

# STATE OF MISSOURI



## DEPARTMENT OF COMMERCE & INSURANCE

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

### ORDER

After full consideration and review of the report of the financial examination of Physicians Insurance Mutual for the period ended December 31, 2020, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance 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 finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

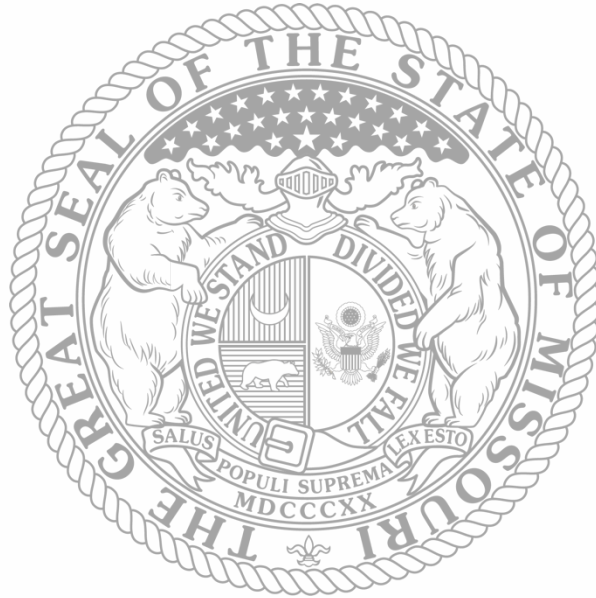
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Physicians Insurance Mutual as of December 31, 2020 be and is hereby ADOPTED as filed and for Physicians Insurance Mutual to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) 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 19<sup>th</sup> day of August, 2022.



*Chlora Lindley-Myers*

Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF  
FINANCIAL EXAMINATION OF

# PHYSICIANS INSURANCE MUTUAL

AS OF  
DECEMBER 31, 2020

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, MO  
July 15, 2022

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Commerce and Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

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 (NAIC #13194)**

hereinafter referred to as such, as PIM, or as the Company. Its administrative office is located at 18 Oakleigh Lane, St. Louis, MO 63124, telephone number 314-393-4105. The fieldwork for this examination began on December 9, 2021, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of PIM. The last examination of the Company by the Department covered the period of January 1, 2015 through December 31, 2018. The current examination covers the period of January 1, 2019 through December 31, 2020, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

**Procedures**

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to PIM included Investments, Premiums and Underwriting and Loss Reserves. The examination also included a review and evaluation of information technology general controls.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

**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.

**COMPANY HISTORY**

**General**

Physicians Insurance Mutual was incorporated on October 1, 2008, as an assessable medical malpractice insurer under Chapter 383 RSMo (Malpractice Insurance). As an entity incorporated under Chapter 383 RSMo, PIM is not subject to the requirements of Chapter 382 RSMo (Insurance Holding Companies).

**Mergers, Acquisitions, and Major Corporate Events**

There were no mergers, acquisitions, or other major corporate events, as applicable, during the examination period.

**Dividends and Capital Contributions**

Section 383.025 RSMo (Association to commence business, when — liability of members limited — business to be nonprofit, dividends may be paid, how) allows the payment of dividends to members provided surplus is positive before and after the dividend is declared. PIM paid the following dividends during the current examination period:

<b>Year</b>	<b>Amount</b>
2019	\$ 1,000,000
2020	1,000,000
<b>Total</b>	<b>\$ 2,000,000</b>

**Surplus Notes**

There were no surplus notes issued or outstanding during the current examination period.

**MANAGEMENT AND CONTROL**

**Board of Directors**

The management of the Company is vested in a Board of Directors whose members are elected by the policyholders. The Company’s Bylaws specify that there shall be five Board members. The Board of Directors elected and serving as of December 31, 2020, were as follows:

<b><u>Name and Address</u></b>	<b><u>Principal Occupation and Business Affiliation</u></b>
David E. Hartenbach, M.D. St. Louis, MO	Pediatrician Esse Health
John Rice, M.D. St. Louis, MO	Physician Esse Health
Jennifer Sewing, D.O. St. Louis, MO	Physician Esse Health
William Coyle Rogers St. Louis, MO	Chief Executive Officer and President Physicians Insurance Management
Michael Castellano Chesterfield, MO	Chief Executive Officer Esse Health

Michael Castellano retired from the Board of Directors on July 1, 2022. The position was filled by Dave Kearney, the current Chief Executive Officer of Esse Health.

**Senior Officers**

The officers elected and serving, as of December 31, 2020, were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
William Coyle Rogers	President and Chairman of the Board
Michael Castellano	Secretary and Treasurer

Director John Rice was appointed Secretary and Treasurer effective July 1, 2022.

**Principal Committees**

The Bylaws authorize the Chairman of the Board of Directors to appoint committees as circumstances warrant. The Bylaws further require that committees be chaired by a Board member, and that other members be appointed by the Chairman. There were no committees as of December 31, 2020.

**Corporate Records**

The Company's Articles of Incorporation and Bylaws were reviewed. There were no changes to the Articles of Incorporation or the Bylaws during the current examination period. The minutes of the meetings of the Board of Directors were reviewed for the period under examination.

**Intercompany Transactions**

The Management Agreement, as described below, represents a significant contract executed with an affiliated entity that was in effect as of December 31, 2020. Although PIM has no ownership interest in Physicians Insurance Management, LLC, the entities are affiliated through their common management. PIM's President is the President and Sole Member of Physicians Insurance Management, LLC.

Management Agreement: Effective June 30, 2008, PIM entered into a Management Agreement with Physicians Insurance Management, LLC. Under the agreement, Physicians Insurance Management, LLC provides the Company with general management and oversight of PIM's insurance business. Services provided include processing applications, collecting premiums, administering assessments, adjudicating claims and collaborating with the Company in developing underwriting standards. PIM pays Physicians Insurance Management, LLC a fee equal to the greater of 5% of annual assessments or \$60,000 per year.

**TERRITORY AND PLAN OF OPERATION**

The Company is licensed in Missouri under Chapter 383 RSMo (Malpractice Insurance) to write medical malpractice insurance only. Coverage is available to any health care provider licensed in Missouri, but the Company currently insures only members of Esse Health. There are no restrictions on the type of practices insured, although the Company prefers lower-risk exposures such as family practitioners, general practitioners, and pediatricians.

The Company’s policy has a coverage limit of \$400,000 per claim with a combined indemnity and loss adjustment expense limit of \$500,000 per claim. The aggregate policy limit is \$1.2 million with no deductible. Coverage in excess of the Company’s policy limits is available through Medical Liability Alliance, which offers coverage up to \$600,000 per claim with an aggregate limit of \$1.8 million. For multiple physicians involved in the same claim, PIM offers coverage of \$400,000 in excess of the \$600,000 coverage provided by Medical Liability Alliance. Medical Liability Alliance also offers options for extended reporting period coverage.

**GROWTH OF COMPANY AND LOSS EXPERIENCE**

The Company has experienced moderate premium and surplus growth over the exam period while maintaining a low premium to surplus ratio. The Company’s small size exposes it to significant variations in loss and loss adjustment expenses.

The table below summarizes the Company’s growth and loss experience for the period under examination:

*(\$000s omitted)*

<b>Year</b>	<b>Net Premiums</b>	<b>Change in Net Premiums</b>	<b>Benefits and Losses</b>	<b>Capital and Surplus</b>	<b>Ratio of Net Premiums to Surplus</b>	<b>Net Income (Loss)</b>
2019	\$ 1,205	7.31%	\$ 2,064	\$ 1,571	76.71%	\$ 131
2020	1,354	12.36%	2,087	1,802	75.15%	162

**REINSURANCE**

The Company did not assume or cede any business during the current examination period.

**ACCOUNTS AND RECORDS**

**Independent Auditor**

The certified public accounting (CPA) firm Armanino LLP (formerly known as Brown, Smith, Wallace, LLC), in St. Louis, Missouri, performed the statutory audit of the Company for the years under examThe. CPA audit workpapers were relied upon as deemed appropriate. Such reliance included, but was not limited to, walk-throughs, narratives, control testing, fraud risk assessment, confirmations and substantive testing.

**Actuarial Opinion**

The Company’s actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Jon W. Michelson, FCAS, MAAA, of Expert Actuarial Services, LLC in Saint Louis, Missouri, for all years in the examination period.



**Consulting Actuary**

Julie Lederer, FCAS, MAAA, Property and Casualty Actuary with the Department, reviewed the underlying actuarial assumptions and methodologies used by PIM to determine the adequacy of loss reserves and LAE reserves. Ms. Lederer determined that PIM made a reasonable provision for the loss and LAE reserves that were reported in the statutory financial statements, as of December 31, 2020.

**Information Systems**

In conjunction with this examination, Kim Dobbs, CFE, AES, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems.

**FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of PIM for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of 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 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 key activity.

**ASSETS**

As of December 31, 2020

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 3,460,541	\$ 0	\$ 3,460,541
Common Stock	1,091,996	0	1,091,996
Cash	96,576	0	96,576
Investment Income Due and Accrued	19,489	0	19,489
Uncollected Premiums and Agents' Balances	6,603	0	6,603
<b>TOTAL ASSETS</b>	<b>\$ 4,675,206</b>	<b>\$ 0</b>	<b>\$ 4,675,206</b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

As of December 31, 2020

Losses	\$ 1,060,000
Loss Adjustment Expenses	1,027,097
Other Expenses	36,331
Current Federal Taxes	16,259
Net Deferred Tax Liability	56,082
Unearned Premiums	677,737
<b>TOTAL LIABILITIES</b>	<b>\$ 2,873,506</b>
Unassigned Funds (Surplus)	1,801,700
<b>SURPLUS AS REGARDS POLICYHOLDERS</b>	<b>\$ 1,801,700</b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$ 4,675,206</b>

**SUMMARY OF OPERATIONS**  
For the Year Ended December 31, 2020

Premiums Earned	\$	1,284,988
DEDUCTIONS:		
Losses Incurred		(50,000)
Loss Adjustment Expenses Incurred		131,085
Other Underwriting Expenses Incurred		188,718
Total Underwriting Deductions	\$	269,803
<b>Net Underwriting Gain (Loss)</b>	<b>\$</b>	<b>1,015,185</b>
Net Investment Income Earned		87,081
Net Realized Capital Gains		76,383
<b>Net Investment Gain (Loss)</b>	<b>\$</b>	<b>163,464</b>
Dividends to Policyholders		1,000,000
Federal Income Taxes		16,401
<b>NET INCOME (LOSS)</b>	<b>\$</b>	<b>162,249</b>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
Changes from January 1, 2019 to December 31, 2020

*(\$000's omitted)*

	<b>2019</b>	<b>2020</b>
Capital and Surplus, Beginning of Year	\$ 1,333	\$ 1,571
Net Income (Loss)	131	162
Change in Net Unrealized Capital Gains (Losses)	136	87
Change in Net Deferred Income Taxes	(29)	(18)
Net Change in Capital and Surplus	238	231
<b>Capital and Surplus, End of Year</b>	<b>\$ 1,571</b>	<b>\$ 1,802</b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None.

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None.

**SUMMARY OF RECOMMENDATIONS**

None.

**SUBSEQUENT EVENTS**

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Physicians Insurance Mutual during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kimberly Dobbs, CFE, AES, Kim Waller, AFE, and Lisa Li, CPA, CFE, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

**VERIFICATION**

State of Missouri            )  
  )    ss  
County of Cole             )

I, Marc Peterson, CFE, 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.

*Marc Peterson*  
\_\_\_\_\_  
Marc Peterson, CFE  
Examiner-In-Charge  
Missouri Department of Commerce and  
Insurance

Sworn to and subscribed before me this 4<sup>th</sup> day of August, 2022.

My commission expires: March 30, 2023  
*Hailey Luebert*  
\_\_\_\_\_  
Notary Public



**HAILEY LUEBERT**  
My Commission Expires  
March 30, 2023  
Osage County  
Commission #15634366

**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, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



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Sara McNeely, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce and  
Insurance