



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Physicians Insurance Mutual for the period ended December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Physicians Insurance Mutual for the period ended December 31, 2014, 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 Insurance Mutual as of December 31, 2014 be and is hereby ADOPTED as filed and for Physicians Insurance Mutual 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 4th day of January, 2016.



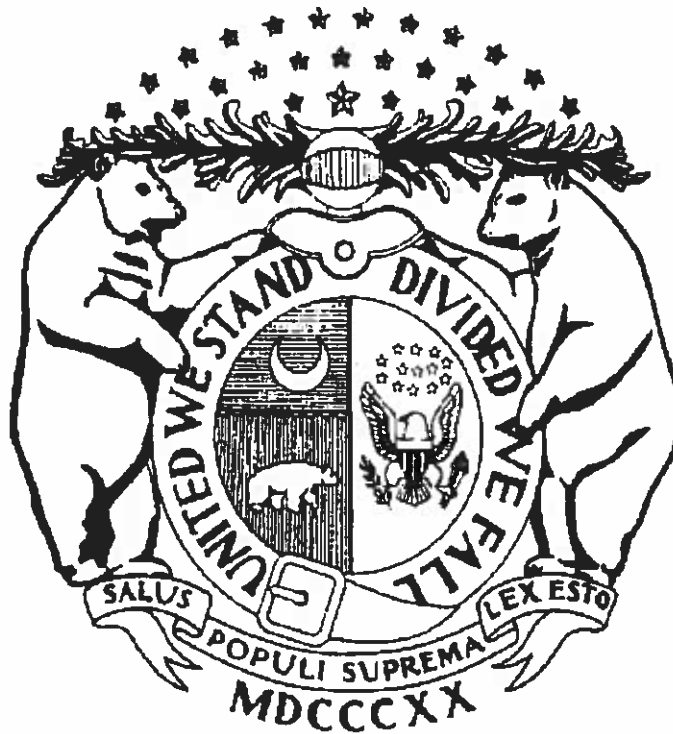
A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

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

**REPORT OF THE
FINANCIAL EXAMINATION OF
PHYSICIANS INSURANCE MUTUAL**

**AS OF
DECEMBER 31, 2014**

FILED
JAN 14 2016
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



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

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
PERIOD COVERED	1
PROCEDURES	1
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS	2
COMPANY HISTORY	2
GENERAL	2
DIVIDENDS AND CAPITAL CONTRIBUTIONS	2
MERGERS AND ACQUISITIONS	3
CORPORATE RECORDS	3
MANAGEMENT AND CONTROL	3
CORPORATE GOVERNANCE	3
COMMITTEES	3
OFFICERS	4
ORGANIZATIONAL STRUCTURE	4
INTERCOMPANY AGREEMENTS	4
TERRITORY AND PLAN OF OPERATION	4
GROWTH OF COMPANY	5
LOSS EXPERIENCE	5
REINSURANCE	5
ACCOUNTS AND RECORDS	6
INFORMATION SYSTEMS	6
EXTERNAL AUDITS AND ACTUARIAL OPINIONS	6

STATUTORY DEPOSITS.....	6
FINANCIAL STATEMENTS.....	6
ASSETS	7
LIABILITIES, SURPLUS AND OTHER FUNDS	7
STATEMENT OF INCOME	8
COMMENTS ON FINANCIAL STATEMENT ITEMS	9
EXAMINATION CHANGES.....	9
GENERAL COMMENTS AND/OR RECOMMENDATIONS	9
ACKNOWLEDGMENT	10
VERIFICATION	10
SUPERVISION	11

St. Louis, Missouri
September 23, 2015

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

Physicians Insurance Mutual

hereinafter referred to as PIM or as the Company. Its administrative office is located at 17 Berkshire Drive, St. Louis, Missouri, 63117, telephone number (314) 393-4105. This examination began on July 20, 2015, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed an examination of PIM. The last examination was completed as of December 31, 2010. This examination covers the period of January 1, 2011, through December 31, 2014. This examination also included the material transactions or events occurring subsequent to December 31, 2014.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, 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 we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about corporate governance, identifying and assessing inherent risks, and evaluating the Company's 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 Accounting Principles and annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The key activities identified in our examination of PIM were Investments and Cash Management; Underwriting and Premium Process; and Claims and Reserving.

