

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 Keystone Mutual Insurance Company 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.

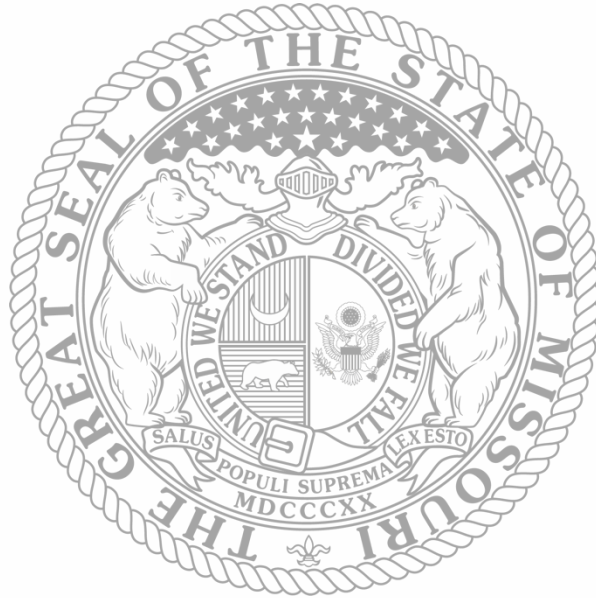
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Keystone Mutual Insurance Company as of December 31, 2020 be and is hereby ADOPTED as filed and for Keystone Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) 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 25th day of May, 2022.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

KEYSTONE MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2020

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Saint Louis, MO
April 14, 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

Keystone Mutual Insurance Company (NAIC #13073)

hereinafter referred to as such, as Keystone, or as the Company. Its administrative office is located at 366 West Fourth Street, Eureka, MO 63025, telephone number 636.549.3744. The fieldwork for this examination began on October 26, 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 Keystone Mutual Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2014, through December 31, 2017. The current examination covers the period of January 1, 2018, 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 Keystone included Investments, Claims and Reserving, Underwriting and Premiums, Reinsurance, Taxes, and Capital and Surplus. 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 are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material changes to the financial statements or significant non-compliance issues noted during the examination. Refer further to Subsequent Events for additional information.

COMPANY HISTORY

General

The Company incorporated on December 31, 2007, under RSMo Chapter 383 (Malpractice Insurance) as an assessable medical malpractice insurer.

Mergers, Acquisitions, and Major Corporate Events

There were no mergers, acquisitions or other major corporate events during the current examination period.

Dividends and Capital Contributions

There were no dividends declared or paid during the current examination period. The Company reported the following contributed surplus for the current examination period. Contributed surplus consists of a portion of premium withheld by the Company.

Year	Amount
2018	\$ 65,502
2019	144,659
2020	161,980
Total	\$ 372,141

Surplus Notes

The following surplus notes were outstanding at year-end 2020. Except for Number 7, all of the notes were issued to Keystone Mutual Holding Company. Note Number 7 was issued to Sunwest Trust, Inc. FBO James R. Bowlin.

Number	Issued	Rate	Original Amount	Current Value
1	09/30/2009	7%	\$220,000	\$393,506
2	11/30/2009	7%	50,000	88,841
3	12/31/2009	7%	10,000	17,710
4	12/31/2010	7%	80,000	136,077
5	12/31/2010	7%	90,000	153,087
6	11/30/2011	7%	110,000	179,929
7	12/30/2011	7%	100,000	163,000
8	12/30/2011	7%	40,000	65,200
9	12/31/2018	7%	100,000	114,000
10	12/31/2019	7%	100,000	107,000

MANAGEMENT AND CONTROL**Board of Directors**

The management of the Company is vested in a Board of Directors elected by the policyholders. The Company's Bylaws specify that there shall be no less than nine but no more than twenty-five directors. The Board of Directors elected and serving as of December 31, 2020, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
James R. Bowlin Wildwood, MO	Chairman and Chief Executive Officer Keystone Mutual Insurance Company
Scott B. Lakin Kansas City, MO	Principal Lakin Consulting, LLC
Jerry N. Middleton, MD Saint Louis, MO	Retired (Obstetrician/Gynecologist) Obstetrical Associates of St. Louis, Inc.
Craig S. McPartlin Wildwood, MO	Chief Financial Officer and Treasurer Keystone Mutual Insurance Company
Jerry D. Kennett, MD Columbia, MO	Cardiologist Missouri Cardiovascular Specialists, LLP
Joel D. Hassien, MD Hannibal, MO	Radiologist Hannibal Regional Hospital
Dennis A. Nahnsen Saint Louis, MO	Retired (President) Missouri Valley Partners
Bruce C. Oetter Clayton, MO	Retired (Partner) Bryan Cave LLP
George K. Parkins, MD Prairie Village, KS	Retired (Orthopedic Surgeon) Drisko, Fee & Parkins, PC
Matthew J. Spellman, MD Richmond Heights, MO	President Urology of St. Louis, Inc.
A. Greig Woodring Chesterfield, MO	Member, Board of Directors The Hartford

Senior Officers

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

<u>Name</u>	<u>Office</u>
James R. Bowlin	Chairman and Chief Executive Officer
Jerry D. Kennett, MD	President
Matthew J. Spellman, MD	Secretary
Craig S. McPartlin	Treasurer

Principal Committees

The Company's Bylaws require an Executive Committee which is empowered to act on behalf of the Board of Directors during periods when the Board is not meeting. The Bylaws further allow the Board of Directors the discretion to establish other committees, each of which must consist of at least three Directors. These other committees have such powers as the Board grants them. The Chair and Chief Executive Officer serves as an *ex officio* member of each committee other than the Executive Committee.

Executive Committee

James R. Bowlin, Chair
 Jerry D. Kennett, MD
 Matthew J. Spellman, MD
 Craig S. McPartlin
 Scott B. Lakin

Claims

Jerry D. Kennett, MD, Chair
 Jerry N. Middleton, MD
 Bruce C. Oetter

Rates & Underwriting

Matthew J. Spellman, MD, Chair
 Craig S. McPartlin
 Jerry N. Middleton, MD

Marketing

George K. Parkins, MD, Chair
 Scott B. Lakin
 Matthew J. Spellman, MD

Reinsurance

Jerry N. Middleton, MD, Chair
 Craig S. McPartlin
 Joel D. Hassien, MD

Investment/Finance

Dennis A. Nahnsen, Chair
 Craig S. McPartlin
 Bruce C. Oetter

Governmental Affairs

Jerry D. Kennett, MD, Chair
 Scott B. Lakin
 Jerry N. Middleton, MD

Audit

Jerry D. Kennett, MD, Chair
 Dennis A. Nahnsen
 George K. Parkins, MD

Compensation

Joel D. Hassien, MD, Chair
 Dennis A. Nahnsen
 Matthew J. Spellman, MD

Nominating

Joel D. Hassien, MD, Chair
 George K. Parkins, MD
 Bruce C. Oetter

Appellate

Joel D. Hassien, MD, Chair
 Scott B. Lakin
 George K. Parkins, MD

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed. There were no revisions to either document during the exam period. The minutes of the Members' meetings, the Board of Directors' meetings and the Audit Committee's meetings were reviewed for the period under examination.

Holding Company, Subsidiaries, and Affiliates

As a medical malpractice insurer organized under Chapter 383 RSMo (Malpractice Insurance) Keystone is not subject to the reporting requirements of Chapter 382 RSMo (Insurance Holding Companies).

Related Party Transactions

The following agreements represent significant contracts executed with affiliated entities that were in effect as of December 31, 2020. A brief description of these agreements follows:

Management Agreement: Under this agreement, effective January 1, 2015, Keystone Insurance Holding Company provides underwriting, claims and other corporate management services to the Company. Keystone's Chair and Chief Executive Officer owns Keystone Insurance Holding Company.

Agency Agreement: Under this agreement, effective January 1, 2015, Cogerus Insurance Group, LLC (Cogerus) serves as the Company's non-exclusive agent in the production of medical professional liability insurance. Keystone's Chair and Chief Executive Officer owns fifty-one percent (51%) of Cogerus.

Lease Agreement: Under this agreement, effective January 1, 2013, McPartlin Realty, LLC provides office space to the Company. The lease agreement renews annually. Keystone's Chief Financial Officer owns McPartlin Realty, LLC.

TERRITORY AND PLAN OF OPERATION

Keystone only writes business in the state of Missouri, the sole jurisdiction in which it is currently licensed. Keystone limits coverage to physicians who practice in one of twelve specialties the Company has identified as low-risk, based on proprietary internal analysis. Policies are primarily issued on a claims-made basis with limits of \$1 million/\$3 million aggregate. An extended reporting endorsement is available on a claims-occurring basis. Free tail coverage is offered in the event of death, disability or retirement (DD&R).

GROWTH OF COMPANY AND LOSS EXPERIENCE

Keystone increased its premium writings and its capital and surplus 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
2018	\$ 1,588	\$ (559)	\$ 187	8.5
2019	2,186	598	295	7.4
2020	2,605	420	672	3.9

Keystone improved its loss ratio each year of the examination period.

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
2018	\$ 1,410	\$ 1,049	.744
2019	2,017	1,437	.712
2020	2,390	1,505	.630

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	2018	2019	2020
Direct Premiums Written	\$ 2,523	\$ 2,812	\$ 3,069
Reinsurance Ceded:			
Non-Affiliates	(935)	(626)	(464)
Net Premiums Written	\$ 1,588	\$ 2,186	\$ 2,605

Assumed Reinsurance

The Company did not assume any premiums during the period under examination.

Ceded Reinsurance

Keystone has excess of loss coverage in place with three reinsurers, Lloyd's of London, Hannover Rück and XL Bermuda. Guy Carpenter, the Company's reinsurance intermediary, administers the program. Under the treaty, Keystone retains \$200,000 per claim or \$600,000 per event. The reinsurers' limit is \$1 million per claim or \$600,000 per event. The agreement includes an adjustment feature that is calculated based on several factors including the Company's loss experience.

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, Brown Smith Wallace, in Saint Louis, Missouri, performed the statutory audit of the Company for the years 2018 through 2020. Reliance was placed upon the CPA workpapers as deemed appropriate. Such reliance included, but was not limited to, walk-throughs, control testing 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 Ronald T. Kuehn, FCAS, MAAA for all years in the examination period. Ronald T. Kuehn is employed by Huggins Actuarial Services in Media, Pennsylvania.

Consulting Actuary

Pursuant to a contract with the Department, Kristine M. Fitzgerald, ACAS, MAAA of Actuarial & Technical Solutions, Inc., reviewed the underlying actuarial assumptions and methodologies used by Keystone to determine the adequacy of loss reserves and LAE reserves. Kristine M. Fitzgerald 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, CISA, Information Systems Financial Examiner-in-charge 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 Keystone Mutual Insurance Company 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	\$ 624,389	\$	\$ 624,389
Stocks:			
Common Stocks	595,293		595,293
Cash, Cash Equivalents, and Short-Term Investments	1,929,425		1,929,425
Investment Income Due and Accrued Premiums and Considerations:	831		831
Uncollected Premiums and Agents' Balances in the Course of Collection	570,668		570,668
Deferred Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due	501,231		501,231
Reinsurance:			
Other Amounts Receivable Under Reinsurance Contracts	259,318		259,318
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	33,472		33,472
Net Deferred Tax Asset	120,108	59,943	60,165
Prepaid Expenses	11,407	11,407	0
TOTAL ASSETS	\$ 4,646,142	\$ 71,350	\$ 4,574,792

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Losses	\$ 1,157,886
Loss Adjustment Expenses	625,257
Other Expenses	110,438
Taxes, Licenses, and Fees	69,508
Unearned Premiums	1,644,346
Advance Premiums	209,040
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	86,676
TOTAL LIABILITIES	\$ 3,903,151
Legacy Plan	100,775
Contributed Surplus	742,237
Surplus Notes	1,418,350
Unassigned Funds (Surplus)	(1,589,721)
TOTAL CAPITAL AND SURPLUS	\$ 671,641
TOTAL LIABILITIES AND SURPLUS	\$ 4,574,792

STATEMENT OF INCOME
For the Year Ended December 31, 2020

Premiums Earned	\$ 2,390,123
DEDUCTIONS:	
Losses Incurred	738,509
Loss Adjustment Expenses Incurred	766,765
Other Underwriting Expenses Incurred	868,229
Total Underwriting Deductions	<u>\$ 2,373,503</u>
Net Underwriting Gain (Loss)	\$ 16,620
Net Investment Income Earned	46,558
Net Investment Gain (Loss)	\$ 46,558
Finance and Service Charges Not Included in Premiums	91,296
Federal and Foreign Income Taxes Incurred	<u>(40,402)</u>
NET INCOME (LOSS)	<u>\$ 114,072</u>

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2018 to December 31, 2020

(\$000s omitted)

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and Surplus, Beginning of Year	\$ 489	\$ 187	\$ 317
Net Income (Loss)	(363)	(158)	114
Change in Net Unrealized Capital Gains (Losses) Less Capital Gains Tax	(20)	30	20
Change in Net Deferred Income Tax	14	25	(6)
Change in Nonadmitted Assets	(82)	(34)	65
Change in Surplus Notes	149	156	63
Accrued Interest on Surplus Notes	(49)	(56)	(63)
Contributed Surplus	66	145	162
Aggregate Write-Ins for Gains and Losses in Surplus	(16)	22	0
Net Change in Capital and Surplus	(302)	130	355
Capital and Surplus, End of Year	<u>\$ 187</u>	<u>\$ 317</u>	<u>\$ 672</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

There were no adjustments identified during the examination that impacted surplus. There were two reclassification entries as detailed in the table below. Premiums that were collected by and due from Cogerus were reclassified from Uncollected Premiums to Receivable from Affiliate. The amount payable on the Company's Paycheck Protection Program loan was reclassified from Taxes, Licenses and Fees to its own liability.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

The following are reclassification entries only.

SUMMARY OF RECLASSIFICATIONS				
Annual Statement Line Item	Balance per Annual Statement	Increase	Decrease	Adjusted Balance
Uncollected Premiums	\$570,668		\$487,826	\$82,842
Receivable from Affiliate	\$0	\$487,826		\$487,826
Paycheck Protection Program Forgivable Loan	\$0	\$62,269		\$62,269
Taxes, Licenses and Fees	\$69,508		\$62,269	\$7,239

SUMMARY OF RECOMMENDATIONS

None.

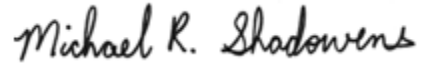
SUBSEQUENT EVENTS

Keystone's 2021 Annual Statement disclosed a 63% decline in surplus from year-end 2020. Along with the decline in surplus, Keystone's 2021 Annual Statement further disclosed the largest annual premium growth in the Company's history, an 18% increase over 2020. The premium growth, combined with a more conservatively based change in actuarial methodology, resulted in an increase in reserves. These variations resulted in an underwriting loss of \$744,000, along with a related overall net loss of \$521,000. As noted elsewhere in this report, Keystone expanded its premium writings and capital and surplus in each year of the examination period.

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 monitor closely the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

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