

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

After full consideration and review of the report of the financial examination of Medical Liability Alliance for the period ended December 31, 2020, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

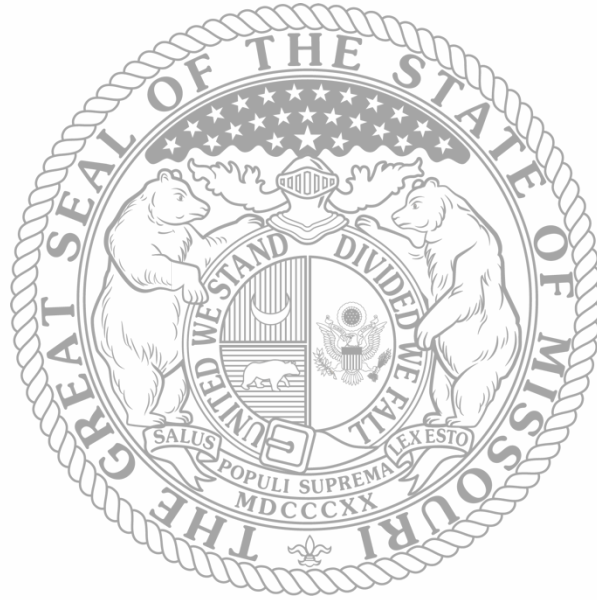
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Medical Liability Alliance as of December 31, 2020 be and is hereby ADOPTED as filed and for Medical Liability Alliance to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 24th day of June, 2022.



A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

MEDICAL LIABILITY ALLIANCE

AS OF
DECEMBER 31, 2020

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, MO
June 1, 2022

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

Medical Liability Alliance (NAIC #10686)

hereinafter referred to as such, as MLA, or as the Company. Its administrative office is located at 4700 Country Club Drive, Jefferson City, MO 65109, telephone number 573-893-5300. The fieldwork for this examination began on December 9, 2021, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of Medical Liability Alliance. The last examination of the Company by the Department covered the period of January 1, 2012, through December 31, 2015. The current examination covers the period of January 1, 2016, through December 31, 2020, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. 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 the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to MLA included Investments, Premiums and Underwriting, Reinsurance, and Reserving and Claims. The examination also included a review and evaluation of information technology general controls.

The examination was also conducted concurrently with the examination of the Company’s Missouri-domiciled parent, the Missouri Hospital Plan (MHP).

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) 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 within the examination report but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

Missouri Liability Alliance was incorporated on February 2, 1996 and commenced business on September 13, 1996. The Company operates as a stock property and casualty insurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

Mergers, Acquisitions, and Major Corporate Events

No mergers or acquisitions occurred during the examination period.

Dividends and Capital Contributions

The Company did not pay any stockholder dividends during the examination period. However, MLA paid the following policyholder dividends during the examination period:

| Year | Amount |
|--------------|---------------------|
| 2016 | \$ 1,166,448 |
| 2017 | 1,337,035 |
| 2018 | 1,454,529 |
| 2019 | 1,567,544 |
| 2020 | 1,055,251 |
| Total | \$ 6,580,807 |

The Company did not receive any capital contributions during the period under examination.

Surplus Notes

There were no surplus notes issued or outstanding during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that is appointed by the sole shareholder, MHP. The Company’s Articles of Incorporation and Bylaws specify that the Board shall be comprised of a minimum of nine directors. The Bylaws allow for a maximum of four Directors serving that can be physicians insured by MLA.

The Board of Directors appointed and serving, as of December 31, 2020, was as follows:

| <u>Name and Address</u> | <u>Principal Occupation and Business Affiliation</u> |
|--|--|
| David Aplington Clayton, MO | Senior Vice President, General Counsel, BJC Healthcare |
| Michael Castellano Chesterfield, MO | President and Chief Executive Officer, Esse Health |
| Randall Friesen, MD* St. Charles, MO | Boonslick Medical Group, Retired |
| Patrick Carron* Perryville, MO | Chief Executive Officer, Perry County Health System |
| Jon Doolittle Albany, MO | Chief Executive Officer, Northwest Medical Center |
| Diane Light, DO Jefferson City, MO | Surgeon, Capital Region Medical Center |
| JoAnne Mallonee* Town & Country, MO | Executive Vice President, Huntleigh-McGehee |
| Daniel Peters Olathe, KS | Senior Vice President, General Counsel, The University of Kansas Health System |
| Jeffrey Thomasson, MD St. Louis, MO | President, West County Radiological Group, Inc. |
| Karen Lynn Canter-Koester St. Louis, MO | Vice President, BJC Medical Group |
| Lewis Melahn Mexico, MO | Attorney at Law, Private Practice |
| Joseph Moody* Jefferson City, MO | President/CEO, Healthcare Services Group |
| Aaron Cooper Jefferson City, MO | Secretary/Treasurer, MHP and MLA |

*Effective December 31, 2021 Joseph Moody retired and was replaced by Dana Frese. Also, in June 2021, Christopher Ahrens, Chandra Prasad and Frederick Heese were added to the Board to fill the openings on the Board due to term limits.

Senior Officers

The officers elected and serving, as of December 31, 2020, were as follows:

| <u>Name</u> | <u>Office</u> |
|--------------------|-------------------------|
| Joseph Moody* | President |
| Aaron Cooper | Secretary and Treasurer |

*Effective December 31, 2021 Joseph Moody retired and was replaced by Dana Frese.

Principal Committees

The Bylaws require the Board of Directors to have an Executive Committee and a Nominating Committee. The Bylaws also allow for additional committees to be appointed by the Chairman of the Board as needed. A Finance Committee, Executive Committee, Nominating Committee, Claims & Risk Management Committee, and an Audit Committee were also operational during the examination period. As of December 31, 2020, the members of each committee were as follows:

Audit Committee

JoAnne Mallonee, Chairperson
David Aplington
Lewis Melahn
Kirk Schmidt
Joseph Moody*

Finance Committee

Michael Castellano, Chairperson
Karen Canter-Koester
JoAnne Mallonee
Joseph Moody*

Claims & Risk Management Committee

Todd Ahrens, Chairperson^
Joseph Moody*
Randall Friesen
Diane Light
Lewis Melahn
Daniel Peters
Jeffrey Thomasson
Arvids Peterson
Dana Frese

Nominating Committee

Herb Kuhn, Chairperson
Patrick Carron
Jeffrey Thomasson
Joseph Moody*

Executive Committee

Jeffrey Thomasson, Chairperson
Patrick Carron
Joseph Moody*

^MLA shares the Claims & Risk Management Committee with its parent, MHP. Mr. Ahrens is a Director for MHP and serves as the Chairperson for the Claims & Risk Management Committee.

*Effective December 31, 2021, Joseph Moody retired and was replaced by Dana Frese.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed. There were no amendments or changes to the Articles of Incorporation or the Bylaws during the period under examination. The minutes of the Board of Directors' meetings, membership meetings, and committee meetings were reviewed for proper approval of corporate transactions.

Holding Company, Subsidiaries, and Affiliates

MLA is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by each year of the examination period. The Company is 100% directly owned by Missouri Hospital Plan, a Missouri-domiciled medical malpractice insurer. MHP is a not-for-profit association whose membership consists of several not-for-profit and governmental hospitals. The Company is ultimately controlled by the member hospitals of MHP.

The operations of the Company's other affiliates are described as follows:

Healthcare Services Association (HSA) is a not-for-profit corporation formed in 1991 that

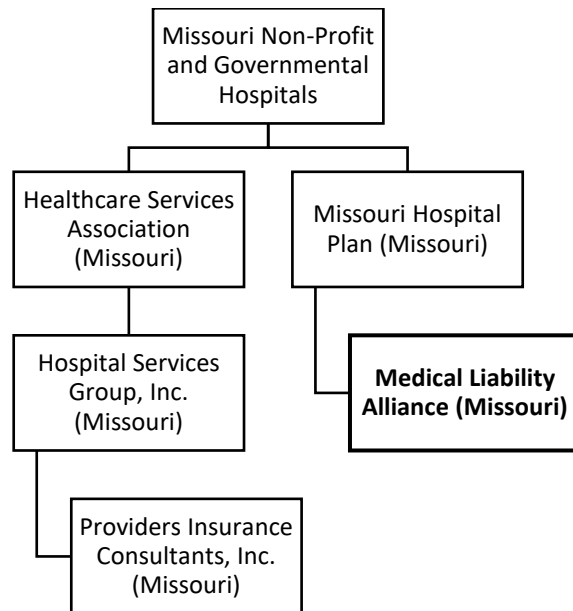
assists its members in offering high quality healthcare services and facilities by providing products, services, and insurance coverages to achieve that objective. The regular members of HSA are the owner hospitals of MHP. MHP is the only associate member.

Hospital Services Group, Inc. (HSG) is a Missouri for-profit corporation formed in 1986 that became a wholly-owned subsidiary of HSA. Its primary purpose is to provide management and operating services to insurance companies, including MHP and MLA.

Providers Insurance Consultants, Inc. (Pro-Con) is a Missouri for-profit corporation that provides hospitals and healthcare providers with medical professional liability, ancillary insurance brokerage, and risk management services. ProCon is the sole access point for MLA and also works with other commercial insurance carriers that specialize in tailoring policies for the healthcare field.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group as of December 31, 2020:



Intercompany Transactions

The following agreements represent significant contracts executed with affiliated entities that were in effect as of December 31, 2020:

Lease Agreement: This agreement, effective January 1, 2020, is between the HSG and MLA. Per the agreement, HSG employees perform various services to conduct the business operations of MLA, which then reimburses HSG for the actual hours worked by each of HSG’s employees.

Marketing and Sales Agreement: This agreement, effective January 1, 2010, is between the Pro-Con and MLA. Per the agreement, Pro-Con provides sales, marketing, customer relations, and general agency services for MLA’s professional liability and general liability products.

TERRITORY AND PLAN OF OPERATION

Medical Liability Alliance is licensed as a property and casualty insurer by the Missouri Department of Commerce and Insurance under Chapter 379 RSMo (Insurance Other Than Life). MLA is licensed and writes business in Missouri, Illinois, and Kansas. The Company is also licensed to write business in Arkansas, but did not report any written premiums in Arkansas during the examination period. The percentages of 2020 direct written premiums in the states of operation was as follows: Missouri (88.05%), Illinois (9.07%), and Kansas (2.88%).

The major line of business for MLA is Medical Professional Liability (Malpractice) – Claims Made, which accounted for 90.0% of 2020 net written premiums. MLA is the leading writer of medical malpractice insurance for physicians and surgeons in Missouri with a 17.73% share of the market in 2020. Most policies provide coverage of \$1.0 million per claim and \$3.0 million aggregate per policy year, although policies with higher limits are considered.

MLA was originally established in 1996 to insure independent staff physicians affiliated with hospitals insured by the parent, MHP. MLA has since expanded the product offerings to include for-profit hospitals and physicians that are not affiliated with the hospitals insured by MHP. In 2012, the Company expanded into policies targeted for outpatient care facilities.

The only agency used to produce business for MLA is its affiliate, Pro-Con. A Marketing and Sales Agreement between MLA and Pro-Con is described in the Intercompany Transactions section of this report.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The Company’s net written premiums and capital and surplus increased steadily over the examination period. The table below summarizes the Company’s premium writings and writing ratios for the period under examination:

(\$000s omitted)

| Year | Net Premiums Written | Change in Net Premiums | Capital and Surplus | Ratio of Net Premiums to Surplus |
|-------------|-----------------------------|-------------------------------|----------------------------|---|
| 2016 | \$ 10,905 | 5.04% | \$ 54,898 | 19.86% |
| 2017 | 11,282 | 3.46% | 59,510 | 18.96% |
| 2018 | 12,243 | 8.52% | 60,615 | 20.20% |
| 2019 | 12,992 | 6.12% | 62,381 | 20.83% |
| 2020 | 13,977 | 7.58% | 66,104 | 21.14% |

The table below summarizes the Company’s incurred losses and loss ratios for the period under examination:

(\$000s omitted)

| Year | Net Premiums Earned | Net Losses and Loss Adjustment Expenses | Loss Ratio |
|-------------|----------------------------|--|-------------------|
| 2016 | \$ 10,700 | \$ 7,255 | 67.81% |
| 2017 | 11,102 | 5,211 | 46.93% |
| 2018 | 11,720 | 7,651 | 65.28% |
| 2019 | 12,427 | 12,290 | 98.90% |
| 2020 | 13,646 | 11,163 | 81.80% |

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

| Premium Type | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Direct Premiums Written | \$ 12,163 | \$ 12,596 | \$ 13,718 | \$ 14,669 | \$ 15,847 |
| Reinsurance Assumed: | | | | | |
| Affiliates | - | - | - | - | - |
| Non-Affiliates | - | - | - | - | - |
| Reinsurance Ceded: | | | | | |
| Affiliates | 1,258 | 1,314 | 1,475 | 1,677 | 1,870 |
| Non-Affiliates | - | - | - | - | - |
| Net Premiums Written | \$ 10,905 | \$ 11,282 | \$ 12,243 | \$ 12,992 | \$ 13,977 |

Assumed Reinsurance

The Company does not assume any business.

Ceded Reinsurance

The Company's reinsurance coverage is through its parent, MHP, under a Casualty Excess of Loss Reinsurance Contract. Pursuant to this agreement, MHP assumes 100% of MLA's losses in excess of MLA's retention of \$500,000 per policy, per occurrence. MLA has a maximum aggregate retention of \$1.5 million per insured, per policy period. The ceded business is subject to retrocession by MHP through its reinsurance agreement with external reinsurers.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm Armanino LLP (formerly known as Brown, Smith, Wallace, LLP), in St. Louis, Missouri, performed the statutory audit of the Company for the years under exam. Reliance was placed upon the CPA workpapers as deemed appropriate. Such reliance included, but was not limited to, CPA walkthroughs and substantive testwork for the following key activities: Investments, Premiums and Underwriting, Reinsurance, and Reserving and Claims.

Actuarial Opinion

In 2020, the Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Keith W. Palmer, FCAS, MAAA. Mr. Palmer is employed by PricewaterhouseCoopers LLP (PwC) in Atlanta, Georgia. Patrick K. Devlin, FCAS, MAAA issued the actuarial opinion for years 2016 through 2019. Mr. Devlin retired from PwC and was replaced by Mr. Palmer.

Consulting Actuary

Pursuant to a contract with the Department, Bobby Jaegers of Taylor & Mulder, Inc., reviewed the underlying actuarial assumptions and methodologies used by MHP to determine the adequacy of loss reserves and LAE reserves. Mr. Jaegers determined that the Company made a reasonable

provision for the loss and LAE reserves that were reported in the statutory financial statements, as of December 31, 2020.

