



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Missouri Doctors Mutual Insurance Company for the period  
ended December 31, 2013

**AMENDED 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, 2013, 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, including the Company's response dated June 17, 2015, 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 Missouri Doctors Mutual Insurance Company as of December 31, 2013 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, 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 29<sup>th</sup> day of June, 2015.



A handwritten signature in black ink, appearing to read "John M. Huff", written over a horizontal line.

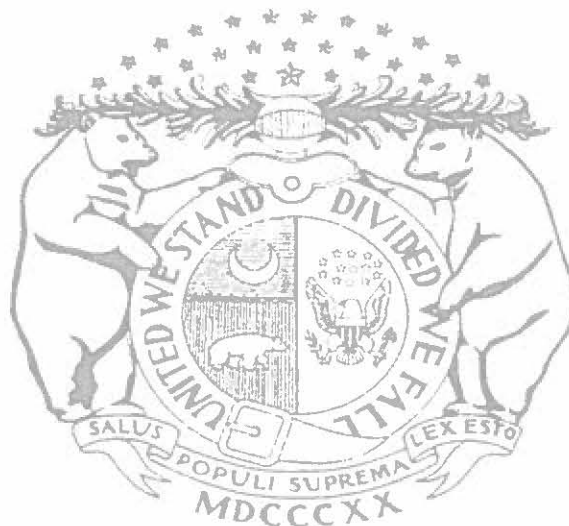
John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

**Missouri Doctors Mutual Insurance  
Company**

As of:  
DECEMBER 31, 2013

**FILED**  
JUL 9 2015  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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May 4, 2015  
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, MO 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

**Missouri Doctors Mutual Insurance Company**

hereinafter referred to as "Mo Docs", or the "Company". The Company's home office is located at 601 Francis Street, St. Joseph, Missouri 64501; telephone number (816) 901-9950. Examination fieldwork began on June 23, 2014, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed a single-state examination of Missouri Doctors Mutual Insurance Company. The last examination was completed as of December 31, 2006. This examination covers the period of January 1, 2010, through December 31, 2013. This examination also included material transactions or events occurring subsequent to December 31, 2013.

**Procedures**

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration ("Department" or "DIFP") or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and to identify prospective risks of the Company. This process involves obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating the systems controls and procedures used by the Company to mitigate those risks. The examination also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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. The following key activities were identified: Claims and Reserving,

Expenses, Investments and Treasury and Premiums and Underwriting.

### SUMMARY OF SIGNIFICANT FINDINGS

Mo Docs' written premiums and membership have declined in recent years due to increased competition in the Missouri medical malpractice market. Total reported policyholder surplus decreased from \$656,317 to \$306,357 in 2013. Surplus subsequently dropped below \$0 in 2014, and stood at (\$1,024,912) as of December 31, 2014.

An examination change was made to increase the Real Estate line item and Surplus by \$14,330 in order to reflect the net book value of the real estate as of December 31, 2013. The non-admitted real estate was carried at cost on the Company's financial statements instead of net book value, which resulted in the understatement of the net admitted real estate asset.

An examination change was also made to reduce Surplus and increase the Other Expenses line item by \$30,221 to properly accrue for expenses that were incurred prior to December 31, 2013. These expenses were not paid until 2014 and no accrual was made for these items as of December 31, 2013.

### SUBSEQUENT EVENTS

Mo Docs' surplus decreased from \$306,357 as of December 31, 2013 to (\$1,024,912) as of December 31, 2014.

### 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 that "it is entitled to all rights and privileges granted corporations organized under the Missouri Nonprofit Corporation Law." The Company was issued a Certificate of Authority by the Missouri Department of Insurance, Financial Institutions and Professional Registration on March 16, 2004 to operate as an assessable malpractice insurance corporation pursuant to Chapter 383 (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.

#### Capital Stock

Mo Docs is organized as an assessment association and is not authorized to issue capital stock. Each member is required to pay an initial assessment of \$100 upon admission to the Company and is liable for subsequent assessments in accordance with the Company's Articles of Association and Bylaws.

**Dividends**

The Company has not declared any dividends or made any cash dividend distributions since its inception.

**Acquisitions, Mergers and Major Corporate Events**

There were no mergers or acquisitions noted for the period under examination.

**Surplus Debentures**

No surplus debentures were issued or outstanding for the period under examination.

**CORPORATE RECORDS**

**Corporate Documents**

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

**Meeting Minutes**

Minutes of the meetings of the Board of Directors were reviewed for the period under examination. The minutes documented evidence of the overall guidance provided by the Board of Directors.

**MANAGEMENT AND CONTROL**

**Board of Directors**

The management of the Company is vested in a Board of Directors consisting of three (3) persons. The directors serving at December 31, 2013, were as follows:

<u>Name</u>	<u>Affiliation</u>
Martin M. Bauman Ballwin, Missouri	President, Missouri Doctors Mutual Insurance Company Private Practice Attorney
Robert O. Schaaf, MD Saint Joseph, Missouri	Secretary-Treasurer, Missouri Doctors Mutual Insurance Company Missouri State Senator, 34 <sup>th</sup> District Private Practice Physician
James F. Conant, MD Saint Joseph, Missouri	Medical Director, Missouri Doctors Mutual Insurance Company Private Practice Physician

Each of the three current board members is heavily involved in the day-to-day operations of the Company.

**Committees**

Committee assignments as of December 31, 2013 were as follows:

Claims Committee

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

The Company does not currently have an audit committee, compensation committee or any other committees in place.

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2013, were as follows:

<u>Name</u>	<u>Office</u>
Martin M. Bauman	President
Robert O. Schaaf, MD	Secretary-Treasurer

Organizational Structure

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 has entered into a management agreement with Robert Martin, Ltd, which is co-owned by the President and Secretary-Treasurer of Mo Docs.

Intercompany Transactions

The following agreements with related parties were in effect at December 31, 2013:

Management Agreement

Parties: Missouri Doctors Mutual Insurance Company and Robert Martin, Ltd. (RML).

Effective: July 27, 2004. Amended June 23, 2008.

Services: The agreement contains provisions for the complete management of the operations of Missouri Doctors Mutual Insurance Company by Robert Martin, Ltd., including the leasing of employees, sales, underwriting, legal, accounting, and any other functions deemed necessary to operate the Company.

Rate(s): Mo Docs is to pay RML all expenses necessary to carry out the terms of the agreement plus an additional fee equal to 10% of such expenses or 25% of the Company's gross sales, whichever is greater.

While RML has been reimbursed for all expenses necessary to carry out the terms of the agreement, the additional fee of 10% of such expenses or 25% of gross sales was waived for the years 2011-2013.

Legal Services

- Parties: Missouri Doctors Mutual Insurance Company and Bauman Law Firm, PC.
- Effective: As needed.
- 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.
- Rate(s): Bauman Law Firm, PC charges the Company attorney fees of \$150 per hour.

Sublease Agreement

- Parties: Missouri Doctors Mutual Insurance Company and Bauman Law Firm, PC.
- Effective: June 1, 2012 (replaced a prior sublease agreement dated June 1, 2008)
- Services: The sublease agreement provides the Company with the periodic use of the conference room, and the common areas of the offices of Bauman Law Firm, PC located at 16100 Chesterfield Parkway, Suite 305, Chesterfield, MO 63017. Additionally, Bauman Law Firm, PC has agreed to setup the Company's video conferencing equipment in the sublet conference room and provide the Company with high-speed internet service. This agreement was executed, in part, to support operations at the Company's satellite office located at 16100 Chesterfield Parkway, Suite 330, Chesterfield, MO 63017.
- Rate(s): The Company pays rent in the amount of \$1,000 per month.

**FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a crime policy that provides fidelity bond coverage with a limit of liability of \$125,000 per covered employee and a loss deductible of \$250 per employee. The coverage meets the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also a named insured on policies which have the following types of coverage: business liability, employer's liability, automobile liability, umbrella liability, workers compensation, and business and personal property. The level of insurance coverage maintained by the Company appears adequate.

**PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company's operations are carried out by employees of an affiliated management service provider, Robert Martin, Ltd., in accordance with the Management Agreement described in the



Intercompany Transactions Section of this Examination Report. Employees of Robert Martin, Ltd., receive a comprehensive benefits package, which includes health and disability insurance coverage, paid time off, holidays and a Simple IRA.

### TERRITORY AND PLAN OF OPERATIONS

Mo Docs is licensed as an assessable malpractice association and has the authority to write medical malpractice insurance under Chapter 383 RSMo. 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 \$1,000,000/\$3,000,000. 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 three licensed captive agents. Business is also produced through an insurance agency agreement with Medical Liability Specialists, LLC.

### GROWTH OF COMPANY

The table below shows various indicators of the Company's growth over the past four years.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Gross Written Premiums	4,569,780	4,612,965	4,504,988	4,322,590
Total Admitted Assets	7,616,581	8,430,088	9,041,462	7,226,691
Other UW Expenses Incurred	2,629,697	2,359,075	2,595,635	2,494,338
Total Capital and Surplus	7,935	366,682	656,317	306,357
Expense Ratio	57.5%	51.1%	57.6%	57.7%

Written premiums have declined somewhat in recent years as the Company has experienced a slight decline in membership due to increased competition and other market conditions. Total admitted assets increased from 2010 to 2012 before dropping sharply in 2013. The decrease was primarily due to an unusually large amount of claim settlements in 2013 compared with previous years. Underwriting expenses generally remained steady 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 consists of payroll and payroll-related items. Total surplus increased from 2010 to 2012 before declining in 2013.

## LOSS EXPERIENCE

The following exhibit illustrates Mo Docs' underwriting results for each of the last four years.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Premiums Earned	4,588,474	4,767,400	4,558,436	4,520,460
Losses Incurred	1,377,939	680,899	585,090	415,033
Loss Adjustment Expenses Incurred	1,118,642	1,394,755	1,142,386	1,918,461
Net Underwriting Gain	(537,804)	332,671	235,325	(307,372)
Net Income	(293,264)	431,845	224,157	(252,048)

Operating performance has been mixed in recent years as the Company reported a net underwriting gain and positive net income in two of the four years during 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 that claims against its policyholders should be vigorously defended.

## REINSURANCE

Mo Docs does not currently have reinsurance coverage and the Company has not assumed or ceded any reinsurance since its inception. Companies licensed under Chapter 383 are not required to have reinsurance coverage. The Company has obtained reinsurance quotes in the past and determined that the terms offered by the reinsurers would not be cost effective.

## ACCOUNTS AND RECORDS

### General

The Company uses Quickbooks Pro for general ledger and accounting functions. In addition, Square Giraffe, a proprietary premium accounting application, was created to perform the monthly unearned to earned premium calculation. SunGard iWorks EFS is used in the preparation and filing of statutory financial statements. The Company's underwriting, policy administration and claims administration functions are supported with Microsoft Excel spreadsheets and Microsoft Word documents. The Company uses the Goldmine software package for its customer relations management database. All of these applications are accessed through two servers, each running Windows 2008, that are located at the Company's office in St. Joseph, MO.

The Company is in the process of converting to a new commercially-written policy and claims administration system called iCatalyst. Implementation of the new system is expected to be completed by the end of 2014.

### Independent Auditor

The Company's financial statements are audited annually by John W. Gillum, CPA, LLC. The workpapers and reports of the 12/31/2013 independent audit were reviewed, and used in the

course of this examination as deemed appropriate.

**Independent Actuaries**

Reserves and related actuarial items reported in the financial statements were reviewed and certified by J. Edward Costner, ACAS, MAAA, of Casualty Actuarial Consultants, Inc.

Consulting actuary, D. Patrick Glenn, ACAS, MAAA, of Lewis & Ellis was retained by the Department to review the adequacy of the Company's reserves and other related liabilities. Specifically, Lewis & Ellis was engaged to provide an independent analysis of the loss and loss adjustment expense reserves as of December 31, 2013. Additionally Lewis & Ellis was asked to evaluate the reasonableness of the inactive tail coverage reserves available in the event of death, disability or retirement (i.e. DDR coverage). These reserves are reported in Unearned Premium Reserves.

Lewis & Ellis' independently derived an estimated range of loss, loss adjustment and DDR reserves as of December 31, 2013. Since the Company's total carried reserves were within the estimated range, Lewis & Ellis concluded that the Company's reserves were reasonable as of the examination date. However, Lewis & Ellis also noted that Mo Docs' reserving risk is high in comparison to its surplus position, although the Company does have an assessment feature under Chapter 383 of Missouri law.

**STATUTORY DEPOSITS**

The Company writes only in Missouri and, as a Chapter 383 company, is not required to maintain any deposits with the state.

**FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2013, 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" section, which follow the financial statements.

There may have been additional differences found in the course of this examination that 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.

## ASSETS

	Assets	Non- Admitted Assets	Net Admitted Assets
Bonds	\$ 5,215,865	\$ -	\$ 5,215,865
Real estate (Note 1)	703,943	32,372	671,571
Cash and short-term investments	284,076	-	284,076
Investment income due and accrued	13,983	-	13,983
Deferred premiums	1,048,447	6,168	1,042,279
Current federal income tax recoverable	2,328	-	2,328
Net deferred tax asset	53,859	53,859	-
Electronic data processing equipment	152,140	141,221	10,919
Furniture and equipment	42,444	42,444	-
Rent deposit	2,734	2,734	-
Prepaid insurance	61	61	-
<b>TOTAL ASSETS</b>	<b><u>\$ 7,519,880</u></b>	<b><u>\$ 278,859</u></b>	<b><u>\$ 7,241,021</u></b>

## LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 2,443,545
Loss adjustment expenses	2,216,912
Other expenses (Note 2)	227,893
Unearned premiums	1,899,492
Advance premiums	162,713
<b>TOTAL LIABILITIES</b>	<b><u>\$ 6,950,555</u></b>
Gross paid in and contributed surplus	300
Unassigned funds (surplus) (Notes 1 and 2)	290,166
<b>SURPLUS AS REGARDS POLICYHOLDERS</b>	<b><u>\$ 290,466</u></b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u>\$ 7,241,021</u></b>

## STATEMENT OF INCOME

**Underwriting Income:**

Premiums earned		\$	4,520,460
Deductions:			
Losses incurred	\$	415,033	
Loss expenses incurred		1,918,461	
Other underwriting expenses incurred		<u>2,494,338</u>	
Total underwriting deductions			<u>4,827,832</u>
<b>Net Underwriting Gain (Loss)</b>		\$	<b>(307,372)</b>

**Investment Income:**

Net investment income earned	\$	29,815	
Net realized capital gains		<u>-</u>	
<b>Net Investment Gain (Loss)</b>		\$	<b>29,815</b>

**Other Income:**

Net loss from agents or premium balances charged off	\$	(49,233)	
Finance and service charges		70,794	
Gain/(Loss) on sale of assets		<u>1,620</u>	
<b>Total Other Income</b>		\$	<b><u>23,181</u></b>

**Net income before dividends and FIT** \$ **(254,376)**

Dividends to policyholders		-	
Federal income taxes incurred		<u>(2,328)</u>	
<b>Net income</b>		\$	<b><u>(252,048)</u></b>

**RECONCILIATION OF SURPLUS**  
**Changes from December 31, 2010 to December 31, 2013**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Surplus as regards policyholders; December 31 prior year	408,232	7,935	366,682	656,317
Net income	(293,264)	431,845	224,157	(252,048)
Change in net deferred income tax	-	(127,919)	(18,625)	16,622
Change in nonadmitted assets	(107,032)	54,821	84,103	(114,534)
Examination changes	-	-	-	(15,891)
Change in surplus as regards policyholders for the year	<u>(400,296)</u>	<u>358,747</u>	<u>289,635</u>	<u>(365,851)</u>
<b>Surplus as regards policyholders; December 31 current year</b>	<b><u>\$ 7,935</u></b>	<b><u>\$ 366,682</u></b>	<b><u>\$ 656,317</u></b>	<b><u>\$ 290,466</u></b>

## ANALYSIS OF EXAMINATION CHANGES

Surplus as Reported by Company			\$306,357
	<u>Increase in Surplus</u>	<u>Decrease in Surplus</u>	
Real Estate (Note 1)	14,330	-	
Other expenses (Note 2)	-	30,221	
Net Change in Surplus			<u>(15,891)</u>
Surplus Per Examination			<u>\$290,466</u>

## COMMENTS ON FINANCIAL STATEMENTS

## Note 1

Real estate	\$671,571
Unassigned funds (surplus)	\$290,166

The amount reported for real estate was increased by \$14,330 to reflect the current depreciated value of the Company's non-admitted real estate. The non-admitted real estate was carried at cost on the Company's financial statements instead of net book value, which resulted in the understatement of the net admitted real estate asset.

## Note 2

Other expenses	\$227,893
Unassigned funds (surplus)	\$290,166

The amount reported for Other expenses was increased by \$30,221 to properly accrue for expenses that were incurred prior to December 31, 2013. These expenses were not paid until 2014 and no accrual was made for these items as of December 31, 2013.

## SUMMARY OF RECOMMENDATIONS

### Summary of Significant Findings

Page 2

The Company's surplus has remained low in recent years and dropped below \$0 as of December 31, 2014. The Company should develop a long-term business plan with measurable goals to ensure that a positive level of surplus is maintained at all times in the future.

### Management and Control

Page 3

It appears that 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 members. 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 also consider forming additional board committees, in particular 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

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The Company's expense ratios are high when compared with its competitors and are well above industry benchmarks for P&C companies and medical malpractice insurers. The Company's expense ratio in 2013 was 57.7%. Per the NAIC Financial Regulatory Services Division, the general expense ratio benchmark for P&C insurers is less than 30%. In particular, salaries appear high for the Company's size and premium volume. The Company should perform a thorough review and analysis of all operating expense items to identify any potential areas of improvement.

### Reinsurance

Page 7

Mo Docs does not currently have reinsurance coverage. Given the current level of policyholder surplus, a single claim approaching the policy limits of \$1 million could reduce surplus to well below \$0. The Company should continue to work with reinsurance intermediaries in an effort to obtain reinsurance coverage at a fair price which provides adequate protection for its members.

### Comments on Financial Statements

Page 13

The Company should report all real estate (both admitted and non-admitted) at net book value instead of original cost on the Annual Statement in the future.

The Company should ensure that an accrual for all unpaid expenses is included on the Other expenses line item on the Annual Statement in the future.







Caring Missouri Doctors the Peace of Mind to do What Doctors do Best.



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Saint Joseph MO 64501  
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Fax 800 955 1855  
www.modocs.org

June 17, 2015

Leslie Nehring, CPA, CFE  
Chief Financial Examiner  
301 West High Street, Room 530  
Jefferson City, MO 65102-0690

RE: Response to Report of Financial Examination as of December 31, 2013

The examination report is good except, as written, it is misleading as to SUBSEQUENT EVENTS.

The examination report noted that MoDocs' surplus dropped below \$0 in 2014 as an event subsequent to the examination period and that the Company's surplus has remained low in recent years. The examination report neglected to state that this decrease in surplus was the result of a \$1,059,545 increase in MoDocs' reserves and that, although the Company's surplus has remained low in recent years, it is in compliance with Missouri law.

It is also important to note that the increase in reserves was made for the purpose of strengthening MoDocs' financial position in comparison to other medical negligence insurance companies. In MoDocs' eleven year history, the company has spent an average of \$107,000 per claim through final resolution of all closed claims. With this substantial increase in reserves, MoDocs now has in reserves \$168,000 per claim. This is a significantly larger amount of reserves per claim than any other medical malpractice insurance company incorporated in Missouri.

We intend for this response to be included with the report as a public document.

Sincerely,

Martin M. Bauman  
President

