

REPORT ON EXAMINATION

OF

**SOUTH PINELLAS MEDICAL
MALPRACTICE RISK MANAGEMENT
ASSOCIATION
D/B/A SOUTH PINELLAS MEDICAL
TRUST**

ST. PETERSBURG, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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April 29, 2016

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2014, of the financial condition and corporate affairs of:

**South Pinellas Medical Malpractice Risk Management Association
D/B/A South Pinellas Medical Trust
341 Third Street South
St. Petersburg, Florida 33701**

hereinafter referred to as the "Trust". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2010 through December 31, 2014. The Trust was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2005 through December 31, 2009. This examination commenced with planning at the Office on February 15, 2016 to February 18, 2016. The fieldwork commenced on February 22, 2016 and concluded as of April 29, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Trust 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 Trust 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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes 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.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2014.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Trust for the examination as of December 31, 2009.

COMPANY HISTORY

General

The Trust was incorporated in Florida on January 1, 1976, under the laws of the State of Florida, as a medical malpractice self-insurance trust fund and commenced business on January 1, 1976, with the name of South Pinellas Medical Practice Risk Management Association doing business as South Pinellas Medical Trust.

The Trust's principal and only line of business is medical malpractice. The Trust was authorized to transact medical malpractice insurance coverage in Florida on December 31, 2009 and continued to be authorized as of December 31, 2014.

The By-Laws, Rules and Regulations (By-Laws) were amended during the period covered by this examination.

Effective January 1, 2010, the By-Laws were amended for the Trust's new address. Additionally, a surcharge percentage, calculated by points accumulated on each paid claim for insurance policies, classes 3 through 8, was added to Article VIII, Specific Duties of Trustees, Section 3, Principles of Insurance Coverage, subsection (H), Claims Activity.

Effective January 1, 2014, The By-Laws were amended as follows:

- Article II, Membership, Section 1, the Trust added that Physician's Assistants or Nurse Practitioners may be covered along with a member doctor, but will not directly be members and the doctor is responsible for any assessments from their participation.
- Article IV, Board of Trustees, Section 1, added that all members of the Board of Trustees shall be active practice physicians and active members of the Trust.
- Article VIII, Specific Duties of Trustees, Section 3, Principles of Insurance Coverage, Subsection (G), Policy assessment, Item 1(b) added that effective January 1, 2014, members retiring have sixty (60) days after retiring to elect to remain subject to assessment or refund. This is a one-time election which cannot be changed. Further, if the Trust does not have a surplus, all members retiring remain subject to assessment.

Dividends to Stockholders

In accordance with Rule 69O–187.006 (2), Florida Administrative Code, the Trust declared and paid dividends to its members in the form of a refund of premiums paid in (retrospective rate credits paid). Premium refunds paid during the period under review were \$7,247, \$1,192,268, \$500,000, \$817,019 and \$493,650 for 2010 through 2014 respectively.

Capital Stock and Capital Contributions

The Trust has no stockholders, maintains no capital stock and received no capital contributions.

Surplus Notes

The Trust did not have any surplus debentures.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

The Trust had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the policyholders, Board of Trustees (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Trust transactions and events, in compliance with NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Trust adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual meeting of the members for the election of trustees was held in accordance with Rule 69O-187.010 (1), Florida Administrative Code. Trustees serving as of December 31, 2014, are listed on the following page:

Trustees

Name and Location	Principal Occupation
Warren Abel, M.D. Gulfport, Florida	Pulmonology
Joseph Boulay, M.D. Ocala, Florida	Gastroenterology
Eric Diner, M.D. St. Petersburg, Florida	Urology
David Hall, M.D. Seminole, Florida	Ophthalmology
Pamela Petranella, M.D. St. Petersburg, Florida	Pediatrics
Stephen Cohen, M.D. St. Petersburg, Florida	Neurology
Mark Gordon, M.D. Seminole, Florida	Urology
Daniel McClenathan, M.D. St. Petersburg, Florida	Gastroenterology
Eugene Murphy, M.D. St. Petersburg, Florida	Vascular Surgery
Abey Sarai, M.D. St. Petersburg, Florida	Infectious Diseases
Andrea Woods, M.D. St. Petersburg, Florida	Cardiology
Juan Casadevall, M.D. St. Petersburg, Florida	Internal Medicine

Trina Espinola, M.D. Treasure Island, Florida	Head & Neck Surgeon
Edward Fabelo, M.D. St. Petersburg, Florida	Nephrology
Carlos Labrador, M.D. St. Petersburg, Florida	Family Practice
Michael Zimmer, M.D. St. Petersburg, Florida	Internal Medicine

In accordance with the Trust's By-Laws, the Board appointed the following senior officers:

Senior Officers

Name	Title
Eugene Murphy, M.D.	President
Joseph Boulay, Jr. , M.D.	Vice President
Warren Abel, M.D.	Secretary
David Hall, M.D.	Treasurer
Michael Zimmer, M.D.	Immediate Past President

The Trust's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2014:

Audit Committee	Claims Committee	Membership Committee
Full Board of Trustees	Full Board of Trustees	Full Board of Trustees

The Trust did not maintain a formal audit committee, as required by Section 624.424(8) (c), Florida Statutes. However, the full Board of Trustees acted as the audit committee.

Affiliated Companies

The Trust has no affiliated companies.

TERRITORY AND PLAN OF OPERATIONS

The Trust was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Trust established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes. The Trust maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreement reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Trust assumed no risk.

Ceded

The Trust cedes risk on an excess of loss basis to General Reinsurance Corporation (Gen Re) with \$250,000 retention. There are multiple reinsurance levels, as listed below:

- \$500,000 total per claim/\$1,000,000 annual aggregate policy limits
- \$750,000 total per claim/\$1,500,000 annual aggregate policy limits
- \$1,000,000 total per claim/\$2,000,000 annual aggregate policy limits
- \$1,000,000 total per claim/\$3,000,000 annual aggregate policy limits

In addition, Gen Re provides combination coverage for claims involving three (3) or more doctors, physician extenders, corporations, or policies written by the Trust in any one medical incident. In such an event, Gen Re would pay to the Trust the amount of a net loss above a combined retention of \$500,000, but not to exceed \$1,000,000.

Each annual renewal contract is written as an endorsement to the standing agreement with Gen Re. The Contract has been renewed each year of the period under review.

ACCOUNTS AND RECORDS

The Trust maintained its principal operational offices in St. Petersburg, Florida.

The Trust and non-affiliates had the following agreements:

Management Agreement

The Trust has a management agreement with South Pinellas Management Company, Inc. effective January 1, 2012 for providing administrative and management services to the Trust, which shall continue indefinitely unless terminated. Under this agreement, the Trust pays a 4% commission on the Trust's written premium. For the years ended December 31, 2014 and 2013, commission expense paid was \$115,008 and \$110,615, respectively. Amounts paid for management fees, salary, insurance, rent and office personnel were \$140,079 and \$159,715 in 2014 and 2013, respectively.

Custodial Agreement

During the period under review, the Trust transferred its custodial account from SunTrust to Sabal Trust Company effective May 2, 2011, to meet the compliance requirements of the Office. The move to Sabal Trust was approved by the Board of Trustees on April 14, 2011. The agreement is in compliance with all of the requirements of Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, Gregory, Sharer & Stuart, P.A. audited the Trust's statutory basis financial statements annually for the years 2010, 2011, 2012, 2013 and 2014, in accordance

with Section 624.424(8), Florida Statutes and Rule 69O-187.007(1), Florida Administrative Code. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Tracy Gates, CFE, CISA of Highland Clark, performed an evaluation of the information technology and computer systems of the Trust. Results of the evaluation were noted in the Information Technology Report provided to the Trust.