Information Systems

In conjunction with this examination, Kimberly Dobbs, CFE, AES, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Medical Liability Alliance for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2020

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|----------------------|-------------------------------|--------------------------------|
| Bonds | \$ 69,647,367 | \$ - | 69,647,367 |
| Common Stocks | 19,704,695 | - | 19,704,695 |
| Cash | 3,990,088 | - | 3,990,088 |
| Investment Income Due and Accrued | 637,451 | - | 637,451 |
| Uncollected Premiums and Agents' Balances | 89,961 | 2,883 | 87,078 |
| Deferred Premiums, Agents' Balances | 3,947,218 | - | 3,947,218 |
| Current Federal and Foreign Income Tax Recoverable and Interest Thereon | 233,049 | - | 233,049 |
| Aggregate Write-Ins | 33,179 | - | 33,179 |
| TOTAL ASSETS | \$ 98,283,008 | \$ 2,883 | \$ 98,280,125 |

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

| | |
|---|----------------------|
| Losses | \$ 19,052,500 |
| Loss Adjustment Expenses | 5,157,904 |
| Commissions Payable | 52,471 |
| Other Expenses | 126,999 |
| Taxes, Licenses and Fees | 77,886 |
| Net Deferred Tax Liability | 1,203,092 |
| Unearned Premiums | 6,213,197 |
| Advance Premium | 38,226 |
| Dividends Declared and Unpaid: Policyholders | 31,083 |
| Ceded Reinsurance Premiums Payable | 145,226 |
| Remittances and items Not Allocated | 77,148 |
| TOTAL LIABILITIES | \$ 32,175,733 |
| Common Capital Stock | 4,200,000 |
| Preferred Capital Stock | 2,000,000 |
| Gross Paid In and Contributed Surplus | 8,400,000 |
| Unassigned Funds (Surplus) | 51,504,392 |
| SURPLUS AS REGARDS POLICYHOLDERS | \$ 66,104,392 |
| TOTAL LIABILITIES AND SURPLUS | \$ 98,280,125 |

SUMMARY OF OPERATIONS
For the Year Ended December 31, 2020

| | |
|--------------------------------------|----------------------------|
| Premiums Earned | \$ 13,645,777 |
| DEDUCTIONS: | |
| Losses Incurred | 7,275,999 |
| Loss Adjustment Expenses Incurred | 3,886,826 |
| Other Underwriting Expenses Incurred | 2,452,480 |
| Total Underwriting Deductions | <u>\$ 13,615,305</u> |
| Net Underwriting Gain (Loss) | \$ 30,472 |
| Net Investment Income Earned | 2,018,565 |
| Net Realized Capital Gains | 60,811 |
| Net Investment Gain (Loss) | \$ 2,079,376 |
| Dividends to Policyholders | 1,055,251 |
| Federal Taxes Incurred | 50,770 |
| NET INCOME (LOSS) | <u>\$ 1,003,828</u> |

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2016 to December 31, 2020

(\$000's omitted)

| | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Capital and Surplus, | | | | | |
| Beginning of Year | \$ 52,678 | \$ 54,898 | \$ 59,510 | \$ 60,615 | \$ 62,381 |
| Net Income (Loss) | 1,761 | 3,232 | 2,237 | (906) | 1,004 |
| Change in Net Unrealized Capital Gains (Losses) | 755 | 1,730 | (1,642) | 3,377 | 3,347 |
| Change in Net Deferred Income Tax | (331) | (350) | 537 | (733) | (625) |
| Change in Non-Admitted Assets | 34 | - | (27) | 27 | (3) |
| Net Change in Capital and Surplus | <u>2,220</u> | <u>4,613</u> | <u>1,105</u> | <u>1,766</u> | <u>3,723</u> |
| Capital and Surplus, End of Year | <u>\$ 54,898</u> | <u>\$ 59,510</u> | <u>\$ 60,615</u> | <u>\$ 62,381</u> | <u>\$ 66,104</u> |

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Medical Liability Alliance during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kimberly Dobbs, CFE, AES, Kim Waller, AFE, and Becky Bachmann, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Marc Peterson, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Medical Liability Alliance, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Marc Peterson

Marc Peterson, CFE
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 15th day of June, 2022.

My commission expires: March 30, 2023 *Hailey Luebert*
Notary Public



HAILEY LUEBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15834366

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Sara McNeely, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance