STATE OF MISSOURI

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 as of December 31, 2006

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, 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 Missouri Doctors Mutual Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the 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 April 3, 2008.

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

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

MISSOURI DOCTORS MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

FILED
APR 13 2008
DIRECTOR OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL REGULATION

AND PROFESSIONAL REGISTATION

JEFFERSON CITY, MISSOURI

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St. Joseph, Missouri
February 15, 2008

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

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

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

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

Missouri Doctors Mutual Insurance Company

hereinafter referred to as such, as MoDocs, or as the Association. Its administrative office is located at 224 North 7th Street, St. Joseph, Missouri 64501, telephone number (816) 901-9950. This examination began on September 10, 2007, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

This is the first financial examination of Missouri Doctors Mutual Insurance Company. The examination covers the period from the Association's inception on March 16, 2004 through December 31, 2006, and has been conducted by examiners from the State of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zone participating.

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 also relied on information provided by the Association's independent auditor, John W. Gillum, CPA, LLC, of Kirksville, Missouri. Such reliance included, but was not limited to, investment confirmations and fraud-risk assessments.

Comments - Previous Examination

This is the first financial examination of MoDocs, accordingly, there are no comments or notes from a previous examination to review or address.

HISTORY

General

Missouri Doctors Mutual Insurance Company was incorporated on February 24, 2004, under Missouri law at Chapter 383 (Malpractice insurance). The Association 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 the enabling law and commenced business on April 2, 2004.

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

Capital Stock

MoDocs 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 Association and is liable for subsequent assessments in accordance with the Association's Articles of Association and Bylaws.

Dividends

The Association has not declared any dividends or made any cash dividend distributions since its incorporation.

Management

Pursuant to Article III of its Bylaws, the Association is to be managed by a Board of Directors consisting of not less than three members. The members and terms of the initial Board of Directors are set in the Articles of Association. Successor directors are to be elected by the Association's members at the annual membership meetings as prescribed in the Bylaws. The directors serving, as of December 31, 2006, were as follows:

Name and Address	Business Affiliation
Martin M. Bauman Wildwood, Missouri	President Missouri Doctors Mutual Insurance Company, Private Attorney
Robert O. Schaaf, MD St. Joseph, Missouri	Physician, Missouri State Representative, 28th District, Chairman Missouri Doctors Mutual Insurance Company
James F. Conant, MD St. Joseph, Missouri	Physician

As indicated above, each of the directors currently serving was initially appointed at the time of the Association's formation. It was noted in review of the biographical affidavits completed by the directors and in discussions with Association management, that none of the directors had any insurance experience prior to their association with MoDocs. It was further noted that various potential conflicts of interest exist concerning the directors. These potential conflicts of interest and related transactions are discussed in further detail in the Conflict of Interest and Affiliated Companies sections of this report.

Given the lack of insurance experience and the potential conflicts of interest of the current members of the Board of Directors, it is recommended that the Association increase the number of its directors and expand the make up of the Board of Directors to include other physician members of the Association and also individuals independent of the Association's daily operations.

Committees

The Bylaws empower the Board of Directors to establish one or more committees as deemed necessary. As of December 31, 2006, the only committee established by the Board of Directors was a Claims Committee consisting of the following individuals:

Robert O. Schaaf, MD
James F. Conant, MD
Deborah Stoner, MD
Martin M. Bauman
Randall Bauman

Officers

The Bylaws stipulate that the officers of the Association shall consist of a President, a Secretary, a Treasurer and such other officers and other assistant officers as the Board may from time to time elect. The officers elected and serving as of December 31, 2006, were as follows:

Name	Title
Martin M. Bauman	President
Robert O. Schaaf, MD	Secretary/Treasurer

Conflict of Interest

The Association has procedures for the disclosure of any conflicts of interest that may exist. However, the Association did not implement a policy of having its directors and officers sign an annual conflict of interest disclosure statement until 2006. Signed statements of officers and directors were reviewed for 2006 and 2007. Significant conflicts disclosed include the ownership interest of Martin M. Bauman and Robert O. Schaaf in the Association's service provider, Robert Martin, Ltd. and the ownership by Martin Bauman of the office building rented by the Association. These relationships and related transactions are discussed in greater detail in the Affiliated Companies section of this report.

Corporate Records

The Articles of Association and Bylaws for MoDocs were reviewed for the period under examination through the date of this report. The original Articles of Association were amended and restated effective April 28, 2005, to clarify wording as to how operating assessments would apply to former members and to add wording regarding special assessments. The Articles of Association were again amended and restated effective April 26, 2007, to clarify wording regarding regular assessments and to add wording that special assessments may be levied without limitation to frequency. The Bylaws of the Association were amended and restated effective December 21, 2006, to add wording regarding how operating and special assessments would apply to former members.

As MoDocs is an assessable association, pursuant to 383.016 RSMo (Articles of association and bylaws, additional comments), its Articles of Association and Bylaws must provide for the types and methods of assessment. It was noted that under the current assessment method, operating and special assessments will only be distributed to those members whose policy periods encompass the date that such an assessment is levied. Therefore, former members of the Association will not be liable for assessments that are declared subsequent to their membership in the Association.

The failure to include former members in potential special and operating assessments diminishes the Association's ability to generate funds through such assessments, and could create an incentive for members to withdrawal from the Association should it appear that such assessments would be necessary. As a result, losses incurred in a prior period could potentially be transferred from the policyholders responsible for such losses to current or remaining policyholders. It is recommended that the Association consider amending its Articles of Association and Bylaws to include an option to allow for the assessment of former members based on the results for years in which they were policyholders. Such a method would more appropriately allocate operating and special assessments to members who actually incurred the related losses and would allow the Association a larger policyholder base upon which assessments could be levied.

The minutes of the Board of Directors' meetings, the Committee meetings and the members' annual meetings were reviewed for proper approval of corporate transactions. The minutes, in general, appear to properly reflect and approve the Association's major transactions and events for the period under examination with the exception that the approval of the President's salary by the Board of Directors was not noted in the minutes.

Pursuant to Article IV of the Association's Bylaws, the President of the Association shall set the compensation of all officers and employees except for his own which shall be set by the Board of Directors. Although the Association's directors indicated during the examination that the President's compensation was reviewed and approved by the Board of Directors, such review and approval was not documented in the minutes of the Board of Director's meetings for any of the years in the examination period. Given the Association's limited number of directors and officers, there is a potential conflict of interest in having the Board of Directors set the compensation for the President who in turn sets the compensation for the officers who are also members of the Board of Directors. The Association should ensure that the President's compensation is reviewed and approved by the Board of Directors on an annual basis and that such review and approval is documented in the meeting minutes of the Board of Directors. In addition, as the Association's officers are also members of the Board of Directors, the Association should consider the appointment of an independent committee for the establishment of officer salaries.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers or major corporate events noted for the period under examination.

Surplus Debentures

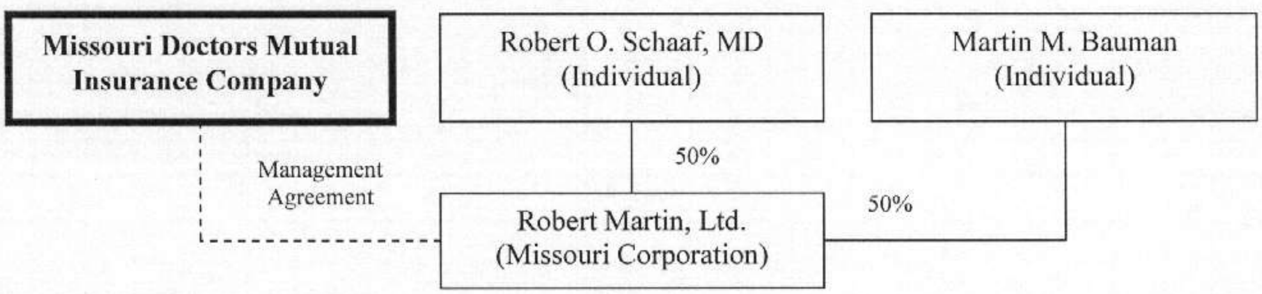
No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

MoDocs is organized under Missouri Law at Chapter 383 RSMo (Malpractice insurance). Unless specifically provided in Chapter 383, no other insurance law of the State of Missouri applies to an association licensed pursuant to the provisions of this chapter, unless such law shall expressly state it is applicable to such associations. Consequently, MoDocs is not deemed to be subject to the insurance holding company requirements of traditional insurers prescribed under Chapter 382 RSMo (Insurance Holding Companies).

Associations formed under Chapter 383 RSMo are, however, subject to the Statements of Statutory Accounting Principles (SSAP) of the NAIC. SSAP No. 25 (Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties) defines an affiliate as "any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that directly or indirectly, own or control the reporting entity." Based on this definition, MoDocs is affiliated with the following companies by virtue of its officers, Martin M. Bauman and Robert O. Schaaf owning or having a controlling interest in each:



Intercompany Transactions

The Association has entered into various agreements with affiliated entities and individuals as outlined below:

1. Type: Independent Management Agreement

   Parties: MoDocs and Robert Martin, Ltd. (RML)

   Effective: July 27, 2004

   Terms: RML is to provide guidance and business judgment to MoDocs by securing sufficient personnel to operate the Association's sales, underwriting, legal, accounting departments and other departments as necessary, and to train such people or obtain professional help to carry out the duties necessary, in the sole judgment of RML, to safely and legally operate the Association.

MoDocs will pay RML all expenses necessary to carry out the terms of the agreement plus 10% of such expenses or 25% of the gross sales of the Association, which ever is greater. In addition, should there be a disbursement of funds to the Association members as defined by MoDocs' Bylaws and Articles of Association, in the form of dividends, rebates or other financial compensation, RML shall be entitled to a like amount of the aggregate of all such sums paid as additional compensation for its services. It is also expressly agreed and understood that MoDocs is aware that RML intends, at future dates to own or advise other insurance related companies.

Exception: The terms of the agreement and the transactions that have transpired under it do not appear reasonable nor do they appear to meet the standards of an arms-length transaction as defined by SSAP No. 25.

Although the management fee paid to RML is to be the greater of 100% of expenses plus 10% of such expenses or 25% of gross premiums, the management fees actually paid have been based solely on expenses without consideration as to premiums. In 2004, MoDocs paid all of its expenses directly including the employee salaries and benefits expenses. As a result, no amounts were paid by MoDocs to RML in 2004. In 2005, all employees of MoDocs were transferred to RML. Subsequent to this transfer, MoDocs has reimbursed RML for 100% of the employee expenses. In addition to the reimbursement, MoDocs has paid RML an extra 10% surcharge in accordance with the terms of the agreement. The surcharge amounts paid to RML were eventually fully distributed to the shareholders of RML who also serve as officers of MoDocs.

The agreement does not clearly define the services that are to be provided by RML and MoDocs management was unable to provide examples of any specific services that were in fact being provided to MoDocs by RML. RML has no employees other than those for which it is fully reimbursed by MoDocs. In addition, other than some incidental corporate filing fees, RML has not incurred any other operating expenses of its own. Therefore, in its current form, RML appears to be little more than a pass-through entity that provides no actual services to MoDocs that would justify the 10% surcharge. Furthermore, the fact that the surcharge is currently based solely on expenses provides a disincentive for the management of MoDocs to reduce employee expenses, since as shareholders of RML, they directly benefit from the distributions they receive from RML of the surcharge amounts.

The agreement also does not include any provisions for allocation of expenses shared by MoDocs and RML. The accounting for RML is performed by an employee whose salary and benefits are fully reimbursed by MoDocs. In addition, RML is not allocated any overhead cost for rent or utilities paid by MoDocs.

The Association should amend the Independent Management Agreement to eliminate the 10% surcharge and the 25% of gross premium provisions, or alternatively, to more clearly define the services that will be provided to MoDocs by RML. In addition, provisions should be added for the allocation of shared costs to RML.

2. Type: Lease Agreement

   Parties: MoDocs and Martin M. and Theresa G. Bauman

   Effective: April 1, 2004, amended June 1, 2004

   Terms: The Association leases a building owned by Martin M. Bauman and his wife, Theresa G. Bauman for office space. The lease is for a five year term at a monthly rent of $4,500. Under the lease, MoDocs is also responsible for all utilities, repairs and maintenance and property taxes associated with the building.

The amounts paid to affiliates during the period under examination were as follows:

	2006	2005	2004
Independent Management Agreement			
Paid to RML as salary and benefit reimbursements	$ 1,193,242	$ 680,048	$ -
Paid to RML as 10% surcharge	$ 119,407	$ 60,894	
Lease			
Paid to Martin and Theresa Bauman	54,000	54,000	38,500
Net amount (paid) or received	**$ 1,366,649**	**$ 794,942**	**$ 38,500**

It was noted that the Association did not disclose the above affiliated agreements or transactions in Note # 10 of the Notes to the Financial Statements as required by SSAP No. 25, Paragraph 18 and by the NAIC Annual Statement Instructions for any of the years under examination. The Association should ensure that the required disclosures are included in all subsequent statement filings.

FIDELITY BOND AND OTHER INSURANCE

MoDocs does not have fidelity bond coverage nor does the Association have Directors' and Officers' insurance coverage. Per the guidelines of the NAIC, it is recommended that the Association have a minimum of $100,000 fidelity bond coverage based upon its total assets and annual income reported for the year ending December 31, 2006. The Association's lack of fidelity bond coverage and Directors' and Officers' insurance coverage represents a failure of the Association's management to adequately safeguard the assets of the Association against potential fraudulent acts and against potential actions brought against the Association's directors and officers. The Association should obtain fidelity bond coverage in a minimum amount of $100,000 to be in compliance with the recommended NAIC levels of coverage and should also obtain adequate Directors' and Officers' insurance coverage.

The Association is a named insured on the following business insurance coverages: Business Property, Business Liability, General Aggregate (Umbrella) and Automobile insurance.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Association's operations are carried out by employees of an affiliated management service provider, Robert Martin, Ltd., in accordance with an Independent Management Agreement as described in the Intercompany Transaction section of this report. Employees of RML are provided standard benefits including, but not limited to, health and medical insurance coverage. Employee automobiles are also provided to the Association's officers.

STATUTORY DEPOSITS

Pursuant to the applicable laws, the Association is not required to deposit funds for the benefits of policyholders as is customary with other insurers organized under different Missouri insurance laws. Consequently, the Association did not have any funds on deposit with the State of Missouri as of December 31, 2006.

INSURANCE PRODUCTS AND RELATED PRACTICES

General

Missouri Doctors Mutual Insurance Company is incorporated under Missouri law at Chapter 383 (Malpractice insurance), and was issued a Certificate of Authority by the DIFP on March 14, 2004, to operate as an assessable malpractice insurance corporation. The Association is only licensed in the State of Missouri.

MoDocs is owned by its member-insureds, who are licensed physicians. The members elect a Board of Directors, who has the ultimate responsibility to manage the property and affairs of the Association. MoDocs writes one line of business, medical malpractice insurance. The Association's coverage is issued primarily on a claims-made basis with a coverage limit of $1 million. Members can also purchase an extended reporting endorsement which provides coverage on an occurrence basis also with a $1 million coverage limit.

The Association offers membership to physicians who are independent practitioners and/or independent groups without any regard to size of operation. The Association's membership as of December 31, 2006, was comprised of 347 member-insureds.

Acquisition of Business

The Association markets products through a combination of in-house and independent agents. As of December 31, 2006, the Association had five in-house agents working out of the Association's main office in St. Joseph and an agent field office in St. Louis. The in-house agents accounted for approximately 51% of the Association's 2006 gross written premiums.

The Association has an Agency Agreement, effective May 5, 2004, with Medical Liability Specialists, LLC. (MLS). The agreement authorizes MLS to solicit policy applications and proposals on behalf of MoDocs. For these services, MLS is to be paid a commission rate of 10% on new and renewal policies.

Effective August 24, 2007, the Association entered into a second Agency Agreement with the Missouri State Medical Association Insurance Agency (MSMAIA). The terms and commission rates of this agreement are essentially identical to those of the MLS agreement.

In addition to agent activities, MoDocs also promotes its products through direct mailings, trade shows and educational seminars.

Policyholder Surplus and Operating Expenses

The surplus in regards to policyholders reported by MoDocs on its December 31, 2006 Annual Statement was a negative $607,287. The negative surplus amount denotes that the Association did not have sufficient assets to cover its actual and estimated liabilities as of December 31, 2006. The shortfall in surplus (assets less liabilities) was in effect an additional liability to the Association's members, in that if the Association was unable to meet its future obligations, the Association's members would have to cover such obligations through operating or special assessments. It was noted the Association's subsequent operating results allowed it to report a positive surplus in regards to policyholders for the third quarter of 2007. The Association should continue to strive to maintain a positive surplus in regards to policyholders to avoid the creation of potential additional liabilities for its members.

The Association's operating expenses appear to be excessive given its size and premium volume. The Association's expense ratio (operating expenses divided by gross written premiums) for the year ending December 31, 2006 was 43.5%. Although this was an improvement from the prior year percentage of 58.6%, the ratio is still considered high compared to other medical malpractice providers. Part of the excessive operating expenses can be attributed to the management fee as discussed in the Intercompany Transactions section of this report; however, even after adjusting for the management fee, the overall operating expenses remain high. The Association should perform a thorough review and analysis of all operating expense items to determine any possible reductions or eliminations.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. However, the DIFP has not conducted any market conduct examinations of the Association.

REINSURANCE

As of the date of this report, MoDocs was not a party to any reinsurance agreements. The Association has inquired of various reinsurance intermediaries and brokers to assist it in investigating the reinsurance market and locating potential reinsurers. In May of 2006, the Association entered into an agreement, with Willis Re Inc. (Willis Re) authorizing Willis Re to act as a reinsurance intermediary on its behalf in the negotiation and procurement of reinsurance. However, to date, Willis Re has not presented any potential reinsurers to the Association, and per Association management, it appears Willis Re is no longer actively trying to procure reinsurance for MoDocs.

In December 2006, MoDocs designated MRC Reinsurance Services, LLC (MRC) as its reinsurance broker. MRC appears to be currently active in working on the Association's behalf and has presented the Association with some potential reinsurance options and reinsurance partners. However, MoDocs has determined the terms offered by these reinsurers would not be cost efficient, and therefore, has not obtained reinsurance coverage. MoDocs should continue to work with MRC or other reinsurance intermediaries/brokers in an effort to obtain reinsurance.

ACCOUNTS AND RECORDS

Independent Auditor

The CPA firm of John Gillum, CPA, LLC, of Kirksville, Missouri performed the Association's statutory audits for each of the years in the examination period.

Independent Actuary

The actuarial opinion certifying the Association's reserves as of December 31, 2006, was provided by J. Edward Costner, ACAS, MAAA of Casualty Actuarial Consultants, Inc. of Brentwood, Tennessee. The actuarial opinions certifying the Association's reserves as of December 31, 2005 and 2004 were provided by Russell L. Sutter, FCAS, MAAA of Towers Perrin - Tillinghast, of St. Louis, Missouri.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Missouri Doctors Mutual Insurance Company 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 Association and noted in the workpapers for each individual Annual Statement item.

Assets

	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 3,401,217	$ -	$ 3,401,217
Cash and short-term investments **(Note 1)**	242,474	-	242,474
Receivables for securities	101,500	-	101,500
Investment income due and accrued	38,690	-	38,690
Deferred premiums, agents' balances and installments booked but deferred and not yet due **(Note 2)**	916,938	-	916,938
Net deferred tax asset	138,174	138,174	-
Electronic data processing equipment and software	27,394	27,394	-
Furniture and equipment	107,721	107,721	-
Aggregate write-ins for other than invested assets			
Rent deposit	4,500	4,500	-
Total Assets	**$ 4,978,608**	**$ 277,789**	**$ 4,700,819**

Liabilities, Surplus and Other Funds

Losses	$ 2,303,731
Loss adjustment expenses	996,268
Other expenses **(Note 3)**	60,085
Taxes, licences and fees	583
Unearned premiums **(Note 4)**	1,799,630
Advance premiums	286,088
Payable to parent, subsidiaries and affiliates **(Note 5)**	16,112
Payable for securities **(Note 1)**	97,844
Total Liablities	**5,560,341**
Gross paid in and contributed surplus	300
Unassigned funds (surplus)	(859,822)
Total Liablities and Surplus	**$ 4,700,819**

Statement of Income

Premiums earned	$ 3,881,253
Losses incurred	66,294
Loss expenses incurred	722,088
Other underwriting expenses incurred	2,071,893
Total underwriting deductions	2,860,275
Net underwriting gain or (loss)	1,020,978
Net investment income earned	95,881
Net realized capital gains or (loss)	-
Net investment gain or (loss)	95,881
Other income	66,190
Net income before dividends and federal income taxes	1,183,049
Federal income taxes incurred	-
2006 Net income or (loss)	**$ 1,183,049**

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ (1,817,178)
Net income	$ 1,183,049	
Change in deferred income tax	85,047	
Change in nonadmitted assets	(58,205)	
Examination change	(252,235)	
Change in surplus as regards to policyholders		957,656
Surplus as regards policyholders, December 31, 2006		**$ (859,522)**

Notes to the Financial Statements

Note 1 – Cash and short-term investments **$242,473**
Payable for securities **$97,844**

The amount reported by the Association for Cash and short-term investments was increased by $98,455. The examination change included a reclassification of $97,844 to Payable for securities to properly account for an amount the Association reported as an outstanding withdraw from general ledger account #1235 for a security purchased prior to December 31, 2006, that was not actually paid for until January 2007. Per the NAIC Annual Statement Instructions, amounts that are due to brokers when a security has been purchased but not yet paid are to be reported on the Payable for securities, line 20, of the Annual Statement. The remaining increase was to account for various errors noted in the bank reconciliation prepared by the Association for general ledger account #1256. These errors are detailed in the DIFP management letter provided to the Association. The Association should ensure that amounts are properly reported and classified on the Annual Statement.

Note 2 – Deferred premiums, agents' balances and installments booked but deferred and not yet due **$916,938**

The amount reported by the Association for Deferred premiums, agents' balances and installments booked but deferred and not yet due was reduced by $62,609. The examination difference is primarily to non-admit deferred premium amounts in excess of the individual policy's unearned premiums. Per SSAP No. 6, (Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers) paragraph 9.b., if the bills receivable balance due exceeds the unearned premium on the policy for which the note was accepted, the amount in excess of the unearned premium shall be non-admitted. It was noted that the Association did not perform a comparison of individual policies' deferred premium to unearned premium, and therefore, did not non-admit the excess amounts as required by SSAP No. 6. The remaining decrease to the account was to correct for inaccuracies noted in the Association's premium detail. These inaccuracies are detailed in the DIFP management letter provided to the Association. The Association should ensure that a comparison of each individual policy's deferred premium to its unearned premium is performed and any excess deferred premium amounts are non-admitted in accordance with SSAP No. 6.

Note 3 – Other expenses **$60,085**

The amount reported by the Association for Other expenses was increased by $34,565 to properly accrue for expenses that were incurred prior to December 31, 2006; however, were not paid until 2007 and were also not included in the Association's year-end accruals. These items were noted in review of the Association's general ledger expense accounts for the first six months of 2007 and included audit and actuarial fees as well as various other items. The Association should ensure that incurred expenses are properly included in the Other expense amounts reported on the Annual Statement.

Note 4 – Unearned premiums **$1,799,630**

The amount reported by the Association for Unearned premiums was increased by $139,560 to correct various errors made by the Association in its calculation of the unearned premium reserve amount reported as summarized below:

1. Unearned premiums were not calculated utilizing either the daily or monthly pro rata method in accordance with the requirements of SSAP No. 53 (Property Casualty Contracts – Premiums), paragraph 7. MoDocs calculates unearned premiums assuming all policies are issued on the first of the month and earn one month of premium on the first of the month for every policy period in which they are effective. For examination purposes, unearned premiums were recalculated using the daily pro rata method, which resulted in a $79,330 increase to the unearned premium reserve.
2. Cancellations and other adjustments which resulted in a return of premium to policyholders were not properly reported. Per SSAP No. 53, paragraph 8, "additional premiums charged to policyholders for endorsements and changes in coverage under the contract shall be recorded on the effective date of the endorsement. This is done so that, at any point in time, a liability is accrued for unearned premium related to the unexpired portion of the policy endorsement." For examination purposes, cancellations and other adjustments per the Association's unearned premium database were adjusted to be in compliance with SSAP No. 53, which resulted in a $34,656 increase to the unearned premium reserve.
3. The Association's unearned premium detail contained various errors (both manual input and calculation errors). These errors are documented in detail in the DIFP management letter provided to the Association. Correction of these errors resulted in a $15,504 increase to the unearned premium reserve.
4. There was an unidentified variance of $10,091 between the unearned premium detail provided by MoDocs and the amount reported on the 2006 Annual Statement. This variance could not be identified because of unusual method MoDocs utilizes for calculating earned and unearned premiums. When premium is received, the entire premium is posted to the unearned premium general ledger account. At the end of each month, an entry is made to recognize premiums earned (decrease unearned premiums, increase earned premiums). Therefore, the balance of the unearned premium general ledger account is continually rolled forward. Any error recorded, either in the initial receipt of the premium or in the monthly recognition of earned premium, is then carried forward to subsequent months. As MoDocs does not have a procedure to perform a 'point-in-time' unearned premium reserve calculation, errors made are not discovered or removed.

MoDocs is directed to use either the daily or monthly pro rata method to calculate the unearned premium reserve, as required by SSAP No. 53. The Association is also directed to ensure that all cancellations and other adjustments are correctly recorded so that at any time, the unearned premium reserve for each individual policy is accurate. The unearned premium reserve should be calculated as of a point-in-time on all policies in effect as of the specific date. The underlying policy detail for the unearned premium reserve should be obtained from the Association's premium database to reduce manual input errors, and the Association should discontinue its current practice of rolling forward the unearned premium general ledger balance.