STATUTORY DEPOSITS

The Trust is not required to have any securities deposited with the State of Florida.

FINANCIAL STATEMENTS PER EXAMINATION

The examination does not attest to the fair representation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Trust's financial statements. Financial statements, as reported and filed by the Trust with the Florida Office of Insurance Regulation, are reflected on the following pages:

South Pinellas Medical Trust

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$11,237,200		\$11,237,200
Cash and Short-Term Investments	709,784		709,784
Other investments			0
Reinsurance premium receivable	5,186		5,186
Interest and dividend income due & accrued	44,827		44,827
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Totals	\$11,996,997	\$0	\$11,996,997

South Pinellas Medical Trust
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$3,316,970		\$3,316,970
Loss adjustment expenses	406,728		406,728
Other expenses	60,591		60,591
Unearned premium	2,682,138		2,682,138
Premium taxes payable	4,133		4,133
Advance premiums	618,917		618,917
Total Liabilities	\$7,089,477	\$0	\$7,089,477
Trustees Account	4,907,520		4,907,520
Total Liabilities and Trustees Account	\$4,907,520	\$0	\$4,907,520
Total liabilities, surplus and other funds	\$11,996,997	\$0	\$11,996,997

South Pinellas Medical Trust
Statement of Income
December 31, 2014

Underwriting Income

Membership premiums		\$2,903,473
	Deductions:	
Ceded premiums		\$480,000
Loss expenses incurred		777,751
Other underwriting expenses incurred		553,333
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$1,811,084
Net underwriting gain or (loss)		\$1,092,389

Investment Income

Net investment income earned		\$259,205
Net realized capital gains or (losses)		(14,861)
Net investment gain or (loss)		\$244,344

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		\$0
Net income before dividends to policyholders and before federal & foreign income taxes		\$1,336,733
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$1,336,733
Federal & foreign income taxes		0
Net Income		\$1,336,733

Capital and Surplus Account

Trustees account at December 31 prior year		\$3,202,960
Net Income		\$1,336,733
Net unrealized capital gains or losses		868,104
Change in non-admitted assets		(6,627)
Less retrospective credits paid		(493,650)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in Trustees account during reporting year		\$1,704,560
Trustees Account, December 31 current year		\$4,907,520

South Pinellas Medical Trust
Comparative Analysis of Changes in Trustees Account
December 31, 2014

The following is a reconciliation of Surplus as regards policyholders between that reported by the Trust and as determined by the examination.

Trustees Account December 31, 2014, per Annual Statement	\$4,907,520
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Trustees Account:			_____
Trustees Account December 31, 2014, Per Examination			\$4,907,520

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	\$3,723,698
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An outside actuarial firm, Madison Consulting Group, appointed by the Board of Trustees, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, made a reasonable provision for all unpaid loss and loss expense obligations of the Trust under the terms of its policies and agreements.

The Office's consulting actuary, Dennis Henry, FCAS, MAAA of The Actuarial Advantage, Inc., reviewed the loss and loss adjustment expense work papers provided by the Trust and he was in concurrence with this opinion.

Trustees Account

The amount reported by the Trust of \$4,907,520 was in compliance Section 624.468 (7), Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **South Pinellas Medical Trust** as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Trust's Trustees Account in the amount of \$4,907,520 was in compliance with Section 624.468 (7), Florida Statutes.

In addition to the undersigned, Mark Jaster, CFE, Examiner in Charge, Tracy Gates, CFE, CISA, IT specialist, Travis Harrison, CPA, and Sam Hebert, Participating Examiners, of Highland Clark, LLC, participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, Financial Examiner/Analyst Supervisor, Examination Manager and Marie Stuhlmuller, Financial Specialist, Participating Examiner. Additionally, Dennis Henry, FCAS, MAAA, consulting actuary of The Actuarial Advantage, Inc., is recognized for participation in the examination.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation