



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

PROFESSIONAL INSURANCE EXCHANGE

of

Salt Lake City, Utah

as of

December 31, 2007

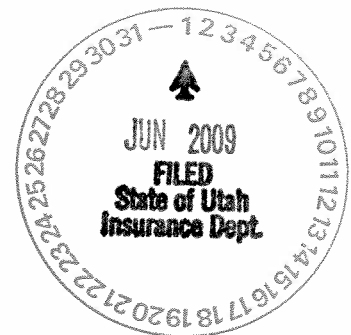


TABLE OF CONTENTS

SALUTATION	3
SCOPE OF EXAMINATION	3
PERIOD COVERED BY EXAMINATION	3
EXAMINATION PROCEDURE EMPLOYED	3
STATUS OF ADVERSE FINDINGS, MATERIAL CHANGES IN THE FINANCIAL STATEMENT, AND OTHER SIGNIFICANT REGULATORY INFORMATION DISCLOSED IN THE PREVIOUS EXAMINATION	4
HISTORY	4
GENERAL.....	4
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE	6
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASES OR SALES THROUGH REINSURANCE	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	7
COST-SHARING AGREEMENTS AND SIGNIFICANT REGULATORY INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES	7
FIDELITY BOND AND OTHER INSURANCE	7
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	8
STATUTORY DEPOSITS	8
INSURANCE PRODUCTS AND RELATED PRACTICES	8
POLICY FORMS AND UNDERWRITING	8
TERRITORY AND PLAN OF OPERATION	8
ADVERTISING AND SALES MATERIAL.....	9
TREATMENT OF POLICYHOLDERS	9
REINSURANCE	9
ASSUMED	9
CEDED	9
ACCOUNTS AND RECORDS	9
FINANCIAL STATEMENT	10
BALANCE SHEET AS OF DECEMBER 31, 2007.....	11
STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2007.....	12
RECONCILIATION OF CAPITAL AND SURPLUS 2004 THROUGH 2007	13
NOTES TO FINANCIAL STATEMENTS	14
SUMMARY OF EXAMINATION FINDINGS	15
ACKNOWLEDGEMENT	16

March 13, 2009

Honorable D. Kent Michie, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of December 31, 2007, of the financial condition and business affairs of

**PROFESSIONAL INSURANCE EXCHANGE
Of
Salt Lake City, Utah**

a mutual property and casualty insurance company, hereinafter referred to as the Company.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 2003. The current examination covers the period from January 1, 2004, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Examination Procedure Employed

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, and insurance rules promulgated by the Utah Insurance Department (the Department). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify 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. An 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 Statutory Accounting Principles (SSAPs) and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment in addition to work performed by external audit functions and internal audit functions being performed by the Company. Interviews were held with the management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of the residual risk, examination procedures were reduced where considered appropriate.

The Company retained the services of a certified public accounting firm, MantylaMCREYNOLDS, LLC, to audit its financial records for the years under examination. An unqualified opinion was rendered for all years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

Status of Adverse findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Company addressed important points and recommendations noted in the prior examination report.

HISTORY

General

The Company was organized as a reciprocal inter-insurance exchange and granted its original certificate of authority on September 1, 1978, pursuant to Utah Code Annotated (U.C.A.) § 31-10. This code section was subsequently repealed and effective July 1, 1986, the Company was brought under the provisions of U.C.A. Title 31A, Chapter 5, "Domestic Stock and Mutual Insurers" as a not for profit mutual insurer. The Company is governed by the "Rules and Regulations of the Professional Insurance Exchange".

There were no amendments to the rules and regulations during the years under examination.

Management

The Company is a mutual insurer controlled by its membership. The business matters of the Company are governed by its rules and regulations. The governing body of the Company is

known as the “Advisory Committee” and was composed of the following nine committee members as of December 31, 2007.

<u>Name/Residence</u>	<u>Principal Occupation</u>
Stephen M. Burton, DMD Salt Lake City, Utah	General Dentist
Scott H. Brown, DDS Cedar City, Utah	General Dentist
Mark V. Cowley, DDS Ogden, Utah	General Dentist
Richard C. Engar Salt Lake City, Utah	Attorney-in-Fact Professional Insurance Exchange
C. Brook Olson, DDS Ogden, Utah	General Dentist
Chris R Simonsen, DDS Bountiful, Utah	Pediatric Dentist
Gary B. Wiest, DMD Orem, Utah	General Dentist
James R. Olsen, DDS Salt Lake City, Utah	General Dentist
Brian F. Thomley, DDS Logan, Utah	General Dentist

Officers serving the Company as of December 31, 2007, were:

<u>Officer</u>	<u>Title</u>
Stephen M. Burton, DMD	President / Chairman
Richard C. Engar, DDS	Treasurer / Attorney in Fact
Chris R. Simonsen, DDS	Secretary

Committees of the Company as of December 31, 2007, were as follows:

Audit Committee

Stephen M. Burton, DMD
Mark V. Cowley, DDS
Clyde B. Olsen, DDS

Investment Committee

Stephen M. Burton, DMD
James R. Olsen, DDS
Richard C. Engar, DDS

Conflict of Interest Procedure

During the period covered by the examination, committee members or officers of the Company completed conflict of interest statements annually.

Corporate Records

For examination purposes, the minutes of the meetings of the advisory, investment and audit committees were reviewed. The minutes of the meetings of the members were also reviewed.

The minutes contained detail information about the Company including current events, officer and committee member elections, investment transactions and regulatory issues. The minutes adequately approved and supported Company transactions and events. The prior examination report as of December 31, 2003, was distributed to the advisory committee on January 19, 2005.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

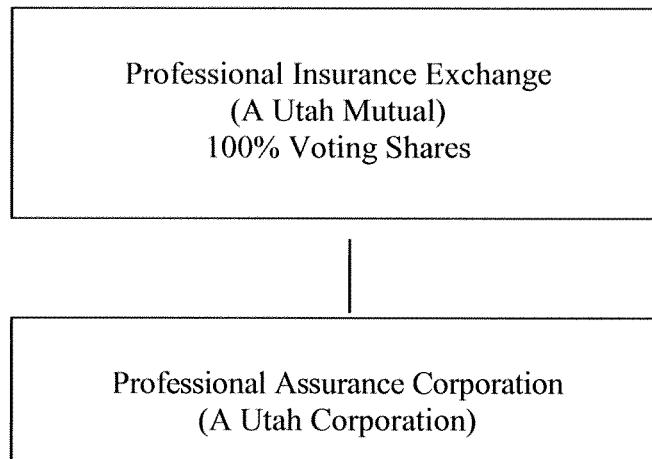
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Company during the examination period.

Surplus Debentures

During the period covered by the examination, the Company was not party to any surplus debentures.

AFFILIATED COMPANIES

The Company is a member of the insurance holding company system shown in the following organization chart as of December 31, 2007:



Insurance holding company registrations statements as of December 31, 2007, were filed with the Department in 2008, pursuant to U.C.A. §31A-16-105.

Cost-sharing agreements and significant regulatory information concerning parent, subsidiaries, and affiliates

In October 1998, the Company executed a management agreement with Professional Assurance Corporation (PAC), its affiliate company. The agreement states that the Company and/or its officers will, on behalf of PAC pay for accounting costs related to financial statements and audits, and maintain agency licenses and file forms and reports with the Department. The Company will receive, on a monthly basis, management fees from PAC. These management fees generally match commissions collected by PAC during the preceding period. The Company received \$34,804 in management fees in 2007, an amount that is generally consistent with prior years.

FIDELITY BOND AND OTHER INSURANCE

The Company had fidelity bond coverage over all its employees with a single loss limit of \$225,000, which is within the National Association of Insurance Commissioners (NAIC) suggested minimum amount of coverage of \$100,000.

The Company had additional insurance protection including; trustee errors and omissions and general business owner's liability and property coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As a mutual insurer, with no issued and outstanding stock, the Company does not have a stock ownership program. The Company's insurance programs provided to its qualified employees and their dependents consisted of medical and dental benefits. The Company's eligible employees also participated in a profit sharing plan.

No provision for any of these plans was necessary in the financial statement of the Company.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company was required to maintain a statutory deposit in an amount equal to its minimum permanent surplus of \$700,000. The Company's minimum permanent surplus requirement was specified pursuant to U.C.A. § 31A-5-211(2)(d).

A statutory deposit held through the Department for the primary benefit of all policyholders as of December 31, 2007, was as follows:

<u>State</u>	<u>Description</u>	<u>Market Value</u>
Utah	FNMA Discount Note 4.89%	\$772,047

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2007, the Company had issued occurrence and claims-made basis dental malpractice insurance. Prior to October 1, 2003, all policies were issued on an occurrence basis. Subsequent policies were issued and renewed on a claims-made basis. The coverage limits were \$1,000,000, for any one occurrence with an annual aggregate of \$3,000,000. The policy issued by the Company to its insured contained a provision that established a contingent liability on the part of the insured to a maximum of \$2,000. This same provision allowed the attorney-in-fact, with the approval of the advisory committee and the Utah Insurance Commissioner, to levy an assessment upon the insured. A levy is permissible only if the assets are insufficient to discharge the Company's liabilities and maintain its statutory deposit.

Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write professional liability risks in the state of Utah only. The Company had four producers who were licensed and appointed to transact business of the Company. One of the producers had a contract with the Company as "Attorney-in-Fact" and the other producer had a contract as "Executive Consultant". The two other producers are full-time employees of the Company. The Company bills the insured directly for premiums.

Advertising and Sales Material

The Company did not utilize any form of commercial advertising during the examination period.

Treatment of Policyholders

No Complaints were received by the Utah Insurance Department during the examination period.

REINSURANCE

Assumed

During the period covered by the examination, the Company did not assume any reinsurance.

Ceded

As of December 31, 2007, the Company maintained an excess of loss reinsurance agreement with an authorized reinsurer in the state of Utah. The agreement indemnified the Company in respect to each insured under each professional liability policy written by the Company.

The Company ceded the excess of the first \$225,000, subject to a limit of liability of \$1,000,000 each claim, \$3,000,000 aggregate.

ACCOUNTS AND RECORDS

As of December 31, 2007, the Company's accounts and records, consisting of its general ledger, registers and other subsidiary records, were maintained on a combination of manual systems and electronic data processing (EDP) systems located in the Company's office and in the offices of the Company's accountants.

An examination trial balance, as of December 31, 2007, was prepared from the Company's computerized general ledger. Account balances were traced to annual statement exhibits and Schedules. Individual account balances for the examination period were examined as deemed necessary.

During the examination, the actuarial firm contracted by the Department noted discrepancies and made recommendations, concurred on by the Department, in the following areas:

- Schedule P was not completed in accordance with the NAIC Annual Statement Instructions for claims-made coverage.
- As a direct result of the Schedule P data issues, the summary data provided by the Company to the opining actuary for his analysis was misallocated by year, but correct in total. As the actuary is only required to review the data for reasonableness, the errors in the data allocation were not discovered.
- The actuary did not format Exhibit B of the Statement of Actuarial Opinion according to the standards prescribed in the NAIC Annual Statement Instructions.

FINANCIAL STATEMENT

The following financial statements are included in the examination report:

Balance Sheet as of December 31, 2007

Statement of Income year ended December 31, 2007

Reconciliation of Capital and Surplus for the Period 2004 through 2007:

The Comments on Financial Statements immediately following the financial statements are an integral part of the statements.

**PROFESSIONAL INSURANCE EXCHANGE
BALANCE SHEET
as of December 31, 2007**

ASSETS

Bonds	\$1,317,433
Common stocks	4,305,496
Cash and short term investments	1,129,423
Investment income due and accrued	9,947
Electronic data processing equipment and software	3,748
Total assets	<u><u>\$6,766,046</u></u>

LIABILITIES

Losses	244,750
Loss adjustment expenses	680,000
Other expenses	54,773
Taxes, licenses and fees	6,956
Current federal and foreign income taxes	8,328
Unearned premium	540,370
Amounts withheld or retained by company for account of others	3,589
Total liabilities	<u>1,538,766</u>
Unassigned funds (surplus)	<u>5,227,280</u>
Surplus as regards policyholders	<u>5,227,280</u>
Totals	<u><u>\$6,766,046</u></u>

**PROFESSIONAL INSURANCE EXCHANGE
STATEMENT OF INCOME
for the Year Ended December 31, 2007**

UNDERWRITING INCOME

Premiums earned	\$813,928
Deductions:	
Losses incurred	121,245
Loss expenses incurred	511,650
Other underwriting expenses incurred	366,393
Total underwriting deductions	<u>999,288</u>
Net underwriting gain or (loss)	<u>(\$185,360)</u>

INVESTMENT INCOME

Net investment income earned	288,190
Net realized capital gains or (losses)	7,283
Net investment gain or (loss)	<u>295,473</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income: management fees	<u>34,804</u>
Total other income	<u>34,804</u>
Net income before dividends to policyholders and before federal income tax	<u>144,917</u>
Net income after dividends to policyholders but before federal income taxes	144,917
Federal income taxes incurred	<u>106,328</u>
Net income	<u><u>\$38,589</u></u>

**PROFESSIONAL INSURANCE EXCHANGE
RECONCILIATION OF CAPITAL AND SURPLUS
2004 through 2007**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Surplus as regards policyholders,				
December 31, previous year	\$ 5,027,000	\$ 5,226,966	\$ 5,290,286	\$ 5,332,462
Net Income or (loss)	188,540	122,329	57,195	38,589
Net unrealized capital gains or (losses)	(11,070)	(48,863)	289	(119,778)
Change in nonadmitted assets	22,496	(10,147)	(15,308)	(23,994)
Surplus adjustments:				
Transferred from capital				
Rounding		1		1
Dividends to stockholders				
Net change in surplus as regards policyholders for the year	<u>199,966</u>	<u>63,320</u>	<u>42,176</u>	<u>(105,182)</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 5,226,966</u>	<u>\$ 5,290,286</u>	<u>\$ 5,332,462</u>	<u>\$ 5,227,280</u>

NOTES TO FINANCIAL STATEMENTS

(1) Capital and surplus \$5,227,280

The Company's capital and surplus was determined to be unchanged from that reported in the Company's annual statement as of December 31, 2007.

<u>Description</u>	<u>Annual Statement Dr (Cr)</u>	<u>Per Examination</u>	<u>Change in Surplus Inc. (Dec.)</u>	<u>Notes</u>
Total examination changes			<u>\$0</u>	
Total capital and surplus per Company			<u>\$ 5,227,280</u>	
Total capital and surplus per examination			<u>\$ 5,227,280</u>	

The Company's minimum capital requirement was \$700,000 as defined in U.C.A. § 31A-5-211(2)(d). As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of \$5,227,280, which exceeded the company action level risk-based capital (RBC) requirement of \$1,479,898 by \$3,747,382.

SUMMARY OF EXAMINATION FINDINGS

Items of significance or special interest contained in this report are summarized below:

Annual statement reporting deficiencies during the examination were noted. During the examination, the actuarial firm contracted by the Department noted discrepancies and made recommendations, concurred on by the Department, in the following areas:

1. Schedule P was not completed in accordance with the NAIC Annual Statement Instructions for claims-made coverage.

Recommendation:

We recommend that the CPA, who completes Schedule P, work with the opining actuary to properly prepare Schedule P in the future.

Additionally, we recommend that the historical data in Schedule P be restated to properly reflect the claims-made coverage, so that Schedule P data is useful for actuarial analysis.

2. As a direct result of the Schedule P data issues, the summary data provided by the Company to the opining actuary for his analysis was misallocated by year, but correct in total. As the actuary is only required to review the data for reasonableness, the errors in the data allocation were not discovered.

Recommendation:

We recommend that in future years, the actuary take extra steps to determine the data provided is accurate.

3. The actuary did not format Exhibit B of the Statement of Actuarial Opinion according to the standards prescribed in the NAIC Annual Statement Instructions.

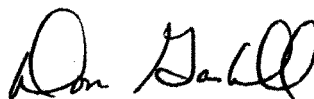
Recommendation:

We recommend the actuary prepare Exhibit B of the Statement of Actuarial Opinion following the NAIC Annual Statement Instructions when issuing future opinions.

ACKNOWLEDGEMENT

In addition to the undersigned, Aaron Phillips; Hermoliva B. Abejar; and Cathy Howick participated in the examination representing the Utah Insurance Department. Jacob W. Garn, CPA, MBA, AFE, Chief Examiner and Colette Hogan Sawyer, CFE, CPM, Assistant Chief Examiner supervised the examination. Glenn Taylor, FSA and Scott Garduno, ASA, MAAA consulting actuaries from Taylor-Walker and Associates, Inc conducted the actuarial phases of the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company

Respectfully submitted,



Don Gaskill, CFE
INS Regulatory Insurance Services, Inc. (InsRis)
Examiner-in-Charge, representing the
Utah Insurance Department