

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Physicians Professional Indemnity Association for the period ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Physicians Professional Indemnity Association for the period ended December 31, 2012, 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 Physicians Professional Indemnity Association as of December 31, 2012, be and is hereby ADOPTED as filed and for Physicians Professional Indemnity 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 6th day of September, 2013.



Handwritten signature of John M. Huff.

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

REPORT OF
FINANCIAL EXAMINATION

Physicians Professional Indemnity Association

FILED
SEP 16 2013
DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

As of:
DECEMBER 31, 2012



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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July 31, 2013
Union, MO

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

Physicians Professional Indemnity Association

hereinafter referred to as "PPIA" or as the "Company." The Company's main office is located at 203 East Main Street, Suite A; Union, MO 63084; telephone number (636) 583-9888. Examination fieldwork began on March 11, 2013 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

Examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration ("Department") have performed a single-state examination of Physicians Professional Indemnity Association. The last examination was completed as of December 31, 2008. This examination covers the period of January 1, 2009 through December 31, 2012. This examination also included material transactions or events occurring subsequent to December 31, 2012.

Procedures

This examination was conducted as a full scope comprehensive examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory

Mergers and Acquisitions

These activities are discussed below in the Holding Company, Subsidiaries and Affiliates section of this report.

CORPORATE RECORDS

Corporate Documents

The Articles of Association and the Bylaws were reviewed. Two amendments have been made to the Bylaws since the previous examination. First, the Bylaws were amended to reflect the change in office location from Jefferson City, Missouri to Union, Missouri. Second, the Bylaws section pertaining to the election of directors was modified to reflect the same requirements found in the Articles of Association.

Meeting Minutes

The minutes from the annual member meetings and the Board of Directors meetings were reviewed for the current examination period. Those minutes adequately documented the deliberations of those meetings.

MANAGEMENT AND CONTROL

Board of Directors

Directors serving as of December 31, 2012 were:

Carrie L. Carda, MD Poplar Bluff, MO	Robert L. Hall, MD Poplar Bluff, MO
Warren K. Miller, CPA Millersville, MO	William F. Marr, Health Care Administrator Bolivar, MO
Randall E. Mueller, MD Rocheport, MO	Carl F. Patty, MD Poplar Bluff, MO
John R. Patty, DO Poplar Bluff, MO	Karl L. Stark, MD Parkville, MO
Benny E. Thomas, DO Four Seasons, MO	Kevin L. Threlkeld, MD Brentwood, MO
Mark S. Vincent, JD Union, MO	Benjamin W. Verdine, MD Washington, MO

Officers

The officers appointed and serving as of December 31, 2012 were:

<u>Name</u>	<u>Office</u>
Carrie L. Carda, MD	President

Robert L. Hall, MD	Vice President
Jonathan L. Downard, JD	Executive Vice President
Kevin L. Threlkeld, MD	Secretary
Carl F. Patty MD	Treasurer

Committees

The Board of Directors has the following committees with listed duties:

- Budget Committee – review and approved the annual budget, review and approve budget to actual comparisons, amend and approve annual budgets as necessary, present approved budgets to the entire Board of Directors. Members of the budget committee as of December 31, 2012:

Warren K. Miller, CPA (Committee Chairman)
Robert L. Hall, MD
Carl F. Patty, MD
Carrie L. Carda, MD
Kevin L. Threlkeld, MD
Jonathan L. Downard, JD

- Claims and Settlement Committee - review, monitor and approve all claims, litigation, direction of litigation and provide settlement authority. Members of the claims and settlement committee as of December 31, 2012:

Benny E. Thomas, MD (Committee Chairman)
Robert L. Hall, MD
Carrie L. Carda, MD
Randall E. Mueller, MD
Mark S. Vincent, JD
Karl L. Stark, MD
Benjamin W. Verdine, MD
Jonathan L. Downard, JD

- Political Action Committee (PAC Committee) – Make recommendations for allocation of funds in the PAC accounts to the Board of Directors. Members of the political action committee as of December 31, 2012:

Carl F. Patty, MD (Committee Chairman)
Warren K. Miller, CPA
Robert L. Hall, MD
Jonathan L. Downard, JD
Mark S. Vincent, JD
Kevin L. Threlkeld, MD

- Investment Committee – Monitor current investments and make recommendations to the Board of Directors on investment changes. Members of the investment committee as of December 31, 2012:

Randall E. Mueller, MD (Committee Chairman)
Carl F. Patty, MD

William F. Marr, Health Care Administrator
Kevin L. Threlkeld, MD
Jonathan L. Downard, JD

Conflict of Interest

Conflict of interest disclosure statements are executed annually by all Board members and company officers. A review of the conflict of interest disclosure statements for the period under current examination indicated no material conflicts.

Holding Company, Subsidiaries, and Affiliates

PPIA is not subject to Chapter 382 RSMO and is therefore not required to file annual insurance holding company system registration statements (Form B and Form C) and is not subject to Form D filings.

As of December 31, 2012, the Company owned an interest in one subsidiary, Physicians Holding Company of Utah ("PHC-Utah"). PHC-Utah, formed in 2011, owns 100% of Physicians Insurance, Inc. ("PII"), formerly known as PIPCO SPC. At its formation, the owners of PHC-Utah were PPIA with a 20% interest, Radiology Investment Group, LLC with a 20% interest, and PFHC Medical Management, LLC ("PFHC") with a 60% interest.

During 2012, Patients First Health Care LLC, an affiliate of PFHC, was acquired by another provider group and was no longer insured by PPIA. As a result, PFHC's interest in PHC-Utah was surrendered back to that company as treasury stock. Currently, PPIA and Radiology Investment Group, LLC each own 50% of the remaining stock of PHC-Utah.

The Company did not show the investment in Physicians Holding Company of Utah in the balance sheet in the December 31, 2012 Annual Statement. That investment was not shown in Schedule D, Part 2, Section 2 or in the Notes to Financial Statements, Note 10. Information Concerning Parent, Subsidiaries and Affiliates.

The following agreements were in effect with related parties at December 31, 2012:

Administrative Agreement:

Parties: PPIA and Corporate Insurance Services, LLC ("CIS")

Effective: May 26, 2005

Services: CIS provides management, administrative, underwriting and other services to PPIA.

Rates: CIS is paid 10% of the first \$3 million of annual gross premium, 8% of the next \$2 million annual gross premium, and 6% of annual gross premiums in excess of \$5 million.

Reinsurance Agreement:

accounting principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key activities were: Investment and Cash Management, Underwriting and Premiums, Claims and Reserving, and Reinsurance.

The examiners reviewed audits conducted by the Company's independent auditor, Seaver & Forck, LLC. The audit for 2012 had not been finalized as of the beginning of the onsite work for this examination and there were no issues raised as a result of the audit for 2011.

SUMMARY OF SIGNIFICANT FINDINGS

The Company experienced a net loss for 2012 but was able to effectively control expenses and maintain surplus. The underwriting loss in 2012 was not completely offset by investment gains and other income as it had been in previous years.

The Company did not fully complete the 2012 Annual Statement. Additional disclosures were needed to identify its subsidiary investment and in completion of Schedule P.

SUBSEQUENT EVENTS

The Company closed its office in Jefferson City and moved the remaining operations to its present location in Union, Missouri in March, 2013.

COMPANY HISTORY

General

Physicians Professional Indemnity Association was issued a Certificate of Authority on May 15, 2003 pursuant to Chapter 383 RSMo as an assessable medical malpractice company.

Capital Stock

The Company operates under provisions of Chapter 383 RSMo and is not authorized to issue capital stock. The Company is not required to meet minimum surplus levels, although at December 31, 2012, the Company had over \$1.6 million in surplus.

Dividends

The Company has paid no dividends to members since its inception.

Parties: PPIA and PII

Effective: January 1, 2012 through December 31, 2012 (retroactive back to May 15, 2003 for any loss occurrence filed on or after January 1, 2012)

Services: PII provides reinsurance coverage to PPIA on an excess of loss basis in the amount of \$600,000 excess of \$400,000 retention. The maximum recoverable by PPIA will not exceed 200% of the total adjusted premium paid.

Rates: The premium rate for the contract is 22% of gross net earned annualized premiums.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a commercial crime policy that covers losses resulting from dishonest or fraudulent acts of employees. The policy has a liability limit of \$175,000 with a \$250 deductible, which meets the minimum coverage recommended by the NAIC. The Company also has an insurance policy that provides coverage for the following risks: business personal property, loss of income, business liability and medical payments.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's officers receive a monthly salary. The Company's daily business operations are performed by the employees of Corporate Insurance Services, LLC, an entity owned by Jonathan Downard and based in Union, Missouri. Benefits provided to CIS employees are indirectly paid by PPIA through the payment of fees, pursuant to the Administrative Agreement.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a medical malpractice insurer by the Department under Chapter 383 RSMo (Malpractice Insurance). PPIA is not licensed in any other states. The Company's only line of business is medical malpractice written on a claims-made reporting basis. During 2012, PPIA was the sixth largest writer of medical malpractice insurance for physicians in the state of Missouri. As of the December 31, 2012, the Company had 307 policies in-force insuring 680 physicians.

The Company has several options for policy limits that members may choose, which range from as low as \$100,000 of coverage per claim up to a maximum of \$1,000,000 of coverage. Other policy options are available including extended reporting endorsements. A physician may purchase extended reporting coverage that will cover claims reported after the expiration, termination, or cancellation of a policy. Any physician insured by

PPIA for a minimum of three years automatically receives extended reporting coverage in the event that the physician becomes disabled, dies, or retires.

The Company uses multiple agencies to produce business. The largest agency is the Missouri State Medical Association Insurance Agency, which accounted for half of the total commissions paid by PPIA.

GROWTH OF COMPANY

The Company experienced a decline in premium writings over the past few years, particularly during 2012. This was attributed to new entrants into the Missouri market leading to increasing competitive pressure, as well as the loss of a single large group in 2012. The following table illustrates the decline in premiums written and the related underwriting expenses.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Direct written premiums	\$7,174,481	\$7,323,225	\$7,014,637	\$5,826,081
Other underwriting expenses incurred	\$1,816,151	\$1,882,308	\$1,924,970	\$1,603,589
Expenses as a percentage of premium	25.3%	25.7%	27.4%	27.5%

Despite the decline in premium writings, the Company has been able to maintain expenses at an acceptable level.

LOSS EXPERIENCE

Patrick Glenn, ACAS, MAAA, from the actuarial consulting firm, Lewis & Ellis, Inc. was retained by the Department to evaluate the Company's loss and loss related reserves. His evaluation reached the following conclusions regarding those reserves:

- The Company's overall reserves are within a reasonable range of results.
- Lewis & Ellis, Inc.'s independent estimate of direct reserves concluded that the range of direct loss and loss adjustment expense reserves was \$8,972,000 to \$11,697,000, with a central estimate of \$10,210,000. The direct reserves reported in PPIA's 2012 Annual Statement were within the range of reasonable results.
- Lewis & Ellis, Inc.'s independent estimate of net reserves concluded that the range of net loss and loss adjustment expense reserves was \$7,485,000 to \$9,741,000, with a central estimate of \$8,510,000. The net reserves reported in PPIA's 2012 Annual Statement were within the range of reasonable results.

- Reserves are consistent with amounts computed in accordance with the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and relevant standards of practice promulgated by the Actuarial Standards Board.
- Reserves meet the requirements of the insurance laws of Missouri.
- Reserves make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements.

The Company did not complete all schedules in Schedule P – Analysis of Losses and Loss Expenses in the December 31, 2012 Annual Statement. Specifically, cumulative paid net losses through 2008 were omitted in Schedule P – Part 3 – Summary. Also, columns 11 and 12 did not contain figures for closed claims.

REINSURANCE

General

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Direct Business	\$7,174,481	\$7,323,225	\$7,014,637	\$5,826,081
Reinsurance Assumed	0	0	0	0
Reinsurance Ceded:				
Affiliates	<u>(1,598,329)</u>	<u>(1,757,891)</u>	<u>(1,632,604)</u>	<u>(1,401,585)</u>
Net Premiums Written	<u>\$5,576,152</u>	<u>\$5,565,334</u>	<u>\$5,382,033</u>	<u>\$4,424,496</u>

Assumed

The Company does not assume any business.

Ceded

The Company had one reinsurance agreement in effect, as of December 31, 2012, with Physicians Insurance, Inc. (PII), formerly known as PIPCO-SPC (PIPICO). This agreement covers the period from January 1, 2012 to December 31, 2012. PPIA cedes all losses in excess of a \$400,000 retention. The retention of \$400,000 plus the excess reinsurance coverage of \$600,000 per claim equals the maximum \$1,000,000 limit of insurance for policies issued by PPIA. The agreement also has an aggregate limit of liability for PII that cannot exceed 200% of total adjusted premiums ceded by PPIA during the duration of the agreement. The reinsurance premium was 22% of PPIA's total earned premiums for the 2012 period.

PPIA is a captive reinsurer in the state of Utah and not an authorized reinsurer in Missouri. PPIA requires a trust agreement with PII in order to receive the credit for reinsurance. PPIA is the beneficiary in this agreement, with PII as the grantor, and the Bank of Washington serving as the trustee. Funds totaling \$2.5 million as of December 31, 2012, existed in the PII trust account and would be available for PPIA to withdraw in the event that PII could not meet its obligations under the reinsurance agreement. PII is in the process of updating the trust agreement to reflect the recent name change from PIPCO-SPC to Physicians Insurance, Inc.

A consultant hired by the Department determined that the reinsurance agreement with PII contains sufficient risk transfer, as defined in SSAP No. 62 (Property and Casualty Reinsurance).

ACCOUNTS AND RECORDS

General

PPIA contracts with Corporate Insurance Services, LLC (CIS) for all day-to-day operations of the company. CIS purchases user licenses for a policy management database called DORIS which is owned by Applied Systems. This program is used for policy tracking, preparation, and maintenance. Nearly all of the underwriting forms are customized and stored in this system. DORIS is an internet based program using remote desktop connections.

All accounting support/backup workbooks and the remainder of the underwriting information are prepared in Microsoft Excel spreadsheets. All sensitive accounting information is restricted by password to CIS accounting personnel. The accounting information is entered and maintained in Sage 50. The Sage 50 information and the Excel files are backed up to an onsite server daily and to an external hard drive weekly and stored offsite in a secure location.

Independent Auditor

The Company is audited by the accounting firm of Seaver & Forck, LLC.

Independent Actuaries

Reserves and related actuarial items reported in the financial statements were certified by Steven J. Regnier, ACAS, MAAA, FCCA of Regnier Consulting Group, Inc.

Consulting actuaries, Patrick Glenn, ACAS, MAAA and Gregory Wilson, FCAS, MAAA, with the actuarial firm of Lewis & Ellis, Inc., were retained by the Department to review the adequacy of reserves and other related liabilities and to evaluate the risk transfer in the reinsurance contract. Their reports concluded that the Company's reserves, as of the examination date, were adequate and the reinsurance contract transfers risk.

Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. No issues were identified in the examination.

STATUTORY DEPOSITS

The Company is not required to maintain any statutory deposits.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2012, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements," which follow the financial statements.

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 in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

BALANCE SHEET
As of December 31, 2012

Line	Assets	Nonadmitted Assets	Net Admitted Assets Current Year
Bonds	\$9,246,937	\$0	\$9,246,937
Common stocks	247,859	1	247,858
Cash, cash equivalents and short-term investments	1,695,439	0	1,695,439
Investment income due and accrued	97,473	0	97,473
Uncollected premiums	105,273	0	105,273
Deferred premiums	1,608,936	29,579	1,579,357
Other amounts receivable under reinsurance contracts	15,415	0	15,415
Net deferred tax asset	437,284	437,284	0
Furniture and equipment	791	791	0
Aggregate write-ins for other than invested assets - security deposit	<u>1,500</u>	<u>1,500</u>	<u>0</u>
Totals	\$13,456,907	\$469,155	<u>\$12,987,752</u>
Losses			5,752,228
Loss adjustment expenses			2,616,416
Commissions payable			23,446
Other expenses			1,926
Taxes, licenses and fees			653
Unearned premiums			2,758,134
Advance premium			122,647
Amounts withheld or retained by company for account of others			1,255
Aggregate write-ins for liabilities - unearned finance charges			<u>89,690</u>
Total liabilities			11,366,395
Unassigned funds (surplus)			<u>1,621,357</u>
Surplus as regards policyholders			<u>1,621,357</u>
Totals			<u>\$12,987,752</u>

INCOME STATEMENT
For Year Ending December 31, 2012

Premiums earned	\$5,023,613
Losses incurred	1,524,806
Loss adjustment expenses incurred	2,542,431
Other underwriting expenses incurred	1,603,589
Total underwriting deductions	<u>5,670,826</u>
Net underwriting gain (loss)	(647,213)
Net investment income earned	343,310
Net realized capital gains (losses)	53,062
Net investment gain (loss)	<u>396,372</u>
Finance charges not included in premiums	215,593
Aggregate write-ins for miscellaneous income	155
Total other income	<u>215,748</u>
Net income before federal income taxes	(35,093)
Federal and foreign income taxes incurred	<u>(29,920)</u>
Net income	<u>(\$5,173)</u>

RECONCILIATION OF SURPLUS
Changes from December 31, 2008 to December 31, 2012

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Policyholder surplus, December 31 prior year	\$963,385	\$1,756,717	\$1,794,498	\$1,575,917	\$1,601,258
Net income	938,988	165,944	92,250	98,208	(5,173)
Change in net unrealized capital gains or (losses)	0	0	(29,363)	(32,505)	83,617
Change in net deferred income tax	(80,881)	(30,650)	60,662	(91,428)	(106,765)
Change in nonadmitted assets	(64,775)	(97,513)	(342,130)	51,066	48,417
Change in surplus per examination	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in policyholder surplus for the year	<u>793,332</u>	<u>37,781</u>	<u>(218,581)</u>	<u>25,341</u>	<u>20,096</u>
Policyholder surplus, December 31 current year	<u>\$1,756,717</u>	<u>\$1,794,498</u>	<u>\$1,575,917</u>	<u>\$1,601,258</u>	<u>\$1,621,354</u>

EXAMINATION CHANGES

There are no changes in the financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

Holding Company, Subsidiaries and Affiliates, Page 5

The Company should disclose its ownership interest in Physicians Holding Company of Utah in the balance sheet, Schedule D, Part 2, Section 2 and in Note 10 of the Notes to Financial Statements in the Annual Statement.

Loss Experience, Page 8

The Company should complete Schedule P – Part 3 – Summary by including cumulative paid data through 2008. Also, the Company should disclose the number of claims closed with loss payment in column 11 and the number of claims closed without loss payment in column 12.