Note 5 – Payable to parent, subsidiaries and affiliates **$16,112**

An examination change was made to establish a liability in the amount of $16,112 for Payable to parent, subsidiaries and affiliates to properly accrue for amounts due by the Association to its affiliated service provider, Robert Martin, Ltd., under the Independent Management Agreement. The liability is comprised of an accrual of $9,622 for bonuses paid to the Sales Account Manager; an accrual of $3,849 for a portion of the IT Manager's salary that was earned in 2006, but not paid until 2007 and an accrual of $2,641 for hourly employee unused vacation. The Association should ensure that amounts due RML are properly accrued for and reported on the Annual Statement.

Examination Changes

Capital and surplus per company:

Gross paid in and contributed surplus		$ 300	
Unassigned funds (surplus)		(607,587)	
Total capital and surplus			**$ (607,287)**

	Increase In Surplus	Decrease In Surplus	
Assets			
Cash and short-term investments **(Note 1)**	$ 98,455		
Deferred premiums, agents' balances and installments booked but deferred and not yet due **(Note 2)**		(62,609)	
Liabilities			
General expenses **(Note 3)**		(34,565)	
Unearned premiums **(Note 4)**		(139,560)	
Payable to parent, subsidiaries or affiliates **(Note 5)**		(16,112)	
Payable for securities **(Note 1)**		(97,844)	
Net Change			**(252,235)**

Capital and surplus per examination:

Gross paid in and contributed surplus		$ 300	
Unassigned funds (surplus)		(859,822)	
Total capital and surplus			**$ (859,522)**

General Comments and/or Recommendations

Management (page 3)

Given the lack of insurance experience and the potential conflicts of interest of the current members of the Board of Directors, it is recommended that the Association increase the number of its directors and expand the make up of the Board of Directors to include other physician members of the Association and also individuals independent of the Association's daily operations.

Operating and Special Assessments (page 4)

It was noted that under the current assessment method, operating and special assessments will only be distributed to those members whose policy periods encompass the date that such an assessment is levied. Therefore, former members of the Association will not be liable for assessments that are declared subsequent to their membership in the Association. The failure to include former members in potential special and operating assessments diminishes the Association's ability to generate funds through such assessments, and could create an incentive for members to withdrawal from the Association should it appear that such assessments would be necessary. It is recommended that the Association consider amending its Articles of Association and Bylaws to include an option to allow for the assessment of former members based on the results for years in which they were policyholders. Such a method would more appropriately allocate operating and special assessments to members who actually incurred the related losses and would allow the Association a larger policyholder base upon which assessments could be levied.

Officer Salaries (page 5)

Pursuant to Article IV of the Association's Bylaws, the President of the Association shall set the compensation of all officers and employees except for his own which shall be set by the Board of Directors. Review and approval of the President's compensation was not documented in the minutes of the Board of Director's meetings for any of the years in the examination period. In addition, given the Association's limited number of directors and officers, there is a potential conflict of interest in having the Board of Directors set the compensation for the President who in turn sets the compensation for the officers who are members of the Board of Directors. The Association should ensure that the President's compensation is reviewed and approved by the Board of Directors on an annual basis and that such review and approval is documented in the meeting minutes of the Board of Directors. In addition, as the Association's officers are also members of the Board of Directors, the Association should consider the appointment of an independent committee for the establishment of officer salaries.

Independent Management Agreement (page 6)

The terms of the agreement and the transactions that have transpired under it do not appear reasonable nor do they appear to meet the standards of an arms-length transaction as defined in SSAP No. 25. The agreement does not clearly define the services that are to be provided by RML and MoDocs management was unable to provide examples of any specific services that were in fact being provided to MoDocs by RML. RML has no employees other than those for which it is fully reimbursed by MoDocs. In addition, other than some incidental corporate filing fees, RML has not incurred any other operating expenses of its own. Therefore, in its current form, RML appears to be little more than a pass-through entity that provides no actual services to MoDocs that would justify the 10% surcharge on expenses reimbursed by MoDocs to RML. Furthermore, the fact that the surcharge is currently based solely on expenses provides a disincentive for the management of MoDocs to reduce employee expenses, since as shareholders of RML, they directly benefit from the distributions they receive from RML of the surcharge amounts.

The agreement also does not include any provisions for allocation of expenses shared by MoDocs and RML. The accounting for RML is performed by an employee whose salary and benefits are fully reimbursed by MoDocs. In addition, RML is not allocated any overhead cost for rent or utilities paid by MoDocs.

The Association should amend the Independent Management Agreement to eliminate the 10% surcharge and the 25% of gross premium provisions, or alternatively, to more clearly define the services that will be provided to MoDocs by RML. In addition, provisions should be added for the allocation of shared costs to RML.

Related Parties Disclosures (page 8)

The Association did not disclose the affiliated agreements or transactions discussed on page 8 of this report in Note # 10 of the Notes to the Financial Statements as required by SSAP No. 25, Paragraph 18 and by the NAIC Annual Statement Instructions for any of the years under examination. The Association should ensure that the required disclosures are included in all subsequent statement filings.

Fidelity Bond and Other Insurance (page 8)

MoDocs does not have fidelity bond coverage nor does the Association have Directors' and Officers' insurance coverage. Per the guidelines of the NAIC, it is recommended that the Association have a minimum of $100,000 fidelity bond coverage based upon its total assets and annual income reported for the year ending December 31, 2006. The Association should obtain fidelity bond coverage in a minimum amount of $100,000 to be in compliance with the recommended NAIC levels of coverage and should obtain adequate Directors' and Officers' insurance coverage.

Policyholder Surplus (page 10)

The surplus in regards to policyholders reported by MoDocs on its December 31, 2006 Annual Statement was a negative $607,287. The negative surplus amount denotes that the Association did not have sufficient assets to cover its actual and estimated liabilities as of December 31, 2006. The shortfall in surplus (assets less liabilities) was in effect an additional liability to the Association's members, in that if the Association was unable to meet its future obligations, the Association's members would have to cover such obligations through operating or special assessments. It was noted the Association's subsequent operating results allowed it to report a positive surplus in regards to policyholders for the third quarter of 2007. The Association should continue to strive to maintain a positive surplus in regards to policyholders to avoid the creation of potential additional liabilities for its members.

Operating Expenses (page 10)

The Association's operating expenses appear to be excessive given its size and premium volume. The Association's expense ratio (gross written premiums divided by other operating expenses) for the year ending December 31, 2006 was 43.5%. Although this was an improvement from the prior year percentage of 58.6%, the ratio is still considered high compared to other medical malpractice providers. Part of the excessive operating expenses can be attributed to the management fee as discussed in the Intercompany Transactions section of this report; however, even after adjusting for the management fee, the overall operating expenses remain high. The Association should perform a thorough review and analysis of all operating expense items to determine any possible reductions or eliminations.

Reinsurance (page 11)

In December 2006, MoDocs designated MRC Reinsurance Services, LLC (MRC) as its reinsurance broker. MRC appears to be actively working on the Association's behalf and has presented the Association with some potential reinsurers. However, MoDocs has determined the terms offered by these reinsurers would not be cost efficient, and therefore, has not obtained reinsurance coverage. The Association should continue to work with MRC or other reinsurance intermediaries/brokers in an effort to obtain reinsurance.

Notes to the Financial Statements (pages 14 through 16)

The examination noted various instances where the Association improperly reported, valued and/or classified items on the Annual Statement. These exceptions are documented in five separate notes on pages 14 through 16 under the Notes to the Financial Statements section of this report. Each of these notes directs MoDocs to prepare the Annual Statement in accordance with NAIC Annual Statement Instructions and/or applicable SSAPs. The Associations should ensure that it implements these directives and that future Annual Statement filings are prepared in accordance with applicable standards and procedures.

SUBSEQUENT EVENTS

As indicated in the Acquisition of Business section of this report, effective August 24, 2007, the Association entered into an Agency Agreement with the Missouri State Medical Association Insurance Agency. It is anticipated that the agreement could have a significant impact upon the growth of the Association's membership; however, as of the date of this report the effect of the agreement could not be determined.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Doctors Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Leslie Nehring, CFE, and Angela Campbell, CFE examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration participated in this examination. The firm of Expert Actuarial Services, Inc. of Chesterfield, Missouri also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Mark Nance, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Missouri Doctors Mutual Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Mark Nance

Mark Nance, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 13th day of February, 2008.

My commission expires: 03-17-2008 Beverly M. Webb
Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires March 17, 2008

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.

Vicki L. Denton

Vicki L. Denton, CFE
Acting Audit Manager
Missouri Department of Insurance, Financial
Institutions and Professional Registration