

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Physicians Insurance Mutual as of December 31, 2010

ORDER

After full consideration and review of the report of the financial examination of Physicians Insurance Mutual for the period ended December 31, 2010, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Physicians Insurance Mutual as of December 31, 2010, be and is hereby ADOPTED as filed and for Physicians Insurance Mutual to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 18th day of November, 2011.



A handwritten signature in black ink, reading "John M. Huff".

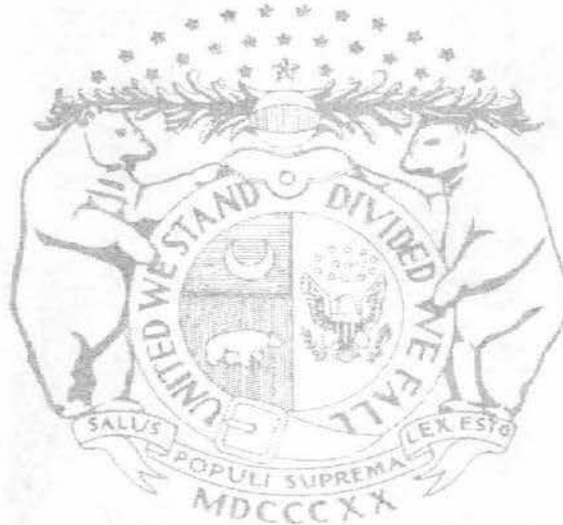
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
FINANCIAL EXAMINATION

Physicians Insurance Mutual

As of:
DECEMBER 31, 2010

FILED
DEC 01 2011
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



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

JEFFERSON CITY, MISSOURI

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September 13, 2011
St. Louis, MO

Honorable Joseph Torti III, Superintendent
Division of Insurance Regulation
State of Rhode Island
Chairman, Financial Condition (E) Committee, NAIC

Honorable Stephen Robertson, Commissioner
Department of Insurance
State of Indiana
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, 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 comprehensive financial examination has been made of the records, affairs and financial condition of

Physicians Insurance Mutual

hereinafter referred to as "PIM" or the "Company." The Company's main office is located at 17 Berkshire Drive; St. Louis, Missouri 63117; telephone number (314) 393-4105. Examination fieldwork began on April 26, 2011, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

This examination covers the period from the Company's inception on October 1, 2008, through December 31, 2010, and was conducted by examiners from the state of Missouri. This examination also considered material transactions or events occurring subsequent to December 31, 2010.

Procedures

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying

and assessing inherent risks within the Company and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key activities were: Investments and Cash Management; Underwriting/Premium Process; and Claims and Reserving.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Brown Smith Wallace, LLC for its audit covering the period from January 1, 2010, through December 31, 2010. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

The Company has been profitable and has maintained adequate surplus to support its operations. Some issues were noted during the examination, specifically: meeting minutes lacking sufficient detail, no fidelity coverage, improper disclosure of pledged assets, and no comprehensive custodial agreement. The issues identified during this examination do not negatively affect the current financial condition of the Company. However, these issues should be addressed to help ensure the long-term success of the Company.

SUBSEQUENT EVENTS

There were no significant subsequent events.

COMPANY HISTORY

General

Physicians Insurance Mutual was incorporated under the laws of the state of Missouri on October 1, 2008, pursuant to Chapter 383 as an assessable medical malpractice company with authority to write medical malpractice insurance in Missouri only. The Company is not subject to Chapter 382, RSMo (Insurance Holding Companies).

Capital Stock

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

Surplus Debentures

None.

Dividends

The Company paid \$400,000 in dividends during 2010. No dividends had been paid prior to this time.

Mergers and Acquisitions

There have been no mergers or acquisitions involving the Company.

CORPORATE RECORDS

Minutes of the meetings of the Board of Directors and annual meetings of the membership were reviewed for the years 2008 through 2010. Those minutes documented evidence of the overall guidance provided by the Board of Directors; however, the minutes lacked sufficient detail to fully describe the actions of the participants in those meetings. The Board of Director meeting minutes documented the appointment of the opining actuary for the 2010 annual statement. The minutes noted that this appointment was in effect until revoked. Annual statement instructions require the annual appointment of the opining actuary.

MANAGEMENT AND CONTROL

Directors and Officers

As of December 31, 2010, the following five members comprised the Board of Directors:

<u>Name</u>	<u>Position</u>
William Coyle Rogers, President	Producer, Huntleigh McGehee
Michael Castellano, Secretary & Treasurer	CEO, Esse Health
Richard Lazaroff, M.D.	Physician, Esse Health
John Rice, M.D.	Physician, Esse Health
Jennifer Sewing, D.O.	Physician, Esse Health

Conflict of Interest

The members of the Board of Directors all provided signed conflict of interest disclosures. No instances of conflict of interest situations were reported.

Organizational Structure

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

Inter-Company Transactions

The Company has a management agreement which provides for all the services needed to operate the business:

Parties: Physicians Insurance Management, LLC (PIM LLC) and Physicians Insurance Mutual

Effective: June 30, 2008

Terms: The agreement has a seven year term and automatically renews. PIM LLC provides general management and oversight of the Company's medical malpractice insurance business. The services provided include: daily operations, processing of claims, administering assessments, collecting premiums, processing applications, and collaborating with the Company on underwriting standards. The claims management function has been delegated back to Esse Health.

Rate(s): In exchange for the services provided, an annual management fee is charged equal to the greater of \$55,000 or 5% of all premiums received by the Company. Fees are paid on an earned basis on or before the first day of the month following the month in which payment is received by the Company. If the Company terminates the agreement for any reason other than mutual consent, then PIM LLC will receive the greater of an amount equal to seven times the amount of all fees paid to PIM LLC under the agreement in the twelve month period prior to the notice of termination or an amount equal to 5% of the amount of premiums paid to the Company during the seven year period commencing with the date of termination.

FIDELITY BOND AND OTHER INSURANCE

The Company has no fidelity coverage. The only other coverage is a directors and officers liability policy obtained during this examination. Other than the lack of fidelity coverage, the Company appears to have adequate insurance coverage for its operations.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. All services are provided through a management services agreement.

TERRITORY AND PLAN OF OPERATION

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

GROWTH OF COMPANY

The Company has expanded its surplus position during the past two years through strong earnings performance. The Company has sufficient surplus and premium writings have been stable. The Company's earnings in 2010 were sufficient to the extent that a policyholder's dividend of \$400,000 was paid.

LOSS EXPERIENCE

The Company has experienced positive underwriting results as evidenced by a pure net loss ratio of 37.5% for 2010. The Company's loss and loss adjustment expense reserves were determined to be adequate at December 31, 2010. With a relatively low policy limit on the Company's policies and adequate reserves and surplus, the Company's overall loss experience has been satisfactory.

REINSURANCE

The Company does not assume or cede any reinsurance.

ACCOUNTS AND RECORDS

General

The Company's financial statements are prepared on statutory accounting principles. Accounting entries are manually recorded in QuickBooks.

Independent Auditor

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

Independent Actuaries

Loss reserves, loss adjustment expense reserves and related actuarial accounts reported in the financial statements were opined on and certified by Jon W. Michelson, FCAS, MAAA of the consulting actuarial firm Expert Actuarial Services, LLC. His review

concluded that the Company's net reserves were within a reasonable range of acceptable actuarial estimates.

Pursuant to a contract with the Missouri Department of Insurance, Financial Institutions and Professional Registration, Patrick Glenn, ACAS, ASA, MAAA, of the actuarial firm, Lewis & Ellis, Inc., reviewed the adequacy of the Company's loss reserves and loss adjustment expense reserves. Those reserves were determined to be adequate as of December 31, 2010.

Information Systems

Because all transactions of the Company are recorded manually in QuickBooks software and the Company utilizes no automated systems for accounting, policy administration, loss reserving or claims processing, a review of the Company's information systems was not performed for this financial examination.

Pledged Assets

Schedule E, Part 3 of the December 31, 2010, Annual Statement was not completed correctly. The Company failed to report that \$1 million in assets were pledged to secure a line of credit from Heartland Bank.

Custodial Agreement

Examination of the Company's investment accounts and records found that the Company does not have a custodial agreement with Acropolis Investment Management, the investment custodian and advisor. The Company should ensure that a custodial agreement, that meets the guidelines outlined in the Financial Condition Examiners Handbook, is obtained from the investment custodian.

STATUTORY DEPOSITS

The Company writes only in Missouri and, as a Chapter 383 Company, is not required to maintain any deposits with the state.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2010, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore

were only communicated to the Company and noted in the workpapers for each individual annual statement item.

BALANCE SHEET
As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$4,529,907	\$0	\$4,529,907
Common stocks	445,350	0	445,350
Cash and short-term investments	1,380,292	0	1,380,292
Investment income due and accrued	15,490	0	15,490
Total Assets	\$6,371,039	\$0	<u>\$6,371,039</u>
Liabilities			
Losses			\$3,887,000
Loss adjustment expenses			679,863
Other expenses			30,894
Current federal income taxes			8,360
Unearned premiums			592,100
Total Liabilities			<u>\$5,198,217</u>
Surplus			
Unassigned funds (surplus)			\$1,172,822
Surplus as regards policyholders			<u>\$1,172,822</u>
Total Liabilities and Surplus			<u>\$6,371,039</u>

INCOME STATEMENT
For Year Ending December 31, 2010

Premiums earned		\$1,157,280
Losses incurred	434,028	
Loss adjustment expenses incurred	(463,108)	
Other underwriting expenses incurred	119,883	
Total underwriting deductions	90,803	
Net underwriting gain (loss)		1,066,477
Net investment income earned	55,730	
Net realized capital gains (losses) less capital gains tax of \$0	319	
Net investment gain (loss)	56,049	
Net income before dividends to policyholders		1,122,526
Less: Dividends to policyholders		400,000
Net income before federal income taxes		722,526
Less: Federal income taxes incurred		6,920
Net income		\$715,606

CAPITAL AND SURPLUS
Changes for 2010

Surplus as regards policyholders, December 31, 2009		\$433,141
Net income	715,606	
Change in nonadmitted assets	24,075	
Changes per examination	0	
Change in surplus as regards policyholders for the year	739,681	
Surplus as regards policyholders, December 31, 2010		\$1,172,822

EXAMINATION CHANGES

None.

COMMENTS ON FINANCIAL STATEMENTS

None.

SUMMARY OF RECOMMENDATIONS

Corporate Records, Page 3

The Company should ensure that the Board of Director and annual meeting minutes fully document the activity occurring during those meetings. In addition, the minutes should reflect the annual appointment of the opining actuary as required by the Annual Statements instructions.

Fidelity Bond and Other Insurance, Page 4

The Company should obtain fidelity bond protection sufficient to meet the minimum requirements as outlined in the Financial Condition Examiners Handbook.

Pledged Assets, Page 6

The Company should ensure that any funds securing a line of credit or otherwise encumbered, are disclosed correctly in the Annual Statement.

Custodial Agreement, Page 6

The Company should ensure that a custodial agreement, which meets the guidelines outlined in the Financial Condition Examiners Handbook, is obtained.

ACKNOWLEDGEMENT

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

VERIFICATION

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

I, Robert P. Jordan, 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.

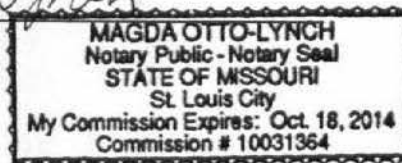
Robert P. Jordan, CFE
Examiner-in-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 30 day of August

My commission expires:

2011

Notary Public



SUPERVISION

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

Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial
Institutions and Professional Registration