

MARKET CONDUCT EXAMINATION

Of

**PHYSICIANS INSURANCE
A MUTUAL COMPANY**

NORTHWEST DENTISTS INSURANCE COMPANY

**1730 MINOR AVENUE, SUITE 1800
SEATTLE, WA 98101-1499**

June 1, 2006 – May 31, 2007



Order No. 08-0076
Physicians Insurance
A Mutual Company
Northwest Dentists Insurance Company
Exhibit A

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The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504-0255

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following Companies:

Physicians Insurance A Mutual Company, NAIC #40738
Northwest Dentists Insurance Company, NAIC #32417

In this report, the above entities are collectively referred to as "the Companies". This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Eastman, AIE, AIC, Jeanette M. Plitt, AIE, CLU, and Gary Stephenson, AIE, AIRC, of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of Physicians Insurance A Mutual Company during the course of this market conduct examination, including those people assigned to us that provided daily support to the examiners.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.



Sally Anne Eastman, AIE, AIC
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

SCOPE

Time Frame

The examination covered the Companies' operations from June 1, 2006 through May 31, 2007. The examination was performed in the Companies' home office in Seattle, Washington.

Matters Examined

The examination included the following areas:

Company Operations and Management
General Examination Standards
Agent Licensing
Rate and Form Filing
Underwriting and Rating
Renewal, Cancellation and Non-Renewal
Claim Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92%	Confidence Level
+/- 5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Regulation Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio which determines whether or not a standard is met. If the error ratio found in the sample is less than 5%, the

standard will be considered as 'met'. The standards in the area of agent licensing and appointment will not be met if any violation is identified. The standards in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed (without comment), Passed with Comment or Failed. The definition of each category follows.

Passed	There were no adverse findings for this standard.
Passed with Comment	The records reviewed fell within the tolerance level for that standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY AND OPERATIONS

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
Physicians Insurance, A Mutual Company	Washington	December 22, 1981	December 22, 1981
Northwest Dentists Insurance Company	Washington	May 5, 1989	May 17, 1989

Physicians Insurance A Mutual Company (Physicians Insurance), a mutual insurer today, was originally formed by the Washington State Medical Association in December of 1981 as a reciprocal exchange governed by a subscribers' advisory committee (SAC) to provide a stable market for physician malpractice insurance in the state of Washington. On July 1, 1999, the Insurance Commissioner approved the conversion of Physicians Insurance to a mutual insurer with the new name Physicians Insurance A Mutual Company.

Physicians Insurance is the leading provider of medical malpractice coverage in the state of Washington with approximately 65 percent of the available market. Physicians has expanded its product line to include medical and provider stop-loss, corporation/partnership medical professional liability, health care facility, directors and officers liability, and business owner's policies.

In 1989, Physicians Insurance formed Northwest Dentists Insurance Company (NORDIC), a wholly-owned subsidiary, to provide comprehensive professional liability insurance to dentists practicing in the State of Washington. NORDIC was sold to Oregon Dental Service (ODS), an Oregon non-profit corporation, and the Washington State Dental Association (WSDA) effective February 28, 2007. ODS owns 75 percent of NORDIC, WSDA owns the remaining 25 percent.

In 1998 Physicians Insurance formed a wholly-owned subsidiary, Western Professional Insurance Company (WPIC) to primarily write professional liability insurance for hospitals. In 2003, Physicians Insurance and WPIC decided to exit the hospital insurance business professional liability market. WPIC non-renewed all of its hospital professional liability business at expiration during 2004. All WPIC business owner policies and most provider stop loss business were renewed by Physicians Insurance effective January 1, 2005. WPIC had no policies in force during the exam period.

Physicians Insurance and NORDIC wrote the following lines of business during the examination period:

- Professional Liability Coverage
- Business Owner's Policies

Physicians Insurance also wrote the following lines of business:

- Provider Stop Loss
- Employer Stop Loss

OPERATIONS AND MANAGEMENT

During the examination period Physicians Insurance territory of operations included; Washington, Oregon, Idaho, Alaska and Montana. NORDIC territory of operations included; Washington, Idaho, and Montana.

The following Operations and Management Standards Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	The Companies are required to hold a certificate of authority from the Office of the Insurance Commissioner prior to transacting insurance in the State of Washington.	RCW 48.05.030(1)
2	The Companies are required to file with the Office of the Insurance Commissioner any amendments to the Articles of Incorporation for domestic insurers or insurance holding Companies.	RCW 48.07.070

GENERAL EXAMINATION PRACTICES

The Companies records and operations were reviewed to determine if the Companies do business in accordance with the requirements of this state.

Physicians Insurance and NORDIC are exempt from General Examination Standard #4 as companies writing primarily medical malpractice insurance are exempt from Washington's anti-fraud statute (RCW 48.30A.045(2)(d)).

Findings

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.	RCW 48.03.030(1)
4	The Companies filed an antifraud plan with the Office of Insurance Commissioner and filed annual anti-fraud reports with the Office of the Insurance Commissioner.	RCW 48.30A.045 RCW 48.30(A).060

The following General Examination Standards Passed with Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	The Companies do business in their own legal names.	RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06

#	GENERAL EXAMINATION STANDARD	REFERENCE
3	The Companies maintain full and accurate records and accounts.	RCW 48.05.280

Standard #2:

- Three (3) Physicians Insurance Business Owner's Policy (BOP) claim files contained correspondence to an independent adjuster on NORDIC letterhead. Three files or 3% of the 110 random selected claim files selected for review did not indicate a trend. The violations appeared to be a training issue for the Company's Eastern Regional Office (ERO). No other violations were found within the claim samples.

See Appendix 1 for detail.

Standard #3:

- One (1) NORDIC Professional Liability cancellation/non-renewal file contained no documentation regarding the cancellation of the policy
- One (1) NORDIC Professional Liability underwriting/rating file was cancelled, but the file contained no documentation regarding the cancellation only the change endorsement.
- One (1) NORDIC BOP underwriting/rating file contained no documentation to confirm the cost and expense of the facultative reinsurance. Without the reinsurance costs it could not be determined if the risk was properly rated.
- One (1) Physicians Insurance BOP cancellation/non-renewal file was subsequently verified cancelled at the insured's request but the file contained no documentation to confirm the request.
- Eight (8) Physicians Insurance Corporate Professional Liability physician policies within the same group expired and were re-written on a Health Care Facility (HFC) policy form. No lapse in coverage occurred. The Company did however include the physician policies in the Physicians Insurance HCF cancel population. No documentation was found in the individual or HCF file to support the transaction with the exception of an email from the marketing department congratulating the physicians on their new policy form.

Twelve (12) policies or .046% of the 256 Underwriting/Rating and Cancellations/Non-Renewal files did not indicate a trend.

See Appendix 2 for detail.

AGENT ACTIVITIES

The Company provided a listing of all brokers, agents, and agencies who wrote policies with the Companies' during the examination period. The list included seven (7) professional liability brokers, three (3) stop loss brokers, thirteen (13) licensed/appointed employees of Physicians Insurance and ten (10) licensed/appointed employees of Northwest Dentists Insurance Company.

As part of the review, the examiners compared the Companies agency appointment records with the OIC records to ensure the agents and brokers were licensed for the appropriate line of business with the State of Washington prior to soliciting business, taking applications, or placing any kind of insurance for which they were not licensed on behalf of themselves or others.

Findings

Note: Agent Activity Standards are zero tolerance standards. Any violation of the agent licensing laws are considered as failure of the standard.

The following Agent Activity Standards Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
2	The Companies require that agents are appointed to represent the Companies prior to allowing them to solicit business on behalf of the Companies.	RCW 48.17.160
3	The Companies must notify the OIC when an agent's appointment is revoked.	RCW 48.17.160(3)
4	The Companies must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract.	RCW 48.17.591(2)

The following Agent Activity Standard Failed:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	The Companies ensure that agents, brokers, and solicitors are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or place for others any kind of insurance for which he or she is not then licensed.	RCW 48.17.060(1) and (2)

Standard #1:

- Three (3) Brokers were identified as not holding broker licenses in the State of Washington.
- A total of three (3) clinics, fourteen (14) solo practitioners, and three (3) hospital community accounts were written or renewed during the examination period by the three (3) brokers not then licensed in the state.

See Appendix 3 for detail.

UNDERWRITING AND RATING

The Companies provided the examiners with underwriting guideline and procedure manuals, in addition to access to their AS400 administrative system. The manuals contained filed rates,

rating worksheets, underwriting rules, administrative procedures, and filed policy forms. The Companies' AS400 system provided online review of client files, including but not limited to client information, rating, billing, client history, and comments. The examiners found the procedures to be detailed and comprehensive.

Underwriting files were reviewed to determine if the Companies:

- Followed the filed rating plan
- Followed the underwriting rules
- Were in compliance with Washington law

The following is a breakdown of the total Underwriting, New and Renewal, population during the examination period and the random samples selected for review:

COMPANY/PRODUCT	POPULATION	SAMPLE
NORDIC / Business Owner's Policy	1123	20
NORDIC / Professional Liability	2402	20
Physicians Insurance / Business Owner's Policy	5	2
Physicians Insurance / Health Care Facility	1148	20
Physicians Insurance / Professional Liability	5162	50
Physicians Insurance / Provider Stop Loss	2	1
Physicians Insurance / Employer Stop Loss	13	13
Total	9855	126

The Companies did not write auto coverage during the examination period therefore Underwriting and Rating Standards #2, #3, #4, #9, #10, and #11 did not apply.

Findings

The following applicable Underwriting and Rating Standards Passed without Comment:

#	UNDERWRITING AND RATING STANDARD	REFERENCE
1	Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the Company providing the coverage and effective dates.	RCW 48.18.230(1), WAC 284-30-560
5	The Companies apply schedule rating plans to all policies as applicable in their filings.	WAC 284-24-100
6	The Companies retain all documentation related to the development and use of (a) rates.	WAC 284-24-070
7	The Companies may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.	WAC 284-30-574
8	Binders must identify the insurer in which they are bound,	WAC 284-30-560(2)(a)

#	UNDERWRITING AND RATING STANDARD	REFERENCE
	briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received.	
12	No insurer may alter an application for insurance without the insured's written permission.	RCW 48.18.070

The examiners noted during the underwriting review process, the Provider Excess Insurance Policy, form PEX-4-WA 1/2007, filed with the OIC, policy language was in conflict with practiced administrative procedures. The policy read; "In consideration of receipt of an application and the first month's premium which is due and payable on the effective date, the Company issues the policy."

In practice, the Company issued the policy without premium and then billed the policyholder, with the premium being due within 25 days of the effective date.

Subsequent Event: On November 20, 2007, the Company re-filed the Provider Excess Policy, form PEX-4-WA 1/2008, which now reads, "This Policy is issued in consideration of Physicians Insurance A Mutual Company's ("Company") receipt of a completed Provider Excess Application ("Application") and the first month's premium from Insured Provider. All premiums are due and payable according to the premium provisions, as long as the Policy remains in force." The OIC has approved the re-filed policy form.

RATE AND FORM FILING

The Companies provided the examiners with detailed procedure manuals, including filed rates, rating worksheets, filed policy forms and endorsements. The examiners cross-referenced the rates and forms with the records maintained by the OIC.

Policies from the new and renewal sample were manually rated to ensure that the Companies rating programs were processing policies according to the filed rates and that underwriting rules were being followed.

The Companies did not write auto coverage during the examination period therefore Rate and Form Filing Standard #6 did not apply to this exam.

Findings

The following Rate and Form Filing Standards Passed without Comment:

#	RATE AND FORM FILING STANDARD	REFERENCE
3	The policy must identify all forms that make up the policy. The policy will identify all coverage limits.	RCW 48.18.140(2)(a)-(f)
4	The policy must contain all endorsements and forms.	RCW 48.18.190

#	RATE AND FORM FILING STANDARD	REFERENCE
5	Policy forms for commercial policies are filed within 30 days of use.	RCW 48.18.103(2)
7	Rates for commercial policies must be filed within 30 days of use.	RCW 48.19.043(2)

The following Rate and Form Filing Standards Failed:

#	RATE AND FORM FILING STANDARD	REFERENCE
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use.	RCW 48.18.100
2	Where required, the Companies have filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and do not issue any policies that are not in accord with the filing in effect.	RCW 48.19.040(1) and (6)

Standard #1:

- 1,731 Physicians Insurance renewed professional liability policyholders were mailed policy endorsement END320; Employment Practices Liability Defense Cost Reimbursement Endorsement – 11/17/06. The language contained in the endorsement was other than that filed with the OIC. Section VII of the endorsement contained the words "shall not" apply, when in fact it should have read "shall" apply.

Subsequent Event: Effective February 9, 2007, the Company mailed to each of the 1,731 policyholders a cover letter explaining the error, re-stating the correction, and a corrected endorsement for attachment to the policy. The Company documented the 1,731 files accordingly.

See Appendix 4 for detail.

Standard #2:

- One (1) policyholder elected to cancel their scheduled policy to write a volume rated policy. Two months later the policyholder notified the Company they wished to cancel the volume rated policy and re-write the scheduled policy. In the rewrite process the 10% schedule rating and 10% clinic size discount were omitted. The Company discovered the schedule rating error on 4/19/07, and processed the discount back to the 1/01/07 renewal. The company discovered the omission of the clinic size discount in July, and processed the discount on 7/11/07, back to the 1/01/07 renewal. In both instances the Company notified the insured of the corrections, issued corrected endorsement forms, and applied the appropriate premium credit adjustments.

- One (1) policyholder requested a policy change in December of 2006. In processing the request the Company discovered the insured's risk type "m" had been incorrectly renewed as a full-time physician for the policy year 1/1/06 - 1/1/07. The Company was unable to determine why the moonlighting code had been manually changed within the system. The file contained no documentation. The Company made the appropriate corrections, notified the policyholder, and credited the policyholder's account with the premium difference.

See Appendix 5 for detail.

CANCELLATIONS AND NON-RENEWAL

Cancellation and Non-Renewal policies were reviewed to determine if the Companies were in compliance with the state laws governing policy non-renewal or cancellation.

The following is a breakdown of the Cancellation and Non-Renewal population during the examination period and the random samples selected for review:

COMPANY/PRODUCT	POPULATION	SAMPLE
NORDIC / Business Owner's Policy	46	10
NORDIC / Professional Liability	76	10
Physicians Insurance / Business Owner's Policy	421	50
Physicians Insurance / Health Care Facility	195	10
Physicians Insurance / Professional Liability	495	50
Total	1233	130

Findings

The following Cancellation and Non-renewal Standards Passed without Comment:

#	RENEWAL CANCELLATION AND NON-RENEWAL STANDARD	REFERENCE
1	The Companies do not cancel or refuse to renew policies because the agent is no longer affiliated with the Companies.	RCW 48.17.591
2	The Companies send offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination.	RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292
3	The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.	WAC 284-30-570 Bulletin 96-2

CLAIM SETTLEMENT PRACTICES

The Companies receive claim notification either by phone, mail, e-mail, or fax. The Companies claims are not automated, but processed manually and kept as paper files. Claim information is keyed into the AS400 client system. The examiners were provided detailed claim procedure manuals for review.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Documentation of claim files

The claims are handled in the Seattle, Washington office and the Eastern Regional Office in Spokane, Washington.

The following is a breakdown of the Claim population during the examination period and the random samples selected for review:

COMPANY/PRODUCT	POPULATION	SAMPLE
NORDIC / Business Owner's Policy	50	10
NORDIC / Professional Liability	70	10
Physicians Insurance / Business Owner's Policy	21	5
Physicians Insurance / Professional Liability	593	50
Physicians Insurance / Provider Stop Loss	235*	10
Physicians Insurance / Employer Stop Loss	66	10
Total	1035*	95

* The Physicians Insurance Provider Stop Loss claims were from one of two provider policies.

The Companies did not write auto coverage during the examination period therefore Claim Settlement Practices Filing Standards #7, #8, #9, did not apply to this exam.

Findings

The following Claim Settlement Practices Standards Passed without Comment:

#	CLAIM SETTLEMENT PRACTICES STANDARD	REFERENCE
1	The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.	WAC 284-30-330
2	The Companies claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file.	WAC 284-30-340
3	The Companies provided an explanation of all pertinent coverage to first party claimants.	WAC 284-30-350
4	The Companies acknowledged receipt of a claim within 10	WAC 284-30-360(1)

#	CLAIM SETTLEMENT PRACTICES STANDARD	REFERENCE
	days, and responded to all communications on a claim file within the time frames prescribed.	(3) and (4)
5	The Companies comply with requirement for prompt investigation of claims.	WAC 284-30-370
6	The Companies must accept or deny coverage within 15 days after receiving proof of claim.	WAC 284-30-380

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies are required to hold a certificate of authority from the OIC prior to transacting insurance in the State of Washington. (RCW 48.05.030(1))	8	X	
2	The Companies are required to file with the Office of the Insurance Commissioner any amendments to the Articles of Incorporation for domestic insurers or insurance holding Companies. (RCW 48.07.070)	8	X	

General Examination Practices:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	8	X	
2	The Companies do business in their own legal names. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	9	X	
3	The Companies maintain full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The Companies filed an antifraud plan with the Office of Insurance Commissioner (RCW 48.30A.045) and filed annual anti-fraud reports with the OIC. (RCW 48.30A.060)	8	X	

Agent Activities:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies ensure that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Companies in any way. (RCW 48.17.060(1) and (2))	10		X
2	The Companies require that agents are appointed to represent the Companies prior to allowing them to solicit business on behalf of the Companies. (RCW 48.17.160)	10	X	
3	The Companies must notify the OIC when an agent's appointment is revoked. (RCW 48.17.160(3))	10	X	
4	The Companies must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract. (RCW 48.17.591(2))	10	X	

Underwriting and Rating:

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage (during underwriting) are valid until the policy is issued or ninety days, whichever is shorter and shall identify the Company providing the coverage and effective dates. (RCW 48.18.230(1)), (WAC 284-30-560)	11	X	
2	The Company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing. (RCW 48.22.030(3) and (4))	NA		
3	The Company requires an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	NA		
4	During underwriting, the Company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance. (RCW 46.52.130), (RCW 48.30.310), (Bulletin 79-3), (WAC 308-104-145)	NA		
5	The Companies apply schedule rating plans to all policies as applicable in their filings. (WAC 284-24-100)	11	X	
6	The Companies retain all documentation related to the development and use of (a) rates. (WAC 284-24-070)	11	X	
7	The Companies may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	11	X	
8	Binders must identify the insurer in which they are bound, briefly describe the coverage, state the date & time coverage is effective and acknowledge any premium received. (WAC 284-30-560(2)(a))	11	X	
9	An insurer, when using credit scoring to underwrite, may not use the following factors: the number of credit inquires; collections identified with a medical industry code; the purchase of a new vehicle or home (exceptions); or the total available line of credit. <i>Effective 6/30/03</i> (WAC 284-24A-065 (1) through (6))	NA		
10	The insurer informs the consumer of the significant factors adversely affecting the credit history or the insurance score and explains significant factors that lead to adverse action in clear and simple language. <i>Effective 6/30/2003</i> . (WAC 284-24A-010(1)(2)) and (T2005-06)	NA		
11	The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003 (WAC 284-24A-015(1))	NA		

#	STANDARD	PAGE	PASS	FAIL
12	No insurer may alter an application for insurance without the insured's written permission. (RCW 48.18.070)	12	X	

Rate and Form Filing:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100)	13		X
2	Where required, the Companies have filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, do not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040(1) and (6))	13		X
3	The policy identifies all forms that make up the policy. The policy will identify all coverage limits. (RCW 48.18.140(2)(a)-(f))	12	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	12	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	13	X	
6	Personal Injury Protection forms issued by the company contain coverage definitions and limits that conform to Washington law.	NA		
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	13	X	

Cancellations and Non-Renewal:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies do not cancel or refuse to renew policies because the agent is no longer affiliated with the company. (RCW 48.17.591)	14	X	
2	The Companies send offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	14	X	
3	The Companies include the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570, Bulletin 96-2)	14	X	

Claim Settlement Practices:

#	STANDARD	PAGE	PASS	FAIL
1	The Companies settle claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	15	X	
2	The Companies' claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)	15	X	
3	The Companies provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	15	X	
4	The Companies acknowledges receipt of a claim within 10 days, and responds to all communications on a claim file within the time frames prescribed. (WAC 284-30-360(1),(3) and (4))	15	X	
5	The Companies comply with requirement for prompt investigation of claims. (WAC 284-30-370)	16	X	
6	The Companies must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	16	X	
7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-3901-3916)	NA		
8	The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395(1))	NA		
9	The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070), (WAC 308-56A-460)	NA		

INSTRUCTIONS AND RECOMMENDATIONS

	INSTRUCTION	PAGE NUMBER
1	The Companies are instructed to comply with RCW 48.17.060(1)(2) to ensure that agents, brokers, and solicitors are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or place for others any kind of insurance for which he or she is not then licensed.	10
2	The Companies are instructed to comply with RCW48.18.100 to ensure policy forms and applications where required, have been filed with and approved by the OIC prior to use.	13
3	The Companies are instructed to comply with RCW 48.19.040(1) and (6) to ensure policies are rated according to the filings that apply.	13

	RECOMMENDATIONS	PAGE NUMBER
1	It is recommended that the Companies comply with RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06, to ensure all documents and correspondence identify the legal name of the insuring Company accurately.	8
2	It is recommended that the Companies comply with RCW 48.05.280 to maintain full and accurate records and accounts.	8
3	It is recommended that the Companies review administrative procedures and practices to ensure they are compliant with filed policy language.	12

APPENDIX 1

GENERAL EXAMINATION STANDARD #2	The Companies conduct business in their own legal name RCW 48.05.190(1)
Policy or Claim #	Comments
70834, 70842, 70845	Three (3) Physicians Insurance, Business Owner's Policy (BOP) claim files contained correspondence written from Physicians' Eastern Regional Office to an independent adjuster on NORDIC letterhead.

APPENDIX 2

GENERAL EXAMINATION STANDARD #3	The Companies maintain full and accurate records and accounts. RCW 48.05.280
Policy or Claim #	Comments
41700	NORDIC Professional Liability, Cancellation/Non-Renewal file contained no documentation regarding the cancellation.
50837400	NORDIC Professional Liability, Underwriting/Rating file was cancelled however the file contained no documentation regarding the cancellation only the change endorsement.
52171500	NORDIC BOP, Underwriting/Rating file contained no documentation to confirm the cost and expense of the facultative reinsurance. Without the reinsurance costs it could not be determined if the risk was properly rated.
21496502	Physicians Insurance BOP, Cancellation/Non-Renewal, the Company confirmed the file was cancelled at the insured's request however the file contained no documentation to support the cancellation.
13973300, 21977400, 23168100, 23278902, 23568400, 23807900, 23858600, 293100	Eight (8) Physicians Insurance, Professional Liability physician policies within the same corporation expired and were re-written on a Health Care Facility (HCF) policy form. No lapse in coverage occurred, however no documentation was found in either the individual files, or the HCF file to support the transaction with the exception of an email from the marketing department congratulating the physicians on their new policy form.

APPENDIX 3

AGENT ACTIVITY STANDARD #1	The Companies ensure agents and brokers are licensed for the appropriate line of business with the State of Washington RCW 48.17.060(1)(2)
Policy or Claim #	Comments
Policy List Retained in Examiner's Work Papers.	<p>Three (3) Brokers were identified as not holding a Brokers license in the State of Washington during the examination period;</p> <p>1.) Marsh USA Inc.</p> <ul style="list-style-type: none"> a. Wrote or renewed total of 11 accounts b. Accounts consisted of 2 clinics, 9 solo practitioners c. Total physicians 24 <p>2.) Martin Insurance Inc.</p> <ul style="list-style-type: none"> a. Wrote or renewed total of 6 accounts b. Accounts consisted of 1 clinic, 5 solo practitioners c. Total 7 physicians, 1 physician assistant <p>3.) Physician Hospital Community</p> <ul style="list-style-type: none"> a. Wrote or renewed total of 3 accounts

APPENDIX 4

RATE AND FORM FILING STANDARD #1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. RCW 48.18.100
Policy#	Comments
Physicians Insurance Professional Liability Policies Renewed 1/1/07	<p>1,731 Physicians Insurance Professional Liability policyholders were mailed policy endorsement END320; Employment Practices Liability Defense Cost Reimbursement Endorsement – 11.17/06. The endorsement contained language other than that filed with the OIC. Section VII of the endorsement contained the words “shall not” apply, when in fact the filed version read “shall” apply.</p> <p>Effective February 9, 2007, the Company corrected the error. Each of the 1,731 policyholders was mailed a corrected endorsement, letter of explanation, and each file documented accordingly.</p>

APPENDIX 5

RATE AND FORM FILING STANDARD #2	Where required the Companies have filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates and rating rules prior to use and does not issue policies that are not in accord with the filings. RCW 48.19.040(1)(6)
Policy#	Comments
23691400	<p>Physicians Insurance, Professional Liability, scheduled policy was cancelled at the policyholders request to reissue as a volume rated policy. Two months later the policyholder notified the Company they wished to cancel the volume rated policy and re-write the scheduled policy. In the re-write process the 10% schedule rating and the 10% clinic size discount were omitted. The reissued policy was not in accord with the filings.</p> <p>On 4/19/07 the Company discovered the 10% schedule rating error and processed the discount back to the 1/01/07 renewal. The Company discovered the omission of the clinic size discount in July 2007 and processed the discount back to the 1/01/07 renewal. In both instances the Company notified the insured of the corrections, issued corrected endorsement forms, and applied the appropriate premium credit adjustments.</p>
23937201	<p>Physicians Insurance, Professional Liability policy was renewed incorrectly for policy year 1/1/06 – 1/1/07. The policyholder requested a policy change in December of 2006. In processing the request the Company discovered the insured's risk type had been incorrectly renewed as a full-time physician for the policy year 1/1/06-1/1/07.</p> <p>The Company was unable to determine why the moonlighting code had been manually changed within the system. The file contained no documentation to support the change.</p> <p>The Company made the appropriate corrections, notified the policyholder, and credited the policyholder's account with the premium difference.</p>