



**EXAMINATION REPORT  
OF**

**MedMal Direct Insurance Company**

**NAIC Company Code: 13793**

**Jacksonville, Florida  
as of  
December 31, 2018**

**BY THE  
FLORIDA  
OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

|  |           |
|--|-----------|
| <b>LETTER OF TRANSMITTAL</b> .....                   | <b>-</b>  |
| <b>SCOPE OF EXAMINATION</b> .....                    | <b>1</b>  |
| <b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....         | <b>2</b>  |
| CURRENT EXAMINATION FINDINGS .....                   | 2         |
| PREVIOUS EXAMINATION FINDINGS .....                  | 2         |
| <b>COMPANY HISTORY</b> .....                         | <b>3</b>  |
| GENERAL .....  | 3         |
| DIVIDENDS .....                                      | 3         |
| CAPITAL STOCK AND CAPITAL CONTRIBUTIONS .....        | 3         |
| SURPLUS NOTES .....                                  | 4         |
| ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS ..... | 4         |
| <b>MANAGEMENT AND CONTROL</b> .....                  | <b>5</b>  |
| CORPORATE GOVERNANCE .....                           | 5         |
| HOLDING COMPANY SYSTEM .....                         | 6         |
| EXPENSE SHARING AGREEMENTS .....                     | 7         |
| SERVICE AGREEMENT .....                              | 7         |
| <b>ACCOUNTS AND RECORDS</b> .....                    | <b>7</b>  |
| CUSTODIAL AGREEMENT .....                            | 8         |
| INDEPENDENT AUDITOR AGREEMENT .....                  | 8         |
| CORPORATE RECORDS REVIEW .....                       | 8         |
| <b>TERRITORY AND PLAN OF OPERATIONS</b> .....        | <b>10</b> |
| <b>REINSURANCE</b> .....                             | <b>10</b> |
| REINSURANCE ASSUMED .....                            | 10        |
| REINSURANCE CEDED .....                              | 10        |
| <b>INFORMATION TECHNOLOGY REPORT</b> .....           | <b>11</b> |
| <b>STATUTORY DEPOSITS</b> .....                      | <b>12</b> |
| <b>FINANCIAL STATEMENTS</b> .....                    | <b>13</b> |
| <b>COMMENTS ON FINANCIAL STATEMENTS</b> .....        | <b>18</b> |
| LIABILITIES .....                                    | 18        |
| CAPITAL AND SURPLUS .....                            | 18        |
| <b>SUBSEQUENT EVENTS</b> .....                       | <b>19</b> |
| <b>SUMMARY OF RECOMMENDATIONS</b> .....              | <b>20</b> |
| <b>CONCLUSION</b> .....                              | <b>21</b> |

May 28, 2020

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

Dear Commissioner:

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, 2018, of the financial condition and corporate affairs of

**MedMal Direct Insurance Company**

76 S Laura St #900  
Jacksonville, Florida 32202

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

## **SCOPE OF EXAMINATION**

We have completed a financial condition examination of MedMal Direct Insurance Company, Inc. a Florida domestic stock corporation. This examination covered the period of January 1, 2014, through December 31, 2018. Fieldwork, which included planning meetings held at the Florida Office of Insurance Regulation (“the Office”) commenced on December 10, 2019, and concluded as of May 28, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2013, through December 31, 2013.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the examination be planned and performed to evaluate 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 included identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively. 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.

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 the NAIC Statements of Statutory Accounting Principles (“SSAP”).

This examination report includes information obtained from the examination of the records, accounts, files and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Examination Findings**

None.

### **Previous Examination Findings**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2013, along with resulting action taken by the Company in connection therewith. All of the previous findings were satisfactorily addressed and resolved.

### **Actuarial Report Documentation**

The opining actuary did not describe the assumptions and methodologies used in the actuarial report "with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report," as required in Paragraph 3.2 of Actuarial Standard of Practice No. 41. Assumptions and methodologies were adequately described during the examination period.

### **Schedule P Reconciliation**

The opining actuary's analysis did not include a Schedule P reconciliation for errors in the actuarial data presented in the report as compared to Schedule P data in accordance with Paragraph 7 of the Actuarial Opinion section of the NAIC's Annual Statement Instructions. A Schedule P reconciliation was included during the examination period.

### **Actuarial Report Summary Exhibit**

The actuarial report did not contain an exhibit summarizing the results of the analysis and comparing them to reserves booked by the Company, as required in Paragraph 7 of the Actuarial Opinion section of the NAIC's Annual Statement Instructions. In addition, the results presented in the actuarial report, when summarized, do not reconcile to the amount represented as the actuary's point estimate in the Actuarial Opinion Statement ("AOS"). The Actuarial reports contained exhibits summarizing results of the analysis during the examination period.

## **COMPANY HISTORY**

### **General**

The Company was incorporated in Florida on June 14, 2010, and commenced business on June 17, 2010, as MedMal Direct Insurance Company. By the end of the examination period the Company was licensed to write insurance in a total of 12 states.

The Company Bylaws were amended on March 24, 2014, to allow for the separation of roles of the President and Chief Executive Officer.

### **Dividends**

The Company did not declare or pay any dividends during the period of this examination.

### **Capital Stock and Capital Contributions**

As of December 31, 2018, MedMal Direct Insurance Company's capitalization is as follows:

|   |             |
|---|-------------|
| Number of authorized common capital shares at December 31, 2018 | 10,000,000  |
| Number of shares issued and outstanding at December 31, 2018    | 9,501,240   |
| Total Common Capital stock                                      | \$4,750,620 |
| Par value per share   | \$0.50      |

Control of the Company was maintained by MedMal Direct Insurance Group, LLC who owned 100% of the stock issued by the Company, who in turn was 100% owned by Physicians Trust, Inc. a Florida Corporation.

The Articles of Incorporation were last amended on March 14, 2013, which changed the par value of Common Stock from \$1 per share to \$.50 per share.

### **Surplus Notes**

The Company had no surplus notes during the period under examination.

### **Acquisitions, Mergers, Disposals, Dissolutions**

No acquisitions, mergers, disposals or dissolutions occurred during the examination period. There was a subsequent event, but this is discussed in the Holding Company section of the report.

## MANAGEMENT AND CONTROL

### Corporate Governance

Directors serving as of December 31, 2018, are shown below:

#### Directors

| <b>Name</b>                        | <b>City, State</b>         | <b>Principal Occupation,<br/>Company Name</b>                                 |
|------------------------------------|----------------------------|---|
| Phillip Butler Ball                | Atlanta, Georgia           | Chief Executive Officer and<br>President<br>MedMal Direct Insurance Company   |
| Christopher McNeill Ball           | Jacksonville, Florida      | Corporate Executive   |
| Timothy Robert Bone <sup>(2)</sup> | Jacksonville, Florida      | Vice President and Chief Claims<br>Officer<br>MedMal Direct Insurance Company |
| Carter Byrd Bryan <sup>(1)</sup>   | Jacksonville, Florida      | Retired Corporate Executive   |
| William Talbot Buckingham          | Ponte Vedra Beach, Florida | Retired Corporate Executive   |
| Melodee Susanne Dixon              | Jacksonville, Florida      | Chief Operating Officer<br>MedMal Direct Insurance Company                    |
| Marc Dean Hammett                  | Atlanta, Georgia           | Chief Financial Officer<br>MedMal Direct Insurance Company                    |

<sup>1</sup> Chairman

<sup>2</sup> Timothy R. Bone retired from the Company's Board of Directors effective September 20, 2019



In accordance with the Company's Bylaws, the Board appointed the following Senior Officers as of December 31, 2018:

**Senior Officers**

| Name                               | City, State           | Title                                   |
|------------------------------------|-----------------------|---|
| Carter Byrd Bryan                  | Jacksonville, Florida | Chairman                                |
| Philip Butler Ball                 | Atlanta, Georgia      | Chief Executive Officer and President   |
| Melodee Susanne Dixon              | Jacksonville, Florida | Chief Operating Officer and Secretary   |
| Marc Dean Hammett                  | Atlanta, Georgia      | Chief Financial Officer and Treasurer   |
| Timothy Robert Bone <sup>(1)</sup> | Jacksonville, Florida | Chief Claims Officer and Vice President |

(1) Timothy R. Bone retired as Chief Claims Officer and Vice-President from the Company effective December 31, 2018

The Company's Audit Committee was comprised of the following members as of December 31, 2018.

**Audit Committee**

| Name                            | City, State                | Title, Company   |
|---------------------------------|----------------------------|--|
| Christopher Ball <sup>(1)</sup> | Jacksonville, Florida      | Chief Executive Officer<br>Wingard Creative                              |
| P. Butler Ball                  | Atlanta, Georgia           | Chief Executive Officer and President<br>MedMal Direct Insurance Company |
| William Buckingham              | Ponte Vedra Beach, Florida | Retired  |

(1) Chairman

**Holding Company System**

The Company is a wholly owned subsidiary of MedMal Direct Insurance Group, LLC who in turn is a wholly owned subsidiary of Physicians Trust, Inc.

**Subsequent Event:** The Company formally dissolved their parent MedMal Direct Insurance Group, LLC (MDIG), December 12, 2019. As a result of that dissolution, the Company is a

wholly owned subsidiary of Physicians Trust, Inc. There were no operational changes to the Company due to the dissolution of MDIG.

The following agreements were in effect between the Company and its affiliates:

### **Expense Sharing Agreements**

The Company is a party to an Expense Sharing agreement with Physicians Trust, Inc. ("PTI") which shares the cost of business expenses pertaining to routine business expenses. The Company is a wholly owned subsidiary of MedMal Direct Insurance Group, LLC (MDIG). During the 2018 period, the Company made several transfers to MDIG for inter-company balances, as a result of expense sharing agreements and service expenses related to the ultimate parent company (Physicians Trust, Inc.). The December 31, 2018 inter-company balance pertains to Q4 current transactions.

As of December 31, 2018, the Company had an inter-company receivable due from MDIG of \$57,879. This receivable is for expenses related to the Service Agreement and was satisfied by the end of the following quarter. Additionally the Company had an inter-company receivable due from CorePro, LLC for \$21,777, which was settled in February 2019.

### **Service Agreement**

The Company entered into a Service Agreement on June 11, 2010, with MDIG. Pursuant to the agreement, MDIG provides personnel to perform certain services for the benefit of the Company, including but not limited to, sales and marketing, accounting and financial reporting, operations and regulatory responsibilities. The Company pays a fee equal to one hundred and fifteen percent of the actual compensation and related personnel costs incurred by MDIG. The services performed under this agreement were assumed by the ultimate controlling person, PTI. Subsequent to the examination period. However, the agreement was not updated following the dissolution of MDIG.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Jacksonville, Florida.

The Company's accounting records were prepared using QuickBooks Enterprise 19 to support general ledger activity, cash collections and payables. Microsoft Excel was used primarily for rating, but also to support general ledger entries, accounting calculations, fixed asset details, and other accounting functions. Microsoft Dynamics and Salesforce CRM were used for policy management. In 2015, FileMaker was implemented for claims management.

The Company and non-affiliates had the following agreements:

#### **Custodial Agreement**

The Company utilized Merrill Lynch as its custodian during the period covered by this examination. The Company executed a custodian agreement on September 9, 2013, that met all requirements of Rule 69O-143.042, Florida Administrative Code. The agreement was in effect during the examination period.

#### **Independent Auditor Agreement**

