



DEPARTMENT OF COMMERCE & INSURANCE

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

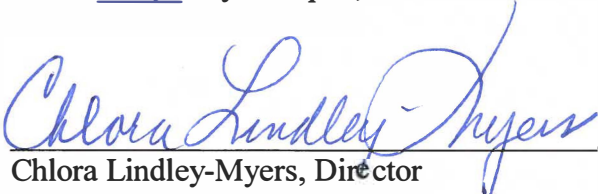
ORDER

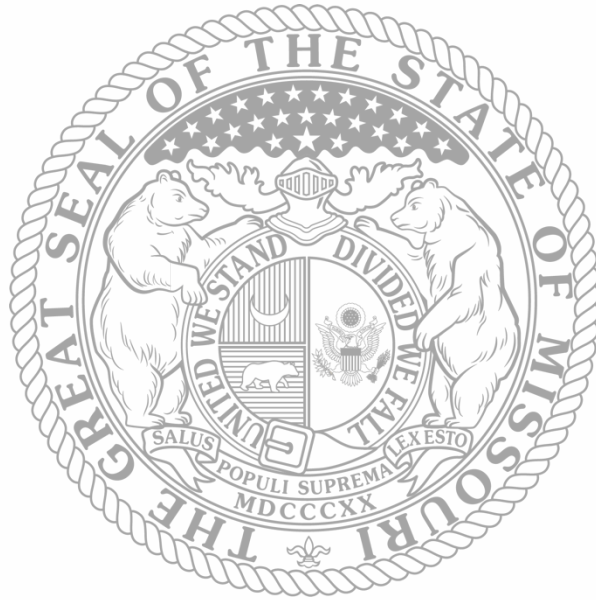
After full consideration and review of the report of the financial examination of Physicians Insurance Mutual for the period ended December 31, 2018, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri 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 findings, 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 Physicians Insurance Mutual as of December 31, 2018 be and is hereby ADOPTED as filed and for Physicians Insurance Mutual 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 April, 2020.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

PHYSICIANS INSURANCE MUTUAL

AS OF
DECEMBER 31, 2018

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Saint Louis, MO
February 28, 2020

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

Physicians Insurance Mutual (NAIC #13194)

hereinafter referred to as such, as PIM, or as the Company. Its administrative office is located at 17 Berkshire Drive, Saint Louis, MO 63117, telephone number 314.393.4105. The fieldwork for this examination began on December 11, 2019, 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 Physicians Insurance Mutual. The last examination of the Company by the Department covered the period of January 1, 2011 through December 31, 2014. The current examination covers the period of January 1, 2015 through December 31, 2018, 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 PIM included Investments, Premiums and Underwriting and Loss Reserves. The examination also included a review and evaluation of information technology general controls.

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 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

Physicians Insurance Mutual was incorporated on October 1, 2008, as an assessable medical malpractice insurer under Chapter 383 RSMo (Malpractice Insurance). As an entity incorporated under Chapter 383 RSMo, PIM is not subject to the requirements of Chapter 382 RSMo (Insurance Holding Companies).

Mergers, Acquisitions, and Major Corporate Events

On July 1, 2015, PIM entered into an Accounting and Services Agreement with Hospital Services Group, Inc. (HSG), a Missouri corporation. Under the terms of the agreement, HSG compiles financial statements for PIM on a monthly, quarterly and annual basis in accordance with the NAIC Accounting Practices and Procedures Manual. HSG also provides the following services to PIM: underwriting and issuing PIM policy quotes; coordinating premium billing and collection; coordinating claims processing, accounts payable and bank reconciliation activities; preparing PIM’s preliminary federal income tax and Missouri premium tax estimates; and, working with PIM’s investment advisors, outside auditors, actuaries, regulatory agencies and ratings agencies as needed. In exchange for these services, PIM pays HSG a fee of \$30,000 per year.

Dividends and Capital Contributions

Section 383.025 RSMo (Association to commence business, when — liability of members limited — business to be nonprofit, dividends may be paid, how) allows the payment of dividends to members provided surplus is positive before and after the dividend is declared. PIM paid the following dividends during the current examination period:

Year	Amount
2015	\$ 150,000
2018	500,000
Total	\$ 650,000

Surplus Notes

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

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors whose members are elected by the policyholders. The Company’s Bylaws specify that there shall be five Board members. The Board of Directors elected and serving as of December 31, 2018, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
William Rogers St. Louis, MO	President Physicians Mutual Insurance
Michael Castellano St. Louis, MO	Chief Executive Officer Esse Health
David Hartenbach, MD St. Louis, MO	Physician Esse Health
John Rice, MD St. Louis, MO	Physician Esse Health
Jennifer Sewing, DO St. Louis, MO	Physician Esse Health

Senior Officers

The officers elected and serving, as of December 31, 2018, were as follows:

<u>Name</u>	<u>Office</u>
William Rogers	President and Chairman of the Board
Michael Castellano	Secretary and Treasurer

Principal Committees

The Bylaws authorize the Chairman of the Board of Directors to appoint committees as circumstances warrant. The Bylaws further require that committees be chaired by a Board member, and that other members be appointed by the Chairman. There were no committees as of December 31, 2018.

Corporate Records

The Company’s Articles of Incorporation and Bylaws were reviewed. There were no changes to the Articles of Incorporation or the Bylaws during the current examination period. The minutes of the meetings of the Board of Directors were reviewed for the period under examination.

Intercompany Transactions

The following agreement represents a significant contract executed with an affiliated entity that was in effect as of December 31, 2018. Although PIM has no ownership interest in Physicians Insurance Management, LLC, the entities are affiliated through their common management. PIM’s President is the President and Sole Member of Physicians Insurance Management, LLC. A brief description of this agreement is as follows:

Management Agreement: Effective June 30, 2008, PIM entered into a Management Agreement with Physicians Insurance Management, LLC. Under the agreement, Physicians Insurance Management, LLC provides the Company with general management and oversight of PIM's insurance business. Services provided include processing applications, collecting premiums, administering assessments, adjudicating claims and collaborating with the Company in developing underwriting standards. PIM pays Physicians Insurance Management, LLC a fee equal to the greater of 5% of annual assessments or \$60,000 per year.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Missouri under Chapter 383 RSMo (Malpractice Insurance) to write medical malpractice insurance only. Coverage is available to any health care provider licensed in Missouri, but the Company currently insures only members of Esse Health. There are no restrictions on the type of practice insured although the Company prefers lower-risk exposures, e.g., family practitioners, general practitioners, pediatricians.

The Company's policy has a coverage limit of \$400,000 per claim with a combined indemnity and loss adjustment expense limit of \$500,000 per claim. The aggregate policy limit is \$1.2 million with no deductible. Coverage in excess of the Company's policy limits is available through Medical Liability Alliance, which offers coverage up to \$600,000 per claim with an aggregate limit of \$1.8 million. For multiple physicians involved in the same claim, PIM offers coverage of \$400,000 in excess of the \$600,000 coverage provided by Medical Liability Alliance. Medical Liability Alliance also offers options for extended reporting period coverage.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The Company has experienced moderate premium and surplus growth over the exam period while maintaining a low premium to surplus ratio.

The table below summarizes the Company's premium writings and writing ratios for the period under examination:

Year	Net Premiums Written	Change in Net Premiums	Benefit and Loss Payments	Capital and Surplus	Ratio of Net Premiums to Surplus
2015	\$ 911,005	\$ 24,052	\$ 80,000	\$ 1,206,442	.76
2016	878,066	(32,939)	800,000	993,444	.88
2017	1,010,145	132,079	475,000	1,084,070	.93
2018	1,122,996	112,851	815,000	1,332,512	.84

The Company's small size exposes it to significant variations in loss and loss adjustment expenses.

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

Year	Net Premiums Earned	Net Losses and Loss Adjustment Expenses	Loss Ratio
2015	\$ 911,954	\$ 784,521	.86
2016	892,808	1,037,488	1.16
2017	947,199	846,748	.89
2018	1,071,243	131,632	.12

REINSURANCE

The Company did not assume or cede any business during the current examination period.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, Brown Smith Wallace, LLP in Saint Louis, MO performed the statutory audit of the Company for the years 2015 through 2018. CPA audit workpapers were relied upon as deemed appropriate. Such reliance included, but was not limited to, walk-throughs, narratives, control testing, fraud risk assessment, confirmations and substantive testing.

Actuarial Opinion

The Company’s actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Jon W. Michelson, FCAS, MAAA, of Expert Actuarial Services, LLC in Saint Louis, Missouri, for all years in the examination period.

Consulting Actuary

Pursuant to a contract with the Department, Kristine M. Fitzgerald, ACAS, MAAA, FCA, of Actuarial and Technical Solutions, Inc., reviewed the underlying actuarial assumptions and methodologies used by PIM to determine the adequacy of loss reserves and LAE reserves.

Information Systems

In conjunction with this examination, Andy Balas, CFE, AES, CPA, 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 PIM for the period ending December 31, 2018. 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, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 3,248,710	\$	\$ 3,248,710
Stocks:			
Common Stocks	748,777		748,777
Cash, Cash Equivalents, and Short- Term Investments	146,718		146,718
Investment Income Due and Accrued	18,162		18,162
TOTAL ASSETS	\$ 4,162,367	\$	\$ 4,162,367

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2018

Losses	\$ 1,197,000
Loss Adjustment Expenses	1,011,576
Other Expenses	61,158
Current Federal and Foreign Income Taxes	234
Net Deferred Tax Liability	9,282
Unearned Premiums	550,604
TOTAL LIABILITIES	\$ 2,829,855
Unassigned Funds (Surplus)	1,332,512
TOTAL CAPITAL AND SURPLUS	\$ 1,332,512
TOTAL LIABILITIES AND SURPLUS	\$ 4,162,367

STATEMENT OF INCOME
For the Year Ended December 31, 2018

Premiums Earned	\$ 1,071,243
DEDUCTIONS:	
Losses Incurred	197,000
Loss Adjustment Expenses Incurred	(65,368)
Other Underwriting Expenses Incurred	164,725
Total Underwriting Deductions	<u>\$ 296,357</u>
Net Underwriting Gain (Loss)	\$ 774,887
Net Investment Income Earned	76,985
Net Realized Capital Gains	25,542
Net Investment Gain (Loss)	\$ 102,527
Dividends to Policyholders	500,000
Federal and Foreign Income Taxes Incurred	<u>14,571</u>
NET INCOME (LOSS)	<u>\$ 362,842</u>

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2015 to December 31, 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and Surplus, Beginning of Year	\$ 1,374,656	\$ 1,206,443	\$ 993,444	\$ 1,084,070
Net Income (Loss)	(147,589)	(200,851)	51,957	362,842
Change in Net Unrealized Capital Gains (Losses) Less Capital Gains Tax	(27,500)	(16,197)	51,558	(154,890)
Change in Net Deferred Income Tax	6,875	4,049	(12,889)	40,490
Net Change in Capital and Surplus	(168,213)	(212,998)	90,626	248,442
Capital and Surplus, End of Year	<u>\$ 1,206,443</u>	<u>\$ 993,444</u>	<u>\$ 1,084,070</u>	<u>\$ 1,332,513</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2018 through the date of this report.


ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Physicians Insurance Mutual during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Conner Nilges, examiner for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of Saint Louis)

I, Thomas J. Cunningham, 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 Physicians Insurance Mutual, 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.



Thomas J. Cunningham, CFE, CPA
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 11 day of March, 2020.

My commission expires: 5-12-2023 Cynthia S. Dalpiaz
Notary Public



CYNTHIA DALPIAZ
My Commission Expires
May 12, 2023
St. Louis County
Commission #15389128

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.



Michael R. Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance