

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
NORTHWEST DENTISTS INSURANCE COMPANY
BOTHELL, WASHINGTON

NAIC CODE 32417
December 31, 2011

Order No. 13-145
Northwest Dentists Insurance Company
Exhibit A

SALUTATION

Seattle, Washington
April 8, 2013

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Northwest Dentists Insurance Company

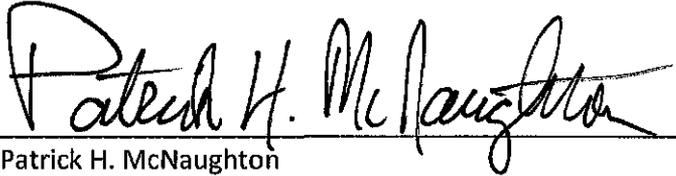
of

Bothell, Washington

hereinafter referred to as "NORDIC," or the "Company" at the location of its main administrative office, 601 SW Second Avenue, Portland, Oregon 97204. This report is respectfully submitted showing the financial condition and related corporate matters of NORDIC as of December 31, 2011.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Northwest Dentists Insurance Company of Bothell, Washington. This report shows the financial condition and related corporate matters as of December 31, 2011.



Patrick H. McNaughton
Chief Examiner

5-6-13

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2007 through December 31, 2011 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work on April 8, 2013.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's Certified Public Accountant (CPA) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2011 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2011 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company prepared the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exception noted while performing this review:

1. Computation of the Unearned Premium Reserve

The Company's method for computing its unearned premium reserves is not in accordance with an acceptable method as specified in SSAP No. 53(7) of the AP&P. According to SSAP No. 53(7), either the Daily Pro Rata Method or Monthly Pro Rata Method shall be used for computation of the unearned premium reserve.

The Company is instructed to comply with RCW 48.05.073 and WAC 284-07-050(2) by computing unearned premiums in accordance with the NAIC AP&P Manual, specifically SSAP No. 53(7).

COMMENTS AND RECOMMENDATIONS

1. Information Technology (IT) Reporting Structure

Currently, IT management reports to the Chief Financial Officer. Control Objectives for Information and Related Technology (COBIT) framework standards recommend that the IT department be separate from operational departments within the Company.

It is recommended that IT management report directly to the President and Chief Executive Officer (CEO).

COMPANY PROFILE

Company History

NORDIC was incorporated under the laws of the state of Washington on May 5, 1989, and began business on June 23, 1989, as a wholly owned subsidiary of Physicians Insurance A Mutual Company (PIAMC). On March 8, 2007, Health Services Group, Inc. (HSG) and Washington State Dental Association (WSDA) acquired 75 percent and 25 percent, respectively, of the outstanding common stock of NORDIC from PIAMC. HSG is wholly owned by Oregon Dental Service (ODS).

Capitalization

As of December 31, 2011, the Company had 15 shares of common stock issued and outstanding with a par value of \$100,000 per share, and \$2.5 million of contributed surplus. All authorized shares are issued and outstanding.

Territory and Plan of Operation

NORDIC is licensed to transact business in the states of Washington, Idaho, Montana, and Oregon but currently only writes business in Washington and Idaho. The Company writes primarily professional liability insurance and business-owners insurance for dentists.

Growth of Company

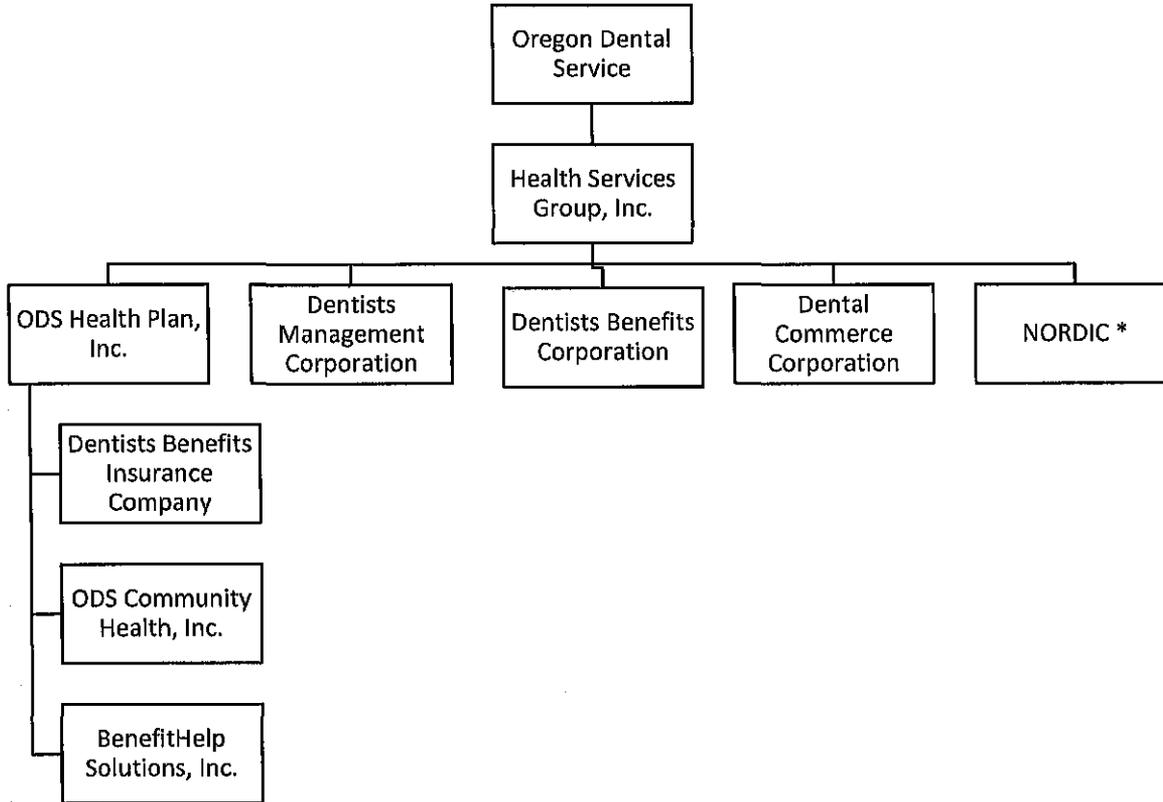
The Company's growth, as reported in its filed NAIC Annual Statements, is illustrated below:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>		
2011	\$18,171,229	\$9,987,518	\$8,183,711		
2010	16,969,895	10,223,167	6,746,728		
2009	16,765,783	9,002,657	7,763,126		
2008	15,234,369	8,492,296	6,742,073		
2007	16,472,572	9,073,668	7,398,904		

<u>Year</u>	<u>Premium Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2011	\$5,840,993	\$ 573,563	\$365,023	\$685,000
2010	5,430,842	(1,149,062)	593,425	(289,401)
2009	5,006,284	(786,672)	426,629	(234,492)
2008	4,884,052	285,529	571,687	796,147
2007	3,957,050	32,281	696,858	482,621

Affiliated Companies

The following organization chart is taken from NORDIC's filed 2011 NAIC Annual Statement:



*HSG is 75 percent shareholder; WSDA is 25 percent shareholder.

Intercompany Agreements

As of December 31, 2011, NORDIC had the following intercompany agreements in force, with the effective dates indicated:

- Management Agreement with Dentists Benefits Corporation (DBC) March 8, 2007
- Agency Agreement with Washington Dentists Insurance Agency (WDIA) March 8, 2007

MANAGEMENT AND CONTROL

Board of Directors (BOD)

Directors as of December 31, 2011:

- Jay C. Lamb Chairman
- Teri L. Barichello
- Richard E. Ferguson, Jr.
- Robert G. Gootee
- James L. Ribary
- William S. Ten Pas
- Mark V. Walker
- Douglas P. Walsh

Officers

Officers as of December 31, 2011:

Robert G. Gootee	President and CEO
Thomas J. Bikales	Secretary
David W. Evans	Treasurer

Conflict of Interest

The Company has an established procedure for disclosure to its BOD of any affiliation on the part of its officers, directors and key employees that is in conflict with their official duties. The BOD reviews the conflict of interest statements annually for conflicting situations and takes appropriate action, if necessary. No exceptions were noted in our review.

Fidelity Bond and Other Insurance

The Company and its affiliated companies are the named insureds on various insurance policies including property and general liability loss, professional liability, and fidelity coverage. The Company's fidelity coverage of \$15 million meets the suggested NAIC minimum coverage.

Officers', Employees', and Agents' Welfare and Pension Plans

NORDIC does not have any direct employees, so it does not have any direct obligations for a defined benefit plan, deferred compensation arrangement, compensated absences or other post retirement benefit plans.

NORDIC's affiliates offer their eligible full-time and part-time employees, medical, dental and vision coverage; disability insurance; employee and dependent life insurance and accidental death and dismemberment coverage; a retirement benefit plan; and an opportunity to participate in the 401(k) plan.

CORPORATE RECORDS

The Company's Articles of Incorporation, Bylaws, and minutes of the BOD and committees, were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. Investment purchases, transfers, and disposals were ratified by the BOD and noted in the minutes.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

<u>Year</u>	<u>Losses</u>	<u>Loss Adjustment Expenses</u>
2011	\$3,815,242	\$2,176,370
2010	4,285,934	2,205,678
2009	3,880,054	1,461,558
2008	3,654,451	1,712,161
2007	3,934,480	1,967,132

As shown above, the reserves carried by the Company for unpaid losses and loss adjustment expenses were \$3,815,242 and \$2,176,370, respectively, as of December 31, 2011.

The OIC actuaries reviewed the unpaid losses and loss adjustment expense reserves of the Company and concluded that the reserves were within a range of reasonable estimates. Therefore, the Company's loss and loss adjustment expense reserves were accepted as reasonable and no adjustments were proposed to the amounts reported in the Company's 2011 NAIC Annual Statement.

REINSURANCE

The Company participates in an excess of loss treaty with General Reinsurance Corporation (Gen Re), which provides coverage for its professional liability and business-owners policies. Under the professional liability agreement, the Company retains the first \$500,000 of loss, and cedes all of the excess loss up to \$2 million per occurrence. Under the business-owners agreement, the Company retains \$250,000 per occurrence, and cedes all of the excess up to \$1 million. All policies with limits greater than the excess of loss treaty limits are covered under separate facultative treaties through Gen Re.

Gen Re is authorized to do business in Washington State and is properly classified in Schedule F of the 2011 NAIC Annual Statement.

STATUTORY DEPOSITS

The Company maintained the following statutory deposit as of December 31, 2011:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	Bond	\$1,153,236	\$1,190,357

ACCOUNTING RECORDS AND INFORMATION SYSTEM

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis and is audited annually by the certified public accounting firm of Deloitte & Touche LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

The Company's IT environment was reviewed during the planning and testing phase of the examination, focusing on the following COBIT Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT system and controls were evaluated to gain an understanding of the IT general control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which have been tested on a regular basis and includes the availability of an alternate site.

SUBSEQUENT EVENTS

There were no material events impacting the Company between the examination date and the last day of our field work on April 8, 2013.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and recommendations were corrected and satisfactorily addressed.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Northwest Dentists Insurance Company as of December 31, 2011:

Assets, Liabilities, Surplus and Other Funds
Statement of Income and Capital and Surplus Account
Five Year Reconciliation of Surplus

Northwest Dentists Insurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2011

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Assets			
Bonds	\$14,127,412	\$0	\$14,127,412
Stocks:			
Common stocks	887,128		887,128
Cash and short-term investments	2,552,618		2,552,618
Subtotals, cash and invested assets	<u>17,567,158</u>	<u>0</u>	<u>17,567,158</u>
Investment income due and accrued	141,381		141,381
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	38,035		38,035
Reinsurance:			
Other amounts receivable under reinsurance contracts	7,413		7,413
Net deferred tax asset	417,242		417,242
Total Assets	<u>\$18,171,229</u>	<u>\$0</u>	<u>\$18,171,229</u>
Liabilities, Surplus and Other Funds			
Losses	\$3,815,242	\$0	\$3,815,242
Loss adjustment expenses	2,176,370		2,176,370
Commissions payable, contingent commissions and other similar charges	3,148		3,148
Other expenses	86,348		86,348
Taxes, licenses and fees	15,462		15,462
Current federal and foreign income taxes	147,990		147,990
Unearned premiums	997,648		997,648
Advance premium	2,103,187		2,103,187
Ceded reinsurance premiums payable	78,537		78,537
Funds held by company under reinsurance treaties	409,543		409,543
Payable to parent, subsidiaries and affiliates	152,958		152,958
Aggregate write-ins for liabilities	1,085		1,085
Total Liabilities	<u>9,987,518</u>	<u>0</u>	<u>9,987,518</u>
Aggregate write-ins for special surplus funds	86,379		86,379
Common capital stock	1,500,000		1,500,000
Gross paid in and contributed surplus	2,500,000		2,500,000
Unassigned funds (surplus)	4,097,332		4,097,332
Surplus as regards policyholders	<u>8,183,711</u>	<u>0</u>	<u>8,183,711</u>
Total Liabilities, Surplus and Other Funds	<u>\$18,171,229</u>	<u>\$0</u>	<u>\$18,171,229</u>

Northwest Dentists Insurance Company
Statement of Income and Capital and Surplus Account
For the Year Ended December 31, 2011

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Underwriting Income			
Premiums earned	\$5,840,993	\$0	\$5,840,993
Deductions			
Losses incurred	1,099,029		1,099,029
Loss adjustment expenses incurred	1,946,732		1,946,732
Other underwriting expenses incurred	2,221,669		2,221,669
Total underwriting deductions	<u>5,267,430</u>	<u>0</u>	<u>5,267,430</u>
Net underwriting gain or (loss)	<u>573,563</u>	<u>0</u>	<u>573,563</u>
Investment Income			
Net investment income earned	375,044		375,044
Net realized capital gains or (losses)	<u>(10,021)</u>		<u>(10,021)</u>
Net investment gain or (loss)	<u>365,023</u>	<u>0</u>	<u>365,023</u>
Other Income			
Net gain or (loss) from agents' or premium balances charged off	(1,757)		(1,757)
Finance and service charges not included in premiums	75,432		75,432
Aggregate write-ins for miscellaneous income	<u>2</u>		<u>2</u>
Total other income	<u>73,677</u>	<u>0</u>	<u>73,677</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	1,012,263		1,012,263
Federal and foreign income taxes incurred	<u>327,263</u>		<u>327,263</u>
Net income	<u>\$685,000</u>	<u>\$0</u>	<u>\$685,000</u>
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	<u>\$6,746,728</u>	<u>\$0</u>	<u>\$6,746,728</u>
Gains and (losses) in surplus			
Net income	685,000		685,000
Change in net unrealized capital gains or (losses)	(20,118)		(20,118)
Change in net deferred income tax	(617,114)		(617,114)
Change in nonadmitted assets	1,649,807		1,649,807
Dividends to stockholders	(380,000)		(380,000)
Aggregate write-ins for gains and losses in surplus	<u>119,408</u>		<u>119,408</u>
Change in surplus as regards policyholders for the year	<u>1,436,983</u>	<u>0</u>	<u>1,436,983</u>
Surplus as regards policyholders, December 31 current year	<u>\$8,183,711</u>	<u>\$0</u>	<u>\$8,183,711</u>

Northwest Dentists Insurance Company
Five Year Reconciliation of Surplus
For the Years Ended December 31,

	2011	2010	2009	2008	2007
Capital and Surplus, December 31, previous year	<u>\$6,746,728</u>	<u>\$7,763,126</u>	<u>\$6,742,073</u>	<u>\$7,398,904</u>	<u>\$7,017,756</u>
Net income or (loss)	685,000	(289,401)	(234,492)	796,147	482,621
Change in net unrealized capital gains or (losses)	(20,118)	214,612	657,628	(969,615)	(26,146)
Changes in net deferred income tax	(617,114)	549,085	(516)	(25,428)	42,968
Change in nonadmitted assets	1,649,807	(1,490,694)	492,964	(457,935)	(118,295)
Dividends to stockholders	(380,000)				
Aggregate write-ins for gains and losses in surplus	<u>119,408</u>		<u>105,469</u>		
Change in surplus as regards policyholders for the year	<u>1,436,983</u>	<u>(1,016,398)</u>	<u>1,021,053</u>	<u>(656,831)</u>	<u>381,148</u>
Capital and Surplus, December 31, current year	<u>\$8,183,711</u>	<u>\$6,746,728</u>	<u>\$7,763,126</u>	<u>\$6,742,073</u>	<u>\$7,398,904</u>

NOTES TO THE FINANCIAL STATEMENTS

Special Consent

The Company holds a special consent, issued by the state of Washington, with an effective date of January 1, 2011 that allows the Company to own and purchase mutual funds if certain statutory requirements have been met. The Company is allowed to acquire and hold a single entity's NAIC non-exempt listed mutual funds totaling not more than four percent of the Company's admitted assets. As of December 31, 2011, NORDIC's mutual fund investments represented 4.9 percent of its admitted assets.

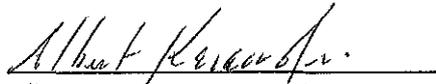
The Company has no additional special consents, permitted practices, or orders from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Northwest Dentists Insurance Company and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, CFE, FLMI, Reinsurance Specialist; D. Lee Barclay, FCAS, MAAA, Senior Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Eric Slavich, Actuarial Analyst; Tarik Subbagh, MSBA, CPA, CFE, Property and Casualty Field Supervising Examiner; and Katy Bardsley, CPA, AFE, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



Albert Karau, Jr., CPA, CFE, FLMI
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }

Albert Karau, Jr., being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Northwest Dentists Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners.

Albert Karau, Jr.
Albert Karau, Jr., CPA, CFE, FLMI
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 6th day of May, 2013.

Colleen Jansen
Notary Public in and for the
State of Washington

