

Karima M. Woods, Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **TDC Specialty Insurance Company** as of December 31, 2019

ORDER

An Examination of **TDC Specialty Insurance Company** (the “Company”) as of December 31, 2019, has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 27th day of January 2021, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.



Philip Barlow
Associate Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION
OF
TDC SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

NAIC Company Code: 34487
NAIC Group Code: 0831

TABLE OF CONTENTSPage

SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
HISTORY	3
MANAGEMENT AND CONTROL	3
Board of Governors and Committees	3
Board of Directors.....	3
Officers	4
Committees	5
Conflicts of Interest:	6
Corporate Records:	6
HOLDING COMPANY SYSTEM	6
INTERCOMPANY AGREEMENTS	7
Tax Allocation Agreement.....	8
Management Services Agreements.....	8
Reinsurance Allocation Agreement	8
TERRITORY AND PLAN OF OPERATION	9
REINSURANCE.....	9
FINANCIAL STATEMENTS	11
Balance Sheet.....	12
Statement of Operations.....	13
Capital and Surplus Account	14
Analysis of Examination changes to Capital and Surplus	15
Notes to Financial Statements.....	16
SUBSEQUENT EVENTS	16
COMMENTS AND RECOMMENDATIONS.....	16
CONCLUSION.....	17
SIGNATURES.....	18

Washington, D.C.
January 6, 2021

The Honorable Karima M. Woods
Insurance Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, D.C. 20002

Dear Commissioner Woods:

In accordance with the provisions of Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of the

TDC SPECIALTY INSURANCE COMPANY

hereinafter referred to as “Company” or “TDCSI.” TDCSI’s administrative office is located at 185 Greenwood Road, Napa, California 94558, and the following Examination Report (“Report”) is hereby respectfully submitted.

SCOPE OF EXAMINATION

TDCSI was last examined by representatives of the District of Columbia, Department of Insurance, Securities and Banking (the “Department”) and covered the period from January 1, 2012, through December 31, 2015. The current full-scope risk-focused examination, covering the period from January 1, 2016 through December 31, 2019, and including any material transactions and/or events occurring subsequent to the examination date and noted during this examination, was conducted by examiners representing the Department.

The examination was conducted in accordance with procedures and guidelines prescribed by the NAIC *Financial Condition Examiners Handbook* (“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.

The examination of Washington, D.C. domestic companies of The Doctors Company, An Interinsurance Exchange (the “Exchange”), was called by the Department in accordance with the Handbook guidelines, through the NAIC’s Financial Examination Electronic Tracking System. This examination was conducted as part of a multi-state risk-focused examination (the “Coordinated Examination”) of the Exchange’s insurance entities, in which the California Department served as the lead state on the examination. The Florida

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

Department, the Michigan Department, and the Oregon Department accepted the invitation to participate in the Coordinated Examination of the following insurance companies examined at the same time during the above examination:

<u>Company and State of Domicile</u>	<u>NAIC #</u>	<u>Acronym</u>
The Doctors Company, An Interinsurance Exchange (CA)	34495	TDC
The Doctors Company RRG, a Reciprocal Exchange (DC)	14347	TDCRRG
First Professionals Insurance Company (FL)	33383	FPIC
American Physicians Assurance Corporation (MI)	33006	APAC
TDC National Assurance Company (OR)	41051	TDCNA

Concurrent with this examination, we have also examined the Exchange's subsidiary, TDC Special Risks Insurance Company ("TDCSR"), a District domiciled pure captive insurer. A report of examination of TDCSR will be issued under a separate cover. In addition, reports of examination for each of the other states' domiciled entities will be issued under separate covers by the respective state.

All accounts and activities of TDCSI 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. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly. The examination does not attest to the fair presentation of the financial statement included herein. If during the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's Financial Statements.

In addition to the above, the examiners have reviewed work papers prepared by Ernst & Young, LLP, the Company's independent auditors, in their audit of the Company's accounts and records for the year ended December 31, 2019. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2015 through 2019. A portion of the auditor's workpapers have been incorporated in the workpapers of the examiners and have been utilized in certain phases of the examination.

The examination Report includes significant findings of facts, as mentioned in Section 31-1404 of the District of Columbia Code, and general information about the Company 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 in the examination report but may be separately communicated to TDCSI and/or other regulators.

SUMMARY OF SIGNIFICANT FINDINGS

Status of Prior Examination Findings:

There were no significant findings in the previous examination.

Other significant matters:

There were no significant findings of material nature as a result of this examination.

HISTORY

TDCSI is a wholly-owned subsidiary of the Exchange. The Exchange is licensed to transact property and casualty insurance in all fifty (50) states, the District of Columbia, and the territory of Guam. The Exchange is the largest medical malpractice insurance group in the United States.

TDCSI was incorporated and domiciled in the State of Utah in 1989 but re-domiciled to the District of Columbia in October of 2013. TDCSI has 500,000 shares of \$10 par value, Class A common stock, authorized, issued, and outstanding. All shares are owned by the Exchange. The holding company contributed a total of \$15.5 million to surplus in May and December 2016. The holding company contributed an additional \$50 million to surplus in June 2017. The organizational chart (see ‘Holding Company System’ section of this Report) identifies members of the holding company system as of December 31, 2019. Subsidiaries are wholly owned unless otherwise indicated.

On February 3, 2016, TDCSI formed its wholly-owned subsidiary, TDC Specialty Underwriters, Inc. (“TDCSU”), a Connecticut corporation with capital stock of \$10,000. In June and August 2016, TDCSI made additional capital contributions totaling \$9,990,000.

Dividends to Stockholders

During the period under examination, the Company paid no stockholder dividends.

MANAGEMENT AND CONTROL

Board of Governors and Committees

The Exchange is governed by a fifteen-member Board of Governors elected annually. The Exchange’s board is led by a Chairman, who also serves as the CEO. Pursuant to the Board’s rules and regulations, the Chairman must be a medical doctor. In addition, an independent board member is appointed to serve as Lead Governor since the Chairman and CEO are the same individual. The Chairman is responsible for the review and oversight of the Exchange’s strategic plan and operating capital budget, and facilitating the board’s governance, and keeping the board informed of major business projects, opportunities, and setbacks. The board members appear to have backgrounds in medical, finance/accounting, insurance, and information technology fields.

Board of Directors

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

The Company's Bylaws call for a board consisting of three (3) or more individuals. The number of directors may be increased or decreased from time to time by amendment to, or in the manner provided, in the articles of incorporation or the bylaws, but no decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

The oversight of TDCSI is maintained by its Board of Directors (BOD), which as of December 31, 2019, is comprised of the following six (6) Directors:

Name and Address	Principal Occupation
Richard Anderson, MD Yountville, CA	Chief Executive Officer and Chairman The Doctors Company, An Interinsurance Exchange
Steve Bensinger New York NY	Independent Director The Doctors Company, An Interinsurance Exchange
Eugene Bullis, CPA Exeter, NH	Independent Director The Doctors Company, An Interinsurance Exchange
William Fleming Carmel, CA	President and Chief Operating Officer TDC Specialty Insurance Company
David McHale Roseville, CA	Secretary TDC Specialty Insurance Company
Marco Vanderlaan Richmond, CA	Treasurer and Chief Financial Officer TDC Specialty Insurance Company

Officers

The Company's Bylaws state the officers of this corporation shall consist of officers as may be deemed necessary by the board of directors, and shall be approved by the board of directors. Any two or more offices may be held by the same person. Each officer shall hold office until a successor has been duly appointed and qualified, or until an earlier resignation, removal from office, or death.

