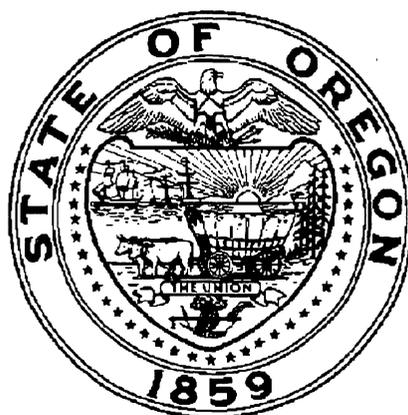


**STATE OF OREGON**  
**DEPARTMENT OF**  
**CONSUMER & BUSINESS**  
**SERVICES**  
**DIVISION OF FINANCIAL**  
**REGULATION**



REPORT OF FINANCIAL EXAMINATION  
OF  
**TDC NATIONAL ASSURANCE COMPANY**  
**LAKE OSWEGO, OREGON**

AS OF  
DECEMBER 31, 2019

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**TDC NATIONAL ASSURANCE COMPANY  
LAKE OSWEGO, OREGON**

**NAIC COMPANY CODE 41050**

AS OF

DECEMBER 31, 2019

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**SALUTATION**

December 21, 2020

Honorable Andrew Stolfi, Director  
Department of Consumer and Business Services  
Division of Financial Regulation  
State of Oregon  
350 Winter Street NE  
Salem, Oregon 97301-3883

Dear 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

**TDC NATIONAL ASSURANCE COMPANY  
5885 Meadows Road, Suite 300  
Lake Oswego, Oregon 97035**

**NAIC Company Code 41050**

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

## SCOPE OF EXAMINATION

We have performed our regular, multi-state, full-scope coordinated group examination of TDC National Assurance Company (formerly known as Underwriter for the Professions Insurance Company). The examination was coordinated with the insurers in The Doctors Company Group, with the State of California designated as the lead state. The last examination of this property and casualty insurer was completed as of December 31, 2015. The current examination covers the period of January 1, 2016, to December 31, 2019.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company 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 Company 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 Company's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer 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.), are not included within the examination report, but separately communicated to other regulators and the Company.

### **COMPANY HISTORY**

The Company was incorporated under the laws of Colorado on September 5, 1989, as Underwriter for the Professions, Inc., as a stock corporation. It commenced business on December 28, 1990, under a Certificate of Authority issued by the Colorado Department of Regulatory Agencies, Division of Insurance. Effective January 1, 2002, the Company changed its name to Underwriter for the Professions Insurance Company.

On September 11, 2012, the Company filed an application for re-domestication in accordance with Oregon Revised Statutes (ORS) 731.363. Effective November 1, 2012, the company changed its name to UMIA Insurance Company, a Member of the TDC Group of Companies. Effective July 26, 2016, the Company changed its name to TDC National Assurance Company to better reflect its new strategic plan.

### **Capitalization**

The Company has 750,000 shares of common stock authorized, with 7,500 shares issued and outstanding. All shares are owned by its parent, The Doctors Company, An Inter-insurance Exchange (TDC). The stated par value of the shares is \$10.00 per share and the Company reported \$7,500,000 as the value of its Common Capital Stock. No additional capital had been contributed to the Company during the period under examination.

### **Dividends to Stockholders and Other Distributions**

During the period under examination, the Company did not declare nor did it pay any dividends or cash distributions to its sole shareholder.

## **CORPORATE RECORDS**

### **Board Minutes**

In general, the review of the Board meeting minutes of the Company, consisting of quarterly Unanimous Written Consents in lieu of meeting describing current events, officer and director elections, investment transactions and regulatory issues. The minutes adequately described and supported the Company's transactions and events.

### **Articles of Incorporation**

The Company's restated Articles of Incorporation were most recently amended on July 26, 2016. The Articles of Incorporation conformed to the Oregon Insurance Code.

### **Bylaws**

The Company's Bylaws were last amended and restated on July 26, 2016. The Bylaws conformed to Oregon statutes.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

Article 3.01 of the Bylaws state the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of a Board of Directors. Article 3.02 states the number of directors shall be no less than three (3) and no more than seven (7). The exact number of directors may be fixed or changed from time to time by the board of directors. At

least 25% of the directors shall be residents of the State of Oregon. As of December 31, 2019, the Company was governed by a five member Board of Directors as follows:

| <u>Name and Address</u>                                  | <u>Principal Affiliation</u>                               | <u>Member Since</u> |
|--|--|---------------------|
| Lisa Billy Blessis<br>Granby, Connecticut                | Attorney<br>TDC National Assurance Co.                     | 2017                |
| Cory Brandon Johnson *<br>Lake Oswego, Oregon            | Insurance Underwriter/Actuary<br>TDC National Assurance Co | 2018                |
| Mark Anthony Luttrell<br>Portland, Oregon                | Vice-President of Claims<br>The Doctors Company            | 2019                |
| Paul F. Romano<br>Farmington, Connecticut                | President & CEO<br>TDC National Assurance Co.              | 2017                |
| Robert Lee Wortelboer, Jr.<br>Ponte Vedra Beach, Florida | Attorney<br>TDC National Assurance Co.                     | 2017                |

\*Chairman

Under Oregon law, ORS 732.305, at least five (5) or one-quarter of the Directors, whichever is fewer, must be residents of Oregon and a majority of Directors must be non-salaried officers of the Company. The Company was in compliance with this statute. The Directors as a group has experience in law, insurance, actuarial and management, in accordance with the provisions of ORS 731.386.

### **Officers**

Article 4.01 of the Bylaws describes the officers of the Company. Principal officers serving at December 31, 2019, were as follows:

| <u>Name</u>               | <u>Title</u>                        |
|---------------------------|-------------------------------------|
| Cory Brandon Johnson      | President & Chief Executive Officer |
| David Armand McHale       | Secretary                           |
| Kristin Anne Curley       | Treasurer & Chief Financial Officer |
| Thomas Connell Wilson III | Senior Vice-President               |

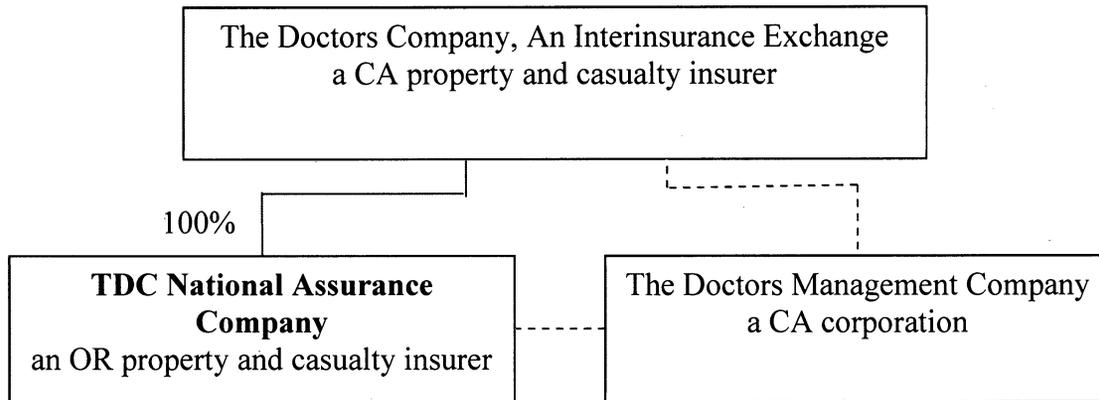
| <u>Name</u>           | <u>Title</u>   |
|-----------------------|----------------|
| Marilya Spina         | Vice President |
| Douglas William Boltz | Vice President |
| Douglas Charles Will  | Vice President |

### **Conflict of Interest**

The Company's parent, TDC, adopted a formal Code of Ethics including reporting of any conflicts of interest for all directors, officers and responsible employees. Board members, senior officers and key employees of the Company are required to annually sign a conflict of interest statement. From a review of the completed conflict of interest questionnaires, the Company's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

### **Insurance Company Holding System**

The Company is a member of an insurance company holding system, which includes six other insurers or risk retention group, three sales and administration subsidiaries, and thirteen entities related to real estate and other investments. These entities are domiciled in nine separate states. An insurance holding company registration statement was filed by the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The following condensed organizational chart depicts the relationships of the Company within the holding company system:



A description of each of the entities above is as follows:

The Doctors Company, An Interinsurance Exchange (TDC) is a California domiciled property and casualty insurer. TDC commenced writing business on April 15, 1976, formed as a reciprocal insurer by physicians and is owned by its policyholders. A majority of the members of the board of governors are physicians. TDC owns 100% of the capital stock of the Company, and would be considered the parent and the ultimate controlling entity.

The Doctors Management Company (TDMC) is a California corporation responsible for conducting the business operations of TDC, acts as the attorney-in-fact, and performs management and administrative duties for TDC and its subsidiaries

The other insurers not included in the chart above are:

American Physician Assurance Corporation (APA) is a Michigan domiciled property and casualty insurer. APA ceased writing business in 2011 and has had no policies in force since March 31, 2012.

