

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Galen Insurance Company for the period ended December 31,
2011

ORDER

After full consideration and review of the report of the financial examination of Galen Insurance Company for the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration 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, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Galen Insurance Company as of December 31, 2011, be and is hereby ADOPTED as filed and for Galen Insurance Company 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) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) 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 20th day of February, 2013.



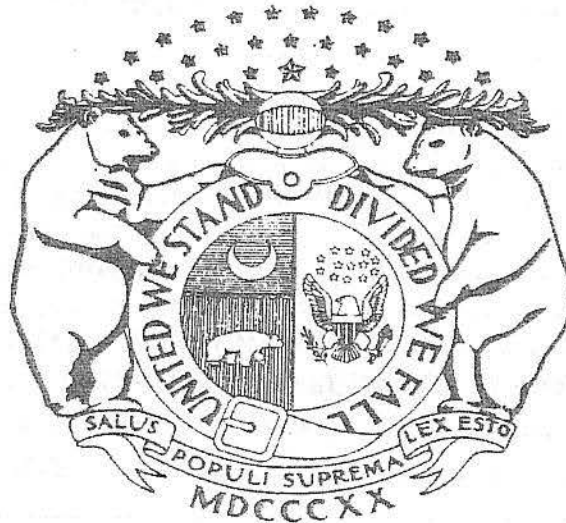
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

Galen Insurance Company

As of:
DECEMBER 31, 2011

FILED
MAR 02 2013
DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

Table of Contents

SCOPE OF EXAMINATION.....1
 Period Covered..... 1
 Procedures..... 1
SUMMARY OF SIGNIFICANT FINDINGS2
SUBSEQUENT EVENTS.....2
COMPANY HISTORY2
 General..... 2
 Capital Stock..... 2
 Dividends..... 2
 Surplus Debentures..... 3
 Mergers and Acquisitions..... 3
CORPORATE RECORDS3
 Corporate Documents..... 3
 Meeting Minutes..... 3
MANAGEMENT AND CONTROL4
 Board of Directors..... 4
 Officers..... 4
 Committees..... 5
 Conflict of Interest..... 5
 Holding Company, Subsidiaries and Affiliates..... 6
 Intercompany Transactions..... 7
 Management Services Agreement..... 7
 Consolidated Tax Allocation Agreement..... 7
FIDELITY BOND AND OTHER INSURANCE.....8
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS8
TERRITORY AND PLAN OF OPERATION8
GROWTH OF COMPANY8
LOSS EXPERIENCE9
REINSURANCE9
 Reinsurance Assumed..... 9
 Reinsurance Ceded..... 9
ACCOUNTS AND RECORDS.....10
 General..... 10
 Independent Auditor..... 10
 Independent Actuary..... 10
 Information Systems..... 10
STATUTORY DEPOSITS.....10
 Deposits with the State of Missouri..... 10
FINANCIAL STATEMENTS.....11
BALANCE SHEET.....12
INCOME STATEMENT13
RECONCILIATION OF SURPLUS14
EXAMINATION CHANGES14

COMMENTS ON FINANCIAL STATEMENTS.....14
SUMMARY OF RECOMMENDATIONS.....15
ACKNOWLEDGEMENT.....17
VERIFICATION.....17
SUPERVISION17

December 20, 2012
St. Louis, MO

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

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

Galen Insurance Company

hereinafter referred to as "Galen" or as the "Company." The Company's main office is located at 7733 Forsyth, Suite 2000; Clayton, MO 63105; telephone number (314) 721-2366. Examination fieldwork began on March 14, 2012 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of Galen Insurance Company. The last examination was completed as of December 31, 2008. This examination covers the period of January 1, 2009 through December 31, 2011. This examination also included material transactions or events occurring subsequent to December 31, 2011.

