



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

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

ORDER

After full consideration and review of the report of the financial examination of Keystone Mutual Insurance Company for the period ended December 31, 2017, 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 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, territory and plan of operation, growth of company, loss experience, reinsurance, accounts and records, financial statements, analysis of examination changes, comments on financial statements and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Keystone Mutual Insurance Company as of December 31, 2017 be and is hereby ADOPTED as filed and for Keystone Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) 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 23rd day of January, 2019.



A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

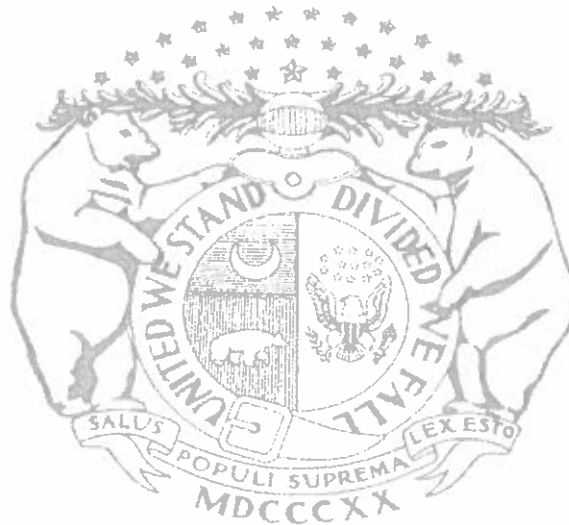
Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

Keystone Mutual Insurance Company

As of:
DECEMBER 31, 2017

FILED
FEB 04 2019
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



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

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December 19, 2018
St. Louis, MO

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Keystone Mutual Insurance Company

hereinafter referred to as “Keystone,” or the “Company.” The Company's home office is located at 366 West Fourth Street, St. Louis, Missouri 63025; telephone number (636)549-3744. Examination fieldwork began on August, 20, 2018, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of Keystone Mutual Insurance Company. The last examination was completed as of December 31, 2013. This examination covers the period of January 1, 2014, through December 31, 2017. This examination also included material transactions or events occurring subsequent to December 31, 2017.

Procedures

This full-scope examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (Department or DIFP) 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 identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating 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 is

documented separately following the Company's financial statements. The following key activities were identified: Claims and Reserving, Expenses, Investments and Treasury, Premiums and Underwriting, Reinsurance, Capital and Surplus and Taxes.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues or material changes to the balance sheet or income statement identified during the examination.

SUBSEQUENT EVENTS

In January 2018, a judgment was decided against the Company in the normal course of business related to a 2013 lawsuit. Keystone is appealing this decision and management's position is that no probable liability has been incurred due to the numerous bases for reversal on appeal. Management is confident the judgment in the amount of \$870,000 will be reversed or the damages will be recovered against a third-party and therefore, this judgment will not have a material impact on Keystone's financial condition.

COMPANY HISTORY

General

Keystone Mutual Insurance Company was incorporated under the laws of the state of Missouri on December 31, 2007 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 is not subject to Chapter 382, RSMo (Insurance Holding Companies).

Capital Stock

The Company is a mutual insurance company and has no capital stock.

Dividends

The Company has not paid any dividends to its members since its inception.

Acquisitions, Mergers and Major Corporate Events

There have been no mergers or acquisitions involving the Company.

Surplus Debentures

The Company has issued the following Surplus Notes:

| <u>Date Issued</u> | <u>Interest Rate</u> | <u>Carrying Value</u> | <u>Accrued Interest</u> | <u>Total</u> |
|--------------------|----------------------|-----------------------|-------------------------|---------------------|
| 9/30/2009 | 7% | \$ 220,000 | \$ 127,306 | \$ 347,306 |
| 11/30/2009 | 7% | 50,000 | 28,341 | 78,341 |
| 12/31/2009 | 7% | 10,000 | 5,610 | 15,610 |
| 12/31/2010 | 7% | 80,000 | 39,277 | 119,277 |
| 12/31/2010 | 7% | 90,000 | 44,187 | 134,187 |
| 11/30/2011 | 7% | 110,000 | 46,829 | 156,829 |
| 12/30/2011 | 7% | 100,000 | 42,000 | 142,000 |
| 12/30/2011 | 7% | 40,000 | 16,800 | 56,800 |
| | | <u>\$ 700,000</u> | <u>\$ 350,350</u> | <u>\$ 1,050,350</u> |

All of the Surplus Notes were issued to Keystone Mutual Holding Company, with the exception of the \$100,000 note issued on December 30, 2011. This note was issued to the Company's CEO, and is administered by Sunwest Trust Inc.

CORPORATE RECORDS

Corporate Documents

The Articles of Association and the Bylaws were reviewed. There were no amendments to either document during the examination period.

Meeting Minutes

Minutes of the meetings of the Board of Directors and committees were reviewed for the period under examination. The minutes documented evidence of the overall guidance provided by the Board of Directors.

MANAGEMENT AND CONTROL

Board of Directors

As of December 31, 2017, the following ten members comprised the Board of Directors:

| <u>Name</u> | <u>Principal Occupation</u> |
|--|---|
| James R. Bowlin, Esq. Wildwood, MO | Chairman and CEO Keystone Mutual Insurance Company |
| Scott B. Lakin Kansas City, MO | Principal Lakin Consulting, LLC |
| Jerry N. Middleton, MD, FACOG St. Louis, MO | Obstetrician and Gynecologist, Retired Obstetrical Associates of St. Louis, Inc. |

Craig S. McPartlin
Wildwood, MO

CFO and Treasurer
Keystone Mutual Insurance Company
Owner of Con-Tech Carpentry, LLC

Jerry D. Kennett, MD, MACC
Columbia, MO

Cardiologist
Missouri Cardiovascular Specialists, LLP

Joel D. Hassien, MD
Hannibal, MO

Radiologist; President
Hannibal Imaging Service

Dennis A. Nahnsen
St. Louis, MO

President, Retired
Missouri Valley Partners

Bruce C. Oetter, Esq.
Clayton, MO

Partner, Retired
Bryan Cave LLP

George K. Parkins, MD
Prairie Village, KS

Orthopedic Surgeon
Drisko, Fee & Parkins, PC

Matthew J. Spellman, MD
Richmond Heights, MO

Urologist; President
Urology Consultants, Ltd.

Committees

Committee assignments as of December 31, 2017 were as follows:

Rate & Underwriting

Matthew J. Spellman, Chair
Craig L. McPartlin
Jerry N. Middleton

Claims

Jerry D. Kennett, Chair
Jerry N. Middleton
Bruce C. Oetter

Reinsurance

Jerry N. Middleton, Chair
Craig S. McPartlin
Joel D. Hassien

Marketing

George K. Parkins, Chair
Scott B. Lakin
Matthew J. Spellman

Governmental Affairs

Jerry D. Kennett, Chair
Scott B. Lakin
Jerry N. Middleton

Investment/Finance

Dennis A. Nahnsen, Chair
Craig S. McPartlin
Bruce C. Oetter

Compensation

Joel D. Hassien, Chair
Dennis A. Nahnsen
Matthew J. Spellman

Audit

Jerry D. Kennett, Chair
Dennis A. Nahnsen
George K. Parkins

Appellate

Joel D. Hassien, Chair
Scott B. Lakin
George K. Parkins

Nominating

Joel D. Hassien, Chair
George K. Parkins
Bruce C. Oetter

Officers

The officers of the Company elected and serving as of December 31, 2017 were as follows:

| <u>Name</u> | <u>Office</u> |
|-------------------------------|-------------------|
| James R. Bowlin, Esq. | Chairman and CEO |
| Jerry D. Kennett, MD, MACC | President |
| Scott B. Lakin | Vice President |
| Jerry N. Middleton, MD, FACOG | Vice President |
| Craig S. McPartlin | Treasurer and CFO |
| Matthew J. Spellman, MD | Secretary |

Organizational Structure

Keystone is a stand-alone entity, owned by its membership. The Company has issued a series of surplus notes to Keystone Insurance Holding Company (KIHC) and has entered into a management agreement with KIHC for underwriting and general management. KIHC is owned by the Chairman and CEO of Keystone.

Keystone is party to an Agency Agreement with Cogaris Insurance Group, LLC (Cogaris). Cogaris is the non-exclusive agent marketing Keystone's medical professional liability business. Keystone's Chairman and CEO is a 51% majority owner of Cogaris.

The Company leases office space from McPartlin Realty, LLC. The owner of McPartlin Realty, LLC is Keystone's CFO.

Intercompany Transactions

The Company is a party to the following agreements.

Management Agreement

Parties: Keystone Mutual Insurance Company and Keystone Insurance Holding Company.

Effective: January 1, 2010

Services: Keystone Insurance Holding Company provides underwriting, claims and other corporate management services. In exchange for these services, the Company pays Keystone Insurance Holding Company as annual fee of 12% of its annual net premium written.

Rate(s): The Company incurred \$296,568 in management fees in 2017 per this agreement.

Lease Agreement

Parties: Keystone Mutual Insurance Company and McPartlin Realty, LLC.

Effective: January 1, 2013

Services: The Company leases office space at 366 West Fourth Street, St. Louis, MO, 63025. The lease is for a one year term at a monthly rent of \$1,065. Under the lease, McPartlin Realty, LLC is responsible for all utilities, repairs and maintenance, and property taxes associated with the building.

Rate(s): The Company incurred \$12,780 in fees in 2017 per this agreement.

Agency Agreement

Parties: Keystone Mutual Insurance Company (Keystone) and Cogaris Insurance Group, LLC (Cogaris)

Effective: January 1, 2015

Services: The Company engaged Cogaris to be the non-exclusive agent for Keystone. The contract runs for three years with an automatic renewal feature. Keystone pays Cogaris a 10% commission on all new and renewal premium generated by Cogaris.

Rate(s): The Company incurred \$247,140 in fees in 2017 per this agreement.

TERRITORY AND PLAN OF OPERATIONS

The Company is organized as an assessable mutual insurance company, licensed to write medical malpractice insurance under Chapter 383 RSMo. Keystone writes business in the state of Missouri only. Currently, Keystone insures doctors who practice in one of 12 select specialties that it has identified as being low-risk, based on past claims experience in the industry. Coverage is issued primarily on a claims-made basis with a coverage limit of \$1 million and \$3 million aggregate. Members can also purchase an extended reporting endorsement which provides coverage on an occurrence basis with the same coverage limits. Free tail coverage is also offered in the event of death, disability, or retirement.

GROWTH OF COMPANY

The table below shows various indicators of the Company's growth over the past four years.

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Gross Written Premiums | \$ 1,745,057 | \$ 2,055,287 | \$ 2,144,866 | \$ 2,422,026 |
| Total Admitted Assets | 1,918,483 | 2,092,498 | 2,439,351 | 3,317,947 |
| Other Underwriting Expenses Incurred | 1,144,262 | 1,137,203 | 1,200,979 | 1,135,936 |
| Total Capital and Surplus | 76,632 | 100,265 | 327,904 | 488,937 |

The Company has experienced moderate, steady growth in written premiums and total assets. Operating expenses have remained steady even as premium has grown. Capital and surplus increased by a total of \$332,332 during the examination period primarily due to initial and annual contributions required by policyholders.

LOSS EXPERIENCE

The following exhibit illustrates Keystone's underwriting results for each of the last four years.

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Premiums Earned | \$ 1,448,658 | \$ 1,678,087 | \$ 1,717,806 | \$ 1,953,909 |
| Losses Incurred | 62,576 | 361,585 | 113,239 | 224,524 |
| Loss Adjustment Expenses Incurred | 419,635 | 276,943 | 209,460 | 701,308 |
| Net Underwriting Gain (Loss) | (177,815) | (97,644) | 194,128 | (107,859) |
| Net Income | (93,347) | (31,191) | 175,721 | (72,334) |

Even though premium growth occurred each year, the Company experienced negative operating results during the period under examination, with only one year reporting a net income.

REINSURANCE

General

Premiums written during the current examination period were as follows:

| <u>Premiums</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| Direct | \$ 1,745,057 | \$ 2,055,287 | \$ 2,144,866 | \$ 2,422,026 |
| Assumed | - | - | - | - |
| Ceded | 140,646 | 269,210 | 351,237 | 275,002 |
| Net Premium Written | <u>\$ 1,604,411</u> | <u>\$ 1,786,077</u> | <u>\$ 1,793,629</u> | <u>\$ 2,147,024</u> |

Assumed

The Company does not assume any reinsurance.

Ceded

Keystone has one reinsurance agreement, a Medical Professional Liability Excess of Loss Contract. The agreement has been in effect since the Company began operations in 2008. The most recent renewal covers the period July 1, 2015 through July 1, 2018. The reinsurance intermediary, Guy Carpenter, manages the program and the participating reinsurers are Hannover Ruck AG (25%), XL Catlin Bermuda (35%) and various Lloyd's Syndicates (40%).

The Company's retention limit under the agreement is \$200,000 per claim or \$600,000 per event. The reinsurer covers \$1 million per claim or \$600,000 per event. The reinsurers' maximum liability is equal to 400% of the ceded reinsurance premium for the current underwriting year.

The agreement requires Keystone to pay an annual deposit premium of \$405,000 in four equal installments. Keystone also pays a provisional premium of 20% of its net written premium for the underwriting year. The deposit premium is then adjusted to the provisional premium amount within 60 days after the end of the underwriting year.

The agreement also has a "swing-rate" premium adjustment feature under which a final adjusted premium is calculated based on several factors, including the reinsurers' loss experience and the Company's net earned premiums for the underwriting year.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

General

The Company uses Sage accounting software and various Microsoft Excel spreadsheets to maintain its general ledger. The Company also uses Microsoft Excel for underwriting, policy administration, premiums, and claims management functions. Annual and quarterly financial data are compiled by the external accounting firm of Mountjoy Chilton Medley LLP, and used to prepare the statutory financial statements.

Independent Auditor

The Company's financial statements are audited annually by the accounting firm of Brown Smith Wallace, LLC. The workpapers and reports of the 2017 independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuaries

Reserves and related actuarial items reported in the financial statements were reviewed and certified by Ronald T. Kuehn, FCAS, MAAA, of Huggins Actuarial Services, Inc.

Consulting actuary, Kristine M. Fitzgerald, ACAS, MAAA, FCA of Actuarial & Technical Solutions, Inc. was retained by the Department to review the adequacy of the Company's reserves and other related liabilities. Actuarial & Technical Solutions, Inc. found the methods, assumptions and results presented by the appointed actuary to be reasonable and concluded the Company's total carried loss and LAE reserves appear to be sufficient to fund future loss and LAE payments.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2017, 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" section, which follow the financial statements.

There may have been additional differences found in the course of this examination that 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.

Assets

| | <u>Assets</u> | <u>Non- Admitted Assets</u> | <u>Net Admitted Assets</u> |
|--|----------------------------|-------------------------------------|--------------------------------|
| Bonds | \$ 598,448 | | \$ 598,448 |
| Common stocks | 407,633 | | 407,633 |
| Cash, cash equivalents, and short-term investments | 1,108,648 | | 1,108,648 |
| Investment income due and accrued | 675 | | 675 |
| Uncollected premiums | 394,248 | | 394,248 |
| Deferred premiums | 334,467 | | 334,467 |
| Other amounts receivable on reinsurance | 263,795 | | 263,795 |
| Current federal income tax recoverable | 43,712 | | 43,712 |
| Net deferred tax asset | 86,468 | 11,647 | 74,821 |
| Prepaid expenses | 7,864 | 7,864 | |
| Legal settlement receivable | 91,500 | | 91,500 |
| TOTAL ASSETS | <u>\$ 3,337,458</u> | <u>\$ 19,511</u> | <u>\$ 3,317,947</u> |

Liabilities, Surplus and Other Funds

| | |
|---|----------------------------|
| Losses | \$ 352,524 |
| Loss adjustment expenses | 754,523 |
| Other expenses | 414,898 |
| Taxes, licenses and fees | 6,886 |
| Unearned premiums | 1,082,376 |
| Advance premium | 178,717 |
| Ceded reinsurance premiums payable | <u>39,086</u> |
| TOTAL LIABILITIES | <u>\$ 2,829,010</u> |
| Aggregate Write-Ins for Other Than Special Surplus Funds: | |
| Legacy plan | \$ 61,249 |
| Contributed surplus | 370,096 |
| Surplus notes | 1,050,350 |
| Unassigned funds (surplus) | <u>(992,758)</u> |
| SURPLUS AS REGARDS POLICYHOLDERS | <u>\$ 488,937</u> |
| TOTAL LIABILITIES AND SURPLUS | <u>\$ 3,317,947</u> |

Statement of Income

Underwriting Income:

| | | |
|--------------------------------------|------------------|---------------------|
| Premiums earned | | \$ 1,953,909 |
| Deductions: | | |
| Losses incurred | \$ 224,524 | |
| Loss expenses incurred | 701,308 | |
| Other underwriting expenses incurred | <u>1,135,936</u> | |
| Total underwriting deductions | | <u>2,061,768</u> |
| Net Underwriting Gain (Loss) | | \$ (107,859) |

Investment Income:

| | | |
|-----------------------------------|-----------|------------------|
| Net investment income earned | \$ 14,191 | |
| Net realized capital gains | <u>-</u> | |
| Net Investment Gain (Loss) | | \$ 14,191 |

Other Income:

| | | |
|--|-----------|-------------------------|
| Net loss from agents or premium balances charged off | \$ - | |
| Finance and service charges | \$ 64,034 | |
| Miscellaneous income | <u>-</u> | |
| Total Other Income | | \$ <u>64,034</u> |

Net income before dividends and federal income taxes **\$ (29,634)**

| | | |
|-------------------------------|--|---------------------------|
| Dividends to policyholders | | - |
| Federal income taxes incurred | | <u>42,700</u> |
| Net income | | \$ <u>(72,334)</u> |

Reconciliation of Capital and Surplus

As of December 31, 2017

| | |
|---|--------------------------|
| Surplus as regards policyholders; December 31 prior year | \$ 327,904 |
| Net income | (72,334) |
| Change in net unrealized capital gains or (losses) | (2,666) |
| Change in net deferred income tax | 3,138 |
| Change in nonadmitted assets | 74,392 |
| Change in surplus notes | 49,000 |
| Surplus adjustments: | |
| Accrued interest on surplus notes | (49,000) |
| Contributed surplus | 61,195 |
| 2016 Audit adj: Unrecorded settlement receivable | 151,500 |
| 2016 Audit adj: Unrecorded federal tax payable | (51,510) |
| 2016 Audit adj: Deferred tax asset - nonadmitted | 83,330 |
| Reclass deferred tax assets | (83,330) |
| Tax effect of restatement | (2,681) |
| Change in surplus as regards policyholders for the year | <u>\$ 161,034</u> |
| Surplus as regards policyholders; December 31 current year | <u>\$ 488,938</u> |

ANALYSIS OF EXAMINATION CHANGES

No adjustments or reclassifications were made as a result of the examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the financial statements.

SUMMARY OF RECOMMENDATIONS

There are no recommendations.


ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of Keystone Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Rick Stamper, CFE and Michael Behrens, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration participated in this examination.

VERIFICATION

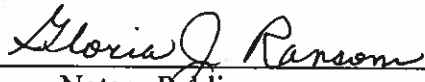
State of Missouri)
) ss
County of St. Louis)

I, Karen Milster, 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 Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Karen Milster, CFE, CPA
Examiner-in-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 19th day of DECEMBER 2018
My commission expires:
1/12/2022




Notary Public

Gloria J. Ransom
Notary Public - Notary Seal
STATE OF MISSOURI
Jefferson County
Commission # 13920921
My Commission Expires: 1/12/2022

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 Department of Insurance, Financial
Institutions and Professional Registration