First Professionals Insurance Company (FPIC) is a Florida domiciled property and casualty insurer. FPIC ceased writing business in 2013 and has had no policies in force since March 31, 2014.

Hospitals Insurance Company (HIC) is a New York domiciled property and casualty insurer. HIC was purchased by TDC in 2019. HIC primarily writes Medical Professional Liability (MPL) and other coverage for the four major New York hospitals that were its former owners.

TDC Special Risk Insurance Company (TDCSR) is a District of Columbia pure captive. TDCSR assumes business from TDC and its affiliates.

TDC Specialty Insurance Company (TDCSI) is a District of Columbia domiciled property and casualty insurer. TDCSI is an admitted carrier in two states and the District of Columbia and writes on a surplus-lines basis in an additional 48 states and Puerto Rico.

TDC Specialty Underwriters, Inc. (TDCSU) is a Connecticut corporation created in January 2016 to underwrite Excess & Surplus business focused on healthcare entities distributed through retail and wholesale brokers. It underwrites hospital and medical facilities, long-term care facilities; E&O managed care organizations, and non-standard physicians. It is 100% owned by TDCSI.

The Doctors Company Risk Retention Group, A Reciprocal Exchange (TDCRRG), is a reciprocal insurer organized under the laws of the District of Columbia. TDCRRG writes MPL insurance for private practice doctors, large physician groups and healthcare facilities on a nationwide basis.

## INTERCOMPANY AGREEMENTS

The following agreements are in place between the Company and members of the insurance holding company system:

### Management Services Agreement

Effective July 1, 2009, the Company entered into a Management Services Agreement with TDMC. Per the agreement, TDMC is required to provide all personnel, facilities, equipment and supplies necessary for the Company to carry out the business of insurance. Specific duties include: obtaining and maintaining licenses in various jurisdictions, collecting premium, payment of claims, procurement of reinsurance, accounting and other financial services. In return for these services, the Company pays TDMC a monthly fee equal to the actual expenses incurred on the Company's behalf. The Agreement was amended effective July 26, 2016, to reflect the Company's name change to TDC National Assurance Company and to reflect all references in the Agreement to Underwriter For the Professions Insurance Company being "a Colorado stock insurer" or a "Colorado domiciled stock insurer" to be replaced with "an Oregon stock insurer" in order to reflect the re-domestication from Colorado to Oregon. The Agreement was amended a second time effective August 1, 2017 to restate Exhibit A in its entirety.

### Management Services Agreement

Effective March 1, 2017 the Company entered into a management services agreement with an affiliated underwriting services company, TDC Specialty Underwriters, Inc. (TDCSU). Under the terms of the agreement TDCSU agrees to provide the services set forth in Exhibit "A" and to provide adequate personnel, facilities, equipment, computer systems and software, stationary, forms, printing and other supplies to perform the services and acts agreed upon by the Company

and TDCSU. TDCSU's compensation under the Agreement is limited to reimbursement of all expenses actually incurred by TDCSU. Services to be performed by TDCSU include:

- Providing claims services including investigation of and payment or denial of claims against the Company's insureds and handling claims against the Company. TDCSU also agrees to establish and maintain complete and accurate claims records.
- Negotiating, underwriting, classifying, rating, investigating and determining whether applications for insurance policies should be declined or accepted, with or without coverage restrictions, rate surcharges, deductibles or co-insurance factors in accordance with good insurance practices and underwriting standards proposed by TDCSU and accepted by the Company.
- Computing any paying commissions to agents and brokers.
- Approving, terminating and appointing producers in accordance with agency and broker approval termination and appointment criteria approved by the Company.
- Issuance of insurance policies and endorsements subject to underwriting guidelines proposed by TDCSU and approved by the Company. TDCSU is required to maintain complete and accurate records of all policies written.
- Making determinations to cancel or non-renew insurance coverage written by the Company, including providing timely notice of cancellation or nonrenewal, subject to guidelines proposed by TDCSU and approved by the Company.
- Collection, receiving and accounting for all premiums paid for insurance issued by the Company, including depositing the premiums in a bank or banks to the account of the Company no later than thirty (30) days following collection.

- Procuring any required reinsurance on behalf of the Company in accordance with good insurance and business practices.
- Advertising for insurance products, subject to approval by the Company.
- Establishing reserves for claims and expenses in accordance with standards proposed by TDCSU and approved by the Company.
- Preparing all necessary forms incidental to underwriting, classification, rating, cancellation, nonrenewal, investigation and declination or acceptance of insurance applications.
- Rate and Form filings.
- Licensing and Regulatory filings.
- Other duties include preparing proposed budgets for the Company, maintaining applicable records and preparing required financial reports as requested.

#### Tax Sharing Agreement

TDC and its subsidiaries are parties to a Fourth Amended and Restated Federal Income Tax Allocation Agreement entered into on February 1, 2020. This agreement was amended to reflect the addition of new subsidiaries. Under the terms of the agreement, TDC agrees to file a consolidated federal income tax return on behalf of all subsidiaries. Allocation of tax liability is based on separate returns calculations with intercompany 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. This agreement was approved by the Oregon Division of Financial Regulation.

## **FIDELITY BOND AND OTHER INSURANCE**

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The insurance coverages are provided through insurance policies issued by unaffiliated carriers. TDC and its subsidiaries, including the Company are insured up to a \$20,000,000 aggregate limit, including single loss limits of \$10,000,000 with a \$100,000 deductible against losses from acts of dishonesty and forgery by its employees and agents. Fidelity bond coverage was found to meet the coverage recommended by the NAIC. TDC and its subsidiaries, including the Company are also insured under a commercial umbrella liability policy with a limit of \$15,000,000.

The Company was also included in the following insurance coverages in force at December 31, 2019, which were found to be adequate:

|                       |                                  |
|-----------------------|----------------------------------|
| General Liability     | Directors and Officers Liability |
| Insurance Company E&O | Employment Practices Liability   |
| Fiduciary Liability   | HRA Professional Liability       |

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to transact business in 48 states and the District of Columbia. The Company is also eligible to write surplus lines business in Utah. The Company had been authorized in the State of Oregon since August 13, 2001, to write casualty (excluding workers' compensation). In November 2012, the Certificate of Authority was amended and the Company is now authorized to write Property & Casualty (including workers' compensation), Marine and Transportation, Surety, and Health.

From its inception, the Company's business was the assumption of the Death, Disability and Retirement (DD&R) riders issued in conjunction with the medical malpractice policies issued by TDC. This coverage, known as a "free-tail" policy, is offered to physicians and medical professionals insured by members of the TDC Group who have left the practice of medicine. Beginning in 2015, the reinsurance program that covered DD&R exposures for the Company was discontinued. As of December 31, 2019, the Company was writing a limited amount of direct business (about 40% of total gross premiums written) but most of the business was generated from the assumption of the DD&R riders. At December 31, 2019, the Company wrote direct premiums in thirty-three of the states in which it is licensed. The top ten are as follows:

| <u>State</u>  | <u>Direct Premiums Written</u> | <u>Percentage</u> |
|---------------|--------------------------------|-------------------|
| California    | \$ 8,355,926                   | 66.9%             |
| Colorado      | 295,180                        | 2.4%              |
| Illinois      | 255,200                        | 2.0%              |
| Massachusetts | 308,393                        | 2.5%              |
| Minnesota     | 428,910                        | 3.4%              |
| Ohio          | 546,109                        | 4.4%              |
| Oregon        | 159,571                        | 1.3%              |
| Texas         | 301,939                        | 2.4%              |
| Utah          | 332,108                        | 2.6%              |
| West Virginia | 222,292                        | 1.8%              |
| All others    | <u>1,290,997</u>               | <u>10.3%</u>      |
| Total         | <u>\$ 12,496,625</u>           | <u>100.0%</u>     |

The following is a breakdown of the direct premiums written in 2019:

| <u>Lines of Business</u>                     | <u>Premium</u>       | <u>Percentage</u> |
|--|----------------------|-------------------|
| Medical professional liability - occurrence  | \$ 69,307            | 0.6%              |
| Medical professional liability – claims-made | 2,402,030            | 19.2%             |
| Other liability – occurrence                 | 155,106              | 1.2%              |
| Other liability – claims-made                | 9,613,957            | 76.9%             |
| Products liability – occurrence              | <u>256,225</u>       | <u>2.1%</u>       |
| Totals                                       | <u>\$ 12,496,625</u> | <u>100.0%</u>     |

## GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule. Amounts were derived from Company's annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

| <u>Year</u> | <u>Assets</u>  | <u>Liabilities</u> | <u>Capital and Surplus</u> | <u>Net Income (Loss)</u> |
|-------------|----------------|--------------------|----------------------------|--------------------------|
| 2015 *      | \$ 298,686,036 | \$ 230,681,320     | \$ 68,004,716              | \$ 8,695,249             |
| 2016        | 317,994,465    | 228,733,290        | 89,261,175                 | 20,859,391               |
| 2017        | 344,763,637    | 250,736,076        | 94,027,561                 | 5,361,802                |
| 2018        | 351,525,072    | 249,040,959        | 102,484,113                | 10,931,344               |
| 2019 *      | 388,618,907    | 276,548,621        | 112,070,285                | 7,658,491                |

\*Per examination

## REINSURANCE

### Assumed

Effective December 31, 1999, the Company is a party to an assumption reinsurance agreement with TDC, by which the Company assumes 100% of the DD&R endorsements available on policies issued by TDC. The Company's obligation with regard to these endorsements is \$1,000,000 per claim/\$3,000,000 policy aggregate limit of liability

### Ceded

Effective January 1, 2006, the Company and TDC entered into a property, casualty, and accident and health quota share reinsurance agreement. The Company will cede a fixed pro-rata share (90%) of its net retained liability for its business classified as physicians and surgeons professional liability, owners, landlords, and tenants liability and related health care business.

The Agreement was amended effective July 26, 2016 to change the name of the Company from Underwriter For the Professions Insurance Company to TDC National Assurance Company, to acknowledge the re-domestication from Colorado to Oregon, and to change the Company from a Colorado corporation to an Oregon corporation.

The Agreement was amended a second time effective August 1, 2017 to restate the business covered by the Agreement to exclude any business written by the Company for any insured located in the state of California.

The Agreement was amended a third time effective January 1, 2018 to restate the net retained liability portion, to restate the loss and loss adjustment expense portion, and to define the ceding commission to be 28% as of the effective date, and to include ULAE in the Agreement to better reflect the operating results of the Company.

#### Risk Retention

The Company did not retain risk on any one subject in excess of 10% of its surplus as regards policyholders. The Company complied with the provisions of ORS 731.504.

#### Insolvency Clause

The reinsurance agreements each contained an insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency in compliance with ORS 731.508(3).

### **ACCOUNTS AND RECORDS**

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2019, annual statement and were maintained in a manner by which

the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. The Company has a system in place to account for unclaimed funds and the Company has filed the reports on abandoned property pursuant to the provisions of ORS 98.352.

### **STATUTORY DEPOSIT**

The Company had deposits with the Oregon Division of Financial Regulation, Department of Consumer Business Services, pursuant to the provisions of ORS 731.604 and 731.628. The deposit consists of US treasury notes and bonds with a par value of \$3,000,000. This asset was confirmed directly by Oregon Division of Financial Regulation, Department of Consumer Business Services. The deposits were properly disclosed on Schedule E – Part 3 of the 2019 Annual Statement.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no comments or recommendations made from the prior report of examination.

### **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. Due to the timing of the examination and field work, the effects of the pandemic on the Company cannot be fully addressed within this examination report.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the

Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

Statement of Assets

Statement of Liabilities, Surplus, and Other Funds

Statement of Income

Reconciliation of Capital and Surplus Since the last Examination

**TDC NATIONAL ASSURANCE COMPANY**  
**ASSETS**  
**As of December 31, 2019**

| Assets   | Balance per<br>Company | Examination<br>Adjustments | Balance per<br>Examination | Notes |
|--|------------------------|----------------------------|----------------------------|-------|
| Bonds  | \$ 341,787,049         | \$ -                       | \$ 341,787,049             | 1     |
| Preferred stocks   | 256,250                | -                          | 256,250                    | 1     |
| Cash, cash equivalents and short-term<br>investments   | 15,971,908             | -                          | 15,971,908                 | 1     |
| Receivable for securities  | 81,061                 | -                          | 81,061                     |       |
| Securities lending reinvested collateral   | 18,119,341             | -                          | 18,119,341                 |       |
| Aggregate write-ins for invested assets  | -                      | -                          | -                          |       |
| Subtotal, cash and invested assets   | <u>376,215,609</u>     | <u>\$ -</u>                | <u>376,215,609</u>         |       |
| Investment income due and accrued  | 2,664,113              | -                          | 2,664,113                  |       |
| Premiums and considerations  |                        |                            |                            |       |
| Uncollected premiums and agents'<br>balances in course of collection                           | 4,257,933              | -                          | 4,257,933                  |       |
| Deferred premiums, agents'<br>balances and installments booked<br>but deferred and not yet due | 686,909                | -                          | 686,909                    |       |
| Amounts recoverable from reinsurers  | 78,439                 | -                          | 78,439                     |       |
| Net deferred tax assets  | 1,204,969              | -                          | 1,204,969                  |       |
| Receivable from parent, subsidiaries and<br>affiliates   | 3,510,935              | -                          | 3,510,935                  |       |
| Aggregate write-ins for other than<br>invested assets  | -                      | -                          | -                          |       |
| Total Assets   | <u>\$ 388,618,907</u>  | <u>\$ -</u>                | <u>\$ 388,618,907</u>      |       |

**TDC NATIONAL ASSURANCE COMPANY**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**As of December 31, 2019**

|  | Balance per<br>Company | Examination<br>Adjustments | Balance per<br>Examination | Notes |
|--|------------------------|----------------------------|----------------------------|-------|
| Losses   | \$ 32,941,647          | \$ -                       | \$ 32,941,647              | 2     |
| Reinsurance payable on paid losses and lae                               | 1,842,386              | -                          | 1,842,386                  | 2     |
| Loss adjustment expenses   | 15,842,975             | -                          | 15,842,975                 | 2     |
| Commissions payable, contingent<br>commissions and other similar charges | 306,169                |                            | 306,169                    |       |
| Other expenses   | 190,000                |                            | 190,000                    |       |
| Taxes, licenses and fees   | 44,824                 |                            | 44,824                     |       |
| Current federal income taxes payable                                     | 2,301,169              |                            | 2,301,169                  |       |
| Unearned premiums  | 201,070,148            |                            | 201,070,148                |       |
| Ceded reinsurance premiums payable                                       | 660,140                | -                          | 660,140                    |       |
| Amounts Withheld or retained by company<br>for account of others         | 3,432                  |                            | 3,432                      |       |
| Payable to parent, subsidiaries and affiliates                           | 2,721,240              |                            | 2,721,240                  |       |
| Payable for securities   | 503,241                |                            | 503,241                    |       |
| Payable for securities lending   | 18,119,341             |                            | 18,119,341                 |       |
| Aggregate write-ins for liabilities                                      | <u>1,908</u>           | <u>-</u>                   | <u>1,908</u>               |       |
| Total Liabilities  | <u>\$ 276,548,621</u>  | <u>\$ -</u>                | <u>\$ 276,548,621</u>      |       |
| Common capital stock   | \$ 7,500,000           | \$ -                       | \$ 7,500,000               |       |
| Gross paid-in and contributed capital                                    | 13,750,000             | -                          | 13,750,000                 |       |
| Unassigned funds (surplus)   | <u>90,820,285</u>      | <u>-</u>                   | <u>90,820,285</u>          |       |
| Surplus as regards policyholders   | <u>112,070,285</u>     | <u>-</u>                   | <u>112,070,285</u>         |       |
| Total Liabilities, Surplus and other Funds                               | <u>\$ 388,618,907</u>  | <u>\$ -</u>                | <u>\$ 388,618,907</u>      |       |

**TDC NATIONAL ASSURANCE COMPANY**  
**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2019**

|   | Balance per<br>Company | Examination<br>Adjustments | Balance per<br>Examination | Notes |
|---|------------------------|----------------------------|----------------------------|-------|
| <b>Underwriting income</b>                                      |                        |                            |                            |       |
| Premium earned  | \$ 13,109,721          | \$ -                       | \$ 13,109,721              |       |
| <b>Deductions</b>   |                        |                            |                            |       |
| Losses incurred   | 9,416,930              | -                          | 9,416,930                  |       |
| Loss adjustment expenses incurred                               | 6,025,552              | -                          | 6,025,552                  |       |
| Other underwriting expenses                                     | 1,776,460              | -                          | 1,776,460                  |       |
| Aggregate write-ins for underwriting deductions                 | <u>-</u>               | <u>-</u>                   | <u>-</u>                   |       |
| Total underwriting deductions                                   | <u>17,218,942</u>      | <u>-</u>                   | <u>17,218,942</u>          |       |
| Net underwriting gain or (loss)                                 | (4,109,221)            | -                          | (4,109,221)                |       |
| <b>Investment income</b>  |                        |                            |                            |       |
| Net investment income earned                                    | 13,532,339             | -                          | 13,532,339                 |       |
| Net realized gains or (losses)                                  | <u>105,271</u>         | <u>-</u>                   | <u>105,271</u>             |       |
| Net investment gain or (loss)                                   | 13,637,610             | -                          | 13,637,610                 |       |
| <b>Other income</b>   |                        |                            |                            |       |
| Net gain or (loss) from agents' or premium balances charges off | -                      | -                          | -                          |       |
| Finance and service charges not included in premiums            | -                      | -                          | -                          |       |
| Aggregate write-ins for miscellaneous income                    | <u>-</u>               | <u>-</u>                   | <u>-</u>                   |       |
| Total other income  | <u>-</u>               | <u>-</u>                   | <u>-</u>                   |       |
| Net income before dividends to policyholders and income taxes   | 9,528,389              | -                          | 9,528,389                  |       |
| Dividends to policyholders                                      | -                      | -                          | -                          |       |
| Federal income taxes incurred                                   | <u>1,869,898</u>       | <u>-</u>                   | <u>1,869,898</u>           |       |
| Net income  | <u>\$ 7,658,491</u>    | <u>\$ -</u>                | <u>\$ 7,658,491</u>        |       |

**TDC NATIONAL ASSURANCE COMPANY**  
**RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION**  
**For the Year Ended December 31,**

|   | 2019                 | 2018                 | 2017                 | 2016                 |
|---|----------------------|----------------------|----------------------|----------------------|
| Surplus as regards policyholders,<br>December 31, previous year | <u>\$102,484,113</u> | <u>\$ 94,027,561</u> | <u>\$ 89,261,175</u> | <u>\$ 68,004,716</u> |
| Net income (loss)   | 7,658,491            | 10,931,344           | 5,361,803            | 20,859,391           |
| Change in net unrealized capital<br>gains or (losses)           | 1,533,637            | (2,327,379)          | (111,844)            | 84,743               |
| Change in net deferred income tax                               | 511,243              | (16,601)             | (732,580)            | (445,256)            |
| Change in non-admitted assets                                   | (117,200)            | (125,833)            | 244,028              | 756,227              |
| Change in provision for<br>reinsurance                          | -                    | -                    | -                    | -                    |
| Change in surplus notes   | -                    | -                    | -                    | -                    |
| Cumulative effects of changes in<br>accounting principles       | -                    | -                    | -                    | -                    |
| Capital changes:  |                      |                      |                      |                      |
| Paid in   | -                    | -                    | -                    | 2,659,702            |
| Transferred from surplus (Stock<br>Dividend)                    | -                    | -                    | -                    | -                    |
| Transferred to surplus  | -                    | -                    | -                    | -                    |
| Surplus adjustments:  |                      |                      |                      |                      |
| Paid in   | -                    | -                    | -                    | -                    |
| Transferred to capital (Stock<br>Dividend)                      | -                    | -                    | -                    | -                    |
| Transferred from capital  | -                    | -                    | -                    | -                    |
| Distributions to parent (cash)                                  | -                    | -                    | -                    | -                    |
| Change in treasury stock  | -                    | -                    | -                    | -                    |
| Examination adjustment  | -                    | -                    | -                    | -                    |
| Aggregate write-ins for gains and<br>losses in surplus          | -                    | (4,979)              | 4,979                | 1,354                |
| Change in surplus as regards<br>policyholders for the year      | <u>9,586,171</u>     | <u>8,456,552</u>     | <u>4,766,386</u>     | <u>21,256,459</u>    |
| Surplus as regards policyholders,<br>December 31, current year  | <u>\$112,070,285</u> | <u>\$102,484,113</u> | <u>\$ 94,027,561</u> | <u>\$ 89,261,175</u> |

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Invested Assets

At year-end 2019, the Company's long-term bond investments were in US Treasury obligations, residential mortgage backed securities, US political subdivisions, US special revenue issuer obligations, and corporate issues. Most of the bonds were investment grade (NAIC designation 1 and 2) and represented 76.9% of total invested assets.

The Company's stock comprised of one industrial and miscellaneous preferred stock.

Short-term deposits consisted of a one industrial and miscellaneous unaffiliated issuer obligation maturing in less than one year from acquisition. Cash equivalents were comprised of one exempt money market mutual fund.

A comparison of the major investments over the past five years is as follows:

| <u>Year</u> | <u>A</u><br><u>Bonds</u> | <u>B</u><br><u>Preferred</u><br><u>Stocks</u> | <u>C</u><br><u>Cash and</u><br><u>Short-term</u> | <u>Ratio</u><br><u>A/</u><br><u>Total Assets</u> | <u>Ratio</u><br><u>B/</u><br><u>Total Assets</u> | <u>Ratio</u><br><u>C/</u><br><u>Total Assets</u> |
|-------------|--------------------------|---|--|--|--|--|
| 2015 *      | \$ 280,410,968           | \$ 256,250                                    | \$ 6,109,778                                     | 93.8%  | 0.1%   | 2.1%   |
| 2016        | 297,093,854              | 256,250                                       | 8,153,847  | 93.4%  | 0.1%   | 2.5%   |
| 2017        | 298,552,944              | 256,250                                       | 15,979,021                                       | 86.6%  | 0.1%   | 4.6%   |
| 2018        | 306,105,230              | 256,250                                       | 23,884,562                                       | 87.1%  | 0.1%   | 6.8%   |
| 2019 *      | 341,787,049              | 256,250                                       | 15,971,908                                       | 87.9%  | 0.1%   | 4.1%   |

\*Balance per examination.

The Board of Directors approved the investment transactions, pursuant to ORS 733.740. As of December 31, 2019, sufficient invested assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Company was in compliance with ORS 733.580.

Effective October 24, 2017 the Company entered into a custody agreement with The Northern Trust Company. The agreement contains all the relevant protections described in OAR 836-027-0200(4)(a)-(l).

The Company participates in a Securities Lending Program to generate additional income. Borrowers of those securities provide collateral equal to or in excess of 102% of the market value of the loaned securities. Cash collateral is carried as an asset with an offsetting liability on the balance sheet. At December 31, 2019, there were no outstanding loans.

**Note 2 – Actuarial Reserves**

The Exchange and the Company retained Christian Lemay, FCAS, MAAA, of the firm Ernst & Young LLP, to opine on its loss and loss adjustment expense reserves as of December 31, 2019. Mr. Lemay prepared an actuarial analysis of the Company experience for the purpose of developing estimates of unpaid loss and LAE at year-end 2019.

The Senior Casualty Actuary from the California Department of Insurance, Giovanni Muzzarelli, FCAS, CERA, MAAA, reviewed the actuarial report as of December 31, 2019, prepared by the Company's independent actuary and concurred with Mr. Lemay's conclusion that the Company's loss, loss adjustment expense, and DD&R reserves as of December 31, 2019, were reasonably stated as of December 31, 2019.

In addition, Mr. David Dahl, FCAS, MAAA, Property/Casualty Actuary for the Oregon Division of Financial Regulation, reviewed the report for reasonableness. Mr. Dahl reviewed the reconciliation of the data used in the Company's actuarial report to the data in the actuarial work papers and found them to be consistent. He relied on work performed by the examiners assigned to the Reserve/Claims Handling key activity, who reviewed the underlying data used to create the annual statement filing, as well as prepared his own independent calculations.

Since medical professional liability claims can be reported years after the medical incident in question occurred and take several years to reach settlement, there can be significant uncertainty regarding the loss and LAE reserve estimate. The Company assumes the liability from the Doctors Company Group's business for death, disability, and retirement (DD&R) coverage provided in its policies. The DDR reserve is within the actuary's range of reasonable estimate.

The Company reported the following:

|                             | <u>Annual Statement</u> |
|-----------------------------|-------------------------|
| Reserve for Unpaid Losses   | \$ 32,941,647           |
| Reserve for Unpaid LAE      | 15,842,975              |
| Unearned Premium Reserve*   | 201,070,148*            |
| Additional Reserves         | -                       |
| Total Actuarial Liabilities | <u>\$249,854,770</u>    |

\* Includes a liability \$196,579,451 for historic premiums that have been collected to fund loss and DCCE on yet to be issued DD&R coverage extensions (extended reporting endorsements) for which the Company is liable to TDC per the December 31, 1999 Assumption Reinsurance Agreement with TDC.

The appointed actuary opined that the reserves for unpaid losses and LAE carried by the Company as of December 31, 2019, were reasonable. Mr. Dahl concurred that the reserves of the Company were reasonably stated as of December 31, 2019.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination and there were no recommendations.

## CONCLUSION

During the four-year period covered by this examination, the surplus of the Company has increased from \$68,004,716, as presented in the December 31, 2015, report of examination, to \$112,070,286, as shown in this report. The comparative assets and liabilities are:

|             | <u>2019</u>           | <b>December 31,</b><br><u>2015</u> | <u>Change</u>        |
|-------------|-----------------------|------------------------------------|----------------------|
| Assets      | \$ 388,618,907        | \$ 298,686,036                     | \$ 89,932,871        |
| Liabilities | <u>276,548,621</u>    | <u>230,681,320</u>                 | <u>45,867,301</u>    |
| Surplus     | <u>\$ 112,070,286</u> | <u>\$ 68,004,716</u>               | <u>\$ 44,065,570</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, the coordination team, Mannik C. Gupta, CFE, Jordan W. Mills, insurance examiners, and David Dahl, FCAS, MAAA, Property/Casualty Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in this examination.

Respectfully submitted,

/s/ Mark A. Giffin

Mark A. Giffin, CFE  
Senior Insurance Examiner  
Division of Financial Regulation  
Department of Consumer and Business Services  
State of Oregon

