

REPORT OF EXAMINATION
ON
MPM INSURANCE COMPANY OF KANSAS
287 N. LINDBERGH BOULEVARD
ST. LOUIS, MISSOURI 63141
AS OF
DECEMBER 31, 2014

FILED
FEB 22 2017
KEN SELZER
Commissioner of Insurance

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Topeka, Kansas
September 20, 2016

Honorable Ken Selzer
Commissioner of Insurance
Kansas Insurance Department
420 SW 9th Street
Topeka, Kansas 66612-1678

Dear Commissioner:

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

**MPM INSURANCE COMPANY OF KANSAS
287 N. LINDBERGH BOULEVARD
ST. LOUIS, MISSOURI 63141**

hereinafter referred to as the “Company” or “MPMKS”. The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiner has performed a multi-state financial examination of MPM Insurance Company of Kansas, a Kansas domiciled property and casualty insurance company. This examination covers the five-year period from September 1, 2010, through December 31, 2014. A concurrent three year examination as of December 31, 2014 was conducted by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) on Missouri Professionals Mutual-Physicians Professional Indemnity Association, the ultimate controlling entity.

The examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department (KID) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC)

Financial Condition Examiners Handbook (Handbook). The Handbook requires the examiner to 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. The 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 a risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222 - *Examination of condition of company*, 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 Seaver & Forck, CPAs for the year ending December 31, 2014. Financial statements of the Company were audited by Kerber, Eck & Braeckel LLP for the years ending December 31, 2010 through December 31, 2013. In each of the years under examination, each audit firm

concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2014 and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the KID.

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

SUMMARY OF SIGNIFICANT FINDINGS

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

COMPANY HISTORY

The Company was incorporated in Kansas on June 8, 2010 as a stock casualty insurance company under the provisions of K.S.A. 40-301 *et seq.* – *Organization, merger or consolidation of stock companies* and K.S.A. 40-1101 *et seq.* – *General provisions relative to casualty, surety and fidelity companies*. The Company is authorized to write general liability and medical malpractice liability. The Company commenced operations on September 1, 2010.

Timothy H. Trout was the incorporator and sole stockholder until December 31, 2012. On December 20, 2012 the Company's capital stock was sold to Missouri Professionals Mutual, which is domiciled in Missouri under Missouri Revised Statutes Chapter 383 – *Malpractice Insurance*. On November 20, 2014 MPM merged with Physicians Professional Indemnity Association, with MPM as the surviving entity. MPM's name was subsequently changed to Missouri Professionals Mutual-Physicians Professional Indemnity Association.

MANAGEMENT AND CONTROL

The Company's amended articles of incorporation (articles) were approved by the KID on January 28, 2011. Upon the adoption, the number of issued and outstanding common capital stock shares was 1,200,000 for a total consideration of \$2,500,000, which resulted in common capital stock of \$1,200,000 and gross paid-in and contributed surplus of \$1,300,000.

The Company amended their bylaws on December 13, 2012 reducing the number of authorized Board positions to three (3) for which two (2) of the positions will be independent directors. Future changes in the number of director positions will require unanimous approval of the board.

The amended bylaws consist of eight (8) articles which provide the framework for the operation, management and control of the Company. The Company is controlled by its sole stockholder, Missouri Professionals Mutual-Physicians Professional Indemnity Association. Each director will serve until a successor is elected, or until the earlier of the director's resignation or removal.

The following table provides a listing of the members of the board and serving in this capacity as of December 31, 2014:

Name	Position and Employer
Robert L Hall, M.D. Poplar Bluff, Missouri	Physician John J. Pershing VA Medical Center
Frederick B. Lintecum, M.D. Kansas City, Missouri	Physician Lintecum and Nickel, P.C.
Karl R. Stark, M.D. Kansas City, Missouri	Physician Kansas City Vascular, P.C.
Kevin L. Threlkeld, M.D. O'Fallon, Missouri	Physician Private Practice

The Board, elected on December 30, 2014, was unaware of the December 13, 2012 bylaw amendment reducing the number of board positions to three directors.

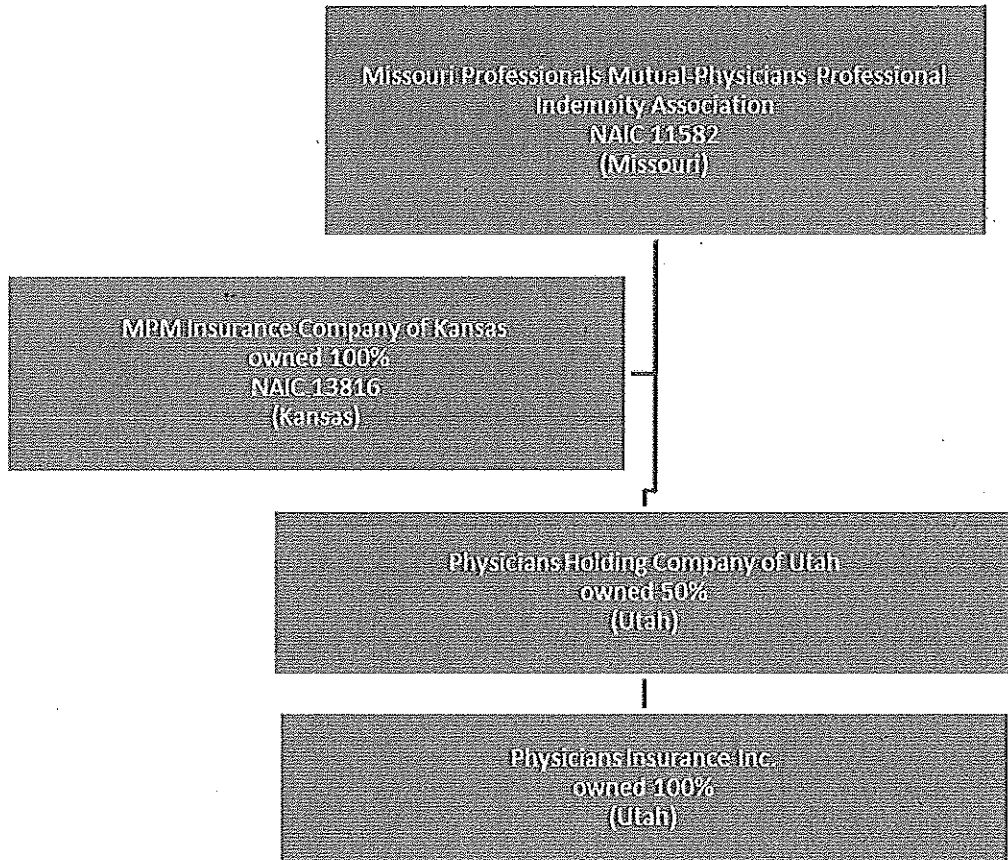
The officers elected by the board and serving in their capacity as of December 31, 2014 were:

Name	Position and Employer
Karly R. Stark, M.D.	President
Frederick B. Lintecum, M.D.	Vice President
Kevin L. Threlkeld, M.D.	Secretary
Robert L. Hall, M.D.	Treasurer

Insurance Holding Company System

K.S.A. 40-3301 *et seq.* - *Insurance Holding Companies*, 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 Form "B" and "C" registration statements to the KID for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The following organizational chart illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2014:



Intercompany/Cost Sharing Agreements

There are no intercompany agreements or administrative agreements. The Company receives services in the areas of administrative, legal, annual statement preparation, claims services and accounting through agreements with MPM-PPIA's third-party service providers. Building services are provided by MPM-PPIA.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company is authorized to transact business in Kansas and Missouri. The NAIC Schedule T Exceptions Report was reviewed for each of the states the Company is licensed. No exceptions were noted.

As of December 31, 2014, the Company is a mono-line insurer writing medical professional liability coverage.

GROWTH OF COMPANY

The exhibit below shows the Risk-Based Capital (RBC) and the Company's financial growth (in thousands) for the period of December 31, 2010, through December 31, 2014. The financial growth amounts were obtained from annual statements filed by the Company:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<i>(in thousands)</i>					
Admitted Assets	\$ 2,523	\$63,384	\$45,988	\$34,633	\$18,954
Liabilities	88	55,092	34,955	26,180	15,352
Capital and Surplus	2,435	8,292	11,033	8,453	3,602
Net Underwriting Gain/(Loss)	(87)	2,223	(7,032)	(971)	286
Net Income	(83)	5,731	2,326	(2,414)	59
Net Premiums Written	21	16,123	16,033	8,574	8,889

REINSURANCE

All reinsurance agreements reviewed during the course of the examination contained insolvency and cancellation clauses as required by paragraph (c) of K.S.A. 40-221a – *Reinsurance of risks of and by Kansas companies*. All reinsurance agreements reviewed provided for the transfer of risk.

The Company's premium activity on a direct written, assumed and ceded basis for the period under examination is shown in the following schedule.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Direct Premiums	\$61,075	\$ 208,062	\$ 590,295	\$ 714,598	\$ 1,037,630
Reinsurance Assumed	-0-	39,372,992	22,672,246	10,428,122	9,564,536
Reinsurance Ceded	<u>(40,000)</u>	<u>(23,457,559)</u>	<u>(7,229,302)</u>	<u>(2,568,879)</u>	<u>(1,713,135)</u>
Net Premiums Written	<u>\$21,075</u>	<u>\$16,123,495</u>	<u>\$16,033,239</u>	<u>\$8,573,841</u>	<u>\$8,889,031</u>

The Company entered into a reinsurance agreement (Agreement), effective January 1, 2011, with Missouri Professionals Mutual. The Company agreed to assume

100% of MPM's retroactive liability and prospective liability from policies in-force as of December 31, 2010. Additionally, the Company accepted all claims made on or after January 1, 2011, based upon incidents occurring prior to January 1, 2011 for MPM policies in-force on December 31, 2010, including subsequent renewals, ultimate net loss and loss adjustment expenses from extended reporting endorsements, or coverage under death, disability or retirement coverage.

The Company's reinsurance assumption declined significantly beginning in 2013 due to legal suits and countersuits between MPM-PPIA (formerly Missouri Professionals Mutual) and John Keane Insurance Group, MPM-PPIA's most significant producer. The Company is not a party to these suits.

Specific health care providers are required by the Kansas Health Care Stabilization Fund to acquire professional liability insurance either from the Availability Plan, or from a commercial insurer. The basic policy limits are generally \$200,000 per occurrence with an aggregate limit of \$600,000.

The Company's ceding reinsurance program consists of:

- A working layer excess of loss covering the coverage required by the Kansas Health Care Stabilization Fund. For Kansas policies, the Company's retention is \$400,000 and reinsures \$600,000 excess of its retention. For Missouri policies, the Company's retention is \$500,000 and reinsures \$500,000 excess of its retention.
- The Company also has coverage for excess of loss per event and catastrophe excess of loss per event. The Company retains \$1,000,000 under each agreement and the reinsurers maximum liability if \$5,000,000 each loss event and \$10,000,000 for the term of the agreement.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Kansas Insurance Department and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

MPM INSURANCE COMPANY OF KANSAS
ANALYSIS OF ASSETS
AS OF DECEMBER 31, 2014

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 800,000		\$ 800,000
Cash and short-term investments	8,740,691		8,740,691
Investment income due & accrued	2,203		2,203
Uncollected premiums and agents' balances in the course of collection	392,056		392,056
Amounts recoverable from reinsurers	1,158,654		1,158,654
Other amounts receivable under reinsurance contracts	7,860,334		7,860,334
Net deferred tax asset	366,619	366,619	-
Totals	\$ 19,320,557	\$ 366,619	\$ 18,953,938

**MPM INSURANCE COMPANY OF KANSAS
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2014**

Losses	\$ 9,066,345
Loss adjustment expense	4,600,000
Commissions payable, contingent commissions and other similar charges	27,771
Other expenses	9,650
Taxes, licenses and fees	
Unearned premiums	395,792
Advance premiums	11,080
Aggregate write-ins for liabilities	1,241,375
Total liabilities	<u>15,352,013</u>
Common capital stock	1,200,000
Gross paid-in and contributed surplus	1,315,000
Unassigned funds	<u>1,086,925</u>
Surplus as regards policyholders	3,601,925
Totals	<u>\$ 18,953,938</u>

**MPM INSURANCE COMPANY OF KANSAS
STATEMENT OF INCOME
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Underwriting Income:</u>	
Premiums earned	\$ 8,738,475
<u>Deduct:</u>	
Losses incurred	987,523
Loss expenses incurred	3,480,004
Other underwriting expenses incurred	3,984,548
Total underwriting deductions	<u>8,452,075</u>
Net underwriting gain or (loss)	286,400
<u>Investment Income:</u>	
Net investment income earned	10,805
Net realized capital gains or (losses)	<u>-</u>
Net investment gain or (loss)	10,805
<u>Other Income:</u>	
Net gain (loss) from agents' or premium balances charged off	-
Finance and service charges not included in premiums	-
Aggregate write-ins for miscellaneous income	<u>(237,730)</u>
Total other income	(237,730)
Net income after dividends to policyholders and before federal income taxes	59,475
Federal income taxes incurred	<u>-</u>
Net income	<u>\$ 59,475</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	\$ 8,453,597
Net income	59,475
Change in net unrealized capital gains (losses)	-
Change in net deferred income tax	(312,896)
Change in nonadmitted assets	(68,341)
Change in provision for reinsurance	-
Aggregate write-ins for gains and losses in surplus	<u>(4,529,910)</u>
Change in surplus as regards policyholders for the year	<u>(4,851,672)</u>
Surplus as regards policyholders, December 31, 2014	<u>\$ 3,601,925</u>

**MPM INSURANCE COMPANY OF KANSAS
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

Surplus as regards policyholders, August 31, 2010			\$ -
Net income	2010	(83,003)	
	2011	5,731,186	
	2012	2,326,056	
	2013	(2,413,816)	
	2014	<u>59,475</u>	5,619,898
Change in nondamitted assets	2010	-	
	2011	(105,577)	
	2012	(327,850)	
	2013	135,150	
	2014	<u>(68,342)</u>	(366,619)
Change in net deferred income tax	2010	3,166	
	2011	231,451	
	2012	745,861	
	2013	(300,965)	
	2014	<u>(312,896)</u>	366,617
Change in common capital stock	2010	450,000	
	2011	750,000	
	2012	-	
	2013	-	
	2014	<u>-</u>	1,200,000
Change in gross paid-in and contributed surplus	2010	2,065,000	
	2011	(750,000)	
	2012	-	
	2013	-	
	2014	<u>-</u>	1,315,000
Aggregate write-ins for gains and losses in surplus	2010	-	
	2011	-	
	2012	(3,061)	
	2013	-	
	2014	<u>(4,529,910)</u>	<u>(4,532,971)</u>
Surplus as regards policyholders, December 31, 2014			<u>\$ 3,601,925</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, 2015, was \$3,601,925, which is the same amount reported by the Company in its 2014 filed Annual Statement

COMMENTS ON FINANCIAL STATEMENTS

The Missouri Insurance Department, Financial Institutions and Professional Registration's consulting actuary determined the reserves for MPMKS were deficient by an estimated \$3.041 million as of December 31, 2014. The impact on the financial condition of the Company regarding this reserve deficiency is shown in the following schedule.

Surplus, Per Company	\$3,601,925
Losses	<u>(3,041,000)</u>
Surplus, After Reserve Adjustment	<u>\$ 560,925</u>

In addition, the Company's estimated surplus as of December 31, 2014 would have produced a risk-based capital of less than 70% or a mandatory control level event.

SUBSEQUENT EVENTS

In the first quarter of 2015, the Company and MPM-PPIA terminated their 2011 intercompany reinsurance agreement, effective December 31, 2014. All risks as of December 31, 2014 were transferred from MPMKS to MPM-PPIA. Effective January 1, 2015, MPMKS and MPM reinsured all prior and future risks to Physicians Insurance, Inc. (PII). PII is 100% owned by Physicians Holding Company of Utah, which was 50% owned by MPM-PPIA at December 31, 2014.

The reinsurance agreement requires PII to establish and sufficiently fund a trust agreement to enable MPMKS and MPM-PPIA to take all credits for the payment of reinsurance premiums, not to be less than \$1,000,000.

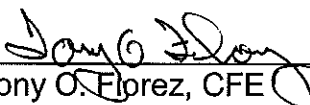
SUMMARY OF RECOMMENDATIONS

There were no additional recommendations for inclusion in the examination report.

CONCLUSION

The assistance and cooperation by the officers of the Company during the course of this examination is hereby acknowledged and appreciated.

Respectfully submitted,



Tony O. Florez, CFE
Insurance Examiner
Examiner-In-Charge

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

State of Kansas

County of Shawnee

Tony O. Florez being duly sworn, states as follows:

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

The affiant says nothing further.

Tony O. Florez
Examiner's Signature

Subscribed and sworn before me by Tony O. Florez on
this 19th day of January, 2017.

(SEAL)

Vicki L. Roy
Notary Public

My commission expires 10-13-2019
(date)

