate the acquisition of NPMIC as a wholly owned subsidiary of Underwriters for the Professions Insurance Company, which in turn is ultimately owned and controlled by The Doctors Company, An Interinsurance Exchange, a physician-owned medical malpractice carrier domiciled in the State of California. The director approved this acquisition on December 2, 2005, Case No. 05-11-012.

**Capital Stock**

Under Article III of the Articles of Incorporation, the Company is authorized to issue 1,000 shares of common stock. The Company has issued 1,000 shares to its direct parent, Underwriters for the Professions Insurance Company, representing 100% of the shares outstanding. No additional capital had been contributed to the Company during the period under examination.

**Dividends to Stockholders and Other Distributions**

From 2004 to 2008, the Company declared and paid dividends to its stockholder as follows:

<b><u>Declared Date</u></b>	<b><u>Paid Date</u></b>	<b><u>Amount</u></b>	<b><u>Description</u></b>
5/30/2006	8/31/2006	\$3,000,000	Ordinary
12/12/2008	2/1/2009	\$3,900,000	Ordinary

The financial analyst noted neither dividend was reported to the Director of DCBS within five business days of declaration, as required by ORS 732.554 and OAR 836-027-0170(2). However, both dividends were approved by the Oregon Insurance Division.

**I recommend all future requests for any distributions or dividends be submitted to the Oregon Insurance Division within the time limits described in ORS 732.554 and OAR 836-027-0170(2).**

**MANAGEMENT AND CONTROL**

**Board of Directors**

Management and control of the Company is vested in a Board of Directors. Article III – Section 2 of the Company’s Bylaws states that the Board shall be comprised of five members. The Company's Board met all of the requirements of ORS 732.305. As of December 31, 2008, the Company was governed by a five member Board of Directors as follows:

<b><u>Name and Address</u></b>	<b><u>Principal Affiliation</u></b>	<b><u>Member Since</u></b>
Richard E. Anderson* Napa, California	Chairman and CEO The Doctors Company	2007
James T. Dorigan, Jr. Salem, Oregon	Chief Executive Officer Northwest Physicians Insurance Company	2003
Robert D. Francis Napa, California	Chief Operations Officer The Doctors Company	2005
William J. Gallagher Salem, Oregon	President Northwest Physicians Insurance Company	2006
David G. Preimesberger Napa, California	Chief Financial Officer The Doctors Company	2005

\*Chairman

**Officers**

Principal officers serving at December 31, 2008, were as follows:

**Officer**

William J. Gallagher  
James T. Dorigan, Jr.  
Robert W. Sopke  
Dennis B. Lawton  
Robert D. Francis  
David G. Preimesberger  
Sandra L. Tunnell  
H. Dieter Zimmer

**Office**

President  
Chief Executive Officer  
VP – Finance and Treasurer  
Secretary  
Chief Operations Officer  
Chief Financial Officer  
VP – Claims  
VP – Patient Safety

**CONFLICT OF INTEREST**

The Company requires officers and directors to report annually any conflicts of interest or violations of ethical business practices to the Company. From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

**CORPORATE RECORDS**

**Board of Director Minutes**

In general, the review of 2004 to 2008 Board meeting minutes, as well as the various committees authorized by the Bylaws, indicated that the minutes support the transactions of the Company and the actions taken by its directors and officers. A quorum, as defined by ORS 731.302, met at all of the meetings held during the period under review.

**Articles of Incorporation**

The present Company was formed on October 11, 2005. There were no changes made to the Articles of Incorporation during the period under examination. The Articles of Incorporation conformed with Oregon statutes.

### **Bylaws**

The current Bylaws were enacted when the Company was formed on October 11, 2005. The Bylaws conformed with Oregon statutes.

### **Holding Company Registration Statement**

A holding company registration statement was filed for each year of this examination on behalf of the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

### **Parent, Subsidiaries and Affiliates**

The Company is part of a holding company system in which The Doctors Company, An Interinsurance Exchange (TDC or The Doctors Company), is the ultimate controlling entity. TDC is one of the largest physician-owned medical liability carriers in the nation. It provides protection and risk management for sole practitioners, doctors groups, and physicians working in clinics, hospitals, and managed care organizations.

Aside from the Company, the other significant subsidiaries of TDC include the following:

Underwriter For The Professions Insurance Company (UFTP) is a Colorado domiciled property and casualty insurer. UFTP is the owner of 100% of the capital stock of the Company, and would be considered the direct parent.

The Doctors Management Company (TDMC) is a California based for-profit corporation, provides all management and administrative services to the companies within The TDC group. The Doctors Company owns 100% of the outstanding shares of TDMC.

There are seven affiliated insurance companies, as follows:

Professional Underwriters Liability Insurance Company (PULIC) is a Utah domiciled property and casualty insurer. The insurer was formed to write specialty or hard-to-place medical malpractice risks. This company is owned directly by The Doctors Company.

The Doctors Life Insurance Company (TDLIC) is a California domiciled life and health insurer. The company was formed to write life and annuity policies for member physicians and their families. TDLIC is owned directly by The Doctors Company.

OHIC Insurance Company (OHIC) is an Ohio domiciled property and casualty insurer. Founded in 1978 as the Ohio Hospital Insurance Company, it was acquired by The Doctors Company in December, 2006.

SCPIE Indemnity Company (SCPIE) is a California domiciled property and casualty insurer. Founded in 1976 as the Southern California Physicians Insurance Exchange, its direct parent, SCPIE Holdings, Inc., was acquired by The Doctors Company on June 30, 2008.

American Healthcare Indemnity Company is a Delaware domiciled property and casualty insurer, owned 100% by SCPIE. The company is currently dormant.

American Healthcare Specialty Insurance Company is an Arkansas domiciled property and casualty insurer, owned 100% by SCPIE. The company is currently dormant.

SCPIE Underwriting Limited UK is a corporate member of Lloyds of London, was formed in 2000 by SCPIE Holdings, Inc., and contributed to SCPIE in 2005. The company is currently dormant.

The Company has two subsidiaries, as follows:

Quality Focus, Inc. is an Oregon domiciled for-profit corporation. This corporation is currently inactive.

NPMIC Insurance Agency, Inc. is an Oregon domiciled for-profit corporation.

In addition, there are three affiliated non-insurer entities in the holding company system and seven limited liability corporations:

PULIC Insurance Services is a California based for-profit corporation.

The Doctors Company Insurance Services is a California based for-profit corporation.

SCPIE Management Company is a California based for-profit corporation.

Altamura/TDC, LLC, Gateway, LLC, Tannery Bend, LLC, Capital Corner, LLC, Napa Town Center, LLC, Napa Town Center Management Company, LLC, and Yountville Inn, LLC, are all California based limited liability corporations, formed to hold and manage various income producing real estate properties.

### **INTERCOMPANY AGREEMENTS**

The Company was party to the following agreements with its parent and affiliates as of December 31, 2008:

#### **Management Agreement**

Effective February 1, 2006, the Company entered into an agreement with TDMC whereby TDMC will provide; a) personnel, b) fidelity insurance, c) licensing and regulatory filings, d) budgeting, e) reinsurance, f) financial reporting, g) policy and rate filings, h) business insurance, i) advertising, j) investments, and k) tax allocation. The Company will pay all expenses actually incurred by TDMC on its behalf, which shall be apportioned pursuant to

SSAP No. 70. TDMC will provide a monthly accounting of expenses which, with the Company's approval, shall be reimbursed within 30 days. This agreement was replaced by a Management Services Agreement effective January 1, 2009, which contained an additional requirement that any overdue amounts accrue interest at 4.5%.

**Physicians and Surgeons Professional Liability, Owners, Landlords, and Tenants Liability Quota Share Reinsurance Agreement**

Effective January 1, 2006, the Company entered into an agreement whereby the Company ceded to TDC the net retained liability of the Company under all policies, contracts and binders of insurance. See discussion of this agreement under Reinsurance below.

**Federal Income Tax Allocation Agreement**

On February 1, 2006, the Company joined TDC and its subsidiaries in a tax-sharing agreement. Under the agreement, the taxes payable shall be based on the separate tax return liability of each tax reporting segment, adjusted for any additional losses, credits or deductions. Estimated tax payments are due no later than 30 after the end of the month in which the payment of the estimated tax was made.

**FIDELITY BOND AND OTHER INSURANCE**

The Company is covered against losses through a fidelity bond for risks up to \$5,000,000 per event, after a \$15,000 single loss retention. This coverage was found to comply with the limits recommended by the NAIC. The Company is insured for directors and officers liability for losses up to \$10,000,000 in aggregate, after a \$250,000 deductible, with a second layer up to \$10,000,000 excess \$10,250,000. Other major insurance coverages in force included employment practices, auto liability and physical damage, property, general and employee benefits liability, umbrella liability, and workers compensation. All coverages appeared adequate as of December 31, 2008.

## **TERRITORY AND PLAN OF OPERATION**

During the period under examination, the Company wrote medical malpractice business, primarily on a claims-made basis. At December 31, 2008, the Company wrote direct premiums in the three states in which it is licensed, as follows:

Alaska	\$	0
California		0
Idaho		5,875,680
Oregon		25,350,245
Washington		<u>206,285</u>
Total Direct Premium		<u><u>\$31,432,210</u></u>

Although the Company is not licensed in Alaska or California, it did report direct losses paid and unpaid on Schedule T, as a result of run-off business from the predecessor mutual insurer. The Company was party to a 90/10 quota share reinsurance agreement with TDC, resulting in it reporting only \$1,693,853 in net premiums written in 2008.

## **GROWTH OF THE COMPANY**

The growth of the Company since the last financial examination is reflected in the following schedule. The amounts were derived from Company's filed annual statements, except where a report of examination has been prepared by the Oregon Insurance Division.

<u><b>Year</b></u>	<u><b>Assets</b></u>	<u><b>Liabilities</b></u>	<u><b>Surplus and Other Funds</b></u>	<u><b>Net Income (Loss)</b></u>
2003*	\$ 75,697,728	\$ 71,034,105	\$ 4,663,623	(\$9,312,505)
2004	76,710,497	67,369,821	9,340,676	1,172,207
2005	90,589,050	67,666,142	22,922,908	4,605,337
2006	107,469,771	84,299,927	23,169,844	2,123,276
2007	129,376,903	97,063,879	32,313,024	10,009,259
2008 *	139,294,883	107,867,026	31,427,857	2,783,407

\*Per examination

The amounts reported in 2003 and 2004 are for the predecessor company, Northwest Physicians Mutual Insurance Company. The 2005 amounts are a combination of the

predecessor and the newly formed successor company. Effective January 1, 2006, the current company acquired all the assets, liabilities and surplus of NPMIC.

### **LOSS EXPERIENCE**

The following exhibit reflects the annual underwriting results of the Company since 2003. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the previous examination reports.

<b><u>Year</u></b>	<b>(1) <u>Premium Earned</u></b>	<b>(2) Losses and LAE <u>Incurred</u></b>	<b>(3) Other Underwriting <u>Expenses Incurred</u></b>	<b>(2)+(3)/(1) Combined <u>Ratio</u></b>
2003*	\$22,191,677	\$30,847,446	\$3,239,110	153.6%
2004	22,433,305	21,505,442	2,541,808	107.2%
2005	20,554,260	15,122,167	3,332,340	89.8%
2006	952,069	(1,591,474)	(878,348)	(259.4)%
2007	3,628,293	(2,817,539)	(1,831,364)	(128.1)%
2008*	2,996,368	3,136,273	645,292	126.2%

\*Per examination

Effective January 1, 2006, the Company began ceding 90% of its risks to TDC under the 90/10 quota share agreement, which resulted in atypical loss and expense amounts during 2006 and 2007.

### **REINSURANCE**

As noted earlier in this report, effective January 1, 2006, the Company entered into a 90%/10% quota-share reinsurance agreement with the ultimate parent, TDC. The agreement calls for TDC to assume a fixed pro-rata share of the net retained liability under all policies, binders and contracts of insurance.

### **Assumed Business**

The Company assumed no business during the period under examination.

### **Ceded Business**

The quota share reinsurance agreement with TDC described above is further protected under a Common Loss Excess of Loss Reinsurance Contract effective January 1, 2008. In exchange for premiums paid at the commencement of the contract and fixed premium deposits throughout the year, the reinsurer agrees to be liable for the ultimate net loss for up to \$20 million for any one common loss, after a \$5 million retention. This contract remained in force until January 1, 2009.

### **Risk Retention and Transfer**

As a result of both the treaties described above, the Company's maximum retained risk on any one insured is limited to 10% of \$5 million, or \$500,000. As such, the Company was in compliance with the provisions of ORS 731.504.

### **Insolvency Clause**

Each of the reinsurance agreements contained a proper insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency, as required by the provisions of ORS 731.508.

## **ACCOUNTS AND RECORDS**

In general, the Company's accounting and corporate records were maintained in a manner in which the financial condition was verifiable as required by the provisions of ORS 733.170. There were no issues noted as result of this examination.

## **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Company has taken corrective action with respect to the three recommendations made in the 2003 report of examination. The follow-up report was prepared on January 19, 2006.

## **SUBSEQUENT EVENTS**

Effective January 1, 2009, TDC announced the Company will cease writing new business. All policies in force will terminate upon renewal and coverage will be offered through TDC or its other subsidiaries, based on underwriting. The Company will be placed into run-off until all liabilities have been extinguished.

## **FINANCIAL STATEMENTS**

The following examination financial statements show the financial conditions of Northwest Physicians Insurance Company:

- Assets
- Liabilities, Surplus and Other Funds
- Summary of Operations
- Reconciliation of Surplus for the Period Since the last Examination

The financial statements are presented on the basis of statutory accounting practices permitted or prescribed by the Oregon Insurance Division as of December 31, 2008.

**NORTHWEST PHYSICIANS INSURANCE COMPANY**  
**ASSETS**  
**DECEMBER 31, 2008**

<u>ASSETS</u>	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Bonds	\$ 111,174,622	\$ -	\$ 111,174,622	1
Stocks:				
Preferred stocks	218,500		218,500	1
Common stocks	-		-	
Real Estate:				
Properties occupied by the company	844,127		844,127	
Cash, cash equivalents and short-term investments	10,951,434		10,951,434	1
Aggregate write-ins for invested assets	-		-	
Subtotal, cash and invested assets	<u>\$ 123,188,683</u>	<u>\$ -</u>	<u>\$ 123,188,683</u>	
Investment income due and accrued	1,145,877		1,145,877	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	816,297		816,297	
Deferred premiums, agents' balances and installments book	11,637,999		11,637,999	
Reinsurance:				
Amounts recoverable from reinsurers	11,227		11,227	
Other amounts receivable under reinsurance contracts	680,000		680,000	
Net deferred tax asset	1,761,524		1,761,524	
Electronic data processing equipment and software	40,443		40,443	
Receivable from parent, subsidiaries and affiliates	12,833		12,833	
Aggregate write-ins for other than invested assets	-		-	
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	-		-	
Total Assets	<u>\$ 139,294,883</u>	<u>\$ -</u>	<u>\$ 139,294,883</u>	

**NORTHWEST PHYSICIANS INSURANCE COMPANY**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**DECEMBER 31, 2008**

	<u>Balance Per</u> <u>Company</u>	<u>Examination</u> <u>Adjustments</u>	<u>Balance Per</u> <u>Examination</u>	Notes
<b><u>LIABILITIES, SURPLUS AND OTHER FUNDS</u></b>				
Losses	\$ 9,399,387	\$ -	\$ 9,399,387	2
Loss adjustment expenses	4,328,796		4,328,796	2
Commissions payable, contingent commissions and other similar charges	199,289		199,289	
Other expenses	645,864		645,864	
Taxes, licenses and fees (excluding federal and foreign income taxes)	5,901		5,901	
Current federal and foreign income taxes	138,109		138,109	
Unearned premiums	22,067,030		22,067,030	
Advanced premium	93,100		93,100	
Dividend declared and unpaid				
Stockholders	3,900,000		3,900,000	
Policyholders	-		-	
Ceded reinsurance premiums payable	1,496,960		1,496,960	
Funds held by company under reinsurance treaties	65,269,842		65,269,842	
Provision for reinsurance	36,000		36,000	
Payable to parent, subsidiaries and affiliates	286,748		286,748	
Aggregate write-ins for liabilities	-		-	
Protected cells liabilities	-		-	
Total Liabilities	<u>\$ 107,867,026</u>	<u>\$ -</u>	<u>\$ 107,867,026</u>	
Common capital stock	3,000,000		3,000,000	
Gross paid in and contributed surplus	15,704,432		15,704,432	
Unassigned funds (surplus)	<u>12,723,425</u>	<u>-</u>	<u>12,723,425</u>	
Surplus as regards policyholders	<u>\$ 31,427,857</u>	<u>-</u>	<u>\$ 31,427,857</u>	
Total Liabilities, Surplus and other Funds	<u><u>\$ 139,294,883</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 139,294,883</u></u>	

