REPORT ON EXAMINATION

OF THE

HOSPITAL UNDERWRITING GROUP, INC.

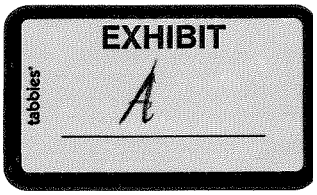
NASHVILLE, TENNESSEE

AS OF

DECEMBER 31, 2007

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE



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Nashville, Tennessee
June 5, 2009

Honorable Leslie A. Newman
Commissioner of Commerce and Insurance
State of Tennessee
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with the Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC") a financial examination and market conduct review has been made concerning the condition and affairs of the

HOSPITAL UNDERWRITING GROUP, INC.

Nashville, Tennessee

hereinafter generally referred to as the "Company," and a report thereon is respectfully submitted as follows:

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination was commenced on August 25, 2008 and was conducted by duly authorized representatives of the Tennessee Department of Commerce and Insurance ("TDCI"). It covers the period from January 1, 2003 through December 31, 2007 and may include any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the NAIC Financial Examiners Handbook. This examination was made simultaneously with the Company's 100% owned subsidiary, Professional Liability Insurance Company ("PLICO"). The examination included a

review of the Company's practices and procedures, an examination of management records, tests and analysis of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2007, as deemed necessary under the circumstances.

The previous examination produced three (3) directives to the Company. They are listed below with their resolutions as follows:

- The Company was directed to comply with Tenn. Code Ann. § 56-11-206 by filing all applicable transactions at least thirty (30) days prior to their entry. Should any such transactions previously entered into not have received approval, the Company is further ordered to file all such transactions with the TDCI for its review and approval.

  On July 15, 2004, the Company filed their Management Service Agreement with its subsidiary, PLICO with the TDCI for its review and approval

- The Company was directed to comply with Tenn. Code Ann. § 56-13-116 by maintaining bona fide surplus funds in the amount of Three Hundred and Fifty Thousand Dollars ($350,000).

  As a subsequent event from the previous examination report the Company in February 2003 assessed and collected retroactive premiums of $15 million which restored the Company's surplus above the statutory minimum.

- The Company was directed to comply with Tenn. Code Ann. § 56-1-501 by filing accurate annual statements and preparing its financial statements in accordance with the NAIC's Accounting Practices and Procedures Manual. Such preparation includes, but is not limited to, accurately reporting the assets of the Company in light of Tenn. Code Ann. § 56-1-405.

  During the post on-site review the Company stated they will comply with Tenn. Code Ann. § 56-1-405 and have written off the investment not in their control.

In addition, an examination of the following areas was made:

Company History
Affiliated Companies

Fidelity Bond and Other Insurance
Pension, Stock Ownership and Insurance Plans
Statutory Deposits
Insurance Products and Related Practices
Accounts and Records
Subsequent Events
Financial Statements
Comments on Financial Statements
Capital and Surplus

They are discussed as follows:

COMPANY HISTORY

General: The Company was incorporated as an association captive insurance company on February 16, 1979. Effective February 28, 1979, the Company was issued a Certificate of Authority by the TDCI to write professional liability, property, casualty, errors and omissions, and comprehensive general liability. During this examination period, the Company amended its charter for a change of address of its principal office.

Capital Stock: The Company has authorized 40,000 shares of common stock at $100 par value, of which 6,832 shares were outstanding at December 31, 2007. All outstanding shares are owned by HUG Services, Inc. The Company has incorrectly reported the number of shares in the 2008 annual statement.

Management and Control: Management of the Company is vested in a three-member board of directors. Directors serve until the next annual meeting of the shareholders and thereafter, until a successor has been elected.

The following persons were duly elected by the sole shareholder on March 20, 2007 and were serving as members of the board of directors on December 31, 2007:

Name and Residence	Principal Occupation
Robert J. Schwebel, Chairman Dallas, Texas	Vice President Risk Management Tenet Healthcare Corporation
Horace E. Gaddis, Jr. Nashville, Tennessee	Senior Director Risk Management Tenet Healthcare Corporation

The Company incorrectly reported the members of the board of directors in the 2008 annual statement.

The officers of the Company are appointed by the board of directors and include a president, a vice-president, a secretary, and a treasurer. Additional vice-presidents, and one or more assistant secretaries and assistant treasurers may also be chosen by the board of directors.

At the board of directors Meeting on March 20, 2007, the following officers were duly elected and were serving at December 31, 2007:

Name	Title
Robert J. Schwebel	Chairman of the Board and President
Horace E. Gaddis, Jr.	Vice President – Operations and Secretary
Michal DeWitt	Vice President and Treasurer
Dayna L. Nickles	Assistant Secretary

The Company's 2008 annual statement officer listing does not agree with the minutes of the board of directors.

Conflict of Interest Procedure: The Company has an established conflict of interest policy for its officers and directors. Directors, officers and certain employees are required to complete an annual conflict of interest questionnaire. This questionnaire is used for all entities within the holding company system and persons required to complete the certificate sign only one form regardless of the number of positions they

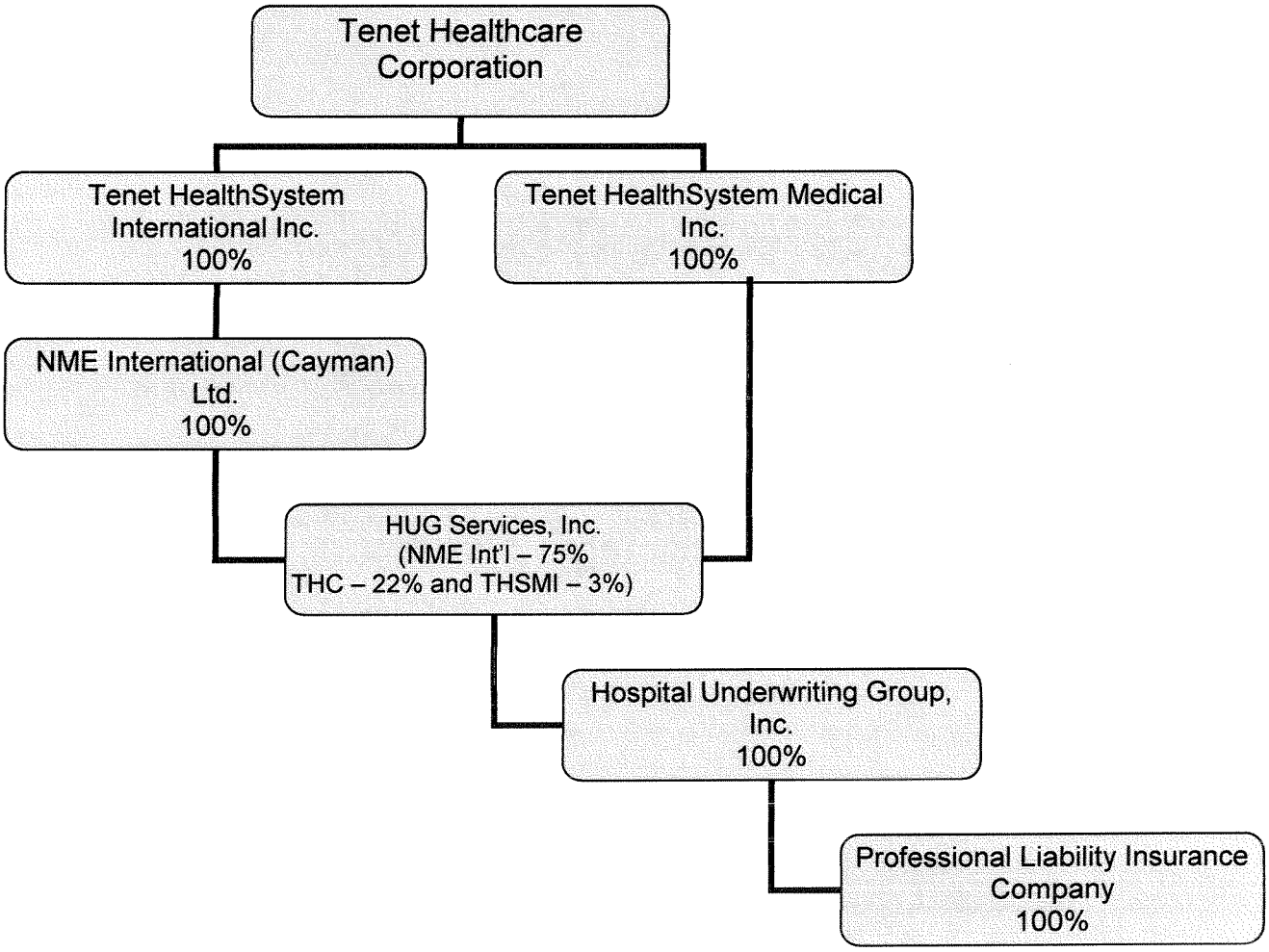
hold with different companies throughout the system. The examiner reviewed the questionnaires completed by the Company's directors and major officers for the period under review without exception. Pursuant to Tenn. Code Ann. § 56-3-103, the officers of the Company are not pecuniarily interested in the investment or disposition of funds of a domestic company.

Corporate Records: For the period under examination, the Company's shareholders and directors meetings minutes were reviewed. Such minutes were reviewed and found to adequately approve and support company transactions and events. The previous examination report was not reviewed by the company's board of directors.

AFFILIATED COMPANIES

The Company, HUG and its parent, HUG Services, Inc. ("Services"), are members of an insurance holding company system, as defined by Tenn. Code Ann. § 56-11-201, of which Tenet Healthcare Corporation ("Tenet") is the ultimate parent. There are no persons that own in excess of 10% of the voting shares of Tenet Healthcare Corporation.

The following abridged organizational chart depicts the Company's relationship within the holding company system:



Management Agreements

Services Agreement: On August 11, 2006, the Company entered into a services agreement with Tenet HealthSystem Management Inc. ("THMSI"). Under the agreement, THMSI shall provide personnel for accounting, bookkeeping, data processing, claims handling, secretarial, and other administrative duties. In return, the

Company will compensate THMSI $10,000 annually for such services. The TDCI approved this agreement on July 31, 2006.

Tax Sharing Agreement: The Company entered into a tax sharing agreement with Services on July 29, 1998. Under the agreement Services expects to file a consolidated federal income tax return. The Company will pay/receive from/to Services an amount equal to its federal tax liability/refund as if the Company had filed returns separately for the period.

FIDELITY BOND AND OTHER INSURANCE

The following is a schedule of insurance maintained by Tenet at December 31, 2007:

Type of Coverage	Amount	
Commercial Crime	$15,000,000	Employee Dishonesty
	$2,500,000	Deductible
Workers' Compensation	$2,000,000	Each Accident
Employers' Liability	$2,000,000	Disease-Each Employee
	$2,000,000	Disease-Policy Limit
Commercial Property	$44,000,000	Per Occurrence
	$50,000,000	Annual Aggregate

The above coverages were issued by companies licensed or allowed to transact business in the State of Tennessee. Tenet carries a $15,000,000 blanket employee dishonesty policy. This coverage exceeds the NAIC suggested minimum for fidelity bond coverage of $200,000 to $225,000. The Company is not listed as a named insured on the above listed policies.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has no employees. Employees are provided through the Services

Agreement described in the 'Affiliated Companies' section. Each employee of the subsidiary providing services to the companies are afforded medical, dental, vision, AD&D and life insurance benefits which are paid by employee contributions and employer subsidies. Employees are eligible to participate in the 401K plan with pre-tax contributions up to 25% of eligible compensation to the annual statutory maximum. The company provides a matching contribution up to the first 3% of eligible compensation. Additionally, Tenet provides a bonus plan to its managers and senior employees. The plan is based on consolidated results of Tenet which include financial, quality, and other metrics. Depending on title, management is eligible for target bonuses from 10% to 90% of annual salary. Based on results from plan scorecard, target bonuses can be increased or decreased.

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2007:

Jurisdiction	Description of Security	Par Value	Book Value	Market Value
Tennessee - Dept. of Insurance	US Treasury Note 4.750%, Due 11-15-2008 CUSIP # 9128274V1	750,000	750,000	758,438
Total		$750,000	$750,000	$758,438

This deposit was verified by written confirmation. Statutory deposits are admitted assets in accordance with Tenn. Code Ann. § 56-1-405.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting: Effective July 1, 1998, the Company discontinued underwriting any new policies. Prior to July 1, 1998, the Company issued medical malpractice insurance policies to physicians who practiced at facilities owned by the

policyholders / stockholders of HUG, the parent company. Polices were generally written with liability limits up to $1,000,000 per claim or occurrence and up to $3,000,000 annual aggregate.

Territory and Plan of Operation: As of December 31, 2007, and as of the date of this examination report, the Company was licensed to transact business only in the state of Tennessee. The certificate of authority for the jurisdiction was not available for review.

Effective June 1, 2002, the Company ceased writing hospital professional liability and general liability coverage for its members. The Company continued to write a small amount of premiums (approximately $20,000) for Tenet. These policies consist primarily of first dollar coverage for medical malpractice coverage for one hospital, connected with its operation as a trauma center.

For all practical purposes, the Company is now in run-off. Additionally, the Company states that there are no plans to write any additional business in the near future.

The Company will continue to maintain investments and loss reserves associated with existing long-tail insurance policies.

Advertising and Sales Material: The Company is in runoff; therefore, they are not advertising.

Treatment of Policyholders: Inquiries made to the various policyholders service offices and the NAIC market conduct database indicated no concerns or complaints with the Company during the period under examination.

Growth of Company: The following exhibit depicts aspects of the growth of the Company since the last examination at December 31, 2002, according to the annual statements filed with the TDCI:

Year	Gross Premiums Written	Net Premiums Written	Premiums Earned	Losses and Loss Expenses Incurred	Net Income	Net Admitted Assets	Capital and Surplus
2002	22,775,967	14,509,114	23,556,022	50,997,534	(15,241,626)	91,470,723	5,326,051
2003	35,279,396	34,405,329	34,556,952	18,655,813	15,947,868	89,240,048	16,612,702
2004	763,724	640,988	661,528	(3,794,066)	5,263,446	60,156,795	22,423,121
2005	168,292	44,673	238,658	(4,857,305)	4,472,360	20,495,164	7,630,257
2006	0	0	56,098	(2,101,506)	2,682,101	32,000,175	26,219,025
2007	22,640	22,640	13,207	(757,172)	1,602,120	33,404,958	27,940,160

Loss Experience: The following exhibit depicts certain the loss experience of the Company according to the annual statements filed with the TDCI:

Year	Losses Incurred	Loss Expenses Incurred	Premiums Earned	Loss Ratio
2002	50,018,206	979,328	23,556,022	216.49%
2003	18,813,502	(157,689)	34,556,952	53.99%
2004	(1,758,787)	(2,035,279)	661,528	(573.53%)
2005	(4,865,949)	8,198	238,658	(2,035.44%)
2006	(482,427)	(1,619,079)	56,098	(3,746.13%)
2007	(803,986)	46,814	13,207	(5,733.11%)

ACCOUNTS AND RECORDS

The Company maintains the accounting and administration of the original books and records in Dallas, Texas. These records are maintained in an electronic format. The primary storage of the Company's books and records after processing is 26 Century Blvd, Nashville, Tennessee. The Company is in violation of Tenn. Code Ann. § 56-2-

104. During the examination, the Company was asked to move all original records to Nashville.

During the course of the examination, accounts were verified and records reviewed using various tests and procedures deemed necessary to establish values for assets and liabilities appearing in the Company's annual statements.

Pursuant to Tenn. Code Ann. § 56-1-501, the Company was granted an exemption from filing audited financial statements. The Company is not in compliance with the NAIC's Risk-Based Capital requirements. The Company's surplus places it into the Mandatory Control Level.

During the examination period, the Company moved custodial assets to a new custodian. The custodial agreement and the new custodian do not meet the requirements set out in Tenn. Comp. R. & Regs. § 0780-01-46. Such investments held under the current custodial agreement will be nonadmitted in the financial statements below.

The Company's annual statements were not prepared according to NAIC annual statement instructions. For example, the jurat page does not show the current members of the board of directors and officers who were elected at the last meeting of the stockholder and board of directors; and amounts were not properly carried forward after the 2005 accounting year into the 2006 annual statement. Subsequently, the Company's officers who resigned in 2008 still remain on the quarterly financial statements. Currently, the above examples do not have an impact on the company's current surplus.

Significant delays in providing examination information were encountered during this examination. As mentioned above, the administrative offices are currently located in Dallas, Texas while the account records are stored in Nashville, Tennessee.

INDEPENDENT ACTUARIAL REVIEW

An independent actuarial review was performed by Lewis & Ellis, Inc. This included a review of the actuarial reports prepared by the Company's actuarial consultants and an assessment of the reasonableness of the methodologies and assumptions used in the projection of ultimate loss and loss adjustment expenses. Based on the results of the review and an evaluation of key ratios, a range of loss and loss adjustment expense reserve estimates was prepared and compared to the Company's recorded loss and loss adjustment expense reserves at December 31, 2007 with no material differences noted.

SUBSEQUENT EVENTS

Subsequent to the December 31, 2007 examination date, the following events should be noted.

- The Company has not had a board of director or stockholder meeting since March 20, 2007. The company's bylaws state "a regular meeting of the Board of Directors shall be held, without notice than this Bylaw, immediately after, and at the same place as, the annual meeting of shareholders."
- During the course of the examination, the Company was informed their custody agreement did not meet the standards set out by Tenn. Comp. R. & Regs. § 0780-01-46.
- At the examination date, the Company held their assets at Lehman Brothers (Lehman). During the examination, Lehman declared bankruptcy and the Company moved their portfolio to Citi Smith Barney (Citi). As of September 30, 2008, the Company's assets were confirmed with Citi. A proper custodial agreement had not been executed with Citi.
- The Company has hired Marsh Management Services of Burlington, Vermont, to

perform some accounting and statutory documentation functions. This arrangement violates Tenn. Code Ann. § 56-2-104. Permission from the Commissioner was not given to take such underlying documents out of the State of Tennessee.

- Disclosed as a part of the examination planning, Robert Schwebel has resigned from his company directorship and officer positions. The Company continues to report Mr. Schwebel as an officer and director in the 2008 Quarterly Statements.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and a statement of income as of December 31, 2007, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$27,790,223	$27,040,223	$750,000
Common stocks	4,073,420	3,928,807	114,613
Cash	1,282,595		1,282,595
Total cash & invested assets	33,146,238	30,969,030	2,177,208
Investment income due & accrued	258,720		258,720
Net deferred tax asset	2,879,149	2,879,149	0
Receivables from parent, subsidiaries, and affiliates	124,539	124,539	0
Aggregate write-in for other than invested assets	139,382	139,382	0
Totals	$36,548,028	$34,112,100	$2,435,928

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$ 4,007,000
Current federal and foreign income taxes	1,379,905
Unearned premiums	9,433
Payable to parent, subsidiaries, and affiliates	20,000
Aggregate write-ins for liabilities	48,460
Total liabilities	5,464,798
Common capital stock	683,200
Gross paid in and contributed surplus	6,245,074
Unassigned funds (surplus)	(9,957,144)
Surplus as regards policyholders	(3,028,870)
Totals	$2,435,928

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

Underwriting Income	
Premiums earned	$13,207
Deductions:	
Losses incurred	(803,986)
Loss expenses incurred	46,814
Other underwriting expenses incurred	261,478
Total underwriting deductions	(495,694)
Net underwriting gain or (loss)	508,901
Investment Income	
Net investment income earned	1,585,122
Net realized capital gains or (losses)	(1,186)
Net investment gain or (loss)	1,583,936
Other Income	
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	0
Net income before federal income taxes	2,092,837
Federal and foreign income taxes incurred	490,717
Net Income	$ 1,602,120

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

	2003	2004	2005	2006	2007
Surplus as regards policyholders December 31, Previous Year	$5,325,781	$16,612,702	$22,423,121	$7,630,257	$25,544,337
Net Income	15,947,868	5,263,446	4,472,360	2,682,101	1,602,120
Net unrealized capital gains and (losses)	79,286	(113,176)	(356,885)	(617,014)	257,410
Change in net deferred income tax	(421,668)	652,359	716,661	(9,765)	912,271
Change in non-admitted assets	0	0	(19,625,000)	28,957,921	(31,345,008)
Change in provision for reinsurance	0	0	0	0	0
Cumulative effect of changes in accounting principles	0	0	0	0	0
Capital changes: Paid in	0	0	0	0	0
Surplus adjustments: Paid in	0	0	0	0	0
Dividends to stockholders	0	0	0	0	0
Aggregate Write ins for gains or (losses) in surplus	(4,318,565)	7,790	0	(30,356)	0
Surplus as regards to policyholders December 31 Current Year	**$16,612,702**	**$22,423,121**	**$7,630,257**	**$25,544,337**	**$(3,028,870)**

ANALYSIS AND CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINAION

ASSETS

Bonds: $750,000

The amount shown above is $27,040,223 less than what was reported by the Company in its 2007 Annual Statement. **REASON:** The Company's custodial agreement does not adhere to Tenn. Comp. R. & Reg. § 0780-01-46-.03(2). For our examination, the assets held under the improper custodial agreement will be nonadmitted.

Common Stock $144,633

The amount shown above is $3,928,807 less than what was reported by the Company in its 2007 Annual Statement. **REASON:** The Company has its subsidiary's (PLICO) value within this item. Due to the value decrease from PLICO's examination, the value here has been lowered.

Cash $1,282,595

The amount shown above is $1,254,390 less than what was reported by the Company in its 2007 Annual Statement. **REASON:** The Company had a money market fund included within this value. The amount of the money market fund was reclassified to Common Stock.

LIABILITIES, SURPLUS AND OTHER FUNDS

Other expense	$0

The amount shown above is $20,000 less than what was reported by the Company in its 2007 Annual Statement. **REASON:** In the Company's 2007 Annual Statement, the Company had included an amount payable to its parent within the Other Expenses.

Payable to Parent, Subsidiaries and Affiliates	$20,000

The amount shown above is $20,000 more than what was reported by the Company in its 2007 Annual Statement. **REASON:** In the Company's 2007 Annual Statement, the Company had included an amount payable to its parent within the Other Expenses

Surplus as Regards Policyholders:	$(2,904,331)

Surplus as Regards Policyholders as established by this examination is $30,969,030 less than what was reported by the Company in its December 31, 2007 Annual Statement. For this examination, we decreased bonds by $27,040,223 and common stock by 2,674,397 and cash, cash equivalents and short-term investments by $1,254,390. This amount is outlined in the subsequent schedule which indicates changes in the financial statement as they affect surplus. The change in the item is discussed in detail under the appropriate caption elsewhere in this report.

The Company as of December 31, 2007, for this examination does not maintain the required minimum capital and surplus as stated in the Tenn. Code Ann. § 56-13-116.

SUMMARY SCHEDULE FOR "ANALYISIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINAITON"

Item	Reclassification	Increase	Decrease	Surplus
Total Surplus as Regards Policyholders per Company				$27,940,160
Bonds			$27,040,223	
Common Stock	1,254,390		$3,928,807	
Cash, Cash Equivalents, and Short-Term Investments	(1,254,390)			
Other Expenses	(20,000)			
Payable to Parent, Subsidiaries, and Affiliates	20,000			
Totals	$0	$0	$30,969,030	
Total Decrease per Examination				$(30,969,030)
Total Surplus as Regards Policyholders per Examination				$(3,028,870)

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments:

1. Company History – Capital Stock – Page 3

The number of authorized shares of capital stock was incorrectly reported in the Notes to the 2008 Financial Statement.

2. Company History - Management and Control – Page 3

The Company incorrectly listed the elected members of the board of directors and officers in the 2008 annual statement. Also, the Company has failed to meet the standards set in its bylaws by having annual meetings of the stockholder and its board of directors.

3. Affilated Companies – Management Agreements – Page 6

Under the terms of the management and services agreement, the Company pays $10,000 annually to THMSI. As of December 31, 2007, the 2006 payment has never been settled.

4. Insurance Products and Related Practices - Territory and Plan of Operation – Page 9

The Company failed to produce the certificate of authority for the examination.

5. Subsequent Events – Page 12

The Company continues to show incorrect officer and board of director information on

the 2008 quarterly statements. The company disclosed that two officers have left their board and officer positions. However, they have remained on this disclosure.

Recommendations:

1. It is recommended the Company comply with Tenn. Comp. R. & Reg. § 0780-01-46-.03, as well as the NAIC Financial Examiners Handbook by establishing a proper custodian and custodial agreement. Until such action, the Company's capital and surplus will remain below the required amounts set by Tenn. Code Ann. § 56-13-116 and the NAIC's Risk Based Capital requirements.

2. It is recommended the Company comply with Tenn. Code Ann. § 56-2-104(a)(5)(A). The Company all but moved its headquarters and administrative offices to Dallas, Texas, with the exception for a storage cabinet in Nashville, Tennessee.

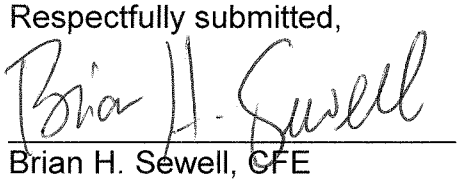
CONCLUSION

The customary insurance examination practices and procedures, as established by the National Association of Insurance Commissioners, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such matter, it was concluded that as of December 31, 2007, the Company had net admitted assets of $2,435,928 and liabilities, exclusive of capital, of $5,464,798. Therefore, there existed for the additional protection of policyholders, the amount of ($3,028,870) in the form of capital, gross paid in and contributed surplus and unassigned funds. The Company's capital has dropped below the requirements

outlined by Tenn. Code Ann. § 56-13-116, currently impairing their surplus.

Respectfully submitted,



Brian H. Sewell, CFE
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report on Hospital Underwriting Group. Inc, dated, January 26, 2009, and made as of December 31, 2007, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

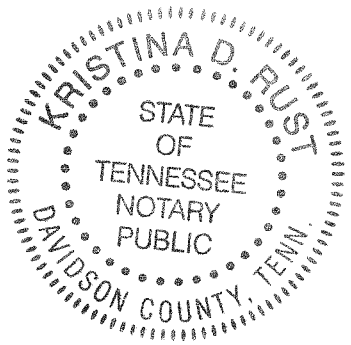
Brian H Sewell, CFE
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me this

11TH day of June, 2008

Kristina D. Rust
Notary

County DAVIDSON

State TN

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