

STATE OF WASHINGTON

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MIKE KREIDLER
STATE INSURANCE COMMISSIONER



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 08-0076
)	
The Market Conduct Examination of)	FINDINGS, CONCLUSIONS,
)	AND ORDER ADOPTING REPORT
Physicians Insurance A)	
Mutual Company)	
Northwest Dentists Insurance Company)	OF
)	MARKET CONDUCT EXAMINATION
)	
Authorized Domestic Mutual Insurer and)	
Authorized Insurer)	

BACKGROUND

An examination of the market conduct of **Physicians Insurance A Mutual Company** and **Northwest Dentists Insurance Company** (the Companies) as of May 31, 2007 was conducted by examiners of the Washington Office of the Insurance Commissioner (OIC). The Companies, domiciled in the state of Washington, hold Washington certificates of authority as a mutual insurer and as a stock insurer respectively. 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 Companies for their comments on April 3, 2008. The Companies' response to the report is attached to this order only for the purpose of providing convenient review of the response.

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

Subject to the right of the Companies 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 3 through 24 of the report.



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the market conduct examination of **Physicians Insurance A Mutual Company and Northwest Dentists Insurance Company** and to order the Companies to take the actions described in the Instructions and Recommendations sections of the report. The Commissioner acknowledges that the Companies may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

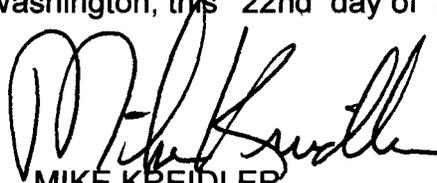
The market conduct examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Companies are ordered as follows, these being the Instructions and Recommendations contained in the examination report on page 21.

1. The Companies are ordered 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.
2. The Companies are ordered to comply with RCW 48.18.100 to ensure policy forms and applications where required, have been filed with and approved by the OIC prior to use.
3. The Companies are ordered to comply with RCW 48.19.040(1) and (6) to ensure policies are rated according to the filings that apply
4. It is ordered that the Companies consider complying 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.
5. It is ordered that the Companies consider complying with RCW 48.05.280 to maintain full and accurate records and accounts.
6. It is ordered that the Companies consider reviewing administrative procedures and practices to ensure they are compliant with filed policy language.

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

ENTERED at Olympia, Washington, this 22nd day of May 2008.

A handwritten signature in black ink, appearing to read "Mike Kreidler", written in a cursive style.

MIKE KREIDLER
Insurance Commissioner



Physicians
Insurance

A Mutual Company

Gary L. Morse, JD
Senior Vice President & General Counsel

April 23, 2008

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

Re: Physicians Insurance A Mutual Company Market Conduct Examination Report

Dear Mr. Odiorne,

Please accept this letter as the company's response to the draft report of the market conduct examination. It was a pleasure to work with your highly professional staff, and we appreciate the findings made that will help us improve the quality of our efforts to achieve full compliance with market conduct standards. In addition to the findings in the draft report, the company wants to thank the examiners for the many valuable discussions we had about best practices in various areas of operations.

The company agrees with the factual material presented and all of the findings with one small exception regarding the company's discovery of an error on a moonlighting policy as more fully described below. The company accepts the instructions and recommendations, and as further described below, has modified procedures to implement the instructions and promote best practices. The company respectfully requests that subsequent events relevant to Instruction 3 be added to the report, because all of the findings involved mistakes that were discovered by the company, fully documented, and corrected independently of the exam and without harm to the policyholders.

Agent and Broker Activities and Compliance with Instruction 1. The finding about the three unlicensed brokers is accurate. As previously discussed with the examiners, the company has implemented procedures to confirm that each new broker is properly licensed and to annually confirm that all brokers have maintained their licenses.

Policy Forms and Compliance with Instruction 2. The finding that an endorsement included the extra word "not" is accurate. The subsequent event in the report accurately describes the corrective actions promptly taken by the company after it discovered the error. As a result of these actions by the company, there was no harm to the policyholders.

As previously discussed with the examiners, this was the result of an unfortunate mistake while proofreading this lengthy endorsement. The company will soon begin using electronically approved forms in the computer system so that re-keying of forms will no longer be necessary and the risk of this type of error will be reduced. Careful proofreading will continue to be an important part of the quality checks before issuing policy forms.

Rates and Rules and Compliance with instruction 3.

1. The findings about rating errors made during the cancellation and re-writing of one policy are correct. Please note that the company discovered and promptly corrected the errors with no harm to the policyholder. What happened is that the insured asked the company to cancel its newly issued volume-rated policy and to issue the corporate/partnership policy they previously had. The company processed a cancellation and reissued the policy as requested. In doing so, however, the company did not add back the 10% clinic size discount and the 10% schedule rating discount. As documented in the file, the company discovered the schedule rating error on 4/19/07 and processed the discount back to the January 1, 2007 renewal. As also documented by the file, the company discovered the omission of the clinic size discount in July, and on July 11, 2007, processed the discount back to the January 1, 2007 renewal. Both times the company notified the insured of the discovery and correction of the error, sent the appropriate endorsement forms to the insured, and applied the resulting premium credit to reduce the amount owed on the account. The policyholder was never charged any interest for any amounts due.

To reduce the risk of this type of error in the future, the company is implementing a new cancel/rewrite checklist to be used whenever a mid-year policy type change is requested.

2. The finding that a moonlighting policy was mistakenly renewed as a regular policy is also correct. The report says "One policyholder brought to the Company's attention the policy was rated incorrectly and issued at a class other than as applied for during policy year 1/1/06—1/1/07." To the extent this language implies the policyholder discovered the error and brought it to the company's attention, it is incorrect. The policyholder contacted the company to request a change to the policy. In processing this request, the company discovered the error, brought it to the policyholder's attention, and made the appropriate corrections.

This policyholder had been on a moonlighting policy 1/1/05-1/1/06. When the policy change was requested, the company discovered the policy had been mistakenly renewed for 2006 as a regular full-time physician policy. As fully documented in the file, the company promptly made the correction, forwarded the appropriate documentation to the policyholder, and credited the policyholder's account for the premium difference to

reduce the amount owed on the account. The policyholder was never charged any interest for any amounts due.

The company's computer system is being changed to reduce the possibility this type of renewal processing error could occur. Previously, a change to a risk type in the computer's renewal file could be accomplished merely by entering a change to the risk type code before the renewals were run. A change of risk type at renewal will now require a system cancellation of the expiring policy and system issuance of a replacement policy, two transactions that are less likely to occur inadvertently.

Requested Changes to the Draft Report. The company respectfully requests that the examination report be amended to show the company discovered its moonlighting policy renewal error and to add the subsequent events relevant to the rating errors on the two policies that resulted in Instruction 3. The exam report already includes a subsequent event on the policy form issue (Instruction 2), and here, just as with the policy form issue, the company fully and accurately documented the files to show its own errors, to show the company detected the errors, and to show the company promptly fixed them, all of this occurring prior to the market conduct exam and with no harm to the two policyholders.

Recommendations. The company agrees with the three recommendations pertaining to use of the correct and full legal name of the insuring company, the adequate documentation of transactions in all pertinent files, and the use of internal procedures consistent with filed policy language. The company has previously informed staff of these issues identified during the exam, and they will be included in the company's periodic internal file reviews.

Northwest Dentists Insurance Company. This formerly owned company was also a subject of the exam. Its new owners have reviewed the draft report and this letter and have no additional comments.

Very truly yours,



Gary L. Morse