**NORTHWEST PHYSICIANS INSURANCE COMPANY**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	Notes
<b>Underwriting Income</b>				
Premiums earned	\$ 2,996,368	\$ 0	\$ 2,996,368	
Deductions				
Losses incurred	533,054		533,054	
Loss expenses incurred	2,603,219		2,603,219	
Other underwriting expenses incurred	645,292		645,292	
Aggregate write-ins for underwriting deductions	-	0	-	
Total underwriting deductions	<u>3,781,565</u>	<u>0</u>	<u>3,781,565</u>	
Net underwriting gain or (loss)	<u>(785,197)</u>	<u>0</u>	<u>(785,197)</u>	
<b>Investment Income</b>				
Net investment income earned	5,253,301		5,253,301	
Net realized capital gains or (losses)	<u>(1,127,110)</u>	<u>0</u>	<u>(1,127,110)</u>	
Net investment gain or (loss)	<u>4,126,191</u>	<u>0</u>	<u>4,126,191</u>	
<b>Other Income</b>				
Net gain or (loss) from agents' or premium balances charged off	-		-	
Finance and service charges not included in premiums	-		-	
Aggregate write-ins for miscellaneous income	<u>11,264</u>	<u>0</u>	<u>11,264</u>	
Total other income	<u>11,264</u>	<u>0</u>	<u>11,264</u>	
Dividends to policyholders	-		-	
Federal and foreign income taxes incurred	<u>568,851</u>	<u>-</u>	<u>568,851</u>	
Net income	<u>\$ 2,783,407</u>	<u>\$ -</u>	<u>\$ 2,783,407</u>	

**NORTHWEST PHYSICIANS INSURANCE COMPANY  
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE LAST  
EXAMINATION  
FOR THE YEAR ENDED DECEMBER 31,**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Surplus as regards policyholders, December 31, previous year	\$32,313,024	\$23,169,844	\$22,922,908	\$9,340,676	\$5,420,547
Net Income	2,783,407	10,009,259	2,123,276	4,605,337	1,172,207
Net transfers (to) from Protected Cell accounts	0	0	0	0	0
Change in unrealized capital gains (losses)	272,408	(166,005)	123,080	(10,158)	(510,603)
Change in net unrealized foreign exchange capital gain (loss)	0	0	0	0	0
Change in net deferred income tax	222,360	(362,697)	(3,304,905)	(2,576,391)	(1,752,251)
Change in nonadmitted assets	(227,342)	(337,377)	4,264,145	3,278,900	1,579,773
Change in provisions for reinsurance	(36,000)	0	10,550	6,852	(1,330)
Change in surplus notes	0	0	0	0	0
Cumulative effect of changes in accounting principles	0	0	0	0	0
Capital changes					
Paid in	0	0	0	3,000,000	0
Transferred from surplus (Stock Dividend)	0	0	0	0	0
Transferred to surplus	0	0	0	0	0
Surplus adjustments					
Paid in	0	0	30,790	5,277,692	0
Transferred to capital (Stock Dividend)	0	0	0	0	0
Tranferred from capital	0	0	0	0	0
Net remittances from or (to) Home Office	0	0	0	0	0
Dividends to stockholders	(3,900,000)	0	(3,000,000)	0	0
Change in Treasury Stock	0	0	0	0	0
Examination Adjustments	0	0	0	0	0
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,432,333</u>
Net change in capital and surplus for the year	<u>(885,167)</u>	<u>9,143,180</u>	<u>246,936</u>	<u>13,582,232</u>	<u>3,920,129</u>
Surplus as regards policyholders, December 31, current year	<u>\$31,427,857</u>	<u>\$32,313,024</u>	<u>\$23,169,844</u>	<u>\$22,922,908</u>	<u>\$9,340,676</u>

The amounts reported for 2004 and 2005 were taken from the annual statements of NPMIC, the predecessor insurer. NPMIC was merged with the current Company effective January 1, 2006, and the 2006 amounts reflect the balances of the combined companies.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 - Investments

Most of the Company's long-term bond investments were in US federal agency bonds, municipal obligations, and corporate issues. The Company did have a moderate exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2008, but the book carrying value of \$32.9 million comprised over 29% of the total long-term bond portfolio, and almost 27% of all invested assets. An additional \$4.2 million was invested in bonds of banking and financial corporations. Cash and short-term deposits consisted of cash on deposit, a corporate bond purchased with less than one year to maturity, and one short-term money market fund. A comparison of the major investments over the past five years shows the following:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2004	\$ 50,668,447	\$ 6,956,791	66.1%	9.1%
2005	59,716,210	11,837,332	70.6%	14.0%
2006	78,858,905	9,832,225	73.4%	9.1%
2007	101,315,956	8,021,024	78.3%	6.2%
2008	111,174,622	10,951,434	79.8%	7.9%

The Board of Directors approved the investment transactions in each of the years under review, pursuant to ORS 733.740. As of December 31, 2008, invested assets with a book value of \$9,778,759, representing 7.9% of the total invested assets, were invested in amply secured obligations of the United States or FDIC insured cash deposits, which exceeded the amounts required by ORS 733.580.

The Company reported investments of common stocks on Schedule D – Part 2 – Section 2 in the amount of \$471,327, which represented the book value of two subsidiaries. The company properly nonadmitted the value of its subsidiaries pursuant to the provisions of SSAP No. 97, paragraph 8.

### Note 2 – Actuarial Reserves

Rae Taylor, FCAS, MAAA, Property/Casualty actuary for the Oregon Insurance Division, reviewed the liabilities NPIC established as of December 31, 2008, in financial statements filed with the Oregon Insurance Division. The review was limited to medical professional liability reserves and Death, Disability, and Retire (DDR) reserves for both loss and loss adjustment expenses.

The review consisted of the following:

1. Understanding the methods and calculations used to determine the reserve estimates as of December 31, 2008.
2. Reviewed documentation supplied by NPIC.
3. Reviewed the reasonableness of the liability estimates established by NPIC.

NPIC established a net liability of \$13.7 million for medical professional liability and \$5.6 for DDR unearned premium. The review indicated that the liabilities reported by NPIC as of December 31, 2008, for the reviewed liabilities were reasonable.

The accounting firm, Ernst & Young, was retained by NPIC to provide the Statement of Actuarial Opinion along with the supporting Actuarial Report. The Actuarial Report was used extensively in the review. Ms. Taylor concurred with the report conclusions.

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There were no adjustments made to the Company's surplus as a result of this examination.

There was one recommendation made as a result of this examination, as follows:

#### **Page**

- 6 I recommend all future requests for any distributions or dividends be submitted to the Oregon Insurance Division within the time limits described in ORS 732.554 and OAR 836-027-0170(2).

### **CONCLUSION**

During the five year period covered by this examination, the surplus of the Company increased from \$4,663,623, as presented in the December 31, 2003, report of examination of the predecessor mutual insurer, to \$31,427,857, as shown in this report of examination.

There were no adjustments made to the financial statements as a result of this examination.

The comparative assets and liabilities are shown below:

	<b><u>2008</u></b>	<b><u>December 31,</u></b>	<b><u>2003</u></b>	<b><u>Change</u></b>
Assets	\$139,294,883		\$ 75,697,728	\$ 63,597,155
Liabilities	<u>107,867,026</u>		<u>71,034,105</u>	<u>(36,832,921)</u>
Surplus	<u>\$ 31,427,857</u>		<u>\$ 4,663,623</u>	<u>\$ 26,764,234</u>

## **ACKNOWLEDGMENT**

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Mark Giffin, CFE, and Timothy Hurley, CFE, insurance examiners, and Rae Taylor, FCAS, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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Greg A. Lathrop, CFE  
Supervising Financial Examiner  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON            )  
  )  ss  
County of Marion            )

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1.     I have authority to represent the state of Oregon in the examination of Northwest Physicians Insurance Company, Salem, Oregon.
  
2.     The Insurance Division of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
  
3.     I have reviewed the examination work papers and examination report, and the examination of Northwest Physicians Insurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

\_\_\_\_\_  
Greg A. Lathrop, CFE  
Supervising Financial Examiner  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to me this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

\_\_\_\_\_  
Notary Public for the State of Oregon

My Commission Expires: \_\_\_\_\_