REPORT ON EXAMINATION
OF
HOSPITALS INSURANCE COMPANY, INC.

AS OF DECEMBER 31, 2023

EXAMINER: **LEE R. PROWELL**
DATE OF REPORT: **JANUARY 15, 2025**

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January 15, 2025

Honorable Adrienne A. Harris
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32579 dated November 15, 2023, attached hereto, I have made an examination into the condition and affairs of Hospitals Insurance Company, Inc. as of December 31, 2023, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Hospitals Insurance Company, Inc.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Hospitals Insurance Company, Inc., a multi-state insurer. The previous examination was conducted as of December 31, 2018. This examination covered the five-year period from January 1, 2019, through December 31, 2023. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of California, which was the lead state of the Doctors Company Group, and the state of Oregon, and the District of Columbia. The examination was performed concurrently with the examinations of the following insurers:

Company	State of Domicile
The Doctors Company, an Interinsurance Exchange ("TDC")	California
TDC Specialty Insurance Company	District of Columbia
The Doctors Company Risk Retention Group, a Reciprocal Exchange	District of Columbia
TDC Special Risks Insurance Company	District of Columbia
TDC National Assurance Company	Oregon

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

Company history
Management and control
Territory and plan of operation
Reinsurance
Holding company description
Financial statement presentation
Loss review and analysis
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Hospitals Insurance Company, Inc. was incorporated under the laws of the State of New York on January 14, 1987, under the name of HANYS Insurance Company, Inc. The Company became licensed on July 31, 1987, and commenced business on August 1, 1987. At that time, the Company was jointly owned by two trusts formed solely for the purpose of holding the Company's shares, as follows:

1) The FFH Hospitals Trust (1987) ("FFH Trust"), which was formed by its owners, the major hospital affiliates ("FFH Hospitals") of United Jewish Appeal-Federation of Jewish Philanthropies of New York, Inc. ("UJA/Federation") (a non-profit fund-raising organization) and Federation of Jewish Philanthropies ("FOJP") Service Corporation (a non-profit organization having one member: UJA/Federation), holding 80% of the voting shares of the Company; and

2) The HANYS Hospitals Trust (1987) ("HANYS Trust"), which was formed by its owners, 87 members of the Hospital Association of New York State ("HANYS"), holding 20% of the voting shares of the Company.

On September 15, 2005, FFH Trust purchased the minority interest from HANYS Trust thereby becoming the sole owner of the Company. The current name of the Company was adopted on January 18, 2006.

The FFH Hospitals were comprised of The Mount Sinai Hospital, Beth Israel Medical Center, Maimonides Medical Center, Montefiore Medical Center, and Long Island Jewish Medical Center. In 2011, Long Island Jewish Medical Center was bought out by the remaining four hospitals.

On October 9, 2018, 100% of the stock of the Company was distributed to the FFH Hospitals in accordance with their respective interests. Concurrently, the FFH Hospitals contributed all their respective interests to a newly formed entity, Hospitals Insurance Holding Company, LLC ("Holdco"). The FFH Hospitals comprised the members of Holdco, and thus, indirectly owned the Company. On November 27,

2018, the FFH Hospitals and Holdco entered into a stock purchase agreement to sell 100% of its interests in the Company to TDC. Effective July 31, 2019, FFH Hospitals sold 100% of its interests to TDC. Concurrent with the sale to TDC, TDC made a $29,209,167 capital contribution to the Company to extinguish the Company's outstanding surplus notes (face value of $17,000,000 and interest through the July 31, 2019, closing date of $12,209,167). The sale and capital contribution were approved by the Department.

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than 15 members. The board meets at least three times during each calendar year. At December 31, 2023, the board of directors was comprised of the following 11 members:

Name and Residence	Principal Business Affiliation
Richard Elliott Anderson, M.D. Napa, California	President and Chief Executive Officer, Hospitals Insurance Company, Inc.
Steven Jay Bensinger New York, New York	Senior Advisor, Howden Group
Eugene Martin Bullis Eliot, Maine	Retired
Noeleen Theresa Doelger Red Bank, New Jersey	Assistant Secretary, Hospitals Insurance Company, Inc.
Robert Andrew Kauffman New York, New York	Assistant Secretary, Hospitals Insurance Company, Inc.
Charles Seth Kolodkin Lake Geneva, Wisconsin	Retired
Dennis Bryan Lawton, Ph.D. Sausalito, California	Chief Governance Officer, The Doctors Management Company
David Armand McHale Austin, Texas	Secretary, Hospitals Insurance Company, Inc.
Donald Thomas Scanlon Naples, Florida	Retired

Name and Residence	Principal Business Affiliation
Marco Adrian Vanderlaan Richmond, California	Chief Financial Officer and Treasurer, Hospitals Insurance Company, Inc.
Robert Ellwood White, Jr. St. Johns, Florida	President, The Doctors Company

As of December 31, 2023, the principal officers of the Company were as follows:

Name	Title
Richard Elliott Anderson, M.D.	President and Chief Executive Officer
David Armand McHale	Secretary
Marco Adrian Vanderlaan	Chief Financial Officer and Treasurer
Thomas Connell Wilson III	Chief Investment Officer
Robert Andrew Kauffman	Assistant Secretary
Noeleen Theresa Doelger	Assistant Secretary
Laura Anne Kline	Senior Vice President
Melissa Lynn Johnson	Vice President, Finance and Controller
Douglas Charles Will	Vice President

B. Territory and Plan of Operation

As of December 31, 2023, the Company was licensed to write business in New York, and approved to write surplus lines in Connecticut, Florida, New Jersey, and Pennsylvania. As of the examination date, the Company wrote business solely in New York.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision

Paragraph	Line of Business
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
29	Legal services

In addition, the Company is licensed to do within this State the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

The Company is also empowered to transact such workers' compensation insurance as may be incidental to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et. seq. as amended).

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $4,400,000. However, pursuant to Section 6302(c)(3) of the New York Insurance Law, to be licensed to write special risks, the Company is required to maintain at all times a surplus to policyholders of at least twice the minimum surplus to policyholders required to be maintained for the kinds of insurance that it is authorized to write; therefore, the Company was required to maintain a minimum surplus to policyholders in the amount of $8,800,000 as of December 31, 2023.

The following schedule shows the direct premiums written by the Company for the period under examination:

Calendar Year	Total Gross Premiums
2019	$219,340,334
2020	$226,243,411
2021	$248,953,722
2022	$269,082,177
2023	$292,272,334

The Company principally provides primary and excess medical malpractice coverage to hospitals (including its former owners, the FFH Hospitals), physicians affiliated with the Company's insured hospitals, long-term care facilities and social services agencies. At December 31, 2023, hospitals and physicians' medical malpractice premiums accounted for approximately 92% of total written premiums.

Section 18 of Chapter 266 of the Laws of 1986 for New York State extended provisions requires hospitals to purchase a policy for excess coverage for their primarily affiliated physicians and dentists. Section 18(5) of that Law established the New York State Hospital Excess Liability Pool (the "Pool"), consisting of funds made available from payments made by or on behalf of the hospitals. The Pool purchases from the Company and other insurance companies' policies excess coverage for eligible doctors and dentists. Since premiums are received at a time determined by the Pool, the Department permits the Company to include as admitted assets Section 18 premiums receivables exceeding 90 days in age. In 2023, approximately 6% of the Company's total written premium is attributable to Section 18 business.

The Company participates in the Medical Malpractice Insurance Pool of New York State ("MMIP"). The MMIP is an involuntary pool that was created by all authorized insurers writing medical malpractice insurance in New York State as an alternative to receiving direct assignments of eligible health care providers through the MMIP. The Company is required to record its proportionate share of MMIP's operations in its financial statements. As of December 31, 2023, approximately $40,091,761 (representing 14% of MMIP's surplus) of the Company's reported surplus is attributable to the MMIP.

C. Reinsurance Ceded

The Company does not cede its core business. However, the Company participates in the following reinsurance arrangements:

Treaty type	Cession
Quota Share: Commercial Umbrella Liability issued to United Jewish Appeal-Federation of Jewish Philanthropies of New York, Inc.	100% of losses incurred of any claims made.

Treaty type	Cession
Quota Share: Professional Liability and Professional Entity Liability issued to ENT and Allergy Associates.	Each policy, each claim made, 100% quota share of the first $500,000 of ultimate net loss. The reinsurer shall also be liable for its share of an additional $500,000 policy aggregate of loss above the $500,000 retention.
Excess of Loss: Professional Liability and Professional Entity Liability issued to ENT and Allergy Associates.	Ultimate net losses excess of $500,000 each policy, each claim made, limited to $800,000 each policy, each claim, subject to a $500,000 policy aggregate of loss retention (that is covered by the aforementioned quota share treaty).

Both aforementioned quota share agreements are with unauthorized reinsurers. It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. The examiner reviewed the letter of credit obtained by the Company for compliance with Department Regulation 133, and the trust agreement for compliance with Department Regulation 114. No exceptions were noted.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R. Representations were supported by an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

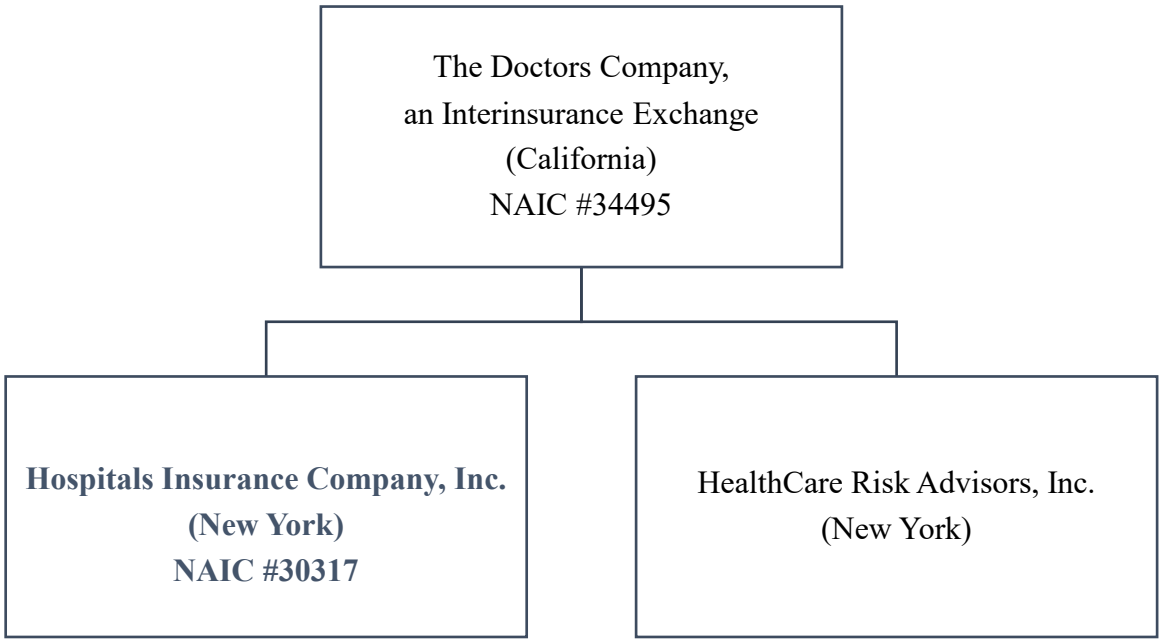
D. Holding Company System

The Company is a member of the Doctors Company Group. The Company is a wholly owned subsidiary of The Doctors Company, an interinsurance exchange domiciled in California. The Doctors

Company writes medical professional liability insurance for private practice doctors, large physician groups, and healthcare facilities on a nationwide basis.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2023:



Holding Company Agreements

At December 31, 2023, the Company was party to the following agreements with other members of its holding company system:

Claims and Administrative Services Agreement

Effective July 31, 2019, the Company entered into a claims and administrative service agreement with HealthCare Risk Advisors, Inc. ("HRA"). Pursuant to terms of this agreement, HRA will provide claims administrative services in accordance with the Company's claims handling guidelines, and as a component thereof, will adjust, settle or arrange for the defense of all qualified claims. The Company shall pay HRA the costs incurred by HRA in providing said services. HRA shall submit an invoice monthly to

the Company. Payments by the Company shall be made monthly and shall be due no later than the 10th day of the month following the month services are rendered. During 2023, the Company incurred $17,688,597 in expenses under this agreement.

This agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

This agreement replaced the claims and administrative services agreement with FOJP Service Corporation ("FOJP"). Pursuant to an agreement dated November 27, 2018, between HRA and FOJP, substantially all of the assets and employees of FOJP have been transferred to HRA.

Sixth Amended and Restated Federal Income Tax Allocation Agreement

The Company and various specified affiliates are party to an amended and restated tax allocation agreement with TDC, dated October 31, 2022. This agreement was submitted to the Department pursuant to the provisions of Department Circular Letter No. 33 (1979) and Section 1505(d) of the New York Insurance Law.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2023, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

Operating Ratios	Result
Net premiums written to policyholders' surplus	32%
Adjusted liabilities to liquid assets	71%
Two-year overall operating	66%

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amount	Ratio
Losses and loss adjustment expenses incurred	$1,077,002,037	89.09%
Other underwriting expenses incurred	134,848,318	11.15%
Net underwriting gain (loss)	(2,905,346)	(0.24)%
Premiums earned	$1,208,945,009	100.00%

The Company's reported risk-based capital ("RBC") score was 424.6**%** at December 31, 2023**.** The RBC score is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC score of 200% or below can result in regulatory action.

There were no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2023, as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$1,351,538,995	$ 0	$1,351,538,995
Preferred stocks	6,786	0	6,786
Common stocks	352,073,749	0	352,073,749
Cash, cash equivalents and short-term Investments	176,494,879	0	176,494,879
Other invested assets	180,448,779	0	180,448,779
Receivables for securities	8,148,067	0	8,148,067
MMIP asset	95,289,192	0	95,289,192
King Street holdback	201,597	0	201,597
Investment income due and accrued	10,587,896	0	10,587,896
Uncollected premiums and agents' balances in the course of collection	44,439,656	503,866	43,935,790
Deferred premiums, agents' balances and installments booked but deferred and not yet due	71,977,774	0	71,977,774
Amounts recoverable from reinsurers	104,038	0	104,038
Current federal and foreign income tax recoverable and interest thereon	4,194,627	0	4,194,627
Receivables from parent, subsidiaries and affiliates	264,397	0	264,397
Miscellaneous	119,500	0	119,500
Total assets	$2,295,889,932	$503,866	$2,295,386,066

Liabilities, Surplus and Other Funds

Liabilities		
Losses and loss adjustment expenses		$1,353,572,488
Commissions payable, contingent commissions and other similar charges		372,244
Other expenses (excluding taxes, licenses and fees)		12,658
Current federal and foreign income taxes		9,255,302
Net deferred tax liability		5,102,908
Unearned premiums		32,854,421
Advance premium		6,723,746
Ceded reinsurance premiums payable (net of ceding commissions)		923,181
Payable to parent, subsidiaries and affiliates		1,818,160
Payable for securities		4,833,776
Deferred rent		1,983,195
Death, disability and retirement reserves		1,434,544
MMIP premium deficiency reserves		256,568
Miscellaneous		(198,475)
Total liabilities		$1,418,944,716
Surplus and Other Funds		
Common capital stock	$ 1,050,000	
Gross paid in and contributed surplus	49,159,167	
Unassigned funds (surplus)	826,232,183	
Surplus as regards policyholders		876,441,350
Total liabilities, surplus and other funds		$2,295,386,066

Note: The Internal Revenue Service audit of the Company's consolidated federal income tax return covering tax year 2022 is on-going. The Internal Revenue Service has not audited tax returns covering tax years 2019 through 2021, and 2023. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period, as reported by the Company, was $348,309,643, as detailed below:

Underwriting Income		
Premiums earned		$1,208,945,009
Deductions:		
Losses and loss adjustment expenses incurred	$1,077,002,037	
Other underwriting expenses incurred	134,518,000	
Change in death, disability and retirement reserve	406,512	
Change in MMIP premium deficiency reserve	(76,194)	
Total underwriting deductions		1,211,850,355
Net underwriting (loss)		$ (2,905,346)
Investment Income		
Net investment income earned	$244,957,937	
Net realized capital gain	127,967,517	
Net investment gain or (loss)		372,925,454
Other Income		
Finance and service charges not included in premiums	$ 2,462	
Other	55,930	
Fronting and administration fees	841,000	
Surplus notes interest	(12,209,167)	
MMIP investment income	2,066,519	
Interest income – premiums	8,764,213	
Service/claims handling fees	333,500	
Risk management course revenue	270,000	
Miscellaneous expense	(12,914)	
MMIP income	4,394	
MMIP loss	24	
Total other income		115,961
Net income before federal and foreign income taxes		$370,136,069
Federal and foreign income taxes incurred		21,826,426
Net income		$348,309,643

C. Capital and Surplus

Capital paid in is $1,050,000 consisting of 375,000 shares of $1 par value per share Class A common stock, 375,000 shares of $1 par value per share Class B common stock, and 100,000 shares of $3 par value Class C non-voting common stock.

Gross paid in and contributed surplus is $49,159,167. Gross paid in and contributed surplus increased by $29,209,167 during the examination period due to the aforementioned capital contribution made by TDB to the Company upon acquisition.

Surplus as regards policyholders increased $252,276,006 during the five-year examination period January 1, 2019, through December 31, 2023, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2018			$624,165,344
	Gains in Surplus	Losses in Surplus	
Net income	$348,309,643		
Net unrealized capital gains or (losses)		$79,807,344	
Change in net deferred income tax		37,783,743	
Change in non-admitted assets	9,348,283		
Change in surplus notes		17,000,000	
Surplus adjustments paid in	29,209,167	0	
Total gains and losses	$386,867,093	$134,591,087	
Net increase (decrease) in surplus			252,276,006
Surplus as regards policyholders as reported by the Company as of December 31, 2023			$876,441,350

No adjustments were made to surplus as a result of this examination.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $1,353,572,488 is the same as reported by the Company as of December 31, 2023. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Corporate Governance It was recommended that board members who are unable or unwilling to consistently attend meetings resign or be replaced. The Company has complied with this recommendation.	5

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

_____/S/_____
Lee R. Prowell
Financial Services Examiner 4

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Lee R. Prowell, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/_____
Lee R. Prowell

Subscribed and sworn to before me

this_____ day of _____, 2025.

APPOINTMENT NO. 32579

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, ***Adrienne A. Harris****, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Lee Prowell

as a proper person to examine the affairs of the

Hospitals Insurance Company, Inc.

and to make a report to me in writing of the condition of said

COMPANY

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 15th day of November, 2023

ADRIENNE A. HARRIS
Superintendent of Financial Services

By: Joan Riddell

Joan Riddell
Deputy Bureau Chief