

REPORT ON EXAMINATION
OF
KAMMCO CASUALTY COMPANY, INC.
623 SW 10TH AVENUE
TOPEKA, KANSAS 66612
AS OF
DECEMBER 31, 2021

APPROVED & FILED

May 11, 2023

VICKI SCHMIDT
Commissioner of Insurance

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Topeka, Kansas
May 8, 2023

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner: -----

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

KAMMCO CASUALTY COMPANY, INC.

with its statutory home office at:

**623 SW 10TH AVENUE
TOPEKA, KANSAS 66612**

and main administrative office at:

**623 SW 10TH AVENUE
TOPEKA, KANSAS 66612**

hereinafter referred to as the "Company" or "KaMMCO Casualty." The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of the Company, a Kansas-domiciled property and casualty insurance company. The last examination covered the five-year period from January 1, 2012, through December 31, 2016. This examination covers the five-year period from January 1, 2017, through December 31, 2021.

The examination was conducted in accordance with the rules, regulations, and

directives of the Kansas Insurance Department (“Department”) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles.

Those activities considered in the examination as key or critical to KaMMCO Casualty included Investments, Reinsurance, Premium/Underwriting, Claims/Reserving and Related Party. The examination also included a review and evaluation of information technology general controls.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

Financial statements of the Company were audited by RSM US, LLP, Omaha, Nebraska, for the years ending December 31, 2017, through December 31, 2021. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company as of December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

Actuarial Review

The Company retained James D. Hurley, ACAS, MAAA, of Willis Towers Watson of Atlanta, Georgia, to perform a review of the Company's actuarial practices and reserves as of December 31, 2021. The review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the course of the examination.

COMPANY HISTORY

General

Pursuant to K.S.A. 40-1101 *et seq.*, KaMMCO Casualty was incorporated in the State of Kansas on September 26, 2014, as a stock property and casualty insurance

company, and commenced operations on April 22, 2015, under Article 34, Chapter 40 of the Kansas Statutes Annotated. The Company was organized as a for-profit corporation as set forth in its articles of incorporation.

Capital Stock

As of December 31, 2021, the Company's articles of incorporation authorize the issuance of 1,800,000 shares of common capital stock at \$1.00 par value. The authorized capital stock is comprised of 1,620,000 shares of voting rights common stock and 180,000 shares of non-voting common stock. As of December 31, 2021, 1,200,000 shares of voting rights common stock have been issued to Kansas Medical Mutual Insurance Company ("KaMMCO").

As of December 31, 2021, KaMMCO owns 100% of the Company's outstanding common stock.

Dividends and Capital Contributions

The Company also received a capital contribution of \$300,000 on March 26, 2018, as paid in capital from KaMMCO in exchange for 300,000 shares of voting common stock.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to the articles of incorporation or the bylaws during the examination period.

MANAGEMENT AND CONTROL

Ownership

The Company's sole stockholder is KaMMCO.

Board of Directors

Pursuant to the Company's bylaws, the Board of Directors (Board) should consist of no less than five (5) nor more than fifteen (15) directors, including three ex-officio voting directors. Directors are elected to three (3) year terms, such that one-third (1/3) of the total number of directors is elected each year to maintain an equally balanced three (3) year staggered Board. Directors are limited to serving three (3) consecutive terms. In addition to the elected directors there are three (3) ex-officio voting director positions, which are the president and chief executive officer of the Company, the Kansas Medical Society, and the chairman of the Board of the Company. Subsequent to the appointment of the initial Board, the future make-up of the directors will consist of at least one-half (1/2) of directors being independent.

As of December 31, 2021, the elected Board members and ex-officio directors elected and serving and their principal occupations and business affiliations were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Rachelle J. Colombo	Executive Director, Kansas Medical Society
James H. Gilbaugh, III, M.D.	Physician, Wichita Urology
LaDona M. Schmidt, M.D.	Physician & Surgeon, Salina Regional Health Center
Kurtis L. Scott	President & CEO of KaMMCO and KaMMCO Casualty
Loran J. Slaughter	Senior Executive Advisor, Kansas Medical Society
Mark S. Synovec, M.D.	Physician & President, Topeka Pathology Group, P.A.

Committees

The bylaws indicate that the Company shall have the following standing committees of the Board. The established committees and the members elected and serving as of December 31, 2021, were as follows:

**Audit and Finance
Committee**

Ladona M. Schmidt, M.D.
Melissa C. Atkins
Mark D. Brady, M.D.
Loran J. Slaughter
Thomas H. Estep, M.D.

**Executive
Committee**

Loran J. Slaughter
James H. Gilbaugh, III, M.D.
Mark S. Synovec, M.D.
LaDona M. Schmidt, M.D.
Rachelle J. Colombo

**Governance and
Nominating Committee**

James H. Gilbaugh, III, M.D.
Rachelle J. Colombo
LaDona M. Schmidt, M.D.
Loran J. Slaughter
Mark S. Synovec, M.D.

Officers

Pursuant to the bylaws, the Company shall have a President, Secretary, Treasurer, and may have the following officers: Chief Financial Officer, Chief Operating Officer, one (1) or more Senior Vice Presidents, one (1) or more Vice Presidents, one (1) or more Assistant Secretaries, and one (1) or more Assistant Treasurers. The bylaws direct the Board to elect at its annual meeting a President, Secretary, and Treasurer. The officers elected and serving as of December 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
Kurtis L. Scott	President and Chief Executive Officer
Loran J. Slaughter	Secretary and Treasurer

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

KaMMCO Casualty is a wholly owned subsidiary of KaMMCO, a Kansas domestic

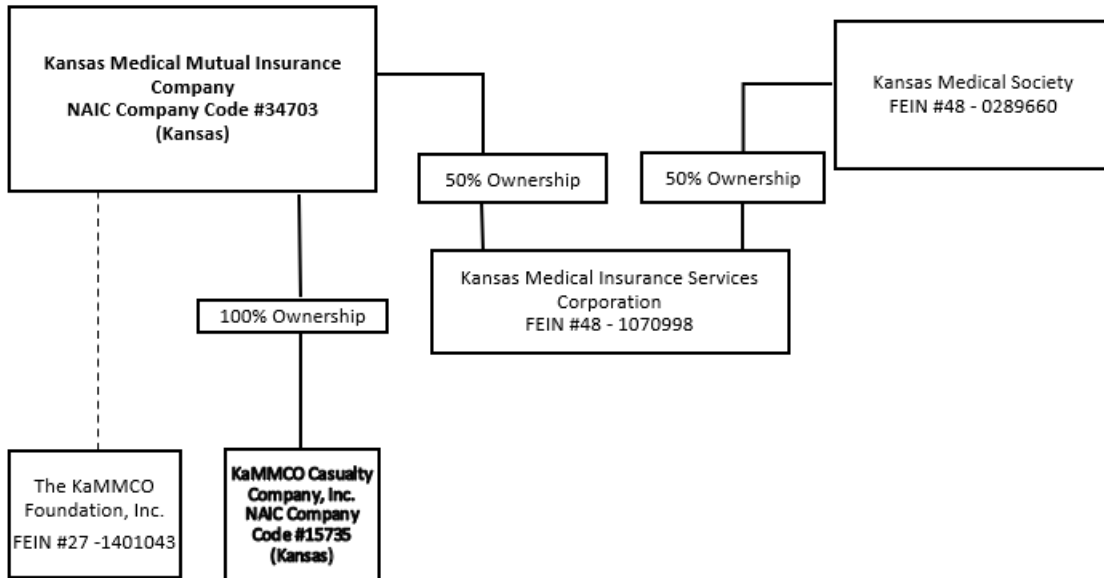
mutual insurance company. KaMMCO is the ultimate controlling person.

The KaMMCO Foundation, Inc. (“KaMMCO Foundation”) is also an affiliate. The KaMMCO Foundation is a Kansas not-for-profit corporation established by KaMMCO in late 2009; however, KaMMCO has no ownership. The purpose of forming the KaMMCO Foundation was to improve healthcare across Kansas by offering medical education material and training to medical providers, staff, and patients. KaMMCO is responsible for appointing and removing the KaMMCO Foundation’s Board of Directors; therefore, the KaMMCO Foundation is controlled by KaMMCO pursuant to K.S.A. 40-3302(c).

During 2014, KaMMCO formed two new 100% owned subsidiaries: KaMMCO Health Solutions, Inc. (“KHS”), a non-insurer, and KaMMCO Casualty, a Kansas domestic property and casualty insurance company. KaMMCO Casualty received its Kansas Certificate of Authority on April 22, 2015, with authority for Malpractice Liability and General Liability insurance. KaMMCO Casualty was incorporated to issue policies to those individuals and entities outside KaMMCO’s core business. KaMMCO Casualty was also formed to issue policies for coverage outside the State of Kansas in connection with the out-of-state business being produced by KHS.

In 2019, KHS was sold to Kansas Health Information Network, Inc., a non-related party, as management determined that its operations no longer fit the Company’s core business.

The organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof within the insurance company holding system, as of December 31, 2021.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliate entities that were in effect as of December 31, 2021.

Administrative Services Agreement

Effective October 11, 2016, the Company entered into an Administrative Services Agreement that governs the relationship between KaMMCO and KaMMCO Casualty concerning certain professional and administrative services to be provided by KaMMCO to KaMMCO Casualty, including marketing and development services, human resource and administrative services, finance and accounting services, legal services, risk management services, underwriting services, and information technology services. Amounts paid by KaMMCO Casualty in accordance with the terms of the agreement for the years of the examination were: \$431,322; \$367,274; \$253,547; \$367,399; and

\$184,546 for 2021, 2020, 2019, 2018, and 2017, respectively.

Quota Share Reinsurance Contract

Effective January 1, 2017, the Company entered into a Quota Share Reinsurance Contract that allows KaMMCO to reinsure 100% of the gross liability of KaMMCO Casualty. Effective August 1, 2019, Amendment No. 2 repealed and replaced the definitions for Gross Liability and Net Written Premium to allow for third party reinsurance by KaMMCO Casualty.

Tax Allocation Agreement

The Company is a party to a Tax Allocation Agreement with KaMMCO that is effective for taxable periods beginning January 1, 2019. The method of allocation requires the tax liability of the group to be allocated to the members of the group on the basis of the percentage of the total tax which the tax of such member is computed on a separate tax return basis. All settlements under this agreement shall be made within thirty (30) days of the filing of the applicable estimated or actual consolidated federal corporate income tax return with the Internal Revenue Service, except where a refund is due KaMMCO, in which case it may defer payment to KaMMCO or KaMMCO Casualty to within thirty (30) days of receipt of such refund.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company is authorized pursuant to Kansas Statute Annotated 40-12a to write business in the states of Connecticut, Kansas, Louisiana, Missouri, and South Carolina. The Company is authorized to write professional liability (medical malpractice) as well as other coverages such as general liability and cyber

liability. The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

As of December 31, 2021, the Company's largest line of direct written premium was medical professional liability – claims made at 86.6%.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2017, through December 31, 2021. The financial amounts were obtained from annual statements filed by the Company.

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<i>(\$000 omitted)</i>					
Admitted Assets	\$6,251	\$5,885	\$6,674	\$7,072	\$7,442
Liabilities	1,483	830	1,641	1,881	2,118
Capital and Surplus	4,768	5,055	5,033	5,191	5,324
Net Income (Loss)	(193)	(31)	(26)	180	93
Net Premium Written	0	0	0	0	0

REINSURANCE

General

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

<i>(\$000s omitted)</i>					
Premium Type	2017	2018	2019	2020	2021
Direct Premiums Written	\$ 2,262	\$ 2,289	\$ 4,052	\$ 3,543	\$ 3,767
Reinsurance Assumed	0	0	0	0	0
Reinsurance Ceded:	(2,262)	(2,289)	(4,052)	(3,543)	(3,767)
Net Premiums Written	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Assumed Reinsurance

The Company did not assume any business during the period under examination.

Ceded Reinsurance

The Company is reinsured by a quota share reinsurance agreement with COPIC Insurance Company (“COPIC”); whereby, COPIC reinsures 50% of the policies issued in the states of Kansas and Missouri associated with COPIC insured’s that reside in Kansas, which are underwritten by the Company. Therefore, KaMMCO Casualty directly writes this coverage and cedes 50% to KaMMCO and the other 50% to COPIC. The Company cedes 100% of all other written premium to KaMMCO.

All ceded reinsurance agreements reviewed provided for the transfer of risk. However, the Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event an assuming reinsurer fails to perform its obligations under the reinsurance contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2021. There were no adjustments to the Company’s filed statutory financial statements as a result of this examination.

**KaMMCO CASUALTY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2021**

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$4,122,323	\$ -	\$4,122,323
Cash and cash equivalents	1,658,576	-	1,658,576
Investment income due and accrued	24,474	-	24,474
Uncollected premiums and agents' balances in course of collection	32,340	-	32,340
Deferred premiums, agents' balances and installments booked, but deferred and not yet due	4,187	-	4,187
Amounts recoverable from reinsurers	1,599,546	-	1,599,546
Aggregate write-ins for other-than invested assets	28,553	28,553	-
Total	\$7,469,999	\$ 28,553	\$ 7,441,446

**KaMMCO CASUALTY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2021**

Commissions payable, contingent commissions and other similar changes	\$49,486
Taxes, licenses and fees	6,937
Ceded reinsurance premiums payable	1,528,880
Amounts withheld or retained by the company for accounts of others	191,005
Payable to parent subsidiaries, and affiliates	217,849
Aggregate write-ins for liabilities	123,449
Total liabilities	<u>2,117,606</u>
Common capital stock	1,200,000
Gross paid in and contributed surplus	4,131,917
Unassigned funds (surplus)	<u>(8,077)</u>
Surplus as regards policyholders	<u>5,323,840</u>
Totals	<u><u>\$ 7,441,446</u></u>

**KaMMCO CASUALTY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021**

Premiums earned	\$ -
DEDUCTIONS	
Losses incurred	-
Loss adjustment expense incurred	-
Other underwriting expenses incurred	(48,020)
Total underwriting deductions	<u>(48,020)</u>
Net underwriting gain	48,020
INVESTMENT INCOME	
Net investment income earned	68,636
Net realized capital gains less capital gains tax	39
Net investment gain	<u>68,675</u>
OTHER INCOME	
Net loss from agents' or premium balances charged off	-
Finance and service charges not included in premiums	-
Total other income	<u>-</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	116,695
Dividends to policyholders	<u>-</u>
Net income, after dividends to policyholder, after capital gains tax and before all other federal and foreign income taxes	116,695
Federal and foreign income taxes incurred	23,439
Net income	<u><u>\$93,256</u></u>

**KaMMCO CASUALTY
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31 prior year	\$ 4,941,676	\$ 4,768,499	\$ 5,054,392	\$ 5,033,259	\$ 5,190,691
Net income (loss)	(192,769)	(30,973)	(26,089)	180,272	93,256
Change in nonadmitted assets	19,592	16,866	4,956	(22,840)	39,893
Capital changes: Paid in	-	300,000	-	-	
Surplus as regards policyholders, December 31 current year	<u>\$ 4,768,499</u>	<u>\$ 5,054,392</u>	<u>\$ 5,033,259</u>	<u>\$ 5,190,691</u>	<u>\$ 5,323,840</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2021, was \$5,323,840, which was the same amount reported by the Company in its 2021 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if concerns arise.

SUMMARY OF RECOMMENDATIONS

There were no recommendations resulting from the examination that warranted inclusion in this Report on Examination.

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Ryne Davison, CFE, Exam Manager, and Derek Petersen, CFE, Senior Financial Examiner, with Lewis and Ellis, Inc. assisted on the financial portion of the examination; Lindsey Pittman, CPA, CFE, AES, CISA, and MCM, IT Exam Supervisor, and Justin Parr, AES, CISA, CPA, and CFE, IT Exam Specialist, with Lewis and Ellis, Inc. performed the information technology portion of the examination; and Katie Koch, FCAS, MAAA, Actuarial Specialist with Lewis and Ellis, Inc. performed an actuarial review of the Company.

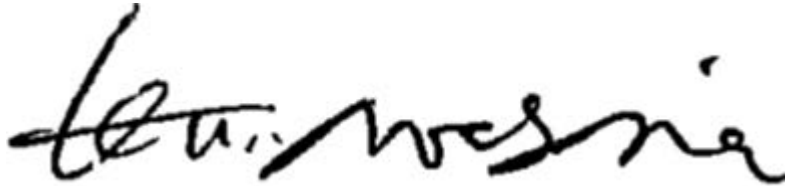
Respectfully submitted,



Mel Heaps, CFE
Examiner-in-Charge
Lewis and Ellis, Inc., representing the Kansas
Insurance Department

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 Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, appearing to read "Levi Nwasoria", written over a horizontal line.

Levi Nwasoria, CPA, CFE Chief
Examiner
Kansas Insurance Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

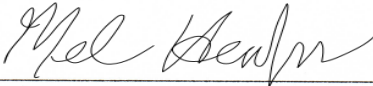
State of NEBRASKA,

County of GARDEN,

MEL HEAPS, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of KaMMCO Casualty Company, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of KaMMCO Casualty Company, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

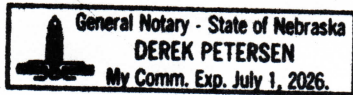
The affiant says nothing further.

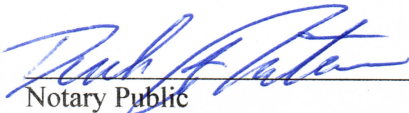


Examiner's Signature

Subscribed and sworn before me by MEL HEAPS on this 9TH day of MAY, 20 23.

(SEAL)




Notary Public

My commission expires July 1, 2026 [date].