DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Missouri Medical Malpractice Joint Underwriting Association for the period ended December 31, 2010

ORDER

After full consideration and review of the report of the financial examination of Missouri Medical Malpractice Joint Underwriting Association for the period ended December 31, 2010, 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, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Missouri Medical Malpractice Joint Underwriting Association as of December 31, 2010, be and is hereby ADOPTED as filed and for Missouri Medical Malpractice Joint Underwriting Association to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 26nd day of March 2012.

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

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

MISSOURI MEDICAL MALPRACTICE JOINT

UNDERWRITING ASSOCIATION

AS OF

DECEMBER 31, 2010

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND

PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Kansas City, Missouri
January 25, 2012

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 financial examination has been made of the records, affairs and financial condition of the:

Missouri Medical Malpractice Joint Underwriting Association

hereinafter referred to as such, as JUA, or as the Association. Its administrative office is located at 920 Main Street, Kansas City, Missouri 64105, telephone number (816) 460-7224. This examination began on July 25, 2011, and was completed on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope financial examination of the Association was made as of December 31, 2005, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope financial examination covered the period from January 1, 2006, through December 31, 2010, and was conducted by examiners from the State of Missouri.

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 (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 Handbook requires that the DIFP plan and perform the examination to evaluate the financial condition and identify prospective risks of the JUA by obtaining information about the Association including corporate governance, identifying and assessing inherent risks within the Association and evaluating system controls and procedures used to mitigate those risks.

This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the JUA were considered in accordance with the risk-focused examination process. However, due to the small size of the Association, a modified risk-focused approach, emphasizing aspects of the risk-focused approach and the traditional approach was utilized. With the risk-based approach, the examination completed procedures which require that the examination obtain an understanding of the Association's operations through review of financial analysis work, the Annual Statements for the years under examination, agency reviews and ratings where feasible, questionnaires completed by management, work of the independent auditors (CPAs) and interviews of appropriate levels of corporate management. With the traditional approach, the examination identified audit procedures to be performed for individual annual statement line items with calculated materiality determining the extent and nature of procedures to be performed.

The examiners relied upon information supplied by the JUA's independent auditor, KPMG LLP, of Kansas City, Missouri for its audits covering the period from January 1, 2010, through December 31, 2010. Information relied upon included cash and investment confirmations, tests of paid and open claims and documentation of review of fraud policies and programs, etc.

SUMMARY OF SIGNIFICANT FINDINGS

The JUA does not carry Fidelity Bond or any other insurance coverage. Pursuant to Section 9 of the Plan of Operation (Indemnification), the Association shall indemnify any member of the Board, any officer, claims adjuster, etc. who is threatened with legal action by reason that the person is acting within the scope of their employment or membership of the Association. This indemnification was also extended to the management company that performs the day-to-day operations of the JUA as it was noted in the underlying management company agreement. Although the Association has made these commitments, it does not have any insurance coverages to protect the assets of the Association in the event the underlying risks were to occur.

The examination is concerned about the direction of the business of the Association, especially in key areas such as the negative trend in written premium, decline in new policies and rise in the ratio of management fees paid to earned premium. Although these factors are significantly offset by positive loss development which has resulted in profitable underwriting and operational experience in recent years, these negative trends portend a potentially hazardous financial trajectory for the Association given that the current positive loss development could become adverse in the future and the fact that the nature of the insured loss is that of a low frequency and high severity where one or a few claims can negatively turn the fortunes of the Association.

SUBSEQUENT EVENTS

Effective March 11, 2011, the management services agreement with the management company, Hays Group, Inc., (dba) as Hays Companies, was extended for another three-year period ending December 31, 2015. All terms and provisions of the original agreement remain unchanged, including the compensation provisions. The management company is responsible for the day-to-day operation of the Association under the supervision and oversight of the Association's Board of Directors.

HISTORY

General

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

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

Capital Contribution

There were no capital or other equity contributions made as of December 31, 2010.

Dividends

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

Acquisitions, Mergers and Major Corporate Events

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

CORPORATE RECORDS

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

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

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

Pursuant to the Plan of Operation, the Board of Directors entered into a Servicing Company and Administration Agreement with The Hays Group, Inc., (dba) as The Hays Companies to maintain the JUA's accounts and records and administer the day-to-day operations of the JUA. The Hays Companies is an insurance and benefits management firm with headquarters in Minneapolis, Minnesota. The current agreement with The Hays Companies expires as of December 31, 2011, and has been extended for another three years by the Board of Directors. Additionally, the Board appointed the actuarial firm of Towers Watson of Weatogue, Connecticut to perform all actuarial duties on behalf of the JUA.

MANAGEMENT AND CONTROL

Board of Directors

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

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

The individuals appointed and serving on the Board of Directors along with the group represented, as of December 31, 2010, were as follows:

Name	Address	Principal Occupation and Business Affiliation
Dennis Smith@	Columbia, MO	Retired Insurance Executive (MIC)
Donald Ainsworth	St. Louis, MO	Senior VP of Governmental Relations, Safety National Casualty Corporation (MIC)
David Monaghan	Jefferson City, MO	Governmental Affairs Counsel, American Family Insurance Company (PCIAA)
Joseph Sullivan	Chicago, IL	Senior VP of Healthcare Group, Zurich (AIA)
Kathleen Becker	St. Louis, MO	Counsel's Office, St. Louis University (PCIAA)
Collin Suttie	Chesterfield, MO	Senior VP, Underwriting, Berkley Medical Excess Underwriters (AIA)
Craig Kjellberg*	Columbia, MO	Team Manager of Auto Central, State Farm Insurance Company (Unaffiliated)
Open Seat**		

* Replaced by Amy K. Bonsall effective May 26, 2011(Unaffiliated) in 2011.

** Paul Blume resigned from the Board in 2010; the seat is still open as of the time of this report for a member representing the MIC group.

@ Dennis Smith became a representative of the (Unaffiliated group) in 2011 following his retirement from Missouri Employers Mutual Insurance Company.

Committees

The Plan of Operations allows for the appointment of specific committees by the Board to assist in the administration of the JUA. The established committees and the members elected and serving as of December 31, 2010, were as follows:

Executive Committee	Claims Committee
Dennis Smith	Dennis Smith
David Monaghan	David Monaghan
Kathleen Becker	Kathleen Becker

Officers

The officers elected by the Board of Directors and serving as of December 31, 2010, were as follows:

Officer	Elected Position
Dennis Smith	Chairman of the Board
David Monaghan	Secretary

The Administrator of the Association is Andrew Teigen, a Senior Vice President with The Hays Companies, the management services company of the JUA.

Holding Company, Subsidiaries and Affiliates

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

FIDELITY BOND AND OTHER INSURANCE

The JUA does not carry Fidelity Bond or any other insurance coverage. Pursuant to Section 9 of the Plan of Operation (Indemnification), the Association shall indemnify any member of the Board, any officer, claims adjuster, etc. who is threatened with legal action by reason that the person is acting within the scope of their employment or membership of the Association. This indemnification was also extended to the management company that performs the day-to-day operations of the JUA as it was noted in the underlying management company agreement. Although the Association has made these commitments, it does not have any insurance coverages to protect the assets of the Association in the event the underlying risks were to occur.

The Association's management service provider, The Hays Group, Inc., maintains employee crime insurance coverage with a liability limit of $25 million and $100,000 deductible.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Association does not have any employees. The administration of its business operations is performed by The Hays Group, Inc., pursuant to a management services agreement. The total annual expenses recorded for this service during **each** of the years ended December 31, 2010 and 2009 was $335,000, respectively.

TERRITORY AND PLAN OF OPERATION

The Missouri Medical Malpractice Joint Underwriting Association was established to provide medical professional liability insurance that is not otherwise reasonably available in the voluntary market under Missouri law at Chapter 383, and began issuing policies effective June 2004.

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

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

The Association provides occurrence-based professional liability insurance policies to providers which have limits of $1,000,000 per incident and $3,000,000 per policy year. "Prior acts" or "tail policies" are available also to help protect policyholders against exposure to previous claims made on former policies.

First time JUA policyholders are required to pay an additional first year surcharge which is equal to their first year premium. Effective December 12, 2006, for quotes for new insureds, the full amount of the additional first year charge will be due and payable at binding. The additional first year charge may be paid using the JUA's installment plan.

The premium payment installment plan requires a deposit of 40% of the annual premium at binding with 30% due within 60 days of the effective date and the remaining 30% due within 120 days of the effective date. A non-refundable service fee equal to 2.5% of the total financed premium is due at binding, along with the deposit. It should be noted that the JUA's premium installment plan is not available for payment of prior acts coverages and mid-term endorsements.

According to the enabling Missouri statute, the Association is assessable to the casualty insurance companies licensed to write business in the state. It is, therefore, not assessable to its policy holders, and is also not subject to the protection of the Missouri Guaranty Fund.

GROWTH AND LOSS EXPERIENCE

During the current examination period, total assets grew from $5.0 million as of December 31, 2005 to $8.3 million at year end 2010. During this same period, capital and surplus also increased from ($2.7) million to $3.0 million.

Total premium income decreased during the examination period from $3.4 million at year-end 2005 to $687,000 as of the examination date.

The JUA reported an operating gain of 148.7% at year-end 2010, an increase from 84.1% in the prior year. The overall profitability ratio fluctuated during the latest five-year period from a high of 149% in 2010 to a low of (3.0%) in 2006. The Association reported net income in four of the five years under examination.

The Association reported a total benefits and expenses paid/premium ratio of (71%) at year-end 2010, a decrease from (3%) in the prior year. Over the latest five-year period, this ratio fluctuated from 111% in 2006 to (71%) in 2010.

The data below reflects the Association's operating results and activities during the period under examination as follows:

Description	2010	2009	2008	2007	2006
Written Premium	**$380,847**	**$1,210,300**	**$2,075,500**	**$3,534,332**	**$4,199,102**
Policies In-Force:					
Physicians and Providers	5	8	6	10	12
Nursing Homes	12	24	40	47	59
Total	**17**	**32**	**46**	**57**	**71**
New Policies	0	3	2	1	11
Cancelled/Non-Renewed	15	20	11	14	11
Admitted Assets	$8,250,191	$11,106,775	$10,514,174	$9,311,725	$6,439,185
Surplus	3,033,319	2,062,064	1,580,882	(129,239)	(2,606,841)
Loss & LAE Reserves	4,972,470	6,640,057	7,844,141	7,355,286	6,582,415
Losses & LAE Paid	644,357	468,012	1,286,515	1,488,979	2,780,709
New Claims	6	4	12	7	NA
Open Claims	11	12	18	14	14
Closed Claims	7	10	8	7	NA
Management Fees Paid	335,0000	335,000	335,000	687,670	799,100
Management Fees/ Earned Premium	**88.0%**	**27.7%**	**16.1%**	**19.5%**	**19.0%**
Net Underwriting Gain or (Loss)	1,174,252	1,674,075	670,365	1,076,454	(405,724)
Net Income or (Loss)	**$1,021,394**	**$1,365,395**	**$944,800**	**$1,477,702**	**($105,650)**

The examination is concerned about the direction of the business of the Association, especially in key areas such as the negative trend in written premium, decline in new policies and rise in the ratio of management fees paid to earned premium. Although these factors are significantly offset by positive loss development which has resulted in profitable underwriting and operational experience in recent years, these negative trends portend a potentially hazardous financial trajectory for the Association given that the current positive loss development could become adverse in the future and the fact that the nature of the insured loss is that of a low frequency and high severity where one or a few claims can negatively turn the fortunes of the Association.

REINSURANCE

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

STATUTORY DEPOSITS

The Association is not required to deposit funds with the Missouri Department of Insurance, Financial Institution and Professional Registration or with any other jurisdiction.

ACCOUNTS AND RECORDS

Independent Auditor

The CPA firm, BKD, LLP, of Kansas City, Missouri, issued the audited statutory financial statements of the Association for the years 2008, 2007 and 2006.

Following a change in auditors, the CPA firm, KPMG, LLP, of Kansas City, Missouri, issued the audited statutory financial statements for the years 2010 and 2009.

Appointed Actuary

Loss Reserves and related actuarial items for the period January 1, 2006 to December 31, 2010, were reviewed and certified by Scott H. Dodge, FCAS, MAAA. Mr. Dodge is associated with the consulting actuarial firm Towers Watson (formerly Tillinghast Towers Perrin) of Weatogue, Connecticut.

Information System

In conjunction with this examination, Timothy Carroll, Information Systems Financial Examiner with the DIFP, conducted a review of the Association's information system.

The Association's primary information processing system consisted of a single PC-based desktop model running on Microsoft Windows XP Professional. General ledger and other financial reporting activities are performed with accounting software from Peachtree.

Microsoft Word and Excel are used to process claims manually and perform claims reporting. There are no data links between the Microsoft applications and the Peachtree financial application because the data volume is very small.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the JUA for the period ending December 31, 2010. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on 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 "Comments on 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

	Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$5,790,409		$5,790,409
Cash and Short-term Investments	2,304,865		2,304,865
Investment Income Due and Accrued	23,219		23,219
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and not yet Due	8,415		8,415
Current Federal Income Tax Recoverable	14,287		14,287
Net Deferred Tax Asset	217,823	$139,350	78,473
Other Amounts Receivable	30,523	0	30,523
TOTAL ASSETS	**$8,389,541**	**$139,350**	**$8,250,191**

Liabilities, Surplus and Other Funds

Losses	$4,767,291
Loss Adjustment Expenses	205,179
Contingent Commissions and Commissions Payable	2,880
Other Expenses	73,000
Unearned Premiums	129,016
Advance Premium	39,506
TOTAL LIABILITIES	**$5,216,872**
Common Capital Stock	0
Gross Paid in and Contributed Surplus	3,854,239
Unassigned Funds (Surplus)	(820,920)
Surplus As Regards Policyholders	**$3,033,319**
TOTAL LIABILITIES AND SURPLUS	**$8,250,191**

Summary of Operations

Underwriting Income

Premiums Earned	**$686,950**
Losses Incurred	(1,204,645)
Loss Adjustment Expenses Incurred	181,415
Other Underwriting Expenses Incurred	535,928
Total Underwriting Deductions	**($487,302)**
Net Underwriting Gain/(Loss)	**$1,174,252**

Investment Income

Net Investment Income Earned	$229,127
Net Realized Capital Gains or (Losses)	0
Net Investment Gain or (Loss)	**$229,127**

Other Income

Finance and Service Charges	$2,015
Miscellaneous Other Income	0
Total Other Income	**$2,015**
Net Income Before Dividends to Policyholders and Federal Income Taxes	$1,405,394
Federal and Foreign Income Taxes Incurred	384,000
Net Income or (Loss)	**$1,021,394**

Capital and Surplus Account

Capital and Surplus, December 31, 2009	$2,062,064
Net Income or (Loss)	1,021,394
Change in Deferred Tax Asset	(105,170)
Change in Nonadmitted Assets	55,032
Change in Surplus Notes	(32,718)
Surplus Paid-in	32,717
Net Change in Capital and Surplus	**$971,255**
CAPITAL AND SURPLUS, DECEMBER 31, 2010	**$3,033,319**

CHANGES IN FINANCIAL STATEMENTS RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENTS

None

SUMMARY OF RECOMMENDATIONS

Fidelity Bond and Other Insurance (Page 6)

The Association should obtain a fidelity crime policy and directors and officers liability insurance coverage to protect the Association in the event the underlying indemnified risks were to occur.

Growth and Loss Experience (Pages 9)

The Association's business volume has significantly declined over the last five years and it is the examination's position that the Association should implement remediation action steps to reverse the current trend in order to assure its viability as a going concern. To this effect, the Association is advised to implement the following:

- Revise the management company services agreement so that total annual fees paid reflect achievement of key indicators. The compensation section of the agreement should contemplate a combination of a minimum monthly flat fee and a graduated additional compensation that is directly tied to the key indicators achieved. This will ensure that the management company's goals are properly aligned with those of the Association.
- Review all other arrangements and contracts with third-party providers such as CPAs, lawyers, etc and ensure that fees paid are in line with other insurers the size of the Association.
- To obtain the best service at the most reasonable cost, utilize the bid process via the Request For Proposal when seeking for a new service provider or when a current service agreement expires and an extension is contemplated.
- Institute strategic operational initiatives necessary to enhance the viability of the Association as a market of last resort, such as expand product offerings, revise pricing structure, and amend underwriting and other policy issuance requirements as the law may allow.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Medical Malpractice Joint Underwriting Association during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Timothy Carroll, Information System Examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, 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 the Association, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Levi N. Nwasoria, CPA, MSA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 29th day of December, 2011.

My commission expires: 04/14/2012

Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
County of Clay
My Commission Expires 4/14/2012
Commission # 08464070

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.

Mark Nance, CPA, CFE
Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration

LEVY and CRAIG
a professional corporation

David W. Howard
Kansas City Office
Direct Dial (816) 460-1830
dhoward@levycraig.com

March 15, 2012

VIA OVERNIGHT EXPRESS MAIL
Mr. Frederick G. Heese
Chief Financial Examiner and Division Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65102-0690

RECEIVED
MAR 16 2012
MO. DEPT OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

Re: Financial Examination of the Missouri Medical Malpractice Joint Underwriting Association

Dear Mr. Heese:

We represent the Missouri Medical Malpractice Joint Underwriting Association ("Association" or "JUA"), and on its behalf please accept this letter as the response to the recently prepared Financial Examination Report regarding the Association.

This response relates to the Summary of Recommendations found on pages 14 and 15 of the Report.

With respect to coverages regarding potential liabilities of Board members and those performing the day-to-day operations of the Association, the Board on its own came to the same conclusion as that noted in the Report. The Board is presently obtaining quotes for errors and omissions coverage and directors' and officers' coverage and intends to institute such coverages.

The Association understands some of the financial concerns expressed in the Report but wishes to point out a number of relevant considerations impacting the Association. These must be taken into account when examining its financial affairs.

Because of its unique place in the market and its statutory charge to be an insurance source of "last resort", the financial fortunes of the Association are directly tied, in an inverse manner, to the broader financial health of the private casualty insurance market. In other words, as market pressures on price ease for the private market and healthcare providers are able to obtain coverage at more reasonable rates in the private market, the demand for the Association's policies is diminished.

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Kansas City, MO 64106
816·474·8181
FAX 816·471·2186

4770 N Belleview, Ste 206
Gladstone, MO 64116
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6330 Lamar Ave, Ste 220
Overland Park, KS 66202
913·831·6900
FAX 913·831·7156

RECEIVED
MAR 16 2012
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Because the Association was created by statute to meet a specific need, it must abide by various statutory requirements and prohibitions which, by their nature, inhibit its ability to be more financially successful. For instance, because the Association is a market of last resort, it is not permitted to market its products and services as a typical carrier would do to compete. Similarly, the Association is required, by statute, to charge a surcharge of 100% of the first-year premium. This extra financial burden on a new provider assures that the Association will get no business other than from those most desperate to find coverage. Further, the Association is required, by statute, to sell only "occurrence" based coverage, and thus is precluded from the "claims made" market, thereby further diminishing its attractiveness to customers. However, as one of its strategic initiatives moving forward, the Association intends to pursue authority to sell claims made coverage, through legislative change or otherwise, but in the meantime it is limited in what it is permitted to sell.

The Board Members believe it is essential to receive high quality services at competitive prices, not only from the servicing company, but also from its accountants, attorneys and all other vendors, and all such services and costs are carefully scrutinized by the Board. Quality work is expected regardless of the manner in which a particular vendor is selected. The Board Members of the Association, being experienced representatives in the insurance industry, have been aware of the many changes impacting the industry generally and the Association specifically, and considered those changes and other factors in connection with their selection of various vendors, during executive sessions. During such sessions, the Board has considered a formal Request for Proposal process, and would utilize this process in the future should it deem such process appropriate. The experienced members of the Board understand that in the dynamic and fluid environment of the insurance industry, it may not be possible to establish rigid, fixed guidelines related to financial performance, particularly related to an insurance source of last resort. What is needed is solid experience and overall performance over time in the industry.

If you have questions regarding this response, please advise.

Very truly yours,

LEVY AND CRAIG
A Professional Corporation

David W. Howard

David W. Howard

DWH/crh

cc: Dennis Smith, Chairman
Andrew J. Teigen, Hays Companies

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