MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

OFFICE OF
INSURANCE COMMISSIONER

Phone: (360) 725-7000
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In the Matter of	)	No. 08-35
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
WESTERN PROFESSIONAL INSURANCE	)	AND ORDER ADOPTING REPORT
COMPANY	)	OF FINANCIAL EXAMINATION
	)	

A Domestic Insurer.

BACKGROUND

An examination of the financial condition of **WESTERN PROFESSIONAL INSURANCE COMPANY** (the Company) as of December 31, 2006, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on March 28, 2008. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 12 of the report.

Mailing Address: P. O. Box 40255 • Olympia, WA 98504-0255
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **WESTERN PROFESSIONAL INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are appropriate responses to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-3.

1. Pursuant to RCW 48.13.030(1), the Company is ordered to limit its investment in the securities of any one entity aggregating an amount not exceeding four percent of its admitted assets. Instruction 1, Examination Report, page 1.

2. Pursuant to RCW 48.05.073, the Company is ordered to include supplemental reinsurance interrogatories in all future annual CPA audit reports in accordance with SSAP 62, paragraph 72. Instruction 2, Examination Report, page 2.

3. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions to correctly identify all foreign securities. Instruction 3, Examination Report, page 2.

4. The Company is ordered to consider improving controls over processing loss adjustment expense payments. At a minimum, the adjuster should verify if the payment has been made in the claim system to eliminate duplicate payments. Comments and Recommendations 1, Examination Report, page 2.

5. The Company is ordered to consider establishing and maintaining a current document standards manual that documents its internal controls, procedures, processes, and policies for the IS System and IS Department. Comments and Recommendations 2, Examination Report, page 2.

6. The Company is ordered to consider preparing formal written procedures for the relocation of the IS facility to a specific alternative recovery site and that the procedures be tested regularly to ensure that IS operations can be restored in a timely manner. Comments and Recommendations 3, Examination Report, page 3.

7. The Company's shareholder is ordered to consider nominating a Chairman and Vice Chairman of the Board from among elected directors. Comments and Recommendations 4, Examination Report, page 3.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 24th day of April, 2008.

MIKE KREIDLER
Insurance Commissioner

Physicians Insurance
A Mutual Company

Rod Pierson
Senior Vice President
Chief Financial Officer & Treasurer

April 9, 2008

RECEIVED
APR 1 : 2008
INSURANCE COMMISSIONER
COMPANY SUPERVISION

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
PO Box 40255
Olympia, WA 98504-0255

Re: Examination Reports of Physicians Insurance A Mutual Company, Western Professional Insurance Company, and Northwest Dentists Insurance Company as of December 31, 2006

Dear Mr. Odiorne:

The companies are pleased with these reports and have taken the necessary steps to comply with all of the instructions as more fully described below. It was a pleasure to work with your highly professional staff, and we appreciate the findings made that will help us improve our financial controls and reporting.

We provide the following factual comments for your consideration.

Physicians Insurance A Mutual Company

Salutation Page. On the next to last line of the page, the company's zip code should be 98101.

Page 4, Dividends to Policyholders. No dividends were declared for the period under examination.

Page 7, Officers. John C. Hastie was a Vice President of Marketing as of 12/31/06.

Page 8, Committees. Change "Compensations Committee" to "Compensation Committee". Change "Executives Committee" to "Executive Committee".

Page 10, Accounting Records and Information Systems. The first sentence should read: "The Company maintains its accounting records on a Statutory Accounting Principles (SAP) accrual basis of accounting for NAIC Annual Statement reporting.

Page 12. The date at the top has a period after "31" that you will want to remove.

Northwest Dentists Insurance Company

Salutation Page. On the next to last line of the page, the company's zip code should be 98101.

Page 8, Accounting Records and Information Systems. The first sentence should read: "The Company maintains its accounting records on a Statutory Accounting Principles (SAP) accrual basis of accounting for NAIC Annual Statement reporting."

Western Professional Insurance Company

Cover page. Our copy has an extraneous word "Note" on the left hand margin about 2/3rds of the way down the page along with a little icon to the left of the word.

Salutation Page. On the next to last line of the page, the company's zip code should be 98101.

Page 8, Accounting Records and Information Systems. The first sentence should read: "The Company maintains its accounting records on a Statutory Accounting Principles (SAP) accrual basis of accounting for NAIC Annual Statement reporting."

We provide the following responses to the Instructions and Recommendations for each company.

Physicians Insurance A Mutual Company

The company is in agreement with the examiners' findings. The following actions have been taken to comply with the instructions contained within the examination report.

1. Annual Statement Errors – The Company has corrected the minor reporting errors related to the investment schedules in the 2007 annual statement. It is further working to develop the reporting capability necessary to allocate extended reporting endorsements to the appropriate policy year as well as allocate A&O expense between claims made and occurrence schedules. These changes are expected to be implemented with the 2008 annual statement.

2. Supplemental Schedules to the Annual Audit Report – In accordance with SSAP 62, paragraph 72, the Company has included supplemental reinsurance interrogatories in the annual CPA audit report beginning with the year ended December 31, 2007.

3. State Investment Statutes – Upon learning that it held investments which exceeded the 4% limitation on securities in any one institution, the Company divested the excess investments in the first half of 2007. In addition, the Company implemented policies and procedures to prevent future violation of the statute.

The Company will consider the examiners' comments and recommendations.

Western Professional Insurance Company

The company is in agreement with the examiners' instructions. The following actions have been taken to comply with the instructions contained within the examination report.

1. State Investment Statutes– Upon learning that it held investments which exceeded the 4% limitation on securities in any one institution, the Company immediately divested the excess

investments in early 2007. In addition, the Company implemented policies and procedures to prevent future violation of the statute.

2. Supplemental Schedules to the Annual Audit Report– In accordance with SSAP 62, paragraph 72, the Company has included supplemental reinsurance interrogatories in the annual CPA audit report beginning with the year ended December 31, 2007.

3. Investment Schedules – Effective in the 2007 Annual Statement, the Company has correctly identified the Canadian security, Chevron Capital Corporation as a foreign security.

The Company will consider the examiners' comments and recommendations.

Northwest Dentist Insurance Company

The company is in agreement with the examiners' findings. The following actions have been taken to comply with the instructions contained within the examination report.

1. Annual Statement Errors – The Company has corrected the minor reporting errors related to the investment schedules in the 2007 annual statement. It is further working to develop the reporting capability necessary to allocate extended reporting endorsements to the appropriate policy year as well as allocate A&O expense between claims made and occurrence schedules. These changes are expected to be implemented with the 2008 annual statement.

2. State Investment Statutes – Upon learning that it held investments which exceeded the 4% limitation on securities in any one institution, the Company divested the excess investments in the first half of 2007. In addition, the Company implemented policies and procedures to prevent future violation of the statute.

3. Supplemental Schedules to the Annual Audit Report – In accordance with SSAP 62, paragraph 72, the Company has included supplemental reinsurance interrogatories in the annual CPA audit report beginning with the year ended December 31, 2007.

The Company will consider the examiners' comments and recommendations.

The new owners of the Company are aware of these instructions and of these comments, and they have authorized us to say they have no reason to ask us to change them.

Very truly yours,

Rod Pierson by [illegible]

Rod Pierson
Senior Vice President
Chief Financial Officer & Treasurer