STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Missouri Hospital Plan as of December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of Missouri Hospital Plan for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Missouri Hospital Plan, 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 mentioned in the General Comments and/or 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 July 6, 2007.

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

MISSOURI HOSPITAL PLAN

AS OF

DECEMBER 31, 2006

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

Jefferson City, Missouri
May 16, 2007

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

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

Missouri Hospital Plan

hereinafter referred to as such, as MHP, or as the Company. Its administrative office is located at 4700 Country Club Drive, Jefferson City, Missouri 65109, telephone number (573) 893-5300. This examination began on December 18, 2006, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of MHP was made as of December 31, 2002, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2003, through December 31, 2006, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was conducted concurrently with the examination of the Company's subsidiary, Medical Liability Alliance (MLA).

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 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 examiners relied upon information supplied by the Company's independent auditor, Brown, Smith and Wallace, LLC, of St. Louis, Missouri, for its audit covering the period from January 1, 2005, through December 31, 2005. Information relied upon was limited to the fraud risk assessment only. The audited financial statements, as of December 31, 2006, had not been issued by the end of our examination and therefore, no workpapers for the 2006 audit were available for our review.

Comments – Previous Examination

The previous financial examination of MHP was conducted by the Missouri DIFP for the period ending December 31, 2002. There were no comments, recommendations, or notes to the financial statements in the previous examination report.

HISTORY

General

Missouri Hospital Plan was organized as a non-profit assessment association on October 30, 1986 and commenced business on January 1, 1987. The Company was the surviving entity in a merger with Missouri Professional Liability Insurance Association, on October 1, 1993. The Company operates as a medical malpractice insurer under the insurance laws of Chapter 383 RSMo (Malpractice Insurance).

Capital Stock

The Company was organized as an association and therefore, does not have any capital stock ownership. The Company is owned 100% by its member hospitals, which also constitute the only policyholders of MHP.

Dividends

MHP does not have any stockholders and therefore, there are no stockholder dividends. However, MHP is an association and the Company's Bylaws allow for dividends to be paid to its members. No dividends were paid in 2003 or 2004. Cash dividends of $5,000,000 and $6,965,187 were paid to members in 2005 and 2006, respectively.

Management

The management of the Company is vested in a Board of Directors that are appointed by the member hospitals. The Company's Articles of Association and Bylaws specify that the number of directors shall be eleven. The Bylaws require that five of the directors serving must be the chief executive officers of the member hospitals and one of the directors must be the president of the Missouri Hospital Association, an affiliated entity. The Board of Directors appointed and serving, as of December 31, 2006, were as follows:

Name and Address	Principal Occupation and Business Affiliation
Donald J. Babb Bolivar, MO	President and Chief Executive Officer Citizens Memorial Hospital
Lewis R. Crist Wildwood, MO	Retired, Former Director Missouri Department of Insurance
Michael J. Delaney Jefferson City, MO	President and Chief Executive Officer Hospital Services Group
Gary D. Duncan Joplin, MO	President and Chief Executive Officer Freeman Health System
Judith K. Feuquay Nevada, MO	President and Chief Executive Officer Nevada Regional Medical Center
John C. Grossmeier Hannibal, MO	President and Chief Executive Officer Hannibal Regional Hospital
Michael E. Henze Osage Beach, MO	President and Chief Executive Officer Lake Regional Health System
Michael J. Laird St. Genevieve, MO	Chief Executive Officer St. Genevieve County Memorial Hospital
David A. Neuendorf Mexico, MO	President and Chief Executive Officer Audrain Medical Center
John W. Richmond Albany, MO	President and Chief Executive Officer Northwest Medical Center
Marc D. Smith Jefferson City, MO	President Missouri Hospital Association

Committees

The Bylaws require the Board of Directors to have an Executive Committee and a Nominating Committee. The Bylaws also allow for additional committees to be appointed by the Chairman of the Board as needed. A Finance Committee, Claims Committee, and an Audit Committee were also operational during the examination period. As of December 31, 2006, the members of each committee were as follows:

Audit Committee	Claims Committee	Finance Committee
David A. Neuendorf	Lewis R. Crist	Donald J. Babb
Randall Campbell	Michael J. Delaney	Michael J. Delaney
Michael J. Delaney	Judith K. Feuquay	John C. Grossmeier
Roger Dix	Dana Frese	Michael J. Laird
James McMillian	Ronald Poindexter	Jim McMillan
John W. Richmond	John W. Richmond	David A. Neuendorf

Executive Committee	Nominating Committee
Michael E. Henze	Gary D. Duncan
Donald J. Babb	Michael J. Delaney
Gary D. Duncan	Michael E. Henze
Michael J. Delaney	Marc D. Smith
Marc D. Smith	

Officers

The officers elected by the Board of Directors and serving, as of December 31, 2006, were as follows:

Name	Office
Michael E. Henze	Chairman of the Board
Donald J. Babb	Vice Chairman
Michael J. Delaney	President
Richard G. Anderson	Secretary and Treasurer

Conflict of Interest

The Company has a policy that requires all officers and directors to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Association and Bylaws for the examination period. There were no amendments or changes to the Articles of Association or Bylaws during the period under examination.

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

Acquisitions, Mergers and Major Corporate Events

None during the examination period.

Surplus Debentures

MHP had no surplus notes issued and outstanding, as of December 31, 2006.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

As interpreted by the DIFP, the Company is a member of an Insurance Holding Company System, as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by MHP for each year of the examination period. The Company does not have any stockholders due to its formation as a not-for-profit association. The Company is ultimately owned 100% by its member hospitals, which are not-for-profit and government entities. A hospital must be insured by MHP to be a member.

The operations of the Company's affiliates are described as follows:

Medical Liability Alliance (MLA) is a property and casualty company that is owned 100% by MHP. MLA insures entities that are not eligible to be insured by MHP, including for-profit hospitals and independent staff physicians either affiliated or not affiliated with the hospitals insured by MHP.

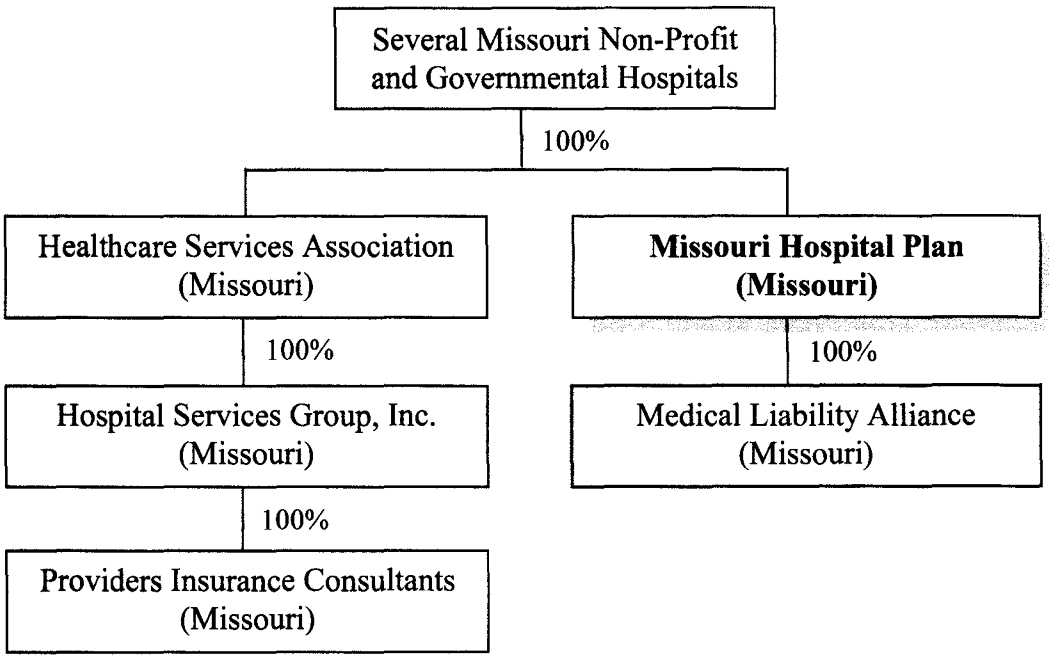
Healthcare Services Association (HSA) is a not-for-profit corporation that assists its members in offering high quality healthcare services and facilities by providing products, services, and insurance coverages to achieve that objective. The regular members of HSA are the owner hospitals of MHP. The Company is the only associate member.

Hospital Services Group, Inc. (HSG) is a management services company that performs all of the business functions for MHP and MLA.

Providers Insurance Consultants (Pro-Con) is an insurance agency and broker located in St. Louis. Its primary purpose is to broker products and services for MLA and other health related entities for lines of business that are not written by MLA.

Organizational Chart

The following chart depicts the holding company system of MHP and its affiliates, as of December 31, 2006:



Intercompany Agreements

The Company's intercompany agreements in effect, as of December 31, 2006, and subsequent periods are outlined below.

1. **Type:** Management Agreement

   Affiliate: HSG

   Effective: January 1, 1999 to December 31, 2009

   Terms: HSG employees will perform various services to conduct the business operations of MHP. The Company will reimburse HSG for 100% of the direct payroll and benefits costs for the personnel providing the services. MHP will also pay HSG an additional amount to compensate for overhead costs and a return on investment.

   Exception: The Agreement does not specify the dollar amount or percentage amount that is to be paid by MHP to HSG in addition to the direct payroll and benefit costs. During 2006, the compensation paid to HSG for overhead and a return on investment was calculated as 1% of the direct costs paid by MHP. The Agreement should be amended to specify this percentage or any other percentage or dollar amount that will be paid by MHP.

2. **Type:** Reinsurance Services Agreement

   Affiliate: HSG

   Effective: January 1, 2006 to December 31, 2006; renewed from January 1, 2007 to December 31, 2007 with identical terms

   Terms: HSG will negotiate the terms of all reinsurance agreements for the Company, subject to the MHP's approval. All of the ceding commissions received by MHP, pursuant to its reinsurance agreements, will be paid to HSG as compensation for the services provided under the Agreements.

Intercompany Transactions

MHP is an associate member of HSA and is assessed annual dues of $90,000. The owner hospitals of MHP are regular members of HSA and are assessed annual dues of $5 per licensed hospital bed. Pursuant to an arrangement approved by the Board of Directors in 1998, the Company pays HSA for the annual dues of its owner hospitals in addition to MHP's dues as an associate member. The owner hospitals do not reimburse MHP for the dues paid by MHP on behalf of the hospitals.

MHP has a policyholder that has a $1,000,000 deductible. However, MHP processes and pays all claims for this hospital within the $1,000,000 deductible. The policyholder reimburses the Company for all claims paid within the deductible and also pays an additional 10% for claims processing costs. The 10% claims processing fee is charged to the policyholder and collected by MHP, pursuant to terms of the policy. The Company remits the claim processing fees it collects from this policyholder to HSG, since the employees of HSG actually perform the claim processing services. However, there is no written agreement between MHP and HSG for this arrangement. The Company should execute a written agreement with HSG to formally document the terms of the amounts that are to be paid to HSG per this claims processing arrangement.

The following table summarizes the payments made during the examination period, between MHP and its affiliates, pursuant to intercompany agreements and other transactions.

		Net Paid / (Received)			
Affiliate	Agreement / Transaction	2003	2004	2005	2006
Parent Hospitals	Cash Dividends	$ 0	$ 0	$ 5,000,000	$ 6,965,000
MLA	Purchase Common Stock	2,400,000	0	6,600,000	0
HSA	Membership Dues	124,000	133,000	130,000	127,000
HSG	Claim Fees Collected	1,000	94,000	172,000	144,000
HSG	Management Services	1,318,000	1,769,000	2,072,000	1,800,000
HSG	Reinsurance Services	1,905,000	1,408,000	1,592,000	1,457,000
TOTAL		$5,748,000	$3,404,000	$15,566,000	$10,493,000

FIDELITY BOND AND OTHER INSURANCE

MHP is a named insured on a financial institution bond that covers losses resulting from fraudulent or dishonest acts of an employee. The Company's subsidiary, MLA, and its affiliate, HSG, are also named insureds on this bond. The bond provides coverage with a liability limit of $1,000,000 and a $10,000 deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Company is also a named insured on the following other insurance policies: property, commercial general liability, commercial auto liability, umbrella liability, worker's compensation and employer's liability, and directors' and officers' liability. These additional insurance coverages appear to be adequate.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

MHP does not have any direct employees. The employees of an affiliate, HSG, perform all of the operational and administrative functions of the Company. As of December 31, 2006, HSG had 30 employees located in its Jefferson City, Missouri office. The employees also work on the operations of the Company's subsidiary, MLA, and its affiliates, Pro-Con and HSA.

A variety of standard benefits are provided to the HSG employees. These benefits include, but are not limited to, the following: medical insurance, dental insurance, life insurance, disability insurance, vacation, sick leave, and tuition reimbursement. Employees are also provided with a 401(k) savings / retirement plan and a profit sharing plan. Benefit costs for HSG employees are charged to the Company, pursuant to a Management Agreement that is described in the Intercompany Agreements section of this report. The liabilities for the Company's allocated share of benefits payable to HSG employees were reported in the Other Expenses line of the 2006 Annual Statement.

STATUTORY DEPOSITS

Missouri Hospital Plan is licensed by the Missouri DIFP as a medical malpractice insurer under Chapter 383 RSMo (Medical Malpractice). Chapter 383 RSMo does not require any funds to be deposited with the Missouri DIFP. The Company is not licensed in any other states and thus, the Company did not have funds on deposit with any states, as of December 31, 2006.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write business only in Missouri. MHP is an association that insures only its member hospitals, which consisted of 71 not-for-profit and government hospitals, as of December 31, 2006. MHP is the leading writer of hospital medical malpractice insurance in Missouri with a 78% market share of direct written premiums in 2005.

The Company provides professional liability (medical malpractice) and general liability coverages for its member hospitals and their employees, subsidiaries and related operations. Medical malpractice insurance accounted for 95.7% of net written premiums in 2006. All policies are written on a claims made basis.

Since it is an association, MHP does not utilize any agents or brokers to produce business. The Company also does not utilize any advertising to attract new members / policyholders. The marketing efforts are limited to its website that provides general information about MHP and its affiliates.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. However, there were no market conduct reports issued during the examination period.

REINSURANCE

General

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

	2003	2004	2005	2006
Direct Business	$27,706,464	$34,169,082	$33,993,520	$34,070,562
Reinsurance Assumed:				
Affiliates	3,441,259	4,514,234	2,729,004	1,812,687
Non-affiliates	4,389	0	0	0
Reinsurance Ceded:				
Affiliates	0	0	0	0
Non-affiliates	(14,818,171)	(18,942,104)	(16,027,580)	(14,435,757)
Net Premiums Written	**$16,333,941**	**$19,741,212**	**$20,694,944**	**$21,447,492**

Assumed

The only business assumed by the Company is from a reinsurance agreement, effective July 1, 2003, with its subsidiary, MLA. The risks assumed are various medical malpractice policies written by MLA including hospital professional liability, physicians and surgeons liability, and general liability. The Company assumes 100% of MLA's losses in excess of MLA's retention of $350,000 per insured and per loss occurrence. MLA has a maximum aggregate retention of $1,050,000 per insured, per policy period. A Commutation Agreement was executed on July 1, 2005 for the purpose of commuting all business that had been assumed from MLA during the period from July 1, 2003 to June 30, 2005. MHP has agreements to retrocede 100% of the business assumed from MLA, which is described in the Ceded section of this report.

Ceded

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

MHP has a three-layer casualty excess of loss program that covers all policies written or assumed by the Company. The program is implemented by three separate agreements with several participating reinsurers. New agreements are executed effective July 1 of each year for a one year term. The current agreements are effective from July 1, 2006 to June 30, 2007. MHP's retention on its direct business is $1,000,000 per loss, per insured, subject to an aggregate $3,000,000 retention. All losses above the retention are ceded 100% through the three layers. The reinsurance coverages for each layer, effective July 1, 2006, are as follows:

Layer	Losses Ceded Per Claim Per Insured
First	$650,000 excess of $350,000 retention
Second	$1,000,000 excess of $1,000,000 retention
Third	$10,000,000 excess of $2,000,000 retention

The first layer applies solely to business assumed from MLA, as described previously in the Assumed section of this report. The second and third layers apply mostly to MHP's direct business and a few assumed policies from MLA. The participating reinsurers for the 2006-07 program year are a mixture of U.S. domestic reinsurers, two Bermuda companies, and various European reinsurers, including several Lloyd's Underwriter Syndicates.

The Company also uses facultative reinsurance for any insureds with policy limits in excess of the third layer. As of December 31, 2006, there was one insured that had a policy limit of $25,000,000. For this large risk, MHP obtained a facultative certificate to cede 100% of the policy limits in excess of the third layer coverage, or $12,000,000.

ACCOUNTS AND RECORDS

General

The CPA firm, Brown, Smith and Wallace, LLC, (BSW) of St. Louis, Missouri, issued audited statutory financial statements of the Company for all years in the examination period. The 2006 audited statutory financial statements had not been issued by BSW, as of the date of this report, but were due to be completed by June 1, 2007.

The actuarial opinion regarding the Company's reserves for losses and loss adjustment expenses (LAE) was issued by Patrick K. Devlin, FCAS, MAAA, as of December 31, 2006, and by John F. Gibson, FCAS, MAAA, as of December 31, 2003, 2004 and 2005. Mr. Devlin and Mr. Gibson are both employed by PricewaterhouseCoopers, LLP, in Atlanta, Georgia.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of MHP for the period ending December 31, 2006. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to 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 "Notes to the Financial Statements." 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, 2006

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 79,089,678	$ 0	$79,089,678
Common Stocks	35,933,325	0	35,933,325
Cash and Short-term Investments	7,997,095	500,000	7,497,095
Other Invested Assets	11,120,096	11,120,096	0
Receivables for Securities	524,100	0	524,100
Investment Income Due and Accrued	765,689	0	765,689
Uncollected Premiums and Agents' Balances in the Course of Collection	1,598,290	0	1,598,290
Deferred Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due	8,850,912	0	8,850,912
TOTAL ASSETS	**$145,879,185**	**$11,620,096**	**$134,259,089**

Liabilities, Surplus and Other Funds
as of December 31, 2006

Losses	$ 20,434,367
Loss Adjustment Expenses	10,132,881
Commissions Payable	0
Other Expenses	377,284
Taxes, Licenses and Fees	0
Federal Income Taxes	0
Unearned Premiums	8,312,615
Advance Premium	230,333
Ceded Reinsurance Premiums Payable	1,573,183
Provision for Reinsurance	0
Payable for Securities	500,000
TOTAL LIABILITIES	**$ 41,560,663**
Gross Paid-In and Contributed Surplus	6,410,480
Unassigned Funds (Surplus)	86,287,945
Surplus as Regards Policyholders	**$ 92,698,425**
TOTAL LIABILITIES AND SURPLUS	**$134,259,088**

Statement of Income
For the Year Ended December 31, 2006

Premium Earned	**$21,765,226**
DEDUCTIONS:	
Losses Incurred	3,056,771
Loss Expenses Incurred	2,551,479
Other Underwriting Expenses Incurred	1,158,536
Total Underwriting Deductions	**$ 6,766,786**
Net Underwriting Gain	**$14,998,440**
Net Investment Income Earned	5,111,326
Net Realized Capital Gains	1,282,544
Net Investment Gain	**$ 6,393,870**
Other Income	0
Federal Income Taxes Incurred	0
Dividends to Policyholders	6,965,197
Net Income	**$14,427,113**
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2005	$76,283,849
Net Income	14,427,113
Change in Net Unrealized Capital Gains or (Losses)	1,986,462
Change in Net Deferred Income Tax	0
Change in Non-Admitted Assets	0
Change in Provision for Reinsurance	0
Surplus Adjustments:	0
Paid-In	1,000
Surplus as Regards Policyholders, December 31, 2006	**$92,698,424**

Notes to the Financial Statements

None.

Examination Changes

None.

General Comments and/or Recommendations

Terms of Management Agreement (page 6)

The Management Agreement with HSG states that MHP will pay HSG an amount to compensate for overhead costs and a return on investment. However, the Agreement does not specify the dollar amount or percentage that is to be paid by MHP. During 2006, this fee was 1% of the direct costs incurred. The Agreement should be amended to specify this percentage or any other percentage or dollar amount that will be paid by MHP.

Claim Processing Fees Paid to HSG (page 7)

MHP has a policyholder with a $1,000,000 deductible that pays a 10% fee for claims processed and adjudicated. The 10% claims processing fee is charged to the policyholder and collected by MHP, pursuant to terms of the policy. The Company remits the claim processing fees it collects from this policyholder to HSG, since the employees of HSG actually perform the claim processing services. However, there is no written agreement between MHP and HSG for this arrangement. The Company should execute an written agreement with HSG to formally document the terms of the amounts that are to be paid to HSG per this claims processing arrangement.

SUBSEQUENT EVENTS

A $10,000,000 dividend to be paid to policyholders in 2007 was approved at the March 8, 2007 Board of Directors meeting. This dividend amount represents 11% of MHP's capital and surplus, as of December 31, 2006.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Hospital Plan during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, Larry Kleffner, CFE, Shannon Schmoeger, CFE, and Angi Campbell, CFE, examiners for the Missouri DIFP, participated in this examination. David Cox, FCAS, MAAA, an actuary for the Missouri DIFP, also reviewed the loss and LAE reserves in this examination.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Tim L. Tunks, 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 Missouri Hospital Plan, 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.

Tim L. Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 17th day of MAY, 2007.

My commission expires: 5-14-08 Linda S Schroer
Notary Public

LINDA S. SCHROER
Notary Public - Notary Seal
STATE OF MISSOURI
Cole County
My Commission Expires May 14, 2008

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.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri DIFP

Healthcare Services Group

Missouri Hospital Plan *Providers Insurance Consultants, Inc.* *Medical Liability Alliance*

June 27, 2007

RECEIVED
JUN 28 2007
INSURANCE SOLVENCY & COMPANY REGULATION

Frederick G. Heese, CFE, CPA, Acting Director
Insurance Solvency and Company Regulation Division
Missouri Department of Insurance, Financial Institutions, and Professional Registration
301 W. High Street, Room 530
P. O. Box 690
Jefferson City MO 65201-0690

Re: Missouri Hospital Plan (MHP)
Examination Report as of December 2006

Dear Mr. Heese:

Your correspondence dated June 21, 2007 is hereby acknowledged. Your staff is to be commended on its professionalism and consideration toward the entire HSG staff.

The Examination contained two **General Comments and/or Recommendations**, as noted below with my commentary:

1. *"The Management Agreement with HSG states that MHP will pay HSG an amount to compensate for overhead costs and a return on investment. However, the Agreement does not specify the dollar amount or percentage that is to be paid by MHP. During 2006, this fee was 1% of the direct costs incurred. The Agreement should be amended to specify this percentage or any other percentage or dollar amount that will be paid by MHP."*

   The Agreement in question was executed in January 1, 1999 and expires on December 31, 2009. It effectively sets an upper limit on the amount that HSG has charged MHP since it was first executed. Prior to 2006, the "fee" was 3% of direct costs incurred by HSG. In 2006 the "fee" was reduced to 1%. In reality, the "fee" that is actually charged recognizes, as a credit (reduction) 99% of all HSG revenue sources, resulting in an amount that is considerably less than 1% of the direct costs incurred. The current methodology produced an ***other underwriting expense to net premiums written percentage*** of 5.4% which is very favorable to MHP.

   We agree that the Management Agreement does not delineate the current method of "fee" calculation. A new agreement will be crafted that clearly enumerates the various components of the Management Fee charged by HSG to MHP, including an upper limit on the percentage markup. HSG will share this information with the DIFP before its final execution.

2. *"MHP has a policyholder with a $1,000,000 deductible that pays a 10% fee for claims processed and adjudicated. The 10% claims processing fee is charged to the policyholder and collected by MHP subject to terms of the policy. The Company remits the claim processing fees it collects from this policyholder to HSG, since the employees of HSG actually perform the claim processing services. However, there is no written agreement with HSG to formally document the terms of the amounts that are to be paid to HSG per this claims processing arrangement."*

   We agree. The above referenced general Management Agreement between HSG and MHP will include a provision addressing your recommendation.

Finally, please advise when we will be authorized to distribute copies of this Examination Report.

Sincerely,

Michael J. Delaney, CPCU
President and Chief Executive Officer

Cc - R. Anderson, Chief Financial Officer
Cc - D. Frese, Carson & Coil