



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

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

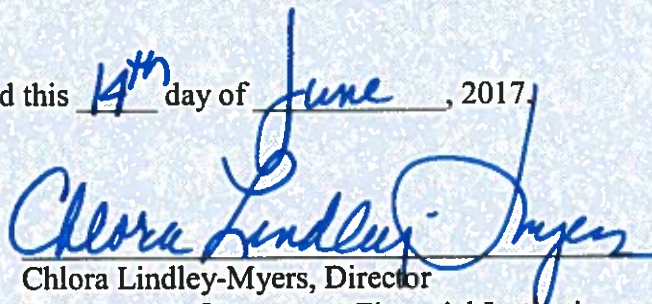
ORDER

After full consideration and review of the report of the financial examination of Missouri Medical Malpractice Joint Underwriting Association for the period ended December 31, 2015, 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 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, management and control, territory and plan of operation, reinsurance, financial statements, comments on financial statement items, examination changes, and general comments and/or recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Missouri Medical Malpractice Joint Underwriting Association as of December 31, 2015 be and is hereby ADOPTED as filed and for Missouri Medical Malpractice Joint Underwriting Association 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 14th day of June, 2017.

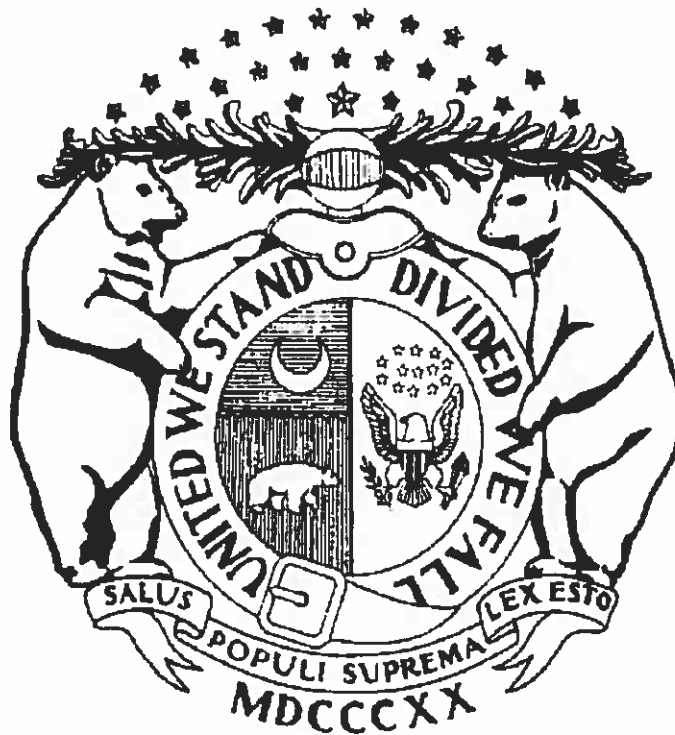



Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
MISSOURI MEDICAL MALPRACTICE JOINT
UNDERWRITING ASSOCIATION**

**AS OF
DECEMBER 31, 2015**

FILED
JUN 26 2017
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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Jefferson City, Missouri
April 12, 2017

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

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

Missouri Medical Malpractice Joint Underwriting Association

hereinafter referred to as the JUA or the Association. Its administrative office is located at 4700 Country Club Drive, Jefferson City, Missouri, 65109, telephone number (573) 893-5300. The examination began on December 9, 2016 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single state examination of JUA. The prior full-scope financial examination of JUA covered the period of January 1, 2006 through December 31, 2010, and was conducted by examiners from the State of Missouri. The current full-scope financial examination covers the period of January 1, 2011 through December 31, 2015, and was conducted by examiners from the State of Missouri. The examination also included the material transactions and/or events occurring subsequent to December 31, 2015.

Procedures

The examination was conducted 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 of Insurance, Financial Institutions and Professional Registration (DIFP) and 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 Association and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Association's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating 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 this examination an adjustment is identified, the impact of such adjustment will be documented separately following the Association's financial statements.

This examination report includes findings of facts and general information about the Association and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Association.

Reliance Upon Others

This examination relied upon information provided by the Association's independent auditor, Brown, Smith and Wallace, LLC, of St. Louis, Missouri, for its audit covering the period from January 1, 2015 through December 31, 2015. Areas in which testing and results from the CPA workpapers were relied upon in our examination included journal entries, attorney letters, bank confirmations, paid claims data, unearned premiums, fraud assessment, and subsequent events review.

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.

SUBSEQUENT EVENTS

Effective December 31, 2015, the Servicing Company and Administration Agreement with The Hays Group, Inc. (Hays Group) was terminated. Under this arrangement, Hays Group had provided the necessary resources to conduct the day-to-day activities of the Association since 2007. On January 1, 2016, the Association entered into the Management Agreement with Hospital Services Group, Inc. (HSG). Under this agreement, HSG provides all necessary insurance functions for the operation of the Association.

COMPANY HISTORY

General

The Missouri Medical Malpractice Joint Underwriting Association was established to provide medical professional liability insurance that is not otherwise reasonably available in the voluntary market, and began issuing policies effective June 2004. The Association was activated in July of 2003 upon determination by the Director of DIFP at a public hearing that medical malpractice liability insurance was not reasonably available for some health care providers in the State of Missouri.

The Association is governed by Section 383.150 through 383.195, RSMo. The statutes provide eligibility of providers, types of coverage and maximum insured limits and the makeup of the Board of Directors. Members of the JUA consist of all Missouri companies authorized to write casualty insurance business under Chapter 379, RSMo.

Dividends & Capital Contributions

There were no dividends declared or paid or capital contributions received during the period under examination.

Mergers and Acquisitions

No mergers or acquisitions occurred during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Association is vested in a Board of Directors that are appointed by the DIFP Director pursuant to Section 383.175, RSMo (Board of directors, qualifications...) for the terms specified in the Plan of Operation. According to this statute as amended in 2006, the individual Board members shall be drawn from the following groups:

- | | |
|-----------|---|
| 2 Members | Property and Casualty Insurers Association of America (PCIAA) |
| 2 Members | Missouri Insurance Coalition (MIC) |
| 2 Members | American Insurance Association (AIA) |
| 2 Members | Unaffiliated with trade associations (Unaffiliated) |

The individuals appointed and serving on the Board of Directors, along with the group represented, as of December 31, 2015, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
David A. Monaghan (PCIAA)	Jefferson City, MO	Governmental Affairs Counsel American Family Insurance Company
Brian D. Waller (PCIAA)	Columbia, MO	Counsel & Director of State Operations Shelter Insurance Companies
Anthony A. Bowser (AIA)	Fort Wayne, IN	Vice-President & Treasurer Med Pro Group
Joseph P. Sullivan, Jr. (AIA)	Wonder Lake, IL	Sr. Vice-President, Underwriting Zurich North America
Charles T. Henderson (Unaffiliated)	Columbia, MO	Claim Section Manager State Farm Insurance Company
Dennis W. Smith (Unaffiliated)	Columbia, MO	Retired Insurance Executive
Jeff Estes ² (MIC)	Kirkwood, MO	Asst. Vice- President & Director of Operations Liberty Mutual Insurance Company

Open Seat¹
(MIC)

¹ Collin Suttie resigned from the Board in 2015, and the resulting vacancy existed as of the time of this report.

² Jeff Estes resigned from the Board in 2016, and the resulting vacancy existed as of the time of this report.

Committees

The Plan of Operations allows for the appointment of specific committees by the Board to assist in the administration of the JUA. The established committees and the members elected and serving as of December 31, 2015, were as follows:

<u>Executive Committee</u>	<u>Claims Committee</u>
Dennis W. Smith, Chairman	Dennis W. Smith, Chairman
David A. Monaghan	David A. Monaghan
Brian D. Waller	Dana L. Freese ³

³ Dana Freese is not a member of the JUA Board of Directors. He is Executive Vice-President – Claims and General Counsel of the JUA’s management company, HSG. The JUA Plan of Operation does not require committee members to be members of the Board of Directors.

Officers

The officers elected by the Board of Directors and serving, as of December 31, 2015, were as follows:

<u>Name</u>	<u>Office</u>
Dennis W. Smith	Chairman of the Board
David A. Monaghan	Vice-Chairman
Brian D. Waller	Treasurer

The Administrator of the Association during the examination period was Andrew Teigen, a Senior Vice President with the Hays Group, the management services company responsible for the day-to-day operations of the JUA.

Corporate Records

In accordance with Section 383.155 (4), RSMo, (Association created...), within forty-five days following the creation of the JUA, the Board of Directors shall submit to the DIFP Director for his review, a proposed Plan of Operation (Plan). The Plan is similar to the Bylaws for regular insurance companies. According to the statute, the Plan shall provide for economic, fair and nondiscriminatory administration and for the prompt and efficient distribution of medical malpractice insurance, and shall contain other provisions including, but not limited to, preliminary assessment of all members for initial expenses to commence operations, establishment of necessary facilities, management of the association, assessment of members to defray losses and expenses, reasonable and objective underwriting standards, acceptance and cession of reinsurance, appointment of a servicing company and procedures for determining amounts of insurance to be provided by the Association. The Association's Plan was filed and was approved by the DIFP Director, and the JUA began operations in 2004.

During the course of the examination, we reviewed the Plan and noted no amendments during the examination period. According to the underlying statute, amendments to the Plan may be made by the Board of Directors of the association, subject to the approval of the DIFP Director or shall be made at his direction.

The minutes of the Board of Directors' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Association's major transactions and events for the period under examination.

Pursuant to the Plan, the Board of Directors entered into a Servicing Company and Administration Agreement with the Hays Group. to maintain the JUA's accounts and records and administer the day-to-day operations of the JUA. Hays Group is an insurance and benefits management firm with headquarters in Minneapolis, Minnesota. The agreement with the Hays Group was in effect during the entire examination period and was terminated effective December 31, 2015 (see the Subsequent Events section of this report).

Holding Company, Subsidiaries and Affiliates

The enabling statute for the Association, Section 383.150 through 383.195, RSMo., is silent with respect to the applicability of holding company laws as they pertain to the JUA. Given that no specific holding company filings are indicated by the statute, the Association is deemed to be exempt from the requirements of the holding company laws under Section 382.010 RSMo. (Definitions). It should also be noted that the Association is a state-sponsored entity and does not have any subsidiaries or affiliates.

TERRITORY AND PLAN OF OPERATION

The JUA was established to provide medical professional liability insurance that is not otherwise reasonably available in the voluntary market under Missouri malpractice insurance law at Chapter 383 RSMo. The Association began issuing policies in June 2004.

The JUA is determined to be the insurer of last resort and in order to be eligible for coverage, a health care provider shall:

- Be duly licensed or registered as a health care provider under Missouri law and meet the definition of a health care provider as stated in Section 383.150 RSMo., (Definitions);
- Have a professional health care practice which is located in whole or part within the State of Missouri;
- Be seeking professional liability or related coverages through the Association, only for Missouri activities or premises;
- Provide proof of similar coverages for all professional activities rendered and premises situated in other states;
- Pay the premium or portion thereof required by the underwriting manual of the JUA;
- Have no unpaid, uncontested premium due for prior insurance;
- Agree to participate in any loss control steps or programs required by the JUA; and
- Conform to any other reasonable underwriting guidelines in the underwriting manual.

The Association provides occurrence-based professional liability insurance and incidental general liability coverage with limits of \$1 million per incident and \$3 million per policy year. The Association also offers prior acts coverage on a claims-made basis for policyholders who were previously insured on a claims-made basis with a different carrier. This coverage is only offered in conjunction with an occurrence-based policy issued by the JUA, and none of the Association's policyholders purchased prior acts coverage during the examination period. The policies are marketed through five independent producers. At December 31, 2015, the Association had eleven policies in-force, issued to seven residential nursing/assisted living facilities and four physicians.

REINSURANCE

The Association does not have a reinsurance program; therefore, it did not cede or assume any business during the examination period.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the JUA for the period ending December 31, 2015. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the Comments on Financial Statement Items. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

Assets
as of December 31, 2015

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 3,702,610	\$ 0	\$3,702,610
Cash and Short-Term Investments	2,154,455	0	2,154,455
Investment Income Due and Accrued	16,625	0	16,625
Uncollected Premiums & Agents' Balances	19,778	0	19,778
Total Assets	<u>\$5,893,468</u>	<u>\$ 0</u>	<u>\$5,893,468</u>

Liabilities, Surplus and Other Funds
as of December 31, 2015

Losses	\$1,811,639
Loss Adjustment Expenses	126,986
Commissions Payable	1,467
Other Expenses	53,406
Unearned Premiums	<u>123,294</u>
Total Liabilities	\$2,116,792
Gross Paid in and Contributed Surplus	3,914,400
Unassigned Funds (Surplus)	<u>(137,724)</u>
Surplus as Regards Policyholders	<u>\$3,776,676</u>
Total Liabilities and Surplus	<u>\$5,893,468</u>

Statement of Income
For the Year Ended December 31, 2015

Premium Earned	\$ 530,903
DEDUCTIONS:	
Losses Incurred	(9,541)
Loss Adjustment Expenses Incurred	(25,080)
Other Underwriting Expenses Incurred	569,976
Total Underwriting Deductions	<u>\$ 535,355</u>
Net Underwriting Gain (Loss)	\$ (4,452)
Net Investment Gain	55,382
Total Other Income	6,549
Net Income	<u>\$ 57,479</u>
 CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2014	\$3,702,697
Net Income (Loss)	57,479
Aggregate Write-ins for Gains & Losses in Surplus	16,500
Change in Surplus as Regards Policyholders for the Year	<u>73,979</u>
Surplus as Regards Policyholders, December 31, 2015	<u>\$3,776,676</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Medical Malpractice Joint Underwriting Association during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Marc Peterson, CFE, examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration, participated in this examination. Kimberly Dobbs, CFE, AES, Information System Examiner for the DIFP, performed a review of the information system environment. Julie Lederer, FCAS, MAAA, also participated as the DIFP actuary.


VERIFICATION

State of Missouri)
)
 County of)

I, Shannon W. Schmoeger, 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 Medical Malpractice Joint Underwriting Association 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.


 Shannon W. Schmoeger, CFE
 Examiner-In-Charge
 Missouri Department of Insurance, Financial
 Institutions and Professional Registration

Sworn to and subscribed before me this 25th day of April, 2017.

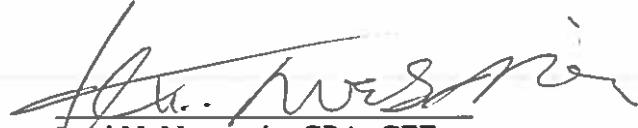
My commission expires: March 30, 2019 
 Notary Public



HAILEY LUEBBERT
 Notary Public - Notary Seal
 State of Missouri
 Commissioned for Osage County
 My Commission Expires: March 30, 2019
 Commission Number: 15634366

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.



Levi N. Nwasoria, CPA, CFE
Audit Manager
Missouri Department of Insurance, Financial
Institutions and Professional Registration