



DEPARTMENT OF COMMERCE & INSURANCE

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

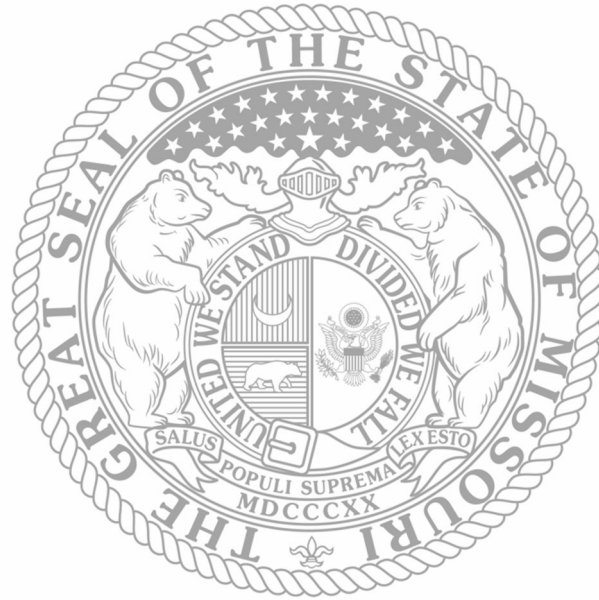
ORDER

After full consideration and review of the report of the financial examination of Missouri Doctors Mutual Insurance Company for the period ended December 31, 2019, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, 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, history, corporate records, management and control, territory and plan of operations, accounts and records, financial statements, comments on the financial statements, subsequent events and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Missouri Doctors Mutual Insurance Company as of December 31, 2019, be and is hereby ADOPTED as filed and for Missouri Doctors 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) implement and verify compliance with each item mentioned in the Comments on the Financial Statement and/or Summary of Recommendations section of such report; and (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 09th day of November, 2020.

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

MISSOURI DOCTORS MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2019

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Kansas City, MO
September 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

Missouri Doctors Mutual Insurance Company (NAIC #11964)

hereinafter referred to as such, as Mo Docs, or as the Company. Its administrative office is located at 601 Francis Street, St. Joseph, Missouri 64501, telephone number (816) 901-9950. The fieldwork for this examination began on March 16, 2020, 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 Missouri Doctors Mutual Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2014 through December 31, 2016. The current examination covers the period of January 1, 2017 through December 31, 2019, 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 Mo Docs included investments, claims and reserving, and premium and underwriting. 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 adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

Missouri Doctors Mutual Insurance Company was issued a certificate of incorporation by the Missouri Secretary of State on February 24, 2004, which stated, "it is entitled to all rights and privileges granted corporations under the Missouri Nonprofit Corporation Law." The Company was issued a Certificate of Authority by the Department on March 16, 2004, to operate as an assessable malpractice insurance corporation pursuant to Chapter 383 RSMo. (Malpractice Insurance Law) and commenced business on April 2, 2004.

In accordance with its Articles of Association, Mo Docs is a not-for-profit corporation and operates as a mutual benefit corporation. The Company is owned by its physician member-insureds.

Mergers, Acquisitions, and Major Corporate Events

No mergers or acquisitions involving Mo Docs occurred during the examination period.

Dividends and Capital Contributions

Mo Docs is organized as an assessment association and is not authorized to issue capital stock. Dividends may be paid to members in accordance with resolutions passed by the Board of Directors, but only when positive surplus exists before and after the dividend is paid.

Each member is required to pay assessments in accordance with the Company's Articles of Association and Bylaws.

There were no dividends or capital contributions during the examination period.

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 are elected by the membership. The Company's Bylaws specify that there shall be three directors and requires that a majority of the directors be members of the Company. The Board of Directors elected and serving as of December 31, 2019, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
James F. Conant, MD St. Joseph, Missouri	Board Chair, Missouri Doctors Mutual Insurance Company Private Practice Physician
Martin M. Bauman Ballwin, Missouri	President, Missouri Doctors Mutual Insurance Company Private Practice Attorney
Robert O. Schaaf, MD St. Joseph, Missouri	Secretary/Treasurer, Missouri Doctors Mutual Insurance Company Private Practice Physician

Senior Officers

The officers elected and serving, as of December 31, 2019, were as follows:

<u>Name</u>	<u>Office</u>
James F. Conant, MD	Chairman of the Board
Martin M. Bauman	President
Robert O. Schaaf, MD	Secretary-Treasurer

Principal Committees

Pursuant to the Bylaws, the Chairman of the Board may appoint committees for such purposes as circumstances warrant. Committee assignments as of December 31, 2019, were as follows:

Claims Committee

James F. Conant, MD, Chairman
Deborah D. Stoner-Bryan, MD
Martin M. Bauman
Robert O. Schaaf, MD

The Company does not currently have an audit committee or a compensation committee. In addition, the current composition of the Board of Directors lacks independence.

Corporate Records

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

Holding Company, Subsidiaries, and Affiliates

Mo Docs is not a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). Mo Docs is a single entity, owned by the membership with no equity holdings of its own. The Company is not subject to the insurance holding company requirements of traditional insurers prescribed under Chapter 382 RSMo (Insurance Holding Companies). The Company is party to a management agreement with Robert Martin, Ltd. (RML), which is co-owned by the President and Secretary-Treasurer of Mo Docs.

Intercompany Transactions

The following agreements represent significant contracts executed with affiliated entities that were in effect as of December 31, 2019. A brief description of these agreements are as follows:

Management Agreement: Effective July 27, 2004, RML provides for the complete management of the operations of Mo Docs, including leasing of employees, sales, underwriting, legal, accounting, and any other functions deemed necessary to operate the Company.

Sublease Agreement: Effective June 1, 2012, Bauman Law Firm, PC, of Chesterfield, Missouri, provides Mo Docs with periodic use of office space and equipment to support the Company's satellite office located in Chesterfield, Missouri.

Legal Services: Mo Docs primarily engages Bauman Law Firm, PC to investigate and defend claims. Other legal services are also provided on occasion. The Company executes a letter of direction or other retainer as needed in order to engage Bauman Law Firm, PC, based on hourly attorney fees.

TERRITORY AND PLAN OF OPERATION

Mo Docs is licensed as an assessable malpractice association and has the authority to write medical malpractice insurance under Chapter 383 RSMO (Malpractice Insurance Law). The Company writes business in the state of Missouri only. Coverage is issued primarily on a claims-made basis with a maximum incident/aggregate coverage limit of \$1 million/\$3 million. Members can purchase retroactive reporting (nose) coverage to protect against claims that occurred prior to the issuance date of their policy. An extended reporting (tail) endorsement, which provides coverage on an occurrence basis, can be purchased by members to protect against claims reported after their claims-made policy has expired. Free tail coverage is provided in the event of a member's death, disability, or retirement.

The Company produces the majority of its business through two licensed captive agents. Business is also produced through an insurance agency agreement with Medical Liability Experts, LLC, formerly known as Medical Liability Specialists, LLC.

GROWTH OF COMPANY AND LOSS EXPERIENCE

Written premium decreased slightly since the last examination. Declines in membership and lack of growth are due to the Company's increased underwriting standards for new insureds, increased competition, and other market conditions. Total admitted assets have declined steadily due to negative cash flow from operations during the examination period. Underwriting expenses remained relatively flat throughout the examination period. The Company's expense ratio is high compared with benchmarks for property and casualty companies in general and medical malpractice insurers in particular. The majority of underwriting expenses consist of payroll and payroll-related items.

Total surplus fell to a negative position in 2017. As a result and in accordance with section 383.035 RSMo. (Association subject to certain laws), on March 5, 2018, the Department Director issued an order requiring Mo Docs to submit a voluntary plan to restore its surplus to at least zero dollars. The Company complied with the order by submitting a plan on May 29, 2018. In the 2019 annual statement, the Company reported negative surplus of (\$1,223,569) as of December 31, 2019, which adheres to the goals set forth in the voluntary plan.

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	Benefit and Loss Payments	Net Income	Capital and Surplus
2017	\$ 3,457	\$ (365)	\$ 1,509	\$ (164)	\$ (63)
2018	3,632	176	1,898	(1,422)	(1,483)
2019	3,666	33	1,565	302	(1,224)

The Company reported net underwriting losses and negative net income in two of the three years of the examination period. Losses incurred have historically been low in comparison to premiums earned. Loss adjustment expenses have remained somewhat high due to the Company's philosophy of vigorously defending claims against its insureds. The Company reported adverse loss development in 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	Underwriting Expenses	Expense Ratio
2017	\$ 3,488	\$ 1,783	51.1%	\$ 1,900	55.0%
2018	3,682	3,230	87.7%	1,922	52.9%
2019	3,656	1,590	43.5%	1,827	49.9%

REINSURANCE

Mo Docs does not have a reinsurance program as a means of sharing risk, and has not assumed or ceded any reinsurance since its inception. Companies licensed under Chapter 383 RSMo. are not required to maintain reinsurance coverage.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, John W. Gillum, CPA, LLC of Kirksville, Missouri, performed the statutory audit of the Company for the years 2017 to 2019. Reliance was placed upon the CPA workpapers as deemed appropriate. Such reliance included, but was not limited to, journal entry testing, and fraud inquiries.

Actuarial Opinion

The Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Robert J. Walling III, FCAS, MAAA, CERA for all years in the examination period. Robert J. Walling III is employed by Pinnacle Actuarial Resources, Inc. of Bloomington, Illinois.

Consulting Actuary

Pursuant to a contract with the Department, Kristine M. Fitzgerald, ACAS, MAAA, FCA of Actuarial & Technical Solutions in Chapel Hill, North Carolina, reviewed the underlying actuarial assumptions and methodologies used by Mo Docs to determine the adequacy of loss reserves and LAE reserves. Kristine Fitzgerald determined that the loss and LAE reserves reported by the Company as of December 31, 2019 were reasonable.

Information Systems

In conjunction with this examination, Kimberly Dobbs, MBA, CFE, AES, CISA, 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 Missouri Doctors Mutual Insurance Company for the period ending December 31, 2019. 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, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 299,888	\$ 0	\$ 299,888
Real Estate:			
Properties Occupied by the Company	573,432	33,746	539,686
Cash, Cash Equivalents, and Short- Term Investments	809,577	0	809,577
Investment Income Due and Accrued Premiums and Considerations:	2,073	0	2,073
Deferred Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due	1,075,623	54,110	1,021,513
Net Deferred Tax Asset	363,222	363,322	0
Electronic Data Processing Equipment and Software	11,779	11,779	0
Furniture and Equipment, Including Health Care Delivery Assets	5,162	5,162	0
Aggregate Write-Ins for Other-Than- Invested Assets	3,322	3,322	0
TOTAL ASSETS	\$ 3,144,077	\$ 471,341	\$ 2,672,737

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2019

Losses	\$ 823,484
Loss Adjustment Expenses	1,001,282
Other Expenses	185,936
Unearned Premiums	1,638,200
Advance Premiums	132,764
Aggregate Write-Ins for Liabilities	114,641
TOTAL LIABILITIES	\$ 3,896,306
Gross Paid In and Contributed Surplus	300
Unassigned Funds (Surplus)	(1,223,869)
TOTAL CAPITAL AND SURPLUS	\$ (1,223,569)
TOTAL LIABILITIES AND SURPLUS	\$ 2,672,737

STATEMENT OF INCOME
For the Year Ended December 31, 2019

Premiums Earned	\$	3,656,294
DEDUCTIONS:		
Losses Incurred		1,327,031
Loss Adjustment Expenses Incurred		262,756
Other Underwriting Expenses Incurred		1,827,459
Total Underwriting Deductions	\$	3,417,246
Net Underwriting Gain (Loss)	\$	239,048
Net Investment Income Earned		17,503
Net Realized Capital Gains		3,983
Net Investment Gain (Loss)	\$	21,486
Finance and Service Charges Not Included in Premiums		41,635
Federal and Foreign Income Taxes Incurred		0
NET INCOME (LOSS)	\$	302,169

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2017 to December 31, 2019

(\$000s omitted)

	2017	2018	2019
Capital and Surplus, Beginning of Year	\$ 78	\$ (63)	\$ (1,483)
Net Income (Loss)	(164)	(1,422)	302
Change in Net Deferred Income Tax	46	(101)	235
Change in Nonadmitted Assets	(22)	104	(278)
Net Change in Capital and Surplus	(140)	(1,420)	259
Capital and Surplus, End of Year	\$ (63)	\$ (1,483)	\$ (1,224)

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

Management and Control

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It appears the current structure of the board of directors creates the potential for conflicts of interest. The Company should consider revising the bylaws to allow for additional independent board members, consistent with current best practices in enterprise corporate governance. In particular, the Company should strive to add new members who possess financial, actuarial, information technology and other relevant experience.

As additional members are added, the Company should consider forming additional board committees. Committees to consider would be an audit committee to communicate with the external auditor and review the results of the annual audit and a compensation committee to determine salaries paid to senior management.

Growth of Company and Loss Experience

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The Company's expense ratios improved during the examination period, but continued to be well above industry benchmarks for property and casualty companies and medical malpractice insurers. The Company's expense ratio in 2019 was 50%. Per the NAIC Financial Regulatory Services Division, the general expense ratio benchmark for property and casualty insurers is less than 30%. In particular, salaries and related expense appear high for the Company's size and premium volume. The Company should continue to lower expenses through ongoing review and analysis of all operating expense items to identify any potential areas of improvement.

Reinsurance

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Mo Docs does not currently have reinsurance coverage. Given the current level of policyholder surplus, a single claim approaching the policy limit of \$1 million could threaten the Company as a going concern. The Company should continue to work with reinsurance intermediaries in an effort to obtain reinsurance at a reasonable cost as a means of sharing insured risks.

SUBSEQUENT EVENTS

On March 11, 2020, The World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, United States (U.S.) President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the United States and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators with the assistance of the NAIC are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Doctors Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Emily Pennington, CFE, and Tim Tunks, CPA, CFE, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION


State of Missouri)
) ss
County of Platte)

I, Laura Church, CPA, 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 Missouri Doctors Mutual Insurance Company, 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.



Laura Church, CPA, CFE
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 28 day of Sept., 2020.

My commission expires: 6-10-2022 
Notary Public

DONNA L. RHODUS
Notary Public - Notary Seal
State of Missouri - Platte County
Commission # 18897454
My Commission Expires 6/10/2022

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.



Levi Nwasoria, CPA, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance