



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Missouri Hospital Plan for the period ended
December 31, 2015

ORDER

After full consideration and review of the report of the financial examination of Missouri Hospital Plan for the period ended December 31, 2015, 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, management and control, territory and plan of operation, reinsurance, financial statements, comments on the financial statement items, examination changes and general comments and/or recommendations.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Missouri Hospital Plan as of December 31, 2015 be and is hereby ADOPTED as filed and for Missouri Hospital Plan to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) 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 7th day of December, 2016.



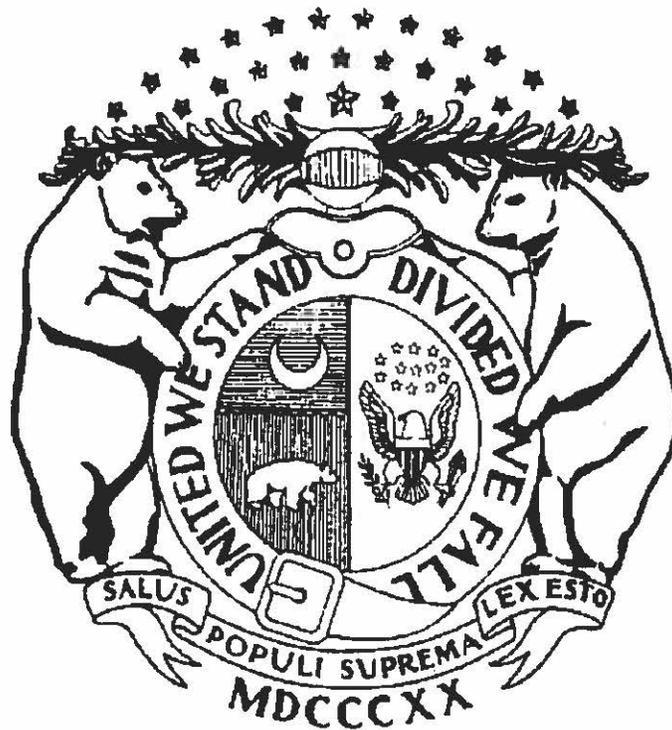
A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

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

**REPORT OF THE
FINANCIAL EXAMINATION OF
MISSOURI HOSPITAL PLAN**

**AS OF
DECEMBER 31, 2015**

FILED
DEC 19 2016
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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Jefferson City, Missouri
September 8, 2016

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

Director Huff:

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

Missouri Hospital Plan

hereinafter referred to as MHP or the Company. Its administrative office is located at 4700 Country Club Drive, Jefferson City, Missouri, 65109, telephone number (573) 893-5300. The examination began on May 2, 2016, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of MHP. The last examination was completed as of December 31, 2011, and covered the period of January 1, 2007 through December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2015. This examination also included the material transactions or events occurring subsequent to December 31, 2015.

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

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners' (NAIC) Financial Condition Examiners Handbook (Handbook), except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we 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. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of this examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of facts and general information about the Company 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.

Reliance Upon Others

This examination relied upon information provided by the Company's independent auditor, Brown, Smith and Wallace, LLC, of St. Louis, Missouri, for its audit covering the period from January 1, 2015 through December 31, 2015. Areas in which testing and results from the CPA workpapers were relied upon in our examination included internal control walk-throughs, bank confirmations, paid claims data, premiums receivable, unearned premiums, fraud assessment, and subsequent events review.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

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

Dividends

MHP does not have any stockholders, and therefore, there are no stockholder dividends. However, MHP is an association and the Company's Bylaws allow for dividends to be paid to its members. The following dividends were declared and paid to member hospitals during the examination period.

<u>Year</u>	<u>Dividends Paid</u>
2012	\$11,392,545
2013	10,723,100
2014	11,962,500
2015	11,968,500

Capital Contribution

The Company did not receive any capital contributions during the period under examination.

Mergers and Acquisitions

There were no mergers or acquisitions involving the Company during the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that are appointed by the member hospitals. The Company's Articles of Association and Bylaws specify that the number of directors shall be eleven. The Bylaws require that five directors serving must be the chief executive officers of the member hospitals and one director must be the president of the Missouri Hospital Association, a not-for-profit membership association. The Board of Directors appointed and serving, as of December 31, 2015, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Christopher T. Ahrens	Hannibal, MO	President & Chief Executive Officer Hannibal Regional Healthcare System
Donald J. Babb	Bolivar, MO	Chief Executive Officer Citizens Memorial Hospital
Paula F. Baker	Joplin, MO	President & Chief Executive Officer Freeman Health System
Patrick E. Carron	Perryville, MO	President & Chief Executive Officer Perry County Health System
Lewis R. Crist	Wildwood, MO	President Crist and Associates
Jon D. Doolittle	Albany, MO	President & Chief Executive Officer Northwest Medical Center
Michael E. Henze	Osage Beach, MO	Chief Executive Officer Lake Regional Health System
Herbert B. Kuhn	Lohman, MO	President & Chief Executive Officer Missouri Hospital Association
Bruce M. Lane	St. Louis, MO	Vice-President, Risk Management BJC Healthcare
Joseph B. Moody	Jefferson City, MO	President & Chief Executive Officer Healthcare Services Group
Bernard A. Orman Jr.	Macon, MO	Chief Executive Officer Samaritan Hospital

Committees

The Bylaws require the Board of Directors to have an Executive Committee and a Nominating Committee. The Bylaws also allow for additional committees to be appointed by the Chairman of the Board as needed. A Finance Committee, Claims Committee, and an Audit Committee were also operational during the examination period. As of December 31, 2015, the members of each committee were as follows:

Audit Committee

Paula F. Baker
 Joseph B. Moody
 Lewis R. Crist
 Bernard A. Orman, Jr.
 Roger Dix
 Tom Luebbering
 Kirk W. Schmidt

Finance Committee

Michael Henze
 Jon D. Doolittle
 Herbert B. Kuhn
 Tom Luebbering
 Roger Dix
 Joseph B. Moody

Claims Committee

Lewis R. Crist
 Dana L. Frese
 Christopher T. Ahrens
 Bruce M. Lane
 Joseph B. Moody

Executive Committee

Patrick E. Carron
 Bernard A. Orman
 Joseph B. Moody

Nominating Committee

Donald J. Babb
 Herbert B. Kuhn
 Joseph B. Moody
 Bernard A. Orman, Jr.

Officers

The officers elected by the Board of Directors and serving, as of December 31, 2015, were as follows:

<u>Name</u>	<u>Office</u>
Patrick E. Carron	Chairman of the Board
Bernard A. Orman	Vice-Chairman
Joseph B. Moody	President
Richard G. Anderson	Secretary and Treasurer

Corporate Records

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

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

Holding Company, Subsidiaries and Affiliates

As interpreted by the Missouri DIFP, the Company is a member of an Insurance Holding Company System, as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by MHP for each year of the examination period. The Company does not have any stockholders due to its formation as a not-for-profit

association. The Company is ultimately owned 100% by its member hospitals, which are not-for-profit and government entities. A hospital must be insured by MHP to be a member.

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

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

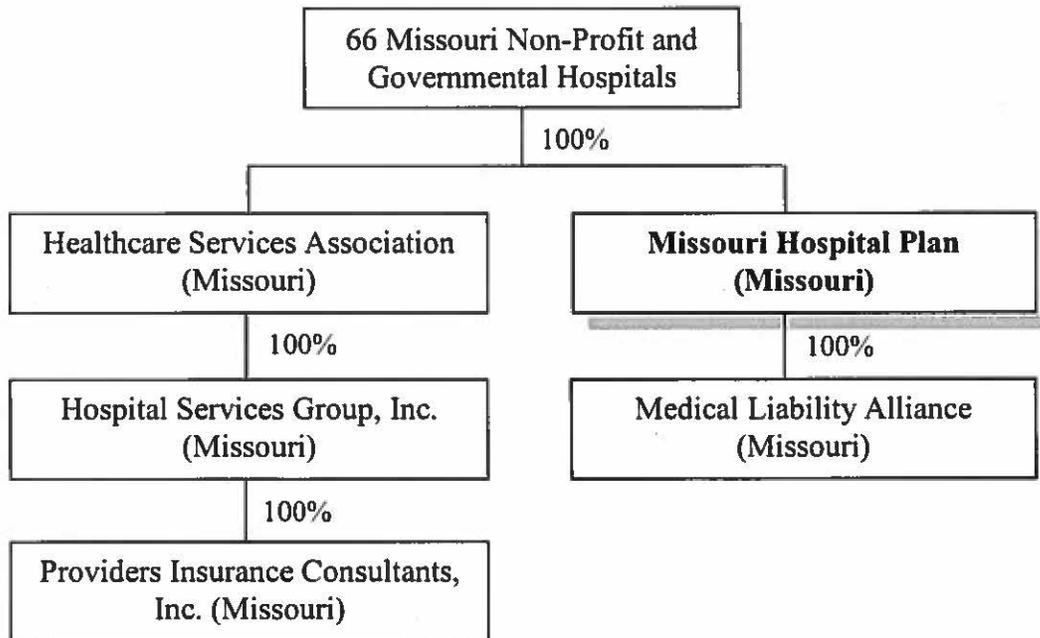
Healthcare Services Association (HSA) is a not-for-profit corporation that assists its members in offering high quality healthcare services and facilities by providing products, services, and insurance coverages to achieve that objective. The regular members of HSA are the owner hospitals of MHP. The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

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

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

Organizational Chart

Below is the organizational chart of MHP and its affiliates, as of December 31, 2015.



Intercompany Agreements

The Company's intercompany agreements that were in effect, as of December 31, 2015, and subsequent periods are outlined below.

- 1. Type:** Management Agreement
Affiliate: HSG
Effective: January 1, 2010 to December 31, 2019
Terms: HSG employees will perform various services to conduct the business operations of MHP. HSG will also provide necessary office space, equipment, and supplies to perform MHP's business functions. The Company will reimburse HSG for 100% of the direct payroll and benefits costs for the personnel providing the services, less an adjustment equal to at least 95% of the revenue earned by HSG outside of this agreement. MHP will remit any fees collected from policyholders for claims processing to HSG. MHP will also pay HSG an additional amount, not to exceed 5% of direct costs, to compensate for overhead costs and a return on investment. The net amount due each month is to be paid by MHP within 30 days of receiving an invoice from HSG.
- 2. Type:** Reinsurance Services Agreement
Affiliate: HSG
Effective: January 1, 2015 to December 31, 2015
Terms: HSG will negotiate the terms of all reinsurance agreements for the Company, subject to the MHP's approval. All of the ceding commissions received by MHP, pursuant to its reinsurance agreements, will be paid to HSG as compensation for the services provided under this Agreement.
- 3. Type:** Membership Fee Agreement
Affiliate: HSA
Effective: January 1, 2015 to December 31, 2015
Terms: MHP is an associate member of HSA and the policyholders of MHP are regular members. MHP agrees to pay annual fees of \$75,000 to HSA for an associate membership and annual fees of no more than \$3,000 for each of the regular memberships. The Agreement does not specify a due date for the membership fees.

MHP and MLA have also executed a Reinsurance Agreement on an annual basis. The terms of this agreement are described in the Reinsurance section of this report.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business only in Missouri. MHP is an association that insures only its member hospitals, which consisted of 66 not-for-profit and government hospitals, as of December 31, 2015. MHP is the leading writer of hospital medical malpractice insurance in Missouri with a 92.5% market share of direct written premiums in 2015.

The Company provides professional liability (medical malpractice) and general liability coverages for its member hospitals and their employees, subsidiaries and related operations. Medical malpractice insurance accounted for 94.2% of direct written premiums in 2015. All policies are written on a claims made basis. Most policies are written with limits of \$2,000,000 per loss occurrence and \$6,000,000 aggregate per policy, per year. Higher policy limits are written for some of the larger hospitals.

Since it is an association, MHP does not utilize any agents or brokers to produce business.

REINSURANCE

General

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

	2012	2013	2014	2015
Direct Business	\$26,568,841	\$26,720,595	\$27,053,366	\$26,240,099
Assumed – Affiliates	1,490,321	1,589,610	1,246,744	1,224,320
Assumed – Non-affiliates	0	0	0	0
Ceded – Affiliates	0	0	0	0
Ceded – Non-affiliates	(9,013,684)	(9,100,530)	(5,505,999)	(6,274,690)
Net Premiums Written	<u>\$19,045,478</u>	<u>\$19,209,675</u>	<u>\$22,794,111</u>	<u>\$21,189,729</u>

Assumed

The Company only assumes business from its subsidiary, MLA. A reinsurance agreement between MHP and MLA was effective July 1, 2015, which is applicable to risks in force as of the examination date. Pursuant to this agreement, the Company assumes 100% of MLA's losses in excess of MLA's retention of \$500,000 per policy, per occurrence. MLA has a maximum aggregate retention of \$1,500,000 per insured, per policy period. MHP has agreements to retrocede a portion of the business assumed from MLA, which are described in the Ceded section of this report.

Ceded

MHP has a two-layer excess of loss program that covers all policies written or assumed by the Company. The program is implemented with two separate agreements with several participating reinsurers. New agreements are executed effective July 1 of each year for a one year term. The active agreements, as of the examination date, were effective from July 1, 2015 to June 30, 2016. MHP's retention on its direct and assumed business is \$1,000,000 per loss. Losses in excess of the retention are ceded to the reinsurers, as follows:

<u>Coverage Layer</u>	<u>MHP Retention Per Risk</u>	<u>Reinsurance Limit Excess of Retention</u>	<u>Reinsurer Participation</u>	<u>MHP Participation</u>
First Excess	\$1,000,000	\$ 1,000,000	95.00%	5.00%
Second Excess	2,000,000	10,000,000	100.00%	0.00%

There were no changes to the Company's reinsurance program in the subsequent treaty year, effective from July 1, 2015 to June 30, 2016. The participating reinsurers for the 2015-16 treaty years are a mixture of U.S. domestic reinsurers, one Bermuda reinsurer, and various European reinsurers, including several Lloyd's syndicates.

The Company uses facultative reinsurance agreements for any insureds with policy limits in excess of the second excess layer. As of December 31, 2015, there was one insured that had a policy limit of \$25,000,000. For this large risk, MHP obtained a facultative certificate to cede 100% of the policy limits in excess of the underlying retentions and reinsurance limits described above.

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

FINANCIAL STATEMENTS

The following financial statements, present the financial condition of Missouri Hospital Plan for the period ending December 31, 2015. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the Comments on Financial Statement Items. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

Assets
as of December 31, 2015

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$ 95,062,315	\$ 0	\$ 95,062,315
Common Stocks	84,538,675	0	84,538,675
Cash and Short-Term Investments	4,956,111	0	4,956,111
Receivables for Securities	215	0	215
Investment Income Due and Accrued	680,062	0	680,062
Uncollected Premiums and Agents' Balances	1,072,484	0	1,072,484
Deferred Premiums and Agents' Balances	6,677,666	0	6,677,666
Amounts Recoverable from Reinsurers	55	0	55
Aggregate write-ins	22,600	0	22,600
TOTAL ASSETS	\$193,010,183	\$ 0	\$193,010,183

Liabilities, Surplus and Other Funds
as of December 31, 2015

Losses	\$ 22,313,760
Loss Adjustment Expenses	13,440,356
Other Expenses	463,026
Unearned Premiums	10,249,751
Advance Premium	201,542
Ceded Reinsurance Premiums Payable	122,301
Amounts Withheld or Retained	2,748
TOTAL LIABILITIES	\$ 46,793,485
Gross Paid In and Contributed Surplus	6,414,480
Unassigned Funds (Surplus)	139,802,219
Surplus as Regards Policyholders	\$146,216,699
TOTAL LIABILITIES AND SURPLUS	\$193,010,183

Statement of Income
For the Year Ended December 31, 2015

Premium Earned	\$ 21,654,256
DEDUCTIONS:	
Losses Incurred	4,669,057
Loss Adjustment Expenses Incurred	5,647,782
Other Underwriting Expenses Incurred	1,037,045
Total Underwriting Deductions	<u>\$ 11,353,884</u>
Net Underwriting Gain	\$ 10,300,371
Net Investment Income Earned	3,799,250
Net Realized Capital Gains	384,338
Net Investment Gain	<u>\$ 4,183,587</u>
Dividends to Policyholders	<u>11,968,500</u>
Net Income	<u><u>\$ 2,515,459</u></u>
 CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2014	\$142,329,249
Net Income (Loss)	2,515,459
Change in Net Unrealized Capital Gains (Losses)	1,371,990
Surplus as Regards Policyholders, December 31, 2015	<u><u>\$146,216,698</u></u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

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.



Levi N. Nwasoria, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration