Matt Blunt
Governor

Department of Insurance
Financial Institutions
and Professional Registration

State of Missouri

W. Dale Finke, Director

INSURANCE SOLVENCY & COMPANY REGULATION DIVISION
Kirk Schmidt, Division Director

RE: Examination Report of Missouri Physicians Mutual as of December 31, 2005

ORDER

After full consideration and review of the report of the financial examination of Missouri Physicians Mutual for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, W. Dale Finke, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report, with the following modifications or corrections:

(1) The following statement is added to the end of the second paragraph of Note 2 to the Notes to Financial Statements: "Expert Actuarial Services, LLC opined that loss and loss adjustment expense reserves were deficient by a minimum of $8,900,000 and a maximum of $15,100,000 net of reinsurance and a minimum of $6,800,000 and a maximum of $13,200,000 gross of reinsurance. Expert Actuarial Services, LLC, did, however, conclude that 79% of the claims reported during 2005 would close without an indemnity payment, as a result of the spike in claims that occurred before legislative tort reform measures went into effect. This is a much higher percentage than would normally have been used. Subsequent to the exam, the number of claims reported during 2006 has significantly decreased due to this 2005 spike;"

(2) The following statement is added to the end of Note 7 to the Notes to Financial Statements (and the non-admission of assets and the negative exam change of $2,427,442 for real estate occupied by the company reversed): "Due to special circumstances regarding the company's purchase and improvement of the real estate occupied by the company, the company will be allowed to admit the sum of $2,427,442 as of December 31, 2005, provided that the company fully amortizes this sum in five equal installments over each of the five

consecutive calendar quarters beginning with the calendar quarter ending March 31, 2006, and that the company admit no further sums for improvements with regard to such real estate without the prior express written approval of the Director;"

(3) As a result of the modifications and corrections stated in paragraph (2) above, in the Examination Changes, the "Examination Changes" is restated to ($4,196,558) and the "Total Capital and Surplus Per Examination, December 31, 2005" is restated to ($2,229,849); and

(4) The following statement is added at the end of "Territory and Plan of Operation – Assessments" in the General Comments and/or Recommendations: "The company is required by House Bill No. 1837 (Laws 2006), adopted after the as of date of the examination, to include within its articles or bylaws a method for assessing former members in the event of insolvency."

After my consideration and review of such report, workpapers, and written submissions or rebuttals, the examination report as modified or corrected is incorporated by reference and deemed to be the Director's 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 Physicians 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 mentioned in the General Comments and/or Recommendations section of such report; and (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 20 day of September, 2006.

W. Dale Finke

W. DALE FINKE, Director

REPORT OF
FINANCIAL EXAMINATION

MISSOURI PHYSICIANS MUTUAL

AS OF
DECEMBER 31, 2005

STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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May 24, 2006
St. Louis, Missouri

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

Honorable Ann Womer Benjamin, Director
Department of Insurance
State of Ohio
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs/Madam:

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 Physicians Mutual

hereinafter referred to as such or as "MPM" or as the "Association." MPM's statutory home office is located at 287 North Lindbergh Boulevard, St. Louis, Missouri 63141, telephone number (314) 743-4030. This examination began March 6, 2006 and concluded May 24, 2006.

SCOPE OF EXAMINATION

Period Covered

The current full scope association financial examination covers the period from Association's inception (February 27, 2003) through December 31, 2005, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring subsequent to December 31, 2005.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the state of Missouri prevailed.

COMMENTS PREVIOUS EXAMINATION

This is the first examination of Missouri Physicians Mutual.

HISTORY

General

MPM was issued a Certificate of Authority by the Missouri Department of Insurance to operate as an assessment association under Chapter 383 RSMo, (Malpractice Insurance) on February 24, 2003. The Association commenced business on February 27, 2003.

Capital Stock

The Association operates as an assessment association and is not authorized to issue capital stock. Each member pays an initial assessment of $100 upon admission to membership and is liable for subsequent assessments in accordance with the Articles of Association and Bylaws.

Dividends

Section 383.025 RSMo, (Commencement of business; members' liability) provides that the business of the Association be conducted so as to preclude any distribution of income, profit or property of the Association to the individual members thereof except in payment of claims or indemnities or upon the final dissolution of the association, but the Association may pay dividends to its members as long as the association has a positive surplus both before and after any such dividend is declared.

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

Management

The Association's Bylaws prescribe in Article III that the Association be managed by a board of directors consisting of not less than three members. The members and terms of the initial Board of Directors are set in the Articles of Association. Successor directors are elected by the members at the Annual Members' meeting pursuant to the Bylaws.

Board members serving at December 31, 2005, were as follows:

Name and Location	Business Affiliation
Timothy H. Trout St. Louis, Missouri	President and Managing Director Missouri Physicans Mutual
Richard T. Meyer St. Louis, Missouri	Corporate Controller Frucon Construction Corporation
John W. Lorei Kansas City, Missouri	Physician Metro Emergency Physicians

Article IV of the Bylaws states that the directors shall elect a President, Treasurer, Secretary and such other officers and assistant officers as the Board of Directors deems appropriate. Officers are elected at the Annual Board of Directors Meeting and serve until a successor is named for his position.

Officers elected and serving as of December 31, 2005, were as follows:

Name	Office
Timothy H. Trout	President
James L. Trout, Jr.	Vice President-Operations & Assistant Secretary
Andrew Trout	Vice President-Underwriting
Richard T. Meyer	Treasurer

Conflict of Interest

The Articles of Association (Article XI) addresses conflicts of interest between MPM and its directors/officers. The Association does not, however, require directors/officers to sign conflict of interest statements. The Association should require all directors and officers, to execute conflict of interest disclosure statements annually.

Corporate Records

Minutes of the Board of Directors and Members Meetings were reviewed for the period under examination. The Association's minutes lack documentation of the board's approval and understanding of many significant corporate events. Examples of these events include the lack of documentation regarding MPM's transfer of control of investment authorization to Hancock Investment Group, significant costs associated with renovations of the Association's office building, the fee structure for services provided through the management contract, and the documentation of proxy votes at member meetings. Significant transactions such as these should be better documented to show the board's review and approval of these transactions.

MPM's Articles of Association and Bylaws were also reviewed. The Articles and Bylaws (and subsequent amendments thereto) were appropriately submitted to the Missouri Department of Insurance.

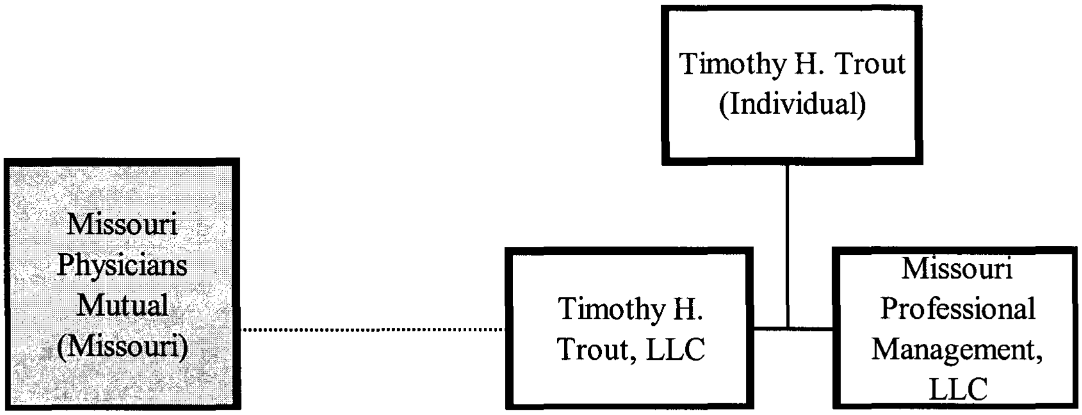
Acquisitions, Mergers and Major Corporate Events
The have been no acquisitions, mergers or major corporate events since the Association was formed in 2003.

Surplus Debentures
The Association has not issued any surplus debentures.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates
Missouri Physicians Mutual was formed under Chapter 383 RSMo (Malpractice Insurance). Unless specifically provided in Section 383, no other insurance law of the state of Missouri applies to an association licensed pursuant to the provisions of this chapter, unless such law shall expressly state it is applicable to such associations. As such, Missouri Physicians Mutual is not subject to the insurance holding company requirements of traditional insurers prescribed under Chapter 382 RSMo.

Associations formed under Chapter 383 RSMo are, however, subject to the NAIC Accounting Practices and Procedures Manual (AP&P Manual) for financial reporting purposes. SSAP No 25 of the AP&P Manual defines an affiliate as "any person that is directly or indirectly, owned or controlled by the same person or by the same group of persons, that directly or indirectly, own or control the reporting entity." Based on this definition, MPM is affiliated with the following companies by virtue of Timothy H. Trout owning or having a controlling interest in each:


Timothy H. Trout (Individual)
Missouri Physicians Mutual (Missouri)
Timothy H. Trout, LLC
Missouri Professional Management, LLC

Affiliated Transactions
The Company has entered into various agreements with affiliates including:

1. Type: Management Agreement
   Parties: MPM and Missouri Professional Management, LLC (MP-Management)
   Effective: Approved by the Board of Directors February 26, 2003
   Terms: MP-Management provides services including the day-to-day management of MPM's operations, processing of applications, claims, and assessments and collaboration with MPM on underwriting standards. In return for these services, MPM pays MP-Management 10% of earned premium. The contract specifies that MP-Management is not exclusive to MPM and is not prohibited from providing management services to other entities. The contract also states that MP-Management shall maintain, at its own expense, such equipment, material and experts, as necessary to perform services for MPM.

   The Management Agreement does not specifically address many fees that are being incurred by MPM that are not being passed on to MP-Management. The largest of these fees is rent that is not being charged to MP-Management. MPM allows MP-Management occupancy of 100% of its office building (to manage MPM's operations) at no charge. Many other lesser expenses are also paid by MPM for the daily operation of the company/property, which are not passed on to MP-Management. The current terms of this arrangement are ambiguous and leave too much room for interpretation. We recommend that the Management Agreement between MPM and Missouri Professional Management, LLC be revised to more clearly identify all services provided by MP-Management as well as all fees paid by MPM for services provided. The amount of rent charged to MP-Management for occupancy of MPM's building should be identified separately in the monthly service fee as to correctly identify this as income in MPM's financial statements.

   The Management Agreement contains a termination clause stating that MPM must pay MP-Management a termination fee if the contract is terminated for any reason other than mutual agreement. The termination fee is equal to MP-Management's choice of seven times all amounts paid under the agreement for the twelve months prior to termination or 10% of MPM's premiums during the seven year period commencing with the date of termination. The agreement does not contain any provision for release of this fee due to nonperformance of duties by MP-Management. The Management Agreement should be revised to reflect the best interests of the members of MPM and an arms length agreement. As such, the agreement should contain a more reasonable termination fee and include provisions to allow MPM to withdraw from the contract without application of the termination clause, due to items such as nonperformance or underperformance of the duties and services provided by MP-Management.

In addition, MPM should disclose the nature and terms of the termination clause in the Annual Statement, Notes to Financial Statements as prescribed by SSAP No. 27.

2. Type: Policy Acquisition Agreement
Parties: MPM and Timothy H. Trout (Individual); subsequently assigned to Timothy H. Trout, LLC (Trout LLC)
Effective: February 28, 2003, assigned to Trout LLC August 31, 2003
Terms: MPM entered into a Policy Acquisition Agreement with Timothy H. Trout (Individual) to provide brokerage services for MPM, including the exclusive right to introduce, solicit, promote and sell all products of MPM. The Association pays commissions of 10% of premiums for these services. Timothy H. Trout (Individual) later assigned the duties to be performed by him under this agreement to Timothy H. Trout, LLC. A separate Policy Acquisition agreement was subsequently entered between Timothy H. Trout and Keane Insurance Group (Keane) transferring the brokerage services and related fees to Keane. MPM consented to the assignment of these duties.

The Policy Acquisition Agreement contains a termination clause similar to the clause contained in the Management Agreement described above. MPM must pay Timothy H. Trout, LLC a termination fee if the contract is terminated for any reason other than mutual agreement. The terms of the termination fee are the same as the Management Agreement. The Policy Acquisition Agreement should be revised to reflect the best interests of the members and an arms length agreement. As such, the agreement should contain a more reasonable termination fee and include provisions to allow MPM to withdraw from the contract without application of the termination clause, due to items such as nonperformance or underperformance of the duties and services provided by Timothy H. Trout, LLC or Keane Insurance Group.

In addition, MPM should disclose the nature and terms of the termination clause in the Annual Statement, Notes to Financial Statements as prescribed by SSAP No. 27.

FIDELITY BOND & OTHER INSURANCE

Missouri Physicians Mutual is a named insured on a financial institution bond providing coverage against losses due to dishonest or fraudulent employee acts with a $5,000,000 limit of liability and a $50,000 deductible. While this coverage meets the suggested minimum coverage recommended by the NAIC, MPM does not actually have any employees. We recommend that the firm managing MPM's operations (Missouri Professional Management, LLC) be added as a named insured on this policy. In addition, MPM's insurance broker (Keane Insurance Group) maintains a fidelity bond for MPM's protection, due to Keane Insurance Group collecting all premiums on behalf of MPM. The fidelity bond maintained by Keane Insurance Group does not include MPM as a named insured. MPM should be added as a named insured to this policy.

MPM is also the named insured on a Business Owners Policy, providing coverage for the Association's office building and contents. The policy includes coverage for commercial general liability, with limits of $1 million per occurrence / $2 million aggregate.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Missouri Physicians Mutual does not have any employees. All personnel services are provided through contracts with outside parties.

STATUTORY DEPOSITS

Deposits with the State of Missouri and Other States

Associations formed under Chapter 383 RSMo are not required to maintain a deposit with the state of Missouri. MPM is not licensed to write insurance in any other state.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Association is licensed by the Missouri Department of Insurance under Chapter 383 RSMo, (Malpractice Insurance) as a Professional Malpractice Assessable association. The Association's membership consists of approximately 2,500 physicians located throughout the state of Missouri.

The Association writes primary medical malpractice coverage, with the majority of policies containing maximum limits of $1,000,000 per loss ($3,000,000 annual aggregate). Approximately eight policies are written with limits in excess of these amounts. All policies are written on a claims-made basis. The Association also offers reduced limits policies for prior acts and tail insurance coverage.

As MPM is an assessable association, the Articles of Association and Bylaws appropriately provide for the method of assessment as required by Section 383.015 RSMo. The current assessment method stipulates that operating or special assessments will only be distributed to those members whose policy periods encompass the date that such assessment is levied. Operating and special assessments are to be made in proportion to each member's percentage of annualized premiums compared to total annualized premiums. We recommend that the Association consider amending its Articles of Association and Bylaws to include an option to allow MPM to also assess former members based on the results for years in which they were policyholders. This method would more appropriately attribute operating or special assessments with members who actually incurred the related losses.

Service Contracts

The Association's business model involves outsourcing many of its business functions. MPM believes that outsourcing these services enables the Association to control staff size, keep overhead expenses in check and use specific business expertise only on an as-needed basis. Significant business relationships are described below:

Managing Agent

As described above in the *Affiliated Companies* section, MPM contracts with Missouri Professional Management, LLC (MP-Management) to provide the day-to-day operations of the Association. MP-Management is affiliated with MPM (as defined by SSAP No 25) through common control and management.

Defense Management

Carmody MacDonald P.C., provides the majority of MPM's defense management services. The services provided include investigation of claim incidents, claim coverage verification, establishment and revision of case reserves as well as the actual legal defense of claims against MPM members. The firm also provides various other services including claim file maintenance and storage, reinsurance reviews and coordination of monthly meetings with MPM to review outstanding claims.

Defense services are provided according to two "letters of agreement" between the companies. The letters are vague as to the amounts charged for services and also describe different services to be provided. The letters refer to fees based both on hourly rates as well as a set percentage of collected premium. The current fee paid to Carmody MacDonald, P.C. is based on hourly rates. The Association should update its agreement with Carmody MacDonald, P.C. to formalize the terms of this arrangement in one service agreement. The agreement should describe all services to be provided and fees associated with these services.

Insurance Broker

Keane Insurance Group, LLC has exclusive right to introduce, solicit, promote and sell products of MPM. Authority to act as exclusive agent for MPM was transferred from Timothy H. Trout to Keane as discussed in the *Affiliated Companies* section above. As stated above, this assignment was performed through a separate agreement between Trout and Keane. As such, there is no direct agreement between MPM and Keane for services provided, however, MPM has consented to this arrangement. Premiums are collected by Keane and submitted net of commission to MPM on a monthly basis.

As stated above, the Policy Acquisition Agreement between MPM and Timothy H. Trout, LLC contains a termination clause, which should be amended to reflect the best interest of MPM policyholders. The Policy Acquisition Agreement between Timothy H. Trout and Keane contains provisions that a portion of the termination fee is passed on to Keane Insurance Group, should the agreement be cancelled for any reason other than mutual agreement between Trout and MPM. The agreement should be revised to include provisions to allow MPM to withdraw from the contract, without application of the termination clause, due to items such as nonperformance or underperformance of the duties and services provided by Timothy H. Trout, LLC or Keane Insurance Group.

Accounting Services

Brown Smith Wallace, LLC provides all accounting functions for MPM. These services include bank account reconciliations, general ledger maintenance, financial reporting, statutory filings, tax preparation and other special projects.

Investment Management

Hancock Investment Advisors, L.L.C (Hancock) provides continuous investment management of MPM's investment account. Hancock is granted full discretion in the management of the account and is authorized to invest/reinvest funds in accordance with MPM's guidelines.

Policy Forms, Rates & Underwriting; Advertising & Sales Materials; Treatment of Policyholders

The Association has filed its premium rates with the director of the Missouri Department of Insurance in accordance with Section 383.035 RSMo. The filed rates are based on the doctor's specialty, territory and policy limits. The Association is charging premium rates which are less than the filed rates to a small number of its policyholders. This practice is in violation of RSMo 383.035.8, which allows rates in excess of the filed rates (with the member's consent), but does not allow for rates less than the filed rates. The Association should take steps to ensure compliance with RSMo 383.035.

The Missouri Department of Insurance has a market conduct staff, which performs a specific review of these issues and generates a separate market conduct report. The only review of MPM by market conduct was a limited scope medical malpractice review. The results of this review did not include any adverse findings that would have a material impact on the Association's financial statements.

REINSURANCE

General

Direct written, assumed and ceded premium for the current examination period was as follows:

	2005	2004	2003
Direct Business	$ 42,450,735	$ 37,717,350	$ 18,873,274
Reinsurance Assumed	-	-	-
Reinsurance Ceded	5,930,923	6,073,853	3,700,000
Net Premiums	$ 36,519,812	$ 31,643,497	$ 15,173,274

Assumed

The Association does not assume any reinsurance.

Ceded

The Association maintains excess of loss reinsurance covering all of its policies. The reinsurance contract covering the period of March 1, 2003 to February 28, 2006, was structured as a series of three, one-year agreements effective March 1 through February 28. The reinsurance was purchased through Lloyds of London, with the following reinsurers participating: Ace Tempest Re (40%), Aspen Re (40%), and AFB Beazley (20%). Each of the reinsurers is authorized in Missouri.

Under the terms of this agreement, the Association retains $300,000 of the ultimate net loss, each claim, each insured and $750,000 of the ultimate net loss each occurrence. Loss adjustment expenses are not ceded under this agreement.

As discussed in the *Subsequent Events* section below, this reinsurance treaty was commuted in 2006, resulting in a return of premium of approximately $11,600,000 to MPM.

ACCOUNTS AND RECORDS

General

The Association currently uses an internally developed policy and claims administration system (Microsoft Access database application) to track and record policyholder information. MPM uses a commercially written general ledger software system (QuickBooks) to record financial information.

The Association has recently contracted with an outside software development firm to design and support a custom browser-based software application, which will capture company specific policy and claims information. The Association also intends to convert to the Great Plains general ledger software system.

Independent Auditor

The Association's financial statements were audited by the independent CPA firm Kerber, Eck & Braeckel, LLP for the years ending 2003 to 2005. We reviewed the workpapers of the 2004 CPA audit. These workpapers and reports were used in the course of this examination as deemed appropriate. The 2005 CPA workpapers were not available at the time of our review.

Independent Actuary

Loss reserves were reviewed and certified by IRMS Actuarial Service for 2003, Sigma Actuarial Consulting Group, Inc. for 2004 and by Streff Insurance Services for 2005. The Missouri Department of Insurance engaged an independent actuary, Jon Michelson, FCAS, MAAA with Expert Actuarial Services, LLC to perform a review of the Association's reserve calculations and determine that reserving methodologies were appropriate. Significant findings of MDI's consulting actuary were incorporated into our examination report.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association as of December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column 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 Association and noted in the examination workpapers.

ASSETS

		Ledger and Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds		$ 35,600,958		$ 35,600,958
Common stocks	NOTE 6	1,608,281		1,608,281
Real estate occupied by the company	NOTE 7	2,427,442	2,427,442	0
Cash and short term investments	NOTE 6	757,745		757,745
Investment income due and accrued		294,266		294,266
Premiums in course of collection	NOTE 4	2,971,255		2,971,255
Deferred premium not yet due	NOTE 4	2,880,446		2,880,446
Amounts receivable under reinsurance	NOTE 1	8,381,979		8,381,979
Federal and foreign income taxes		82,532		82,532
Net deferred tax asset		2,258,210	944,314	1,313,896
EDP equipment and software		66,956	19,247	47,709
Furniture & other non-admitted assets		207,000	207,000	0
Premium on Deposit with Reinsurer		2,503,907		2,503,907
Total Assets		$ 60,040,977	$ 3,598,003	$ 56,442,974

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	NOTE 2	$ 36,541,250
Loss adjustment expenses	NOTE 2	6,550,000
Commissions payable		351,524
Other expenses	NOTE 3	900,063
Unearned premiums	NOTE 5	16,757,428
Total Liabilities		$ 61,100,265
Unassigned funds (surplus)	NOTE 8	$ (4,657,291)
Total Capital and Surplus		$ (4,657,291)
Total Liabilities and Capital and Surplus		$ 56,442,974

SUMMARY OF OPERATIONS

Premiums earned	$ 33,951,565
Losses incurred	17,124,620
Loss expenses incurred	4,184,634
Other underwriting expenses incurred	11,925,331
Total underwriting deductions	33,234,585
Net underwriting gain or (loss)	716,980
Net investment income earned	956,527
Net realized capital gains or (losses)	(39,530)
Net investment gain or (loss)	916,997
Other Income	11,022
Net income before dividends and federal income taxes	1,644,999
Federal income taxes incurred	1,157,115
2005 Net income or (loss)	$ 487,884

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, prior year		$ 859,457
Net income	487,884	
Change in nonadmitted assets	(76,674)	
Change in net deferred income tax	696,042	
Examination Changes To Surplus	(6,624,000)	
Change in surplus as regards policyholders		(5,516,748)
Surplus as regards policyholders, December 31, 2005		$ (4,657,291)

EXAMINATION CHANGES

Surplus as regards policyholders per Association, December 31, 2005:

Unassigned funds (surplus)	$1,966,709
Total surplus as regards policyholders	$1,966,709

	Increase In Surplus	Decrease In Surplus	
Amounts receivable under reinsurance	8,381,979		NOTE 1
Losses		8,500,000	NOTE 2
Loss adjustment expenses		4,500,000	NOTE 2
Other expenses	428,038		NOTE 3
Premium in course of collection	326,561		NOTE 4
Deferred premium		403,552	NOTE 4
Unearned Premium	70,416		NOTE 5
Common Stock	1,608,281		NOTE 6
Cash		1,608,281	NOTE 6
Real Estate		2,427,442	NOTE 7
Totals	10,815,275	17,439,275	
Net Change		($6,624,000)	NOTE 8

Surplus as regards policyholders per examination, December 31, 2005:

Total surplus per Association	$1,966,709
Examination Changes	(6,624,000)
Total surplus per examination, December 31, 2005:	**($4,657,291)**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 Amounts receivable under reinsurance $8,381,979

Amounts receivable under reinsurance was increased from $0 to $8,381,979, to reflect the adjustable premium feature of the Association's reinsurance treaty. The Association's loss experience indicates that the premium owed to the reinsurer should be based on the minimum premium, rather than the provisional premium that has been paid over the life of the contract. Allowance for this difference as an admitted asset is prescribed by SSAP No 62, paragraph 73, e. The examination allowed this as an admissible asset due to the commutation of the reinsurance treaty in 2006. Without the commutation, the terms of the reinsurance agreement would have restricted this asset and made it not admissible under statutory accounting. Further description of the commutation of the 2003-2005 reinsurance agreements is included in the *Subsequent Events* section of the report. MPM's Annual Statement also included assets of $2,503,907 related to reinsurance premiums that were reported elsewhere on the balance sheet.

NOTE 2 Losses $36,541,250
Loss adjustment expenses $6,550,000

Losses and Loss adjustment expenses were increased by $8,500,000 and $4,500,000 respectively, with $12 million of the increase based on "the selected point estimate of net reserve" projections of MDI's consulting actuary. The remaining $1 million of the increase results from the incorporation of the 2006 reinsurance commutation noted above. Reserves were increased to equal Expert Actuarial Services, LLC's gross reserve projections after including the commutation transaction.

MDI's consulting actuary, Expert Actuarial Services, LLC opined that the Association's loss and loss adjustment expense reserves as reported in the 2005 Annual Statement were below the requirements of the insurance laws of the state of Missouri, below amounts computed in accordance with accepted loss reserving standards and principles, and make an inadequate provision in the aggregate for all unpaid loss and loss adjustment expense obligations of the Association under the terms of its contracts and agreements. Expert Actuarial Services, LLC opined that loss and loss adjustment expense reserves were deficient by $12,000,000 net of reinsurance and $10,000,000 gross of reinsurance.

Included in the examination adjustment is a reclassification of $428,038 from Other Expenses to Loss Adjustment Expenses. The Association misclassified loss adjustment expenses for which they were billed in 2005 and paid in 2006. The consulting actuary's reserves included this accrual as his reserve calculations were based on expected amounts. This reclassification has no net impact on surplus.

NOTE 3 ***Other expenses*** ***$900,063***

As stated above in Note 2, a reclassification was made decreasing Other Expenses and increasing Loss Adjustment Expenses with no effect upon surplus.

NOTE 4 ***Premiums in course of collection*** ***$2,894,194***
Deferred premiums ***$2,957,498***

We reclassified $326,561 from Deferred premium to Premium in course of collection to properly classify installment premiums due in December 2005, that were collected in January 2006. This reclassification has no net impact on surplus

Deferred premium was reduced by an additional $76,991. MPM overstated the asset due to the coverage and premium of one policy changing significantly during 2005.

NOTE 5 ***Unearned premiums*** ***$16,903,844***

The Unearned premiums liability was decreased by $70,416. The Association's unearned premium calculation contained errors related to add-ons and other adjustments causing the unearned premium liability report in the 2005 Annual Statement to be overstated.

NOTE 6 ***Common stocks*** ***$1,608,281***
Cash ***$757,745***

An examination adjustment reclassified $1,608,281 from Cash to Common Stock. The Association reported $1,608,281 invested in the LaSalle Enhanced Liquidity Management fund as cash. This fund is not on the SVO's class 1 mutual fund list and should be classified as common stock in accordance with Part 4, Section 9(e) of the SVO Purposes & Procedures Manual. MPM subsequently moved these funds to a money market mutual fund which is included on the SVO class 1 mutual fund list.

NOTE 7 ***Real Estate Occupied By Company*** ***$0***

Real Estate was reduced from $2,427,442 to $0. The examination non-admitted the entire value of the Association's real estate investment to comply with statutory investment limitations. Section 383.035.1(8) RSMo limits investments to those prescribed by Section 379.080 RSMo. This statute states that companies may invest in real estate to the extent allowed by this section and any other provision of law. Section 375.330.1(1) relates to real estate investments and limits investments in home office real estate that are first approved by the Director of MDI to 20% of capital and surplus as shown in the company's last Annual Statement. MPM did not obtain approval from the Director of MDI prior to the purchase of the real estate. In addition, MPM's capital and surplus was negative in the 2003 Annual Statement (the year preceding when the real estate was originally purchased), thus disallowing the book value as an admitted asset in 2004. Without this asset, 2004 surplus would have been negative, which causes the book value of the 2005 real estate improvements also disallowed as admitted assets.

NOTE 8 Unassigned funds (surplus) ($4,657,291)

The cumulative effect of examination changes decreased the Association's surplus below zero dollars. The Association should take steps to restore surplus to at least zero dollars.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Conflict of Interest Page 3

The Association does not require directors/officers to sign conflict of interest statements. We recommend that the Association require all directors and officers, to execute conflict of interest disclosure statements annually.

Corporate Records – Board Minutes Page 3

The Association's minutes lack documentation of the board's approval and understanding of many significant corporate events. All significant transactions should be sufficiently documented to show the board's review and approval of these transactions.

Management Agreement - Expenses Page 5

The Management Agreement between MPM and Missouri Professional Management, LLC (MP-Management) should be revised to more clearly identify all services provided by MP-Management as well as all fees paid by MPM for services provided. The amount of rent charged to MP-Management for occupancy of MPM's building should be identified separately in the monthly service fee to correctly identify this as income in MPM's financial statements.

Management Agreement - Termination Clause Page 5

The Management Agreement between MPM and Missouri Professional Management, LLC (MP-Management) should be revised to reflect the best interests of the members of MPM and an arms length agreement. As such, the agreement should include provisions to allow MPM to withdraw from the contract without application of the termination clause, due to items such as nonperformance or underperformance of the duties and services provided by MP-Management. In addition, MPM should disclose the nature and terms of the termination clause in the Annual Statement, Notes to Financial Statements as prescribed by SSAP No. 27.

Policy Acquisition Agreement - Termination Clause Page 6

The Policy Acquisition Agreement between MPM and Timothy H. Trout, LLC should be revised to reflect the best interests of the members and an arms length agreement. As such, the agreement should include provisions to allow MPM to withdraw from the contract without application of the termination clause, due to items such as nonperformance or underperformance of the duties and services provided by Timothy H. Trout, LLC or Keane Insurance Group. In addition, MPM should disclose the nature and terms of the termination clause in the Annual Statement, Notes to Financial Statements as prescribed by SSAP No. 27.

Fidelity Bond Coverage Page 6

The Association should update its financial institution bond to include the firm managing MPM's operations (Missouri Professional Management, LLC) as a named insured, as this is the legal entity that actually employs personnel acting on MPM's behalf. In addition, MPM should be added as a named insured on the fidelity bond purchased for MPM's protection by its insurance broker (Keane Insurance Group).

Territory and Plan of Operation - Assessments Page 7

We recommend that the Association consider amending its Articles of Association and Bylaws to include an option to allow MPM to assess former members based on the results for years in which they were policyholders. This method would more appropriately attribute operating or special assessments with members who actually incurred the related losses.

Defense Service Agreement Page 8

The Association should update its agreement with Carmody MacDonald, P.C. (Carmody) to formalize the terms of arrangements regarding defense services in one service agreement. The agreement should describe all services provided by Carmody and the fees associated with these services.

Premium Rates Page 9

The Association is charging premium rates which are less than the rates filed with the Missouri Department of Insurance to a small number of its policyholders. This practice is in violation of RSMo 383.035.8, which allows rates in excess of the filed rates (with the member's consent), but does not allow for rates less than the filed rates. The Association should take steps to ensure compliance with RSMo 383.035.

Examination Changes - Minimum Surplus Requirements Page 14

The cumulative effect of the examination changes described in the *Examination Changes* and *Notes To Financial Statements* sections of this report decreased the Association's surplus below zero dollars. We recommend that the Association take all steps reasonably necessary to restore its surplus as regards policyholders to at least zero dollars.

SUBSEQUENT EVENTS

During the first quarter of 2006, MPM commuted its reinsurance treaties covering the period of March 2003 through February 2006. MPM's loss experience during this period indicates that it would be very unlikely for MPM to have claims sufficient enough to pierce through its reinsurance retention amount for this time period. As such, MPM commuted these treaties to regain access to the premium it had paid in excess of the minimum reinsurance premium due under the treaty. The net amount returned to MPM in 2006 was approximately $11,400,000. MPM will reassume its ceded loss reserves as a result of MPM recapturing this exposure. In addition, the final treaty year of this contract was commuted on an earned basis. As such, the unearned portion of the premium related to the final year was rolled into a new reinsurance treaty covering calendar year 2006. MPM will pay reinsurance premium on the unearned portion of premiums throughout 2006 pursuant to the terms of the new reinsurance treaty.

The above *Financial Statements* and *Examination Changes* include assets of approximately $10,900,000, related to the overpayment of reinsurance premiums described in the above paragraph. The difference of approximately $500,000 results from the timing difference of the treaty being commuted on February 28, 2006 versus the December 31, 2005 examination date.

MPM renewed its reinsurance coverage (with the same reinsurance carriers) for the 2006 treaty year under similar terms and conditions as in previous years.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Physicians Mutual during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, John M. Boczkiewicz, CPA, CFE and Maipandi Obeth, examiners representing the Missouri Department of Insurance, participated in this examination.

VERIFICATION

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

I, Michael R. Shadowens, 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.

Michael R. Shadowens, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 9th day of August, 2006.

My commission expires:

October 13, 2009

NOTARY PUBLIC
NOTARY SEAL
STATE OF MISSOURI

JANE A. WAGGANER
My Commission Expires
October 13, 2009
St. Charles County
Commission #05552291

Jane A. Waggoner
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 the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Christiana Dugopolski
Christiana Dugopolski, CPA, CFE
Audit Manager, St. Louis
Missouri Department of Insurance
Midwestern Zone, National Assoc. of Ins. Commissioners

RECEIVED
AUG 11 2006
DIVISION
FINANCIAL REGULATION

Carmody MacDonald

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RECEIVED
MO INS DEPT
AUG 25 2006

Donald R. Carmody
drc@carmodymacdonald.com
Direct Dial: (314) 854-8655

August 24, 2006

Michael R. Shadowens, CFE
Examiner-in-Charge
Missouri Department of Insurance
301 West High Street, Suite 530
Jefferson City, Missouri 65102-0690

Re: ***Report of Financial Examination: Missouri Physicians Mutual***
May 2006

Dear Mr. Shadowens:

This letter is written in response to the general comments and recommendations issued by the Missouri Department of Insurance ("MDI") in its May 2006 report entitled, *"Report of Financial Examination: Missouri Physicians Mutual."*

Since several of the comments pertain to similar general suggestions, we thought it appropriate to address these at the onset.

In several instances, MDI suggests that Missouri Physicians Mutual ("MPM") unilaterally change existing contractual obligations without any legal position justifying such a maneuver. These suggestions were made known to the MPM Board of Directors ("Board") and thoroughly discussed at the May 26, 2006 Board meeting. Obviously, while the Board wishes to implement appropriate recommendations, the Board believes it would not only be a violation of the contractual obligations, but also a clear demonstration of a lack of business integrity to simply demand contractual obligations be materially altered that were made in good faith between the parties at the time the contract was executed. This is particularly troublesome when the parties have more than satisfactorily performed those contractual obligations.

Further, as an insurance carrier, MPM has issued written policies to its insureds promising coverage as indicated in such policies. MPM intends to honor the promises and contractual obligations to its insureds and will not terminate such, as it believes this would demonstrate a lack of integrity, a wholesale violation of trust, and a breach of the very foundation of its contractual obligations.

The Board also believes that the MDI financial audit analysis was a result of a flawed engagement methodology, resulting in recommendations likewise flawed. MDI's financial position appears to be based upon the opinion of one actuary. And, while this actuary presented a wide range of financial reserve targets, MDI has apparently selected the highest requirement suggested. In the process, MDI is overlooking the opinions of multiple other independent auditors and actuaries who indicated that the existing MPM reserves and premiums were more than satisfactory.

Specifically, over the last three years MPM has undergone multiple separate audits from three highly respected, independent actuarial firms. Further, MPM advises that the results of these audits were supported by annual Lloyd's of London reviews from three different reinsurance companies.

MPM maintains that these multiple audits and reviews all demonstrate that MPM has consistently and fairly reported its financial results, including the existence of redundant (more than adequate) premiums and redundant reserves.

The following are specific responses to your comments.

Conflict of Interest: Please be advised that at the May 26, 2006 Board meeting, the Board approved the use of Conflict of Interest Disclosure Statements for officers and directors of MPM.

Corporate Records – Board Minutes: At its May 26, 2006 meeting, the Board was advised of the need to better document minutes and board resolutions. The Board agreed to do so.

Management Agreement – Expenses: The Board at its May 26, 2006 meeting agreed to establish procedures to facilitate the allocation of expenses (including lease considerations) between MPM and Missouri Professional Management, LLC. These procedures will include the participation of Brown Smith Wallace as MPM's accounting firm.

However, the Board voted not to amend the current agreement because: a) it was entered into in good faith by the parties at the time of execution; b) an amendment at this time would not be consistent with acceptable and credible business practices; and c) the Board believes that the procedures established per the above paragraph will be sufficient.

Management Agreement – Termination Clause: As indicated at the beginning of this letter, the Board believes this agreement was entered into in good faith by the parties at the time of execution and that an amendment at this time would not be consistent with acceptable and credible business practices.

Policy Acquisition Agreement – Termination Clause: The Board believes this agreement was entered into in good faith by the parties and reviewed by the Department of Insurance. Such an amendment at this time would not be consistent with that agreement and wholesale changes to the agreement are not acceptable business practices. Further, such change would be a material change to the agreed, acted and relied upon consideration for the agreement.

The two above-referenced Termination Clauses can have a stabilizing affect on the Company. The clauses make it more difficult for any one group or person from selling or otherwise taking over the Company.

Nonetheless, the parties to the agreements will investigate establishing a continuity plan for key management for the protection of MPM's ongoing operations in the event of illness or disability.

With respect to SSAP No.27, Brown Smith Wallace has indicated that it does not share your interpretation of SSAP No. 27; however, as an accommodation to MDI, Brown Smith Wallace has indicated that it will prepare a disclosure of this agreement in the upcoming filing.

Fidelity Bond Coverage: MPM's sales broker, Keane Insurance Group, maintains fidelity bond coverage. A copy of Keane's certificate of coverage, which is consistent with MDI's recommendations, was forwarded to MDI on July 24, 2006.

Territory and Plan of Operation – Assessments: MPM has reviewed this change and does not believe that this change is in the best interests of the members and former members of the Company.

Defense Service Agreement: The Board at its May 26 meeting discussed this recommendation. A new engagement letter, consistent with recommendations made by MDI, was approved for Carmody MacDonald. A copy of the engagement letter was supplied to you on July 24, 2006. Please note that in addition to Carmody MacDonald, MPM has strategic defense counsel across the state, all of whom are compensated on an hourly basis.

Legal defense strategies are managed proactively, which has allowed the Company to achieve its goal of keeping defense costs to 10% or less of gross written premium. MPM's accountants have confirmed that since MPM's inception, legal expenses have been kept to approximately 6.2% of written premium.

Premium Rates: This issue has arisen before with the Department, and my belief and position remain the same. For premiums in excess of filed rates, this section requires insured approval: however, no such requirement is made for charges less than the filed rates. My understanding is that Section 383.035 RSMo regulates 383 premiums that are in excess of filed rates and does not regulate premiums that are less than the filed rates. Actually, Section 383.037 otherwise governs the rate requirements, and, in particular for lower rates, Section 383.037(3) would be applicable. Obviously, any lower rates charged by MPM were never in violation of this statute.

Examination Changes – Minimum Surplus Requirements: As outlined at the beginning of this letter, MPM disagrees with the *Examination Changes* in the *Report of Financial Examination.* MPM has differing opinion in several areas, specifically those opinions are:

- MDI bases its financial position on the opinion of one actuary at Expert Actuarial Services (EAS). Overlooked in the process are the favorable audit opinions of three independent, highly respected actuarial firms, quarterly and annual reports from an independent CPA firm (which were certified by a second independent CPA firm and reviewed by MDI), and the results of annual audits conducted by three reinsurance companies from Lloyd's of London. All these reports and audits confirm proper rates and adequate reserves for MPM.

- In formulating its opinion, it appears that EAS diminishes the findings of Kentfield & Associates, a claim management consulting firm EAS retained. Kentfield reports "overstated", or more than adequate average case reserves, which "… were overstated in the aggregate by $457,500 or approximately 9%," based on "… a statistically valid sample of claims producing a 90% or better confidence level."

- Despite Kentfield's findings, we are troubled that EAS added $2,000,000 in additional reserves with no supporting documentation or specific reason provided.

- More detailed evaluation of the methodology and work product of EAS is found in the attached analysis by Streff Insurance Services, MPM's lead independent actuary. Streff expands on the key issues in the examination, stating, "Throughout this examination, I was disappointed in the consultant's unwillingness to blend industry loss patterns from multiple sources. If more industry data were included, it would have opened up the discussion to a wider range of possibilities and made the examiner's work more robust."

- Independent of MPM's dispute with the work product of EAS, the EAS opinion does present a financial range for loss reserves. In its final report MDI chose not to provide that financial range.

- The exclusion of MPM's home office as an admitted asset is misleading and unfair. This suggests to the casual reviewer that the headquarters building that MPM owns outright and free from debt is valued (for the purposes of admitted assets) at $0.00. Obviously, the headquarters has substantial value to MPM and that value we believe should be reflected in MPM's admitted assets. Additionally, MDI was fully aware of the investment in, and capital improvements made to, the building. The headquarters building was reported in the 2004 Annual Report, the First, Second and Third Quarter Reports of 2005, the 2005 Annual Report and the First Quarter Report for 2006. Never during this period was it suggested by MDI that this asset would not be an admitted asset.

Despite the differences of opinion outlined above, MPM remains in a positive surplus, and has also recorded significant strengthening of its reserves since December 31, 2005.

MPM will continue to be the leader in professional medical liability insurance coverage in the State of Missouri, both now and in the future.

Very truly yours,

CARMODY MacDONALD P.C.

Donald R. Carmody

DRC/krd

Enclosure

cc: Christiana Dugopolski, CPA, CFE
Audit Manager, St. Louis
Missouri Department of Insurance

√ Dale Finke
Director of Insurance
Missouri Department of Insurance

John W. Lorei, M.D.
Board of Directors
Missouri Physicians Mutual

Richard T. Meyer
Board of Directors
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Deputy Director and General Counsel
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Larry N. Pevnick, CPA
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Kirk Schmidt, CFE, CPA
Chief Financial Examiner
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Mark W. Stahlhuth, Esq.
Senior Counsel – Division of Financial Regulation
Missouri Department of Insurance

Timothy H. Trout
President and Managing Director
Missouri Physicians Mutual

Streff
INSURANCE SERVICES

James P. Streff, FCAS, MAAA
Stephen J. Streff, ACAS, MAAA

August 11, 2006

Mr. Timothy Trout
Managing Director
Missouri Physicians Mutual
287 Lindbergh Blvd.
St. Louis, MO 63141

Dear Mr. Trout;

Thank you for sending me a copy of the Report of Financial Examination for Missouri Physicians Mutual (MPM) by the Missouri Department of Insurance (MDI) for the year ending December 31, 2005 and for giving me an opportunity to help with the company's response.

The discussion of the loss and loss expense reserve estimates has been long. We have prepared numerous exhibits to support the estimates shown in MPM's Annual Statement and we explained our logic.

The comments in the attachment are intended as a summary of the key points that I believe need to be put in the public response to MDI's examination report regarding loss and loss adjustment. MPM is a young company underwriting medical malpractice insurance. In this environment, it should be recognized that a wide range of estimates is possible. Throughout this examination process, I was disappointed that we could not find common ground with the MDI's consultant and the lack of discussion about how tort reform would impact the company.

Nonetheless, I look forward to helping MPM thrive and remain the company of choice in the Missouri Medical Malpractice market.

You may include the attached comments as you prepared the rebuttal to the examination report.

Very truly yours,

James Streff, FCAS, MAAA

Report of Financial Examination – Missouri Physicians Mutual

Actuarial Comments on Loss and Loss Expense Reserves

Prepared by: James Streff, FCAS, MAAA
Streff Insurance Services

This document was prepared as a commentary or rebuttal to conclusions in the financial examination of Missouri Physicians Mutual (MPM) for year ending December 31, 2005.

Throughout the examination process, numerous discussions between the company and the financial examiners took place in regard to the estimates for loss and loss adjustment expense reserves as shown in MPM's Annual Statement at December 31, 2005. We recognized that because the company was young, its own historical patterns of loss evolution could not be established with certainty and that it would be possible for actuaries to arrive at estimates that could vary significantly from each other.

Missouri also enacted tort reform in 2005. This had a dramatic impact on the number of claims presented immediately preceding the enactment date and added even more uncertainty to the estimation process.

Throughout this examination, I was disappointed in the consultant's unwillingness to blend industry loss patterns from multiple sources. If more industry data were included, it would have opened up the discussion to a wider range of possibilities and made the examiner's work more robust. This is particularly true since tort reform was enacted in 2005 and the impact on loss reserves estimates for all companies was huge.

This document was written as a summarization of the key issues in this examination. It is not meant as a technical analysis. Hopefully, it illustrates the numerical sensitivity of the loss estimation process for MPM.

Specifically, the concerns regarding MDI's financial examination of MPM's loss and loss adjustment expense reserves are as follows:

Use of Industry Statistics
We accept the need for industry statistics in the loss estimation process because MPM is a young company and its own loss trends have not fully emerged. MDI's consultant appeared to use a single source of industry statistics and analysis of industry trends. We are concerned that the trends from this study may be dominated by companies in runoff. The credibility comes into question when these studies indicate loss frequency trends that are contradicted by other industry trends in Missouri.

The consultant's review did not mention or include other sources of data for Missouri medical malpractice that could have included:

- The probabilities of claims closing without payment
- Closed claim indemnity amounts by layer of loss
- Time lags to close claims by loss size bands
- Loss expense costs by size band.

These sources of data were referenced in the original loss reserve report but apparently were not used by the consultant.

Missouri enacted significant tort reform in 2005 which created an unusual number of claims reported to MPM. Many of these claims have questionable merit. Other states which implemented tort reform indicated that frequency of claims dropped and loss costs were reduced following tort reform. The MDI consultant neither made reference to these reports nor significantly factored them into the loss reserve estimates in evaluating the impact of Missouri's tort reform.

The use of industry statistics was necessary but it wasn't necessary for the MDI consultant to use only one source for the information. Other sources would have made the loss estimations more robust and opened up the possibility of seeing MPM's loss reserves in another light.

MPM's Strong Case Reserves

It is MPM's business practice to estimate the ultimate loss amount of each claim as soon as possible. This has created strong case reserves for the company's balance sheet and it has lessened the need for MPM to carry higher IBNR reserves. However, it has also created an environment in which it is very easy to misunderstand the reserve strength and interpret the known losses in a pessimistic way. MPM's average case reserve for Report Year 2005 was significantly higher than the industry. This higher average for open claims existed in spite of the fact that more than 150 additional – and less meritorious – claims were received by the company.

In making comparisons of MPM to the industry, the MDI consultant made no specific allowances for the fact that tort reform significantly understated MPM's carried case reserve strength. In the end, we believe the company was not given enough credit for carrying strong case reserves.

Claim Contraction and the Impact of Tort Reform

Because tort reform has such a large effect on the number of claims being reported, it is commonly believed by most experts that many of the claims have doubtful merit. Throughout our analysis, we cited the results from numerous companies from a variety of states and we verified that it was common for 75% of the medical malpractice claims to close without an indemnity payment being made in any normal – non tort reform – year.

In our study, we assumed that because of tort reform and the high number of reported claims, 80% of the claims reported in 2005 would close without a payment being made. The MDI consultant assumed that 75% of the claims for 2005 would close without payment. While that may not seem like much difference in the assumptions, it resulted in a loss reserve estimate that was $4,000,000 higher and a loss expense estimate that was $1,000,000 higher. It demonstrates the extreme sensitivity of this assumption in the projection of loss reserves.

It is not the purpose of this rebuttal to cite these amounts in order to change an opinion. It is mentioned so the reader can understand the sensitivity of this assumption and any other assumption used in this actuarial process. It may appear that it would be possible to convince the MDI consultant that the assumptions used in the loss reserve study were valid; however, we were not able to do so after much discussion. The critique contained very little discussion of how tort reform might affect key loss statistics and it contained no discussion of alternative calculations stemming from various assumptions.

Ceded Loss Reserves

Our loss reserve study used the most recent industry study for Missouri Medical Malpractice in which closed claims were used to estimate losses by layer (loss size band) of loss. We applied these industry patterns to MPM's reinsurance treaties and we verified that our assumptions regarding ceded loss reserves were very compatible with the industry loss patterns. Our estimation of ceded loss reserves was $3,000,000.

The MDI consultant did not accept our estimate of ceded loss reserves and his reasons were not based on a different interpretation of the Missouri Closed Claim Study but rather on a simplistic "reasonableness check." In is our opinion that the consultant's point of view regarding ceded loss reserves was based more on what 'felt right" rather than on industry statistics. On the other hand, our projection of ceded reserves was compatible with studies published by MDI as late as October 2005.

We appreciate the opportunity to put these remarks into the company's response to the financial examination

Respectfully submitted,

James Streff, FCAS, MAAA
Streff Insurance Services