The following persons were elected or appointed and serving as the Company's officers as of December 31, 2019:

Name	Title
William Fleming	President and Chief Operating Officer
David McHale	Secretary
Marco Vanderlaan	Treasurer and Chief Financial Officer
Richard Anderson	Chief Executive Officer
Thomas Wilson, III	Senior Vice President
Douglas Will	Vice President
Douglas Boltz	Vice President

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

Committees

The Company's Bylaws allows the board of directors, by resolution adopted by a majority of the full board of directors, may designate from among its members an executive committee and one or more other committees each of which, to the extent provided in such resolution or in the articles of incorporation of the corporation, shall have and may exercise all the authority of the board of directors with certain limitations. The Company has chosen to utilize the committees of the Exchange.

As of December 31, 2019, the Exchange has the following committees:

Audit Committee

Steven J. Bensinger, Chairman
Richard Anderson
Eugene Bullis
Kathleen Ricord
Charles Kossman
Ellen Masterson
Mary Ann Thode
Ronald Wender
James Bagian
Howard Mills

Finance Committee (A)

Eugene Bullis, Chairman
Richard Anderson
Steven Bensinger
Ellen Masterson
Kathleen Ricord
William Rupp
Ronald Wender

Investment Committee

Charles Kossman, Chairman
Richard Anderson
David Charles
Steven Bensinger
Eugene Bullis
Mary Ann Thode

Governance Committee

David Charles, Chairman
Richard Anderson
Steven Bensinger
Eugene Bullis
Kathleen Ricord
Ronald Wender

Compensation and Benefits Committee

Ronald Wender, Chairman
Eugene Bullis
David Charles
William Rupp
Mary Ann Thode

Patient Safety Committee

Robert Wachter, Chairman
Richard Anderson
James Bagian
Daniel Cassavar
David Charles
Charles Kossman
William Rupp
Mary Ann Thode
Ronald Wender

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

Technology Committee (B)

James Bagian, Chairman
Richard Anderson
Steven Bensinger
Charles Kossman
Robert Wachter

- (A) James P. Bagian, MD was added as a member of the committee during March 2020.
(B) Eugene M. Bullis was added as a member of the committee during March 2020.

Through these committees, the committee members provide oversight of the Exchange's strategies, financials, and operations. The board and its committees are actively involved in monitoring senior management performance of the Exchange's activities.

Conflicts of Interest:

TDCSI has established a formal conflict of interest policy. This policy required the Board of Directors and management of TDCSI to annually complete a conflicts-of-interest questionnaire and statement. The conflict of interest questionnaires completed by the board members and employees of TDCSI for the period under examination disclosed no material conflicts of interest.

Corporate Records:

The Company's Articles of Incorporation and By-Laws were reviewed. The minutes of the meetings of the Board of Directors and its committees for the period under examination through the fieldwork date were reviewed. The minutes documented TDCSI's significant transactions and events, which the Board approved, and complied with the Articles of Incorporation and By-Laws.

HOLDING COMPANY SYSTEM

TDCSI is a member of an insurance holding company system pursuant to the provisions of the District of Columbia Code Section 31-701. The Company is controlled by its ultimate parent, the Exchange.

Organizational Chart

December 31, 2019

The following organizational chart depicts TDSCI's relationship within the holding company system as of December 31, 2019 (all ownership is 100% unless otherwise noted):

The Doctors Company, An Interinsurance Exchange. (California)

Insurance Subsidiaries and their Affiliates

- American Physicians Assurance Corporation (Michigan)
- First Professionals Insurance Company, Inc. (Florida)
- Hospitals Insurance Company, Inc. (New York)
- TDC National Assurance Company (Oregon)
- TDC Special Risks Insurance Company (District of Columbia)
- TDC Specialty Insurance Company (District of Columbia)
 - TDC Specialty Underwriters, Inc. (Connecticut)
- The Doctors Company Risk Retention Group, A Reciprocal Exchange (District of Columbia) (0.0%)
 - TDCRRG Attorney In Fact, Inc. (District of Columbia)

Sales and Administration Subsidiaries

- HealthCare Risk Advisors, Inc. (New York)
- The Doctors Company Insurance Services, LLC (California)
- The Doctors Management Company (California)