Procedures

This examination was conducted as a full scope comprehensive examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. 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 systems 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 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. Key activities were: Investment and Cash Management; Underwriting and Premiums; Claims and Reserving; Reinsurance; and Affiliated Parties.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Brown Smith Wallace LLC, for its audit covering the period from January 1, 2011 through December 31, 2011. Such reliance included taxes, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

The Company experienced significant growth in premiums written during the past year and substantial turnover of senior management. Premiums written increased by almost 70% over the previous year. Presently, the Board of Directors has no member with financial or insurance company management experience and, among the Company's officers, only the Treasurer has experience in the insurance industry. This absence of experience contributed to numerous failures to file required notices with the Department of Insurance, Financial Institutions and Professional Registration.

SUBSEQUENT EVENTS

No significant events occurred since the examination date.

COMPANY HISTORY

General

Galen Insurance Company was organized as a corporation on August 25, 2004, for the purpose of providing medical malpractice insurance to physicians, medical professionals and stand-alone surgical centers on a claims-made basis. The Department of Insurance, Financial Institutions and Professional Registration granted a certificate of authority to the Company on December 14, 2005.

Capital Stock

The Company has 1,000,000 shares of \$2.50 par value common stock authorized with 445,000 shares issued and outstanding. All shares are owned by the parent, Galen Insurance Management Company, Inc.

Dividends

The Company has paid no dividends since its inception.

Surplus Debentures

The Company did not have any surplus debentures issued or outstanding during the current examination period.

Mergers and Acquisitions

There were no mergers or acquisitions involving the Company during the examination period.

CORPORATE RECORDS

Corporate Documents

The Articles of Incorporation and the Bylaws were reviewed. No amendments were made to either document during the current examination period.

Meeting Minutes

The minutes from the annual Shareholder meetings and the Board of Directors meetings were reviewed for the current examination period. The minutes were very brief and did not always document Board approval of key changes in the operation.

For example, the Board meeting minutes did not reflect any discussion or approval of two contracts recently entered into with outside service providers which each call for significant management of the company's operations and minimum fees in excess of \$100,000 per year. The Company's management services agreement between Galen Insurance and Galen Management Company specifies that no expenditures shall be incurred which exceed \$100,000 per annum without approval of the Board. The Company should document the Boards' retroactive approval of the service agreements and ensure that future minutes document the Board's consideration of all significant events.

The Company's bylaws call for the annual shareholder meeting to be held the first Monday in March. The Company's meeting minutes did not document any meeting of the shareholder until November 11, 2011. The Company should hold its annual meeting in accordance with the bylaws and document such in minutes of the meeting.

MANAGEMENT AND CONTROL

Board of Directors

The Company's Bylaws call for no less than nine or more than twenty five directors. At December 31, 2011, the Company had ten directors as follows:

George R. Schoedinger, M.D. St. Louis, MO President, Chairman of the Board	Dennis A. Dusek, M.D. St. Louis, MO Physician
Forbes A. McMullin, M.D. St. Louis, MO Physician	Ravi Shitut, M.D. St. Louis, MO Physician
Dale E. Doerr, M.D. St. Louis, MO Physician	Ashok Kumar, M.D. St. Louis, MO Physician
Robert G. Medler, M.D. Chesterfield, MO Physician	Robert H. Sigmund, M.D. St. Louis, MO Physician
Kenneth J. Bennett, M.D. St. Louis, MO Physician	Alexandra Hart Clayton, MO Attorney

The Board of Directors lacks individuals with financial or insurance backgrounds. The Company would benefit from the additional perspective offered by someone with relevant insurance company management experience.

Officers

The officers appointed and serving as of December 31, 2011 were as follows:

<u>Name</u>	<u>Office</u>
George R. Schoedinger, M.D.	President
Kenneth J. Bennett, M.D.	Secretary
Patricia I. Curran	Treasurer

Committees

Management has created several committees designed to oversee the overall operation of the Company.

Underwriting Committee

George R. Schoedinger, M.D.
David von Gontard
Kenneth Bennett, M.D.
Howard Nathans
Kirk Wittner

Finance & Investment Committee

George R. Schoedinger, M.D.
David von Gontard
Joseph Garea
Steven Rull
David Spewak

Compensation Committee

George R. Schoedinger, M.D.
Peter von Gontard
Kenneth Bennett, M.D.
Alexandra Hart

Executive Committee

George R. Schoedinger, M.D.
Kenneth Bennett, M.D.
Alexandra Hart

Audit Committee

George R. Schoedinger, M.D.
Jonathan Andres
Howard Nathans
Kirk Wittner

Claims Committee

George R. Schoedinger, M.D.
David von Gontard
Kenneth Bennett, M.D.
Jonathan Andres
Kirk Wittner
Gregory Wittner

Legal & Regulatory Committee

George R. Schoedinger, M.D.
David von Gontard
Jonathan Andres
Howard Nathans
David Spewak

Shareholder Relations Committee

George R. Schoedinger, M.D.
David von Gontard
Jonathan Andres
Howard Nathans
Kirk Wittner

The Audit Committee lacks independence. Howard Nathans is responsible for all underwriting for the Company and provides critical assistance in the procurement of reinsurance. Kirk Wittner is responsible for the claims administration for the Company. A truly independent Audit Committee cannot be comprised of individuals reviewing their own work. The Company should assemble an Audit Committee that can evaluate the full range of critical activities within the Company's operations and do so in an independent manner. This is especially important given that the Company is not large enough to effectively maintain segregation of duties in many of the processes employed.

Conflict of Interest

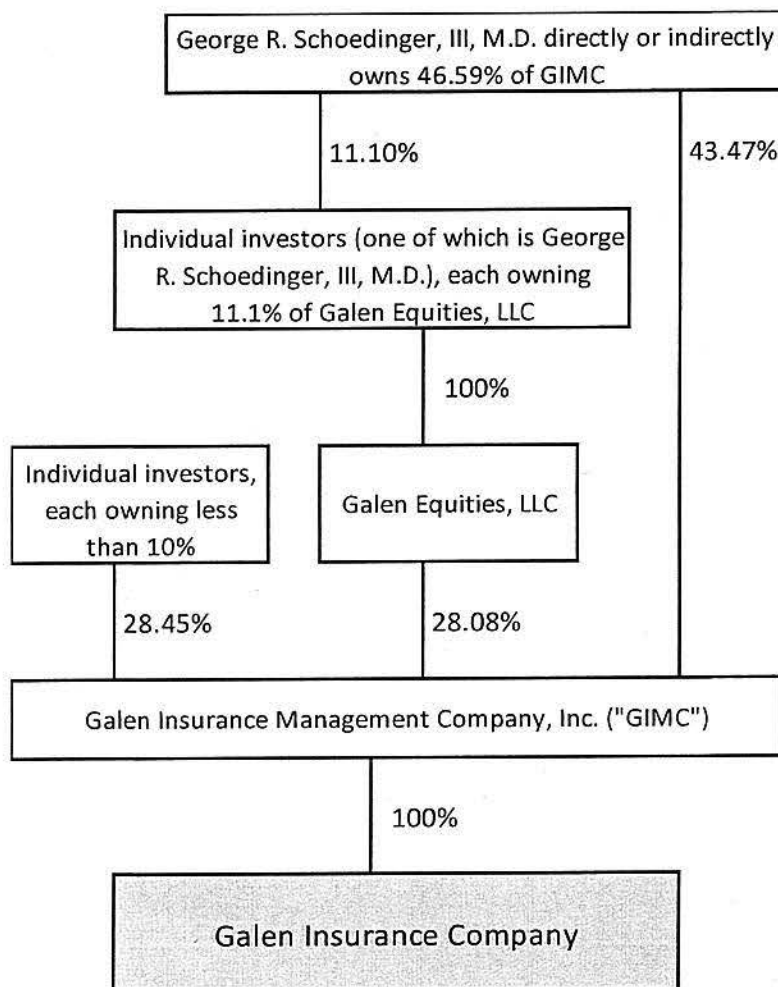
Conflict of Interest disclosure statements are executed annually by all Board members and company officers. A review of the conflict of interest disclosure statements for the period under current examination indicated no material conflicts.

The Company should require conflict of interest disclosures from all individuals responsible for critical functions within the Company. Specifically, disclosures should be obtained from Mr. Nathans since he is responsible for underwriting and business development and from Messrs. Wittner and von Gontard who are responsible for claims administration.

Holding Company, Subsidiaries and Affiliates

The Company is a member of a holding company system and, as such, is subject to the provisions of Chapter 382 RSMo, Insurance Holding Companies. The Company's common capital stock is wholly-owned by Galen Insurance Management Company, Inc. (GIMC). That company is owned by a number of other individual investors, either on a direct basis or via partnership in a limited liability company known as Galen Equities, LLC. The ultimate controlling person of Galen Insurance Company is Dr. George R. Schoedinger, who directly or indirectly owns nearly half of GIMC.

The following organizational chart shows the structure of the holding company system as of December 31, 2011:



Galen Insurance Management Company, Inc. entered into an agreement, on March 24, 2011, with George R. Schoedinger, M.D. to serve as President, CEO, and Chairman of the Board of Directors. Prior approval is required under 20 CSR 200-11.101(15) for this contract since Dr. Schoedinger was already an affiliate based on his ownership interest in Galen Insurance Management Company, Inc. The Company should file a Form D notification describing this contractual relationship.

Intercompany Transactions

The Company is a party to the following two affiliated agreements. Both agreements had been submitted to the Department of Insurance, Financial Institutions and Professional Registration (Department) prior to implementation.

Management Services Agreement

Parties: Galen Insurance Company and Galen Insurance Management Company, Inc. (GIMC).

Effective: December 12, 2005. This agreement was filed and approved as a Form D concurrent with the initial inception of the Company in December of 2005.

Terms: GIMC provides substantially all of the administrative and management services for the Company on an at-cost basis.

Rate: Actual expenses are charged, but payment of those expenses is limited to 20% of earned premium. The actual cost of services provided, if in excess of 20% of earned premiums in a given quarter, is to be deferred by the Company and paid to GIMC at a later date when the amounts are within the 20% guidelines. The Company reported that it paid \$1,473,654 under the agreement during 2011.

Consolidated Tax Allocation Agreement

Parties: Galen Insurance Company and Galen Insurance Management Company, Inc.

Effective: January 1, 2006, Department approved on June 14, 2006.

Terms: The parties file their tax returns on a consolidated basis and will pay no more taxes than if the companies had each filed on a separate return basis. An Alternative Minimum Tax (AMT) basis return will also be calculated for the companies and, if applicable, each of the parties will pay that amount of the additional tax liability that is attributed to that party's inclusion in the AMT-based return.

Rate: Cost

The Company has not complied with the terms of the Management Services Agreement with GIMC. The terms of the Agreement, as filed with the Department, limit the payment of expenses to no more than 20% of Galen's earned premium. Through December 31, 2011, the Company has paid GIMC \$787,268 for expenses in excess of 20% of earned premium. The Company paid these expenses and established a receivable from GIMC for the excess, which was non-admitted for statutory reporting purposes. The Company should not have paid these fees in violation of their Management Services Agreement. Instead, it should have accrued a liability for the fees owed in excess of the limitation.

FIDELITY BOND AND OTHER INSURANCE

Galen Insurance Company is a named insured on a \$100,000 employee dishonesty policy, which has a \$100 deductible. The NAIC's Financial Condition Examiners Handbook recommends a minimum of \$150,000 in fidelity type coverage for a company of this size. The Company should obtain sufficient coverage to ensure it meets the minimum requirements outlined in the Financial Condition Examiners Handbook.

The Company is also a named insured on policies which have the following types of coverage: management liability, employment practices liability, professional liability, network security liability, and loss of business income. These insurance coverages provide adequate protection for all of the company's insurance exposure.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. All staffing is provided through a management services agreement with the parent, Galen Insurance Management Company, Inc.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to provide medical malpractice insurance in the states of Missouri and Illinois. Policies are written on a claims made basis with typical limits of \$1,000,000 per claim and \$3,000,000 in aggregate.

GROWTH OF COMPANY

The Company experienced significant growth in premium written during 2011. This was attributed to the hiring of a new producer which was able to place a block of business, primarily in Illinois. Direct premiums written increased by 69% during 2011, however the Company's parent helped accommodate this growth by contributing over \$2.3 million of capital to the Company.

The table below shows various indicators of the Company's growth over the past five years. Balances are shown in thousands.

<u>Indicator</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Assets	4,780	6,469	7,944	9,368	13,315
Net Premiums Earned	1,637	1,905	2,033	2,058	3,141
Net Income	341	437	403	340	921

LOSS EXPERIENCE

The Company has maintained favorable loss experience throughout its existence. The net loss ratio was only 33.5% for 2011 and has never been more than 62%. The current examination found that the reserves as of the examination date were adequate.

The table below shows the reserve levels (in thousands) and the net loss ratio over the past five years.

<u>Indicator</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Loss & LAE Reserves	1,142	1,864	2,832	3,758	3,779
Net Loss Ratio	42.7%	43.0%	55.3%	61.6%	33.5%

REINSURANCE

Reinsurance Assumed

The Company does not assume any reinsurance.

Reinsurance Ceded

Effective October 1, 2011, the Company entered into an excess of loss reinsurance agreement with a retention limit of \$300,000. The Company also is responsible for 5% of the losses on the next \$700,000 of losses for each claim.

The Company also is protected when two insureds are involved in a single event. In that situation, the Company retains \$400,000, while the reinsurers are responsible for 95% of the next \$600,000 of loss.

The Company pays a provisional premium of 19% for these coverages. Each reinsurer has a 50% share in the reinsurance provided.

ACCOUNTS AND RECORDS

General

The Company's financial statements are prepared on a statutory accounting basis. Accounting entries are recorded on a Peachtree Accounting system. The Company uses the INSWARE system for policy administration, premium accounting and claims processing.

Independent Auditor

The Company's financial statements are audited annually by the accounting firm Brown Smith Wallace LLC. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuary

Pursuant to a contract with the Missouri Department of Insurance, Financial Institutions and Professional Registration, Jon Michelson, FSA, MAAA, of the actuarial firm Expert Actuarial Services, LLC, reviewed the adequacy of the Company's loss and loss adjustment expense reserves. His review of the Company's reserves concluded that the loss and loss adjustment expense reserves at December 31, 2011, were adequate.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the Missouri Department of Insurance, Financial Institutions and Professional Registration conducted a review of Galen Insurance Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2011, as referenced below, were sufficient to meet the capital deposit requirements for the state of Missouri in accordance with Section 379.098 RSMo.

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
US Treasury Note	\$390,000	\$392,406	\$390,380
US Treasury Note	350,000	360,458	347,551
US Treasury Note	425,000	443,063	429,133
Wentzville, MO School District			
General Obligation Bond	350,000	393,579	381,462
Totals	<u>\$1,515,000</u>	<u>\$1,589,506</u>	<u>\$1,548,526</u>

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2011, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

BALANCE SHEET
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$9,284,225	\$0	\$9,284,225
Cash	2,963,705	0	2,963,705
Investment income due and accrued	101,991	0	101,991
Deferred premiums	655,513	0	655,513
Amounts recoverable from reinsurers	1,695	0	1,695
Other amounts receivable under reinsurance contracts	108,834	0	108,834
Net deferred tax asset	489,329	290,628	198,701
Receivables from parent, subsidiaries and affiliates			
Note 1	787,268	787,268	0
Total Assets	\$14,392,560	\$1,077,896	<u>\$13,314,664</u>
Losses			2,491,849
Loss adjustment expenses			1,287,625
Commissions payable			102,455
Other expenses			75,878
Taxes, licenses and fees			57,102
Current federal income taxes Note 2			0
Unearned premiums			1,510,672
Advance premium			112,085
Funds held by company under reinsurance treaties			367,674
Payable to parent, subsidiaries and affiliates Note 2			874,297
Total Liabilities			6,879,638
Common capital stock			1,112,500
Gross paid in and contributed surplus			3,432,501
Unassigned funds (surplus)			1,890,024
Surplus as regards policyholders			6,435,025
Total Liabilities and Surplus			<u>\$13,314,664</u>

INCOME STATEMENT
For Year Ending December 31, 2011

Premiums earned		\$3,140,586
Losses incurred	256,170	
Loss adjustment expenses incurred	797,401	
Other underwriting expenses incurred	<u>975,512</u>	
Total underwriting deductions		<u>2,029,083</u>
Net underwriting gain (loss)		1,111,503
Net investment income earned	323,436	
Net realized capital gains	<u>12,297</u>	
Net investment gain (loss)		<u>335,732</u>
Net income before federal income taxes		1,447,235
<i>Less:</i> Federal income taxes incurred		<u>526,176</u>
Net income		<u><u>\$921,059</u></u>

RECONCILIATION OF SURPLUS
Changes from December 31, 2008 to December 31, 2011

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Surplus as regards policyholders, December 31 prior year	\$2,441,005	\$3,120,076	\$3,541,693	\$3,861,126
Net income	436,613	403,422	340,257	921,059
Change in net unrealized capital gains or (losses)	0	0	(20,219)	19,866
Change in net deferred income tax	37,427	29,658	39,604	296,241
Change in nonadmitted assets	(19,969)	(8,040)	(43,632)	(983,267)
Change in provision for reinsurance	0	(3,422)	3,422	0
Capital changes paid in	112,500	0	0	0
Surplus adjustments paid in	112,500	0	0	2,320,001
Change in surplus per examination	0	0	0	0
Change in surplus as regards policyholders for the year	679,071	421,617	319,432	2,573,900
Surplus as regards policyholders, December 31 current year	<u>\$3,120,076</u>	<u>\$3,541,693</u>	<u>\$3,861,126</u>	<u>\$6,435,026</u>

EXAMINATION CHANGES

There were no examination changes that impacted surplus.

COMMENTS ON FINANCIAL STATEMENTS

Note 1, Receivables from parent, subsidiaries, and affiliates

The balance of \$787,268 represents the excess payments to Galen Insurance Management Company under the management agreement. That agreement caps payment of expenses to no more than 20% of earned premium for the period. The balance, although non-admitted, represented the amount paid over the limit established by the management agreement.

Note 2, Federal income taxes

Payable to parent, subsidiaries and affiliates

The balance shown as a liability for *federal income taxes* is reclassified to *payable to parent, subsidiaries and affiliates*. The Company's parent, Galen Insurance Management Company, Inc., pays the tax liability under a consolidated income tax agreement. The Company pays the parent for the Company's share of the liability.

SUMMARY OF RECOMMENDATIONS

Meeting Minutes, Page 3

Board meeting minutes did not fully document consideration by the Board of Directors of all significant events occurring during the period under examination. The Management Services Agreement with Galen Insurance Management Company requires that the Board give approval for all expenditures in excess of \$100,000 per year. The contracts to provide underwriting, claims administration, and CEO services all exceed \$100,000 per year yet no discussion of these contracts was documented in the meeting minutes. The Board of Directors should document approval of these contracts. The Company should also implement measures to ensure future meeting minutes fully document significant events and compliance with the Management Services Agreement.

The Company's annual meeting of the shareholder was not held in accordance with the bylaws. The meeting is supposed to be held the first Monday in March. The meeting minutes reflected a shareholder meeting held on November 11, 2011. The Company should ensure that its annual shareholder meeting is held in accordance with the bylaws.

Board of Directors, Page 4

The Board of Directors is comprised of nine physicians and one attorney. There is no longer anyone on the board with a financial or insurance background. The Company would benefit by having someone with that type of experience.

The Audit Committee composition does not provide for independent assessment of key aspects of the Company's business. Two members of the Audit Committee are directly responsible for underwriting and business development and for claims administration. The Audit Committee should be comprised of individuals that can provide an independent assessment of those activities.

Conflict of Interest, Page 5

The Company should take steps to ensure that all individuals with responsibility for critical aspects of the business operation sign annual conflict of interest disclosures.

Holding Company, Subsidiaries and Affiliates, Page 6

The Company, as a member of an insurance holding company system, failed to make prior notification of a transaction with an affiliate. Dr. George R. Schoedinger controls Galen Insurance Management Company, Inc. through his ownership interest. Notification should have been made when that company contracted with Dr. Schoedinger to perform services as President, CEO, and Chairman of the Board. Galen Insurance Company should file Form D per 20 CSR 200-11.101(5) to disclose this arrangement to the Department.

Intercompany Transactions, Page 7

The Company has not complied with the Management Services Agreement. The Company has been paying expenses in excess of the cap established by the agreement. No Form D filings requesting modifications to the agreement have been made. The Company must obtain repayment of the excess funds, which totaled \$787,268 as of December 31, 2011, and cease making payments in violation of the agreement. Once payment has been received, the Company should establish a liability to GIMC for those funds.

Fidelity Bond and Other Insurance, Page 8

The Company has coverage for up to \$100,000 for employee dishonesty protection. The minimum level of coverage, as outlined in the Financial Condition Examiners Handbook, is \$150,000. The Company should obtain additional coverage to ensure it meets that minimum requirement.



February 15, 2013

Division of Insurance Company Regulation

Attn: Tammy Rodieck, Exam Coordinator

301 West High Street, Room 530

Jefferson City, MO 65102-0690

Re: Galen Insurance Company – 2011 Examination Report

To Whom It May Concern:

Galen Insurance Company in receipt of the Examination Report for the period ending December 31, 2011, would like to take the opportunity to reply to the Summary of Recommendations included in the Examination Report. Galen requests that its comments be included with the final report.

Meeting Minutes, Page 3

The Company concurs with the Department's findings related to board approvals and board meeting minutes. The Board of Directors, when it meets on March 4, 2013 will retrospectively approve those contracts in excess of \$100,000. In addition, the Board Secretary, will ensure that upcoming Board meetings are more fully documented.

The Company concurs with the Department's findings related to board meeting dates. Consistent with the Company bylaws, the next annual board meeting is March 4, 2013.

Board of Directors, Page 4

The Company concurs with the Department's findings related to the make-up of its various boards. The Company has updated its board members to include two members with financial backgrounds. In addition that Company has replaced two members of the audit committee in order to provide a more independent assessment of the Company's activities.



Conflict of Interest, Page 5

The Company concurs with the Department's findings related to conflict of interest disclosures. In 2013, the Company implemented an annual process requiring those individuals who are responsible for critical aspects of the business to complete and sign annual conflict of interest statements.

Holding Company, Subsidiaries and Affiliates, Page 6

The Company concurs with the Department's findings related to the Form D filing. In 2012, the Company filed its Form D with the Department and received approval of the transaction in question.

Intercompany Transactions, Page 7

The Company concurs with the Department's findings related to the Management Services Agreement. The Company has taken steps to ensure that the Company does not pay expenses in excess of the cap established in the agreement.

Fidelity Bond and Other Insurance, Page 8

The Company concurs with the Department's findings related to the minimal level of fidelity coverage. In 2012, the Company increased its coverage from \$100,000 to \$150,000 as outlined in the Financial Condition Examiners Handbook.

Galen Insurance requests that these responses be added to the Final 2011 Examination Report. The Company appreciates the additional time provided to allow it to submit this response. Please contact me with any questions concerning Galen's responses.

Sincerely;

A handwritten signature in cursive script that reads "Denny Lowry".

Denny Lowry

CFO – Galen Insurance Company