

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Medical Liability Alliance as of December 31, 2006

ORDER

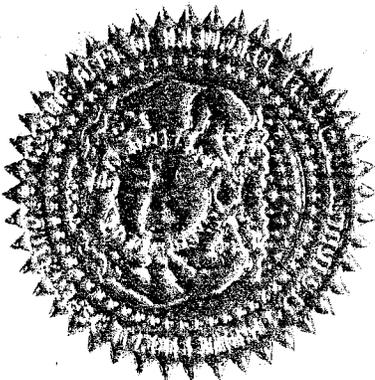
After full consideration and review of the report of the financial examination of Medical Liability Alliance for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER 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) implement, and verify compliance with, each item mentioned in the General Comments and/or 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 July 24, 2007.

A handwritten signature in black ink, appearing to read "Douglas M. Ommen".

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration



**REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
MEDICAL LIABILITY ALLIANCE**

**AS OF
DECEMBER 31, 2006**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

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Jefferson City, Missouri
May 16, 2007

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Secretary, Midwestern Zone, NAIC

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

Gentlemen:

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 such, as MLA, or as the Company. Its administrative office is located at 4700 Country Club Drive, Jefferson City, Missouri 65109, telephone number (573) 893-5300. This examination began on December 18, 2006, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of MLA was made as of December 31, 2002, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2002, through December 31, 2006, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

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

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, Brown, Smith and Wallace, LLC, of St. Louis, Missouri, for its audit covering the period from January 1, 2005, through December 31, 2005. Information relied upon was limited to the fraud risk assessment only. The audited financial statements, as of December 31, 2006, had not been issued by the end of our examination and therefore, no workpapers for the 2006 audit were available for our review.

Comments – Previous Examination

The previous financial examination of MLA was conducted by the Missouri DIFP for the period ending December 31, 2002. There were no comments, recommendations, or notes to the financial statements in the previous examination report.

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).

Capital Stock

MLA's common stock is owned 100% by MHP. The Company is authorized to issue 50,000 shares of common stock with a par value of \$100 per share. As of December 31, 2006, 42,000 shares were issued and outstanding for a total common capital stock balance of \$4,200,000.

MLA is also authorized to issue 10,000 shares of preferred stock with a par value of \$1,000 per share. As of December 31, 2006, 2,000 shares were issued and outstanding for a total preferred capital stock balance of \$2,000,000. All of the issued and outstanding preferred stock is owned by BJC Health System,

Dividends

The Company did not pay any dividends during the examination period.

Management

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 require that a maximum of four of the directors serving can be physicians insured by MLA. The Board of Directors appointed and serving, as of December 31, 2006, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Richard G. Anderson	Jefferson City, Missouri	CFO, Hospital Services Group, Inc.
Donald J. Babb	Bolivar, Missouri	President and CEO, Citizens Memorial Hospital
Lewis R. Crist	Wildwood, Missouri	Retired – Former Director, Missouri DIFP
Michael A. DeHaven	St. Louis, Missouri	Senior Vice President and General Counsel, BJC Health System
Michael J. Delaney	Jefferson City, Missouri	President and CEO, Hospital Services Group, Inc.
Gary D. Duncan	Joplin, Missouri	President and CEO, Freeman Health System
Michael E. Henze	Osage Beach, Missouri	President and CEO, Lake Regional Health System
John E. Kritteck, MD	St. Louis, Missouri	Vice President and Chief Medical Officer, Missouri Baptist Medical Center
Diane L. Light, MD	Jefferson City, Missouri	Surgeon, Capital City Medical Associates
JoAnne D. Mallonee	Town and Country, Missouri	Executive Vice President, Huntleigh-McGehee, Inc.
Joseph B. Moody	Jefferson City, Missouri	COO, Hospital Services Group, Inc.
Michael D. Nickell, MD	Linn Creek, Missouri	Internal Medicine / Hospitalist, Lake Regional Health System

Committees

The Bylaws require the Board of Directors to have an Executive Committee. The Bylaws also allow for additional committees to be appointed by the Board of Directors or the Chairman of the Board as needed. A Nominating Committee was also operational during the examination period. As of December 31, 2006, the members of each committee were as follows:

<u>Executive Committee</u>	<u>Nominating Committee</u>
Donald J. Babb	Donald J. Babb
Michael J. Delaney	Michael J. Delaney
Michael E. Henze	Gary D. Duncan
	Michael E. Henze
	Marc D. Smith

Officers

The officers elected by the Board of Directors and serving, as of December 31, 2006, were as follows:

<u>Name</u>	<u>Office</u>
Michael E. Henze	Chairman of the Board
Donald J. Babb	Vice Chairman
Michael J. Delaney	President
Richard G. Anderson	Secretary and Treasurer

Conflict of Interest

The Company has a policy that requires all officers and directors to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. The Articles of Incorporation were amended on January 9, 2004, to add a preferred stock class of shareholders. The Bylaws were amended and restated on September 2, 2004, to limit the number of directors serving on the Board of Directors to a maximum of thirteen and to limit the number of physicians that may serve on the Board to a maximum of four directors.

The minutes of the Board of Directors' meetings and committee 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.

Acquisitions, Mergers and Major Corporate Events

None during the examination period.

Surplus Debentures

MLA had no surplus notes issued and outstanding, as of December 31, 2006.

AFFILIATED COMPANIES

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:

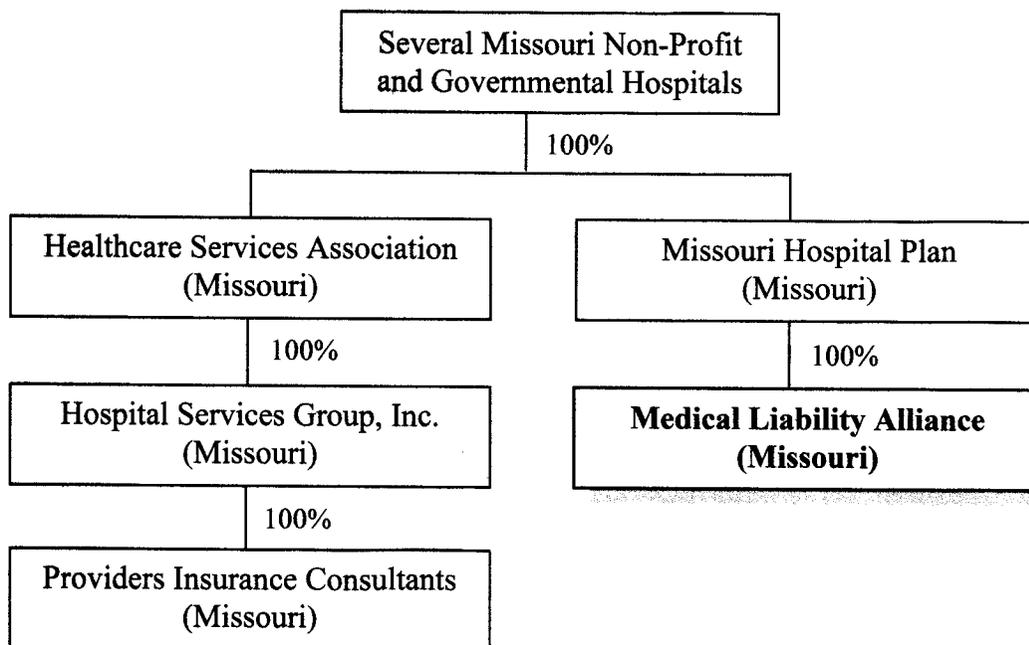
Healthcare Services Association (HSA) is a not-for-profit corporation that assists its members in offering high quality healthcare services and facilities by providing products, services, and insurance coverages to achieve that objective. The regular members of HSA are the owner hospitals of MHP. The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

Organizational Chart

The following table depicts the holding company system of MLA and its affiliates, as of December 31, 2006:



Intercompany Agreements

The Company’s intercompany agreements in effect, as of December 31, 2006, and subsequent periods are outlined below.

1. Type: Lease Agreement

Affiliate: HSG

Effective: January 1, 2006 to December 31, 2007

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 \$50 per hour for non-officers, \$100 per hour for officers, and \$200 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:** April 1, 2006 to February 28, 2007; renewed March 1, 2007 with no expiration
- Terms:** Pro-Con will provide sales, marketing, and customer relations services for MLA's professional liability product. MLA will pay Pro-Con commissions of 10% on new business; 10% on co-brokered renewal business; and 6% on non-brokered renewal business. The applicable direct written premiums are multiplied by the commission rates to determine the commissions payable each month. The new agreement, effective March 1, 2007, has essentially the same terms as the prior agreement, except for the commission rate on non-brokered renewal business, which was increased from 6% to 8%.

Intercompany Transactions

The following table summarizes the payments made during the examination period, between MLA and its affiliates, pursuant to intercompany agreements and other transactions.

Affiliate	Agreement / Transaction	Net Paid / (Received)			
		2003	2004	2005	2006
MHP	Common Stock Sold	(2,400,000)	0	(6,600,000)	0
HSG	Lease	409,000	539,000	661,000	716,000
Pro-Con	Marketing and Sales	296,000	592,000	941,000	647,000
TOTAL		(\$1,695,000)	\$1,131,000	(\$4,998,000)	\$1,363,000

FIDELITY BOND AND OTHER INSURANCE

MLA is a named insured on a financial institution bond that covers losses resulting from fraudulent or dishonest acts of an employee. The Company's parent, MHP, and its affiliate, HSG, are also named insureds on this bond. The bond provides coverage with a liability limit of \$1,000,000 and a \$10,000 deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Company is also a named insured on the following other insurance policies: property, commercial general liability, commercial auto liability, umbrella liability, worker's compensation and employer's liability. These additional insurance coverages appear to be adequate.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

MLA does not have any direct employees. The employees of an affiliate, HSG, perform all of the operational and administrative functions of the Company. As of December 31, 2006, HSG had 30 employees located in its Jefferson City, Missouri office. The employees also work on the operations of the Company’s parent, MHP, and its affiliates, Pro-Con and HSA.

A variety of standard benefits are provided to the HSG employees. These benefits include, but are not limited to, the following: medical insurance, dental insurance, life insurance, disability insurance, vacation, sick leave, and tuition reimbursement. Employees are also provided with a 401(k) savings / retirement plan and a profit sharing plan. Benefit costs for HSG employees are charged to the Company, pursuant to a Lease Agreement that is described in the Intercompany Agreements section of this report. The Company pays HSG for its allocated share of the benefit costs for HSG employees during the month for which services were provided. Thus, MLA did not have any amounts payable to HSG, as of December 31, 2006.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2006, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities Deposit). The funds on deposit, as of December 31, 2006, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes and Municipal Bonds	\$1,585,000	\$1,589,221	\$1,595,380

Deposits with Other States

The Company did not have funds on deposit with any other states, as of December 31, 2006.

INSURANCE PRODUCTS AND RELATED PRACTICES

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 licensed and writes business in three states. The percentage of 2006 direct written premium in the three states was as follows: Missouri (91.7%), Illinois (5.4%), and Kansas (2.9%).

The major line of business for MLA is Medical Malpractice – Claims Made, which accounted for 99.6% of 2006 net written premiums. The only other line of business is Other Liability – Claims Made, which comprised the remaining 0.4% of 2006 net written premiums.

MLA was established to insure entities that were not eligible to be insured by the parent, MHP. This includes for-profit hospitals and independent staff physicians either affiliated or not affiliated with the hospitals insured by MHP. The Company had 227 policyholders, as of December 31, 2006.

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. The Company does not utilize any advertising to attract new policyholders. The marketing efforts are limited to its website that provides general information about MLA and its affiliates.

Policy Forms & Underwriting

Advertising & Sales Materials

Treatment of Policyholders

The Missouri DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The most recent Missouri DIFP market conduct examination report was issued February 10, 2005, and covered the period from January 1, 1994 to December 31, 2003. No significant problems were noted from review of this report. There were no market conduct examinations from any other states during the examination period.

REINSURANCE

General

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct Business	\$5,640,476	\$11,113,253	\$8,601,862	\$9,058,935
Reinsurance Assumed	0	0	0	0
Reinsurance Ceded:				
Affiliates	(3,441,259)	(4,514,234)	(2,729,004)	(1,812,687)
Non-affiliates	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Premiums Written	<u>\$2,199,217</u>	<u>\$6,599,019</u>	<u>\$5,872,858</u>	<u>\$7,246,248</u>

Assumed

The Company does not assume any business.

Ceded

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.

The Company's only reinsurance agreement is an excess of loss agreement, effective July 1, 2003, with its parent, MHP. The risks ceded are the various medical malpractice policies written by MLA including hospital professional liability, physicians and surgeons liability, and general liability. The Company cedes 100% of its losses in excess of a \$350,000 retention per insured and per loss occurrence. MLA has a maximum aggregate retention of \$1,050,000 per insured, per policy period. A Commutation Agreement was executed on July 1, 2005, for the purpose of commuting all business that had been ceded to MHP during the period from July 1, 2003 to June 30, 2005.

ACCOUNTS AND RECORDS

General

The CPA firm, Brown, Smith and Wallace, LLC, (BSW) of St. Louis, Missouri, issued audited statutory financial statements of the Company for all years in the examination period. The 2006 audited statutory financial statements had not been issued by BSW, as of the date of this report, but were due to be completed by June 1, 2007.

The actuarial opinion regarding the Company's reserves for losses and loss adjustment expenses (LAE) was issued by Patrick K. Devlin, FCAS, MAAA, as of December 31, 2006, and by John F. Gibson, FCAS, MAAA, as of December 31, 2003, 2004 and 2005. Mr. Devlin and Mr. Gibson are both employed by PricewaterhouseCoopers, LLP, in Atlanta, Georgia.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of MLA for the period ending December 31, 2006. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to 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 "Notes to the Financial Statements." 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 Annual Statement item.

Assets as of December 31, 2006

	<u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$28,265,010	\$ 0	\$28,265,010
Cash and Short-term Investments	1,477,997	0	1,477,997
Investment Income Due and Accrued	318,867	0	318,867
Uncollected Premiums and Agents' Balances in the Course of Collection	369,797	0	369,797
Deferred Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due	1,244,183	0	1,244,183
Federal Income Tax Recoverable	95,585	0	95,585
Net Deferred Tax Asset	<u>703,498</u>	<u>358,344</u>	<u>345,154</u>
TOTAL ASSETS	<u>\$32,474,937</u>	<u>\$358,344</u>	<u>\$32,116,593</u>

Liabilities, Surplus and Other Funds as of December 31, 2006

Losses	\$ 8,339,238
Loss Adjustment Expenses	2,587,746
Commissions Payable	0
Other Expenses	124,718
Taxes, Licenses and Fees	10,256
Unearned Premiums	3,632,588
Advance Premium	293,365
Ceded Reinsurance Premiums Payable	358,148
Provision for Reinsurance	<u>0</u>
TOTAL LIABILITIES	\$15,346,059
Common Capital Stock	4,200,000
Preferred Capital Stock	2,000,000
Gross Paid-In and Contributed Surplus	8,400,000
Unassigned Funds (Surplus)	<u>2,170,534</u>
Surplus as Regards Policyholders	<u>\$16,770,534</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$32,116,593</u>

Statement of Income
For the Year Ended December 31, 2006

Premium Earned	\$ 6,809,893
DEDUCTIONS:	
Losses Incurred	3,168,500
Loss Expenses Incurred	1,205,700
Other Underwriting Expenses Incurred	<u>1,207,796</u>
Total Underwriting Deductions	<u>\$ 5,581,996</u>
Net Underwriting Gain	\$ 1,227,897
Net Investment Income Earned	1,144,588
Net Realized Capital Losses	<u>(33,782)</u>
Net Investment Gain	\$ 1,110,806
Other Income	1,063
Federal Income Taxes Incurred	<u>769,698</u>
Net Income	<u>\$ 1,570,068</u>
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2005	\$15,180,185
Net Income	1,570,068
Change in Net Unrealized Capital Gains or (Losses)	0
Change in Net Deferred Income Tax	70,176
Change in Non-Admitted Assets	(49,896)
Change in Provision for Reinsurance	<u>0</u>
Surplus as Regards Policyholders, December 31, 2006	<u>\$16,770,533</u>

Notes to the Financial Statements

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, Shawn Hernandez, CFE, Larry Kleffner, CFE, Shannon Schmoeger, CFE, and Angi Campbell, CFE, examiners for the Missouri DIFP, participated in this examination. David Cox, FCAS, MAAA, an actuary for the Missouri DIFP, also reviewed the loss and LAE reserves in this examination.

VERIFICATION

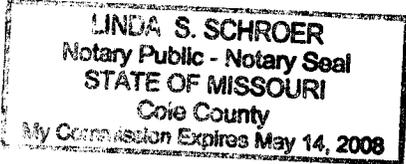
State of Missouri)
)
County of Cole)

I, Tim L. Tunks, 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.

Tim L. Tunks
Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 17th day of MAY, 2007.

My commission expires: 5-14-08 Linda S Schroer
Notary Public



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.

A handwritten signature in black ink, appearing to read "Frederick G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri DIFP