Real Estate and Other Investments

- Asheville Marketplace Holdings, LLC (North Carolina)
 - Asheville Marketplace, TIC (North Carolina) (74.9%)
- Chandler Office Park, LLC (Michigan) (50.0%)
- Michigan Medical Advantage, Inc., dba Medical Advantage Group (Michigan)
 - Consortium of Independent Physician Associations, Inc. (Michigan)
- Napa Center Preferred, LLC (California) (12.0%)
- Napa Kohl's Holdings, LLC (California)
 - Napa Parkway Plaza, LLC (California) (58.0%)
- Napa Town Center Partners, LLC (California)
 - Gordon Venture, LLC (California) (80.0%)
- Pier 88 Investment Partners, LLC (Delaware) (29.4%)
- Wake Forest Investments, LLC (California)
 - Market of Wake Forest, LLC (North Carolina) (70.0%)

INTERCOMPANY AGREEMENTS

In addition to intercompany reinsurance agreements described under the "Reinsurance" caption of this Report, the following agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the Department, as required, in accordance with District of Columbia Code Section 31-706(a)(2):

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

Tax Allocation Agreement

The Exchange and its affiliates are parties to a Third Amended and Restated Federal Income Tax Allocation Agreement (Agreement) entered into on July 1, 2018. This agreement replaces the Second Amended and Restated Federal Income Tax Allocation Agreement dated December 1, 2013, to reflect changes to the allocation and method per the Internal Revenue Code. Under terms of the agreement, the Exchange agrees to file a consolidated federal income tax return on behalf of the other companies. Allocation of tax liability is based upon separate return calculation with inter-company 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.

Management Services Agreements

The Exchange and its affiliates individually have entered into separate Management Services Agreements with The Doctors Management Company (TDMC). Under the terms of the agreements, TDMC agrees to provide management and administrative services, and each company reimburses TDMC for the actual cost of these services. TDMC supervises the handling and payment of operating expenses, underwriting functions, and policy management. The Management Services Agreement between the Exchange and TDMC has been in force since October 17, 1996. Management fees paid to TDMC by the Company were \$3,916,595 and \$10,307,524 in 2019 and 2018, respectively. On December 31, 2019, the Company reported \$3,201,844 in management fees payable to TDMC.

The Company entered into a Management Services Agreement with its subsidiary, TDC Specialty Underwriters, Inc., (TDCSU). Under the terms of the agreement, TDCSU agrees to provide services and personnel for compensation limited to reimbursement of all expenses actually incurred by TDCSU. Services provided are as follows: claims adjusting and payment; underwriting; computation and payment of producer commissions; approval, termination, and appointment of producers; issuance of policies and endorsements; cancellations and non-renewals; collection and handling of premiums; reinsurance; advertising, promotion and agency development; establishing reserves for claims and expenses; forms preparation; rate and form filings; licensing and regulatory filings; preparation of budgets; maintenance of records; and preparation of financial reports. This Management Services Agreement has been in force since January 1, 2017. Management fees paid to TDCSU by the Company were \$17,940,919 and \$15,614,945 in 2019 and 2018, respectively. On December 31, 2019, the Company reported \$1,839,317 in management fees payable to TDCSU.

Reinsurance Allocation Agreement

The Exchange, TDCSI, TDC National Assurance Company (TDCNA)¹, OHIC Insurance Company, American Healthcare Indemnity Company, APAC, TDCRRG, and FPIC entered into a reinsurance allocation agreement dated March 28, 2016. The agreement allows for any of these affiliated companies and any additional entities purchased going

¹ Formerly known as the Underwriter for the Professional Insurance Company

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

forward to participate in any reinsurance agreements previously entered into covering two or more of the companies.

Each company shall agree to the terms of such reinsurance agreements, shall keep its balances payable or recoverable separate from other companies, and remittances for each company shall be in sufficient detail to identify who the loss obligations are due to as well as the premium remittances.

TERRITORY AND PLAN OF OPERATION

TDCSI underwrites primarily nonstandard medical professional liability insurance on an excess and surplus line basis. TDCSI is licensed in the District of Columbia, California, and Utah and writes on a non-admitted basis in forty-eight states and in Puerto Rico.

TDCSI formed a new division in June 2017 to write different types of risks than the other Exchange companies, utilizing TDCSU to produce the business. TDCSU writes long-term care facilities, life sciences and other medical facilities, cyber liability, directors and officers, and employment practices insurance for medical practices.

REINSURANCE

Assumed

There was no reinsurance business assumed during the period under examination.

Ceded

Affiliated

Effective June 1, 2016, TDCSI has an intercompany Quota Share reinsurance agreement in effect with the Exchange, under which it cedes 90 percent of TDCSI's Net Retained Liability from claims made or losses occurring during the term of the agreement.

TDCSI, through the Reinsurance Allocation Agreement dated March 28, 2016, with other affiliated companies, became a party to a Common Loss Excess of Loss reinsurance contract with TDC Special Risks Insurance Company (TDCSRI), A District of Columbia domiciled captive insurance company, effective January 1, 2019. The coverage provided is \$40 million in excess of TDCSI's retention of \$5 million on the occasion of a class action lawsuit during the period January 1, 2019, to January 1, 2020.

TDCSI is a party to a Fourth Excess Casualty Catastrophe Captive reinsurance contract with TDCSR effective January 1, 2019. The coverage provides \$10 million in excess of \$41 million of ultimate net loss each policy, any one occurrence, or claims made.

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

Unaffiliated

TDCSI is a party to a 100% Quota Share (11% placed) reinsurance contract with various unaffiliated reinsurers effective January 1, 2019. The coverage is provided for most business underwritten by and or through TDC Specialty Underwriters, Inc., and the reinsurers' liability for ultimate net loss shall not exceed 100% of \$2 million as respects any one policy, any one occurrence, or claims made.

TDCSI is a party to an Excess Cessions reinsurance contract with various unaffiliated reinsurers effective January 1, 2019. The coverage is provided for most business underwritten by and through TDC Specialty Underwriters, Inc., and the reinsurers' liability for ultimate net loss shall not exceed \$18 million in excess of TDCSI's retention of \$2 million of ultimate net loss each policy, any one occurrence or claims made.

TDCSI is a party to an Excess Casualty Catastrophe Captive reinsurance contract 90% placed with various unaffiliated reinsurers and 10% placed with TDCSR effective January 1, 2019. The coverage provides \$10 million in excess of \$11 million, \$10 million in excess of \$21 million, and \$10 million in excess of \$31 million of ultimate net loss each policy, any one occurrence or claims made.

TDCSI, through the Reinsurance Allocation Agreement dated March 28, 2016, with other affiliated companies, became a party to a Per Event Excess of Loss reinsurance contract with the Exchange, effective January 1, 2019, for losses under claims made, tail or occurrence from policies classified by the Company as follows:

1. **Non-Hospitals:** Physicians and Surgeons Professional Liability and related healthcare business, including affiliated Medical Facilities and General Liability business associated with the Policy forms, Dentists professional liability, owners, landlords, and tenants liability and related healthcare business; and
2. **Hospitals:** Hospital professional liability, healthcare provider professional liability, healthcare facilities professional liability, managed care organizations errors and omissions, managed care organizations professional liability, employment practices liability, directors and officers liability (including hospital reimbursement and entity coverage), Employed physicians and surgeons and allied healthcare professional liability, fiduciary liability, commercial general liability (including employee benefits administration), automobile liability, including non-owned and hired automobile and ambulance liability, non-owned aircraft liability, heliport/helipad liability, employers liability, stop gap liability and umbrella liability.

Additional classes of business may be covered subject to the reinsurer's approval.

The coverage provided is \$9 million in excess of TDCSI's retention of \$2 million of ultimate net loss arising out of each loss event, \$10 million in excess of TDCSI's retention of \$11 million of ultimate net loss arising out of each loss event, and additional coverage for excess hospital and related excess healthcare business 85% placed with various unaffiliated reinsurers and 15% placed with TDCSR.

FINANCIAL STATEMENTS

The following financial statements prepared by management and, therefore, the responsibility of management are based on the statutory financial statements filed by TDCSI with the Department and present the financial condition of TDCSI as of December 31, 2019. The Analysis of Examination Changes to Capital and Surplus schedule and the accompanying Notes to Financial Statements reflect any examination adjustments to the amounts reported in the statutory financial statements as filed and should be considered an integral part of the financial statements.

<u>STATEMENT</u>	<u>PAGE</u>
Balance Sheet:	
Admitted Assets	12
Liabilities, Surplus and Other Funds	12
Statement of Operations	13
Capital and Surplus Account	14
Analysis of Examination Changes to Capital and Surplus	15
Notes to Financial Statements	16

BALANCE SHEET

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

Admitted Assets

Bonds	\$	86,406,399
Preferred stocks		13,580,910
Common stocks		32,367,000
Cash and cash equivalents		16,251,509
Securities lending reinvested collateral assets		4,371,676
Investment income due or accrued		746,827
Uncollected premiums and agents' balances		9,154,524
Deferred premiums, agents' balances and installments booked but deferred		6,076,278
Amonuts recoverable from reinsurers		5,789,915
Current federal income tax recoverable		5,246
Net deferred tax asset		1,764,849
Receivable from parent, subsidiaries and affiliates		793,328
Total Assets	\$	177,308,460

Liabilities, Surplus and Other Funds

Losses (Note 1)	\$	8,043,115
Loss adjustment expenses (Note 1)		3,786,385
Commissions payable		1,986,585
Other expenses		1,266,000
Taxes, licenses and fees		79,227
Current federal income taxes		934,679
Unearned premiums		45,935,456
Advance premiums		444,154
Ceded reinsurance premiums payable		16,588,289
Amounts withheld or retained by company		333,113
Provision for reinsurance		2,250
Payable to parent, subsidiaries and affiliates		5,041,161
Payable for securities		5,649
Payable for securities lending		4,371,676
Bank fees		388
Total Liabilities	\$	88,818,126
Common capital stock	\$	5,000,000
Gross paid in and contributed surplus		102,000,000
Unassigned funds (deficit)		(18,509,666)
Surplus as regards policyholders	\$	88,490,334
Total Liabilities, surplus and other funds	\$	177,308,460

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

STATEMENT OF OPERATIONS

Underwriting Income

Premiums earned \$ 6,996,138

Deductions

Losses incurred \$ 3,308,864
Loss expenses incurred 2,615,570
Other underwriting expenses incurred 4,286,038
Total underwriting deductions \$ 10,210,471

Net underwriting (loss) \$ (3,214,333)

Investment Income

Net investment income earned \$ 4,115,336
Net realized capital gains 425,537
Net investment gain \$ 4,540,873

Other Income

Aggregate write-ins for miscellaneous income \$ 19
Total other income \$ 19

Net income before federal income taxes \$ 1,326,559
Federal income taxes incurred 624,087

Net Income \$ 702,472

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2015	\$ 44,303,519
Net loss, 2016	(1,294,706)
Change in net unrealized capital losses	(5,160,747)
Change in net deferred income tax	140,561
Change in nonadmitted assets	880,750
Change in provision for reinsurance	(1,002,181)
Surplus paid-in	15,500,000
System conversion adjustment	<u>(774,549)</u>
Capital and Surplus, December 31, 2016	\$ 52,592,648
Net loss, 2017	(7,526,284)
Change in net unrealized capital losses	(255,740)
Change in net deferred income tax	(31,571)
Change in nonadmitted assets	(846,977)
Change in provision for reinsurance	1,488,047
Surplus paid-in	50,000,000
Effect of 2017 Tax Act on FIT	<u>(47)</u>
Capital and Surplus, December 31, 2017	\$ 95,420,077
Net Loss, 2018	(11,143,860)
Change in net unrealized capital losses	(1,302,528)
Change in net deferred income tax	426,600
Change in nonadmitted assets	(91,833)
Change in provision for reinsurance	1,881
Effect of 2017 Tax Act on FIT	<u>47</u>
Capital and Surplus, December 31, 2018	\$ 83,310,384
Net income, 2019	702,472
Change in net unrealized capital gains	3,372,094
Change in net deferred income tax	1,058,370
Change in nonadmitted assets	47,464
Change in provision for reinsurance	<u>(450)</u>
Capital and Surplus, December 31, 2019	<u><u>\$ 88,490,334</u></u>

ANALYSIS OF EXAMINATION CHANGES TO CAPITAL AND SURPLUS

There were no changes made to the financial statements as a result of the examination.

NOTES TO FINANCIAL STATEMENTS

1. **Loss and Loss Adjustment Reserves:** As of December 31, 2019, the Company reported “Losses” and “Loss adjustment expenses” reserves (collectively referred to as “loss reserves”), totaling \$8,043,115 and \$3,786,385, respectively. These amounts represent management’s best estimate of the present value of the cost of settling all known and unknown claims that have been incurred as of December 31, 2019.

The methodologies utilized by the Company to compute these reserves and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2019, were reviewed as part of our examination. As part of the review, we relied on the Company’s independent auditor, who concluded that the methodologies and reserves appeared to be sufficient. The analysis of claims payments subsequent to the reserve valuation date demonstrated the adequacy of the reserves as of December 31, 2019. The assumptions and methods utilized by the Company to compute its reserves as of December 31, 2019, as well as the reserve adequacy, were reviewed as part of our examination and were determined to be adequate.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a pandemic. Fears of a broader worldwide outbreak and its impact on the global economy resulted in significant volatility in the U.S. financial markets.

The Company has taken steps to protect its staff, including shifting to an almost complete remote workforce, while continuing to serve its policyholders. TDCSI continues to monitor the impact of COVID-19 on its operations and financial results but is currently unable to determine the extent to which COVID-19 will affect its financial condition, results of operations, and cash flows. As of the date of issuance of this Report, the outbreak is still evolving and thus there is significant uncertainty as to its ultimate impacts on the Company.

COMMENTS AND RECOMMENDATIONS

There were no recommended adjustments to the financial statements as of December 31, 2019, or significant adverse findings as a result of the examination.

TDC Specialty Insurance Company
Report on Examination as of December 31, 2019

CONCLUSION

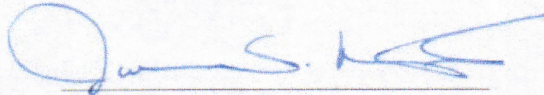
The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **TDC Specialty Insurance Company** as of December 31, 2019, consistent with the insurance laws of the District of Columbia. Such procedures performed on this examination do not constitute an audit made following generally accepted auditing standards, and no audit opinion is expressed on the financial statements contained in this Report. No material adjustments were identified during the examination; the balance sheet in the Report of Examination reflects the financial condition of TDCSI as of December 31, 2019, and is summarized as follows:

Total Admitted Assets	<u>\$177,308,460</u>
Total Liabilities	\$ 88,818,126
Capital and Surplus	<u>\$ 88,490,334</u>
Total Liabilities, Capital and Surplus	<u>\$177,308,460</u>

SIGNATURES

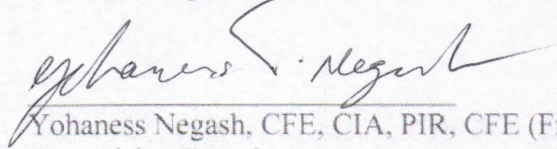
In addition to the undersigned, James R. Burch, an examiner with Eide Bailly LLP, represented the Department. David A. Christhilf, ACAS, MAAA, P&C Actuary of the Department, also participated in this examination's actuarial portions. The courteous cooperation extended by the officers and employees of TDCSI during the course of the examination was sincerely appreciated.

Respectfully submitted,



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