The examiners relied upon information supplied by the Company's independent auditor, Brown Smith Wallace, LLC, of St. Louis, Missouri, for its audit covering the period from January 1, 2014 through December 31, 2014. Areas in which the testing and results from the CPA workpapers were relied upon in our examination included internal controls, fraud assessment, bank reconciliations and confirmations, investment fair values, and federal income tax.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2014 through the date of this report.

COMPANY HISTORY

General

Physicians Insurance Mutual was incorporated under the laws of the state of Missouri on October 1, 2008, pursuant to Chapter 383 RSMo (Malpractice Insurance) as an assessable medical malpractice company with authority to write medical malpractice insurance in Missouri only. The Company issues a single policy to American Multispecialty Group, Inc. d/b/a Esse Health (Esse Health), which covers approximately 120 healthcare professionals in the group. The Company is not subject to Chapter 382 RSMo (Insurance Holding Companies).

Dividends and Capital Contributions

PIM does not have any stockholders due to its organization as a mutual entity. The Company's Bylaws allow for dividends to be paid to its policyholders. Policyholder dividends paid during the examination period were as follows:

<u>Year Paid</u>	<u>Amount Paid</u>
2011	\$700,000
2013	\$700,000
2014	\$500,000

Mergers and Acquisitions

There have been no mergers or acquisitions involving the Company.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed. There were no amendments or changes to the Articles of Incorporation during the examination period. The Bylaws were amended effective April 13, 2011, to change the annual membership meeting date from the fourth Thursday in April to the month of April.

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

MANAGEMENT AND CONTROL

Corporate Governance

The management of the Company is vested in a Board of Directors, which is appointed by the policyholders. The Company's Bylaws specify that the Board of Directors shall consist of five (5) members. The Board of Directors appointed and serving, as of December 31, 2014, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
William Coyle Rogers	Producer, HM Risk
Michael Castellano	CEO, Esse Health
Richard Lazaroff, M.D.	Physician, Esse Health
John Rice, M.D.	Physician, Esse Health
Jennifer Sewing, D.O.	Physician, Esse Health

Committees

The Bylaws allow for the appointment of committees; however, the Company does not have any formal committees.

Officers

The officers elected by the Board of Directors and serving as of December 31, 2014, were as follows:

<u>Officer</u>	<u>Position</u>
William Coyle Rogers	President
Michael Castellano	Secretary & Treasurer

Organizational Structure

The Company is a single entity, owned by the membership with no equity holdings of its own. The membership consists entirely of the physicians of Esse Health.

Intercompany Agreements

The Company has a management agreement which provides for all services required to operate the business and is outlined below.

- 1. Type:** Management Agreement
- Parties:** Physicians Insurance Mutual and Physicians Insurance Management, LLC (PIM LLC).
- Effective:** June 30, 2008
- Terms:** PIM LLC agrees to provide general management and oversight of PIM’s medical malpractice insurance business, including day to day tasks involved with the continued managerial operation of the business, claims processing, assessment administration, premium collection, application processing and underwriting standards collaboration. PIM agrees to pay a management fee equal to the greater of \$55,000 or 5% of written premium. The agreement has a seven-year term and automatically renews. The agreement contains a provision for a termination fee if termination is by other than mutual agreement. The fee is equal to the greater of seven times all fees paid to PIM LLC in the previous twelve months or 5% of the premiums collected by PIM in the seven years previous to the termination.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Missouri under Chapter 383 RSMo (Malpractice Insurance) to write medical malpractice insurance only. Currently, the Company insures only members of Esse Health.

GROWTH OF COMPANY

The table below shows the Company's premium writings and writing ratios for the examination period.

<u>Year</u>	<u>Direct Premiums Written</u>	<u>Net Premiums Written</u>	<u>Change in Net Premiums</u>	<u>Capital and Surplus</u>	<u>Ratio of Net Premiums to Surplus</u>
2010	\$1,181,852	\$1,181,852	n/a	\$1,172,822	1.01
2011	1,019,035	1,019,035	(13.8%)	1,675,737	0.61
2012	946,719	946,719	(7.1%)	1,322,315	0.72
2013	865,177	865,177	(8.6%)	1,486,075	0.58
2014	886,953	886,953	2.5%	1,374,656	0.65

Premiums declined over the examination period, due to the decreasing average age of the insureds in the group which resulted in a lower stepped premium overall. Surplus levels have remained stable due to favorable underwriting results, offset by significant policyholder dividends. A strong premium to surplus ratio of less than one to one was maintained throughout the examination period.

LOSS EXPERIENCE

The table below shows the Company's incurred losses and loss ratios for the examination period.

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Losses and Loss Adjustment Expenses Incurred</u>	<u>Loss Ratio</u>
2011	\$1,097,426	\$ (192,761)	(17.6%)
2012	992,363	1,285,401	129.5%
2013	894,993	89,641	10.0%
2014	873,605	414,076	47.4%

The negative loss ratio in 2011 was the result of positive development of prior year reported incurred losses. The high loss ratio in 2012 and low loss ratio in 2013 were the result of higher than normal incurred losses reported in 2012, which developed more positively than expected in 2013.

REINSURANCE

The Company does not assume or cede any reinsurance.

ACCOUNTS AND RECORDS

Information Systems

The Company does not employ a policy management system, as it only issues one policy. Accounting entries are manually recorded in QuickBooks software.

External Audits and Actuarial Opinions

The CPA firm, Brown Smith Wallace, LLC, of St. Louis, Missouri issued audited statutory financial statements of the Company for all years in the examination period. The actuarial opinion regarding the Company's reserves for losses and loss adjustment expenses was issued by Jon W. Michelson, FCAS, MAAA, of the consulting actuarial firm Expert Actuarial Services, LLC, for all years in the examination period.

STATUTORY DEPOSITS

The Company writes business in Missouri only and, as a Chapter 383 RSMo (Malpractice Insurance) company, is not required to maintain any deposits with the state.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Physicians Insurance Mutual for the period ending December 31, 2014. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement Items." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets
As of December 31, 2014

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$2,528,119	\$ 0	\$2,528,119
Common Stocks	1,276,987	0	1,276,987
Cash, Cash Equivalents and Short-Term Investments	517,482	0	517,482
Investment Income Due and Accrued	5,724	0	5,724
Uncollected Premiums and Agents' Balances	<u>(802)</u>	<u>0</u>	<u>(802)</u>
TOTAL ASSETS	<u>\$4,327,510</u>	<u>\$ 0</u>	<u>\$4,327,510</u>

Liabilities, Surplus and Other Funds
As of December 31, 2014

Losses	\$1,265,059
Loss Adjustment Expenses	1,144,158
Other Expenses	34,765
Current Federal Income Taxes	9,468
Net Deferred Tax Liability	47,807
Unearned Premium	<u>451,597</u>
TOTAL LIABILITIES	\$2,952,854
Unassigned Funds (Surplus)	<u>1,374,656</u>
Capital and Surplus	<u>\$1,374,656</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$4,327,510</u>

Statement of Income For the Year Ended December 31, 2014

Premium Earned	\$873,605
DEDUCTIONS:	
Losses Incurred	105,000
Loss Adjustment Expenses Incurred	309,076
Other Underwriting Expenses Incurred	<u>139,116</u>
Total Underwriting Deductions	\$553,192
Net Underwriting Gain	\$320,413
Net Investment Income Earned	41,629
Net Realized Capital Gains	<u>34,643</u>
Net Investment Gain	\$76,272
Dividends to Policyholders	500,000
Federal Income Taxes Incurred	<u>8,365</u>
Net Income (Loss)	(\$111,680)
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2013	\$1,486,075
Net Income (Loss)	(111,680)
Change in Net Unrealized Capital Gains or (Losses)	(1,296)
Change in Net Deferred Income Tax	<u>1,557</u>
Surplus as Regards Policyholders, December 31, 2014	<u>\$1,374,656</u>

Comments on Financial Statement Items

None.

Examination Changes

None.

General Comments and/or Recommendations

None.

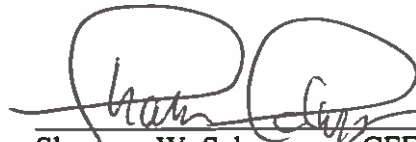
ACKNOWLEDGMENT

The assistance and cooperation extended by of Physicians Insurance Mutual during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)

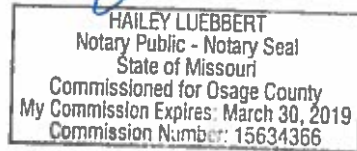
I, Shannon W. Schmoeger, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Physicians Insurance Mutual, its agents or other persons examined or as ascertained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



Shannon W. Schmoeger, CFE, ARE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 21 day of October, 2015.

My commission expires: March 30, 2019 Hailey Luebbert
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri DIFP