STATE OF MISSOURI

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DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Medical Liability Alliance for the period ended December 31, 2015

ORDER

After full consideration and review of the report of the financial examination of Medical Liability Alliance for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings subsequent events, company history, management and control, territory and plan of operation, reinsurance, financial statements, comments on the 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 Medical Liability Alliance as of December 31, 2015 be and is hereby ADOPTED as filed and for Medical Liability Alliance 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 7th day of December, 2016.

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

REPORT OF THE

FINANCIAL EXAMINATION OF

MEDICAL LIABILITY ALLIANCE

AS OF

DECEMBER 31, 2015

FILED
DEC 19 2016
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
September 8, 2016

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

Director Huff:

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

Medical Liability Alliance

hereinafter referred to as MLA or the Company. Its administrative office is located at 4700 Country Club Drive, Jefferson City, Missouri, 65109, telephone number (573) 893-5300. The examination began on May 2, 2016, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of MLA. The prior full scope financial examination of MLA covered the period of January 1, 2007 through December 31, 2011, and was conducted by examiners from the State of Missouri. The current full scope financial examination covers the period of January 1, 2012 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.

This examination was conducted concurrently with the examination of the Company's parent, Missouri Hospital Plan (MHP).

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 Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company 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 Company's financial statements.

This examination report includes findings of facts 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 separately communicated to other regulators and/or the Company.

Reliance Upon Others

This examination relied upon information provided by the Company'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 internal control walk-throughs, bank confirmations, paid claims data, premiums receivable, 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.

COMPANY HISTORY

General

Missouri Liability Alliance was incorporated on February 2, 1996 and commenced business on September 13, 1996. The Company operates as a stock property and casualty insurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

Dividends

The Company did not pay any stockholder dividends during the examination period. However, MLA paid the following policyholder dividends during the examination period.

Year	Dividends Paid
2012	$1,100,026
2013	1,169,803
2014	1,201,015
2015	1,297,927

Capital Contributions

No capital contributions were received during the examination period.

Mergers and Acquisitions

No mergers or acquisitions occurred during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that are appointed by the only shareholder, MHP. The Company's Articles of Incorporation and Bylaws specify that the Board shall be comprised of a minimum of nine directors. The Bylaws allow for a maximum of four directors serving that can be physicians insured by MLA.

The Board of Directors appointed and serving, as of December 31, 2015, were as follows:

Name	Address	Principal Occupation and Business Affiliation
Richard G. Anderson	Jefferson City, MO	CFO, Hospital Services Group, Inc.
Donald J. Babb	Bolivar, MO	CEO, Citizens Memorial Hospital
Patrick E. Carron	Perryville, MO	President & CEO, Perry County Health System
Michael A. Castellano	St. Louis, MO	CEO, Esse Health
Lewis R. Crist	Wildwood, MO	President, Crist and Associates
Michael A. DeHaven	St. Louis, MO	Senior Vice President, BJC Health System
Randal G. Friesen	St. Charles, MO	Retired Physician
Bruce M. Lane	St. Louis, MO	Assoc. General Counsel, BJC Health System
Diane L. Light, DO	Jefferson City, MO	Surgeon, Capital Region General Surgery
JoAnne D. Mallonee	Town & Country, MO	Executive Vice President, Huntleigh-McGehee
Joseph B. Moody	Jefferson City, MO	President/CEO, Hospital Services Group, Inc.
Daniel W. Peters	Olathe, KS	General Counsel, University of Kansas Hospital
Jeffrey L. Thomasson, MD	St. Louis, MO	President, West County Radiology Group

Committees

The Bylaws require the Board of Directors to have an Executive Committee. The Bylaws also allow for additional committees to be established by the Board of Directors or Chairman of the Board. An Audit Committee, Claims Committee, Finance Committee, and a Nominating Committee were also operational during the examination period. As of December 31, 2015, the members of each committee were as follows:

Audit Committee	Claims Committee	Finance Committee
Joseph B. Moody	Lewis R. Crist	Michael A. Castellano
Lewis R. Crist	Dana L. Frese	Bruce M. Lane
JoAnne D. Mallonee	Randall G. Friesen	JoAnne D. Mallonee
Michael A. DeHaven	Bruce M. Lane	Joseph B. Moody
Kirk W. Schmidt	Diane L. Light	
	Joseph B. Moody	
	Daniel W. Peters	
	Jeffrey L. Thomasson	

Executive Committee	Nominating Committee
Jeffrey L. Thomasson	Donald J. Babb
Patrick E. Carron	Patrick E. Carron
Joseph B. Moody	Michael A. DeHaven
	Joseph B. Moody
	Jeffrey L. Thomasson

Officers

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

Name	Office
Jeffrey L. Thomasson	Chairman of the Board
Patrick E. Carron	Vice Chairman
Joseph B. Moody	President
Richard G. Anderson	Secretary and Treasurer

Corporate Records

A review was made of the Articles of Association and Bylaws for the examination period. There were no amendments or changes to the Articles of Association or the Bylaws during the period under examination.

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

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System, as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by MLA for each year of the examination period. The Company is directly owned 100% by Missouri Hospital Plan, a Missouri-domiciled medical malpractice insurer. MHP is a not-for-profit association whose membership consists of several not-for-profit and governmental hospitals. The Company is ultimately owned 100% by the member hospitals of MHP.

The operations of the Company's other affiliates are described as follows:

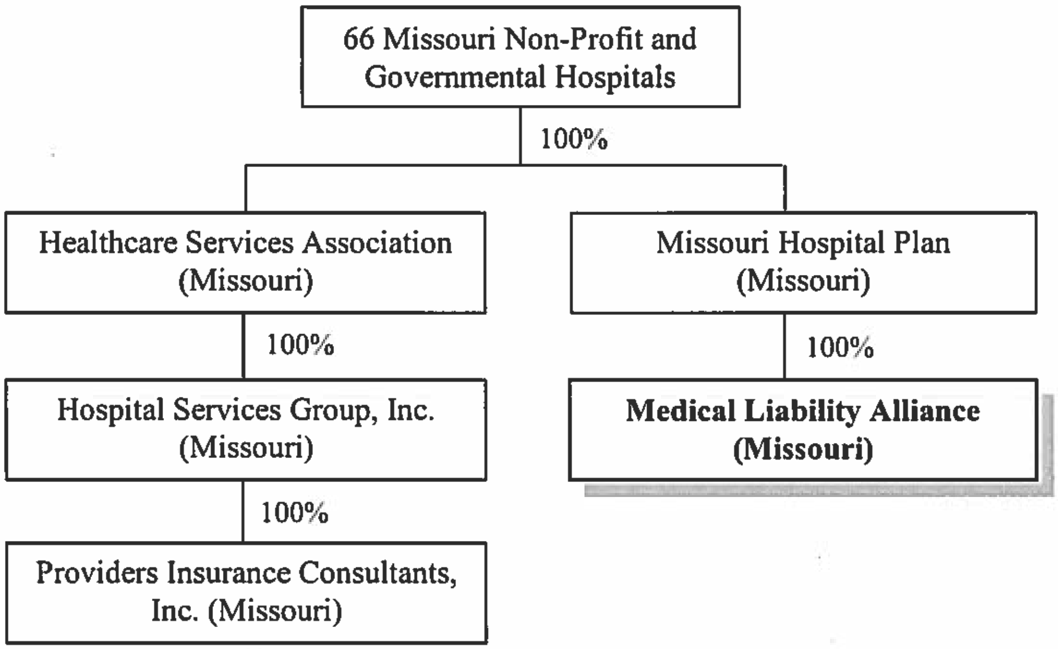
Healthcare Services Association (HSA) is a not-for-profit corporation that assists its members in offering high quality healthcare services and facilities by providing products, services, and insurance coverages to achieve that objective. The regular members of HSA are the owner hospitals of MHP. The only associate member is MHP.

Hospital Services Group, Inc. (HSG) is a management services company that performs all of the business functions for MHP and MLA.

Providers Insurance Consultants, Inc. (Pro-Con) is an insurance agency and broker located in St. Louis. Its primary purpose is to broker products and services for MLA and other health related entities for lines of business that are not written by MPA or MLA.

Organizational Chart

Below is the organizational chart of MLA and its affiliates, as of December 31, 2015.



Intercompany Agreements

The Company's intercompany agreements that were in effect, as of December 31, 2015, and subsequent periods are outlined below.

1. **Type:** Lease Agreement

   Affiliate: HSG

   Effective: January 1, 2012 to December 31, 2015
   January 1, 2016 to December 31, 2019 (identical terms as prior agreement)

   Terms: HSG employees will perform various services to conduct the business operations of MLA. The Company will reimburse HSG for the actual hours worked by each of HSG's employees. The maximum rates to be paid by MLA are $75 per hour for non-officers, $150 per hour for officers and $300 per hour for senior officers. In actual practice, a time study is completed each year to estimate the percentage of time that each employee spends on MLA's operations. MLA will pay HSG $5,000 per month for computer services, accounting services and report generation. MLA will also pay HSG $1,000 per month for office space, office furniture and supplies.

2. **Type:** Marketing and Sales Agreement

   Affiliate: Pro-Con

   Effective: January 1, 2010 (no expiration date)

   Terms: Pro-Con will provide sales, marketing, customer relations, and general agency services for MLA's professional liability and general liability products. MLA will pay Pro-Con commissions of 10% on new business; 10% on co-brokered renewal business; and 8% on non-brokered renewal business. The applicable direct written premiums are multiplied by the commission rates to determine the commissions payable each month. MLA shall also pay 1% of direct written premiums to Pro-Con for general underwriting services. All compensation due from MLA to Pro-Con shall be paid on a monthly basis.

MLA and MHP have also executed a Reinsurance Agreement on an annual basis. The terms of this agreement are described in the Reinsurance section of this report.

TERRITORY AND PLAN OF OPERATION

Medical Liability Alliance is licensed as a property and casualty insurer by the Missouri DIFP under Chapter 379 RSMo (Insurance Other Than Life). The Company is also licensed and writes business in Illinois and Kansas. The percentage of 2015 direct written premium in the three states was as follows: Missouri (84.37%), Illinois (9.94%), and Kansas (2.24%).

The major line of business for MLA is Medical Professional Liability (Malpractice) – Claims Made, which accounted for 99.9% of 2015 net written premiums. MLA is the fourth leading writer of medical malpractice insurance for physicians and surgeons in Missouri with a 12.43% market share of direct written premiums in 2015.

MLA was originally established in 1996 to insure independent staff physicians affiliated with hospitals insured by the parent, MHP. MLA has since expanded the product offerings to include for-profit hospitals and physicians that are not affiliated with the hospitals insured by MHP. In 2012, the Company expanded into policies targeted for outpatient care facilities. The Company had 134 policies in-force as of December 31, 2015. Most policies provide coverage of $1,000,000 per claim and $3,000,000 aggregate per policy year, although higher limits are written.

The only agency used to produce business for MLA is its affiliate, Pro-Con. A Marketing and Sales Agreement between MLA and Pro-Con is described in the Intercompany Agreements section of this report.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2012	2013	2014	2015
Direct Business	$12,836,334	$12,796,440	$11,934,991	$11,606,387
Assumed – Affiliates	0	0	0	0
Assumed – Non-affiliates	0	0	0	0
Ceded – Affiliates	(1,490,321)	(1,589,610)	(1,246,744)	(1,224,320)
Ceded – Non-affiliates	0	0	0	0
Net Premiums Written	$11,346,013	$11,206,830	$10,688,247	$10,382,067

Assumed

The Company does not assume any business.

Ceded

The Company's only reinsurance coverage is obtained from its parent, MHP. New reinsurance agreements with MHP are executed on July 1 of each year. The reinsurance agreement between MLA and MHP, effective July 1, 2015, is applicable to risks in force as of the examination date. Pursuant to this agreement, MHP assumes 100% of MLA's losses in excess of MLA's retention of $500,000 per policy, per occurrence. MLA has a maximum aggregate retention of $1,500,000 per insured, per policy period. MHP has reinsurance agreements to retrocede a portion of the business assumed from MLA.

There were no changes in the Company's retention or coverage for the reinsurance agreement with MHP, effective from July 1, 2015 to June 30, 2016.

The Company cedes cyber liability to various Lloyd's syndicates. This cyber liability reinsurance agreement was effective on April 1, 2014, and continues until terminated by either party. MLA issues basic cyber liability coverage through policy endorsements with limits of $50,000 per claim and in aggregate. This coverage is ceded on a 100% quota share basis under the reinsurance agreement.

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 agreement.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Medical Liability Alliance 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

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$59,431,729	$ 0	$59,431,729
Common Stocks	7,284,316	0	7,284,316
Cash and Short-Term Investments	4,982,679	0	4,982,679
Investment Income Due and Accrued	602,924	0	602,924
Uncollected Premiums and Agents' Balances	1,222,970	0	1,222,970
Deferred Premiums and Agents' Balances	1,273,586	0	1,273,586
Net Deferred Tax Asset	295,153	34,094	261,059
TOTAL ASSETS	**$75,093,358**	**$ 34,094**	**$75,059,264**

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

Losses	$12,521,300
Loss Adjustment Expenses	4,318,301
Commissions Payable	24,111
Other Expenses	102,634
Taxes, Licenses and Fees	14,209
Federal Income Taxes Payable	513,148
Unearned Premiums	4,409,003
Advance Premium	203,328
Policyholder Dividends Declared and Unpaid	5,275
Ceded Reinsurance Premiums Payable	177,179
Remittances and Items Not Allocated	92,714
TOTAL LIABILITIES	**$22,381,202**
Common Capital Stock	4,200,000
Preferred Capital Stock	2,000,000
Gross Paid In and Contributed Surplus	8,400,000
Unassigned Funds (Surplus)	38,078,064
Surplus as Regards Policyholders	**$52,678,064**
TOTAL LIABILITIES AND SURPLUS	**$75,059,265**

Statement of Income
For the Year Ended December 31, 2015

Premium Earned	$10,555,944
DEDUCTIONS:	
Losses Incurred	2,338,500
Loss Adjustment Expenses Incurred	3,332,819
Other Underwriting Expenses Incurred	1,891,562
Total Underwriting Deductions	$ 7,562,881
Net Underwriting Gain	$ 2,993,063
Net Investment Income Earned	1,789,350
Net Realized Capital Gains	68,966
Net Investment Gain	$ 1,858,316
Dividends to Policyholders	1,297,927
Federal Income Taxes Incurred	968,267
Net Income	**$ 2,585,186**
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2014	$50,155,369
Net Income (Loss)	2,585,186
Change in Net Unrealized Capital Gain (Loss)	(119,816)
Change in Deferred Income Tax	67,598
Change in Non-Admitted Assets	(10,273)
Surplus as Regards Policyholders, December 31, 2015	**$52,678,064**

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 Medical Liability Alliance during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Marc Peterson, CFE, Emily Pennington, AFE, examiners 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. Kristine M. Fitzgerald, ACAS, MAAA, FCA, of Actuarial & Technical Solutions, Inc., also participated as a consulting 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 Medical Liability Alliance 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 29th day of September, 2016.

My commission expires: May 18. 2020

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

KIMBERLY LANDERS
My Commission Expires
May 18, 2020
Callaway County
Commission #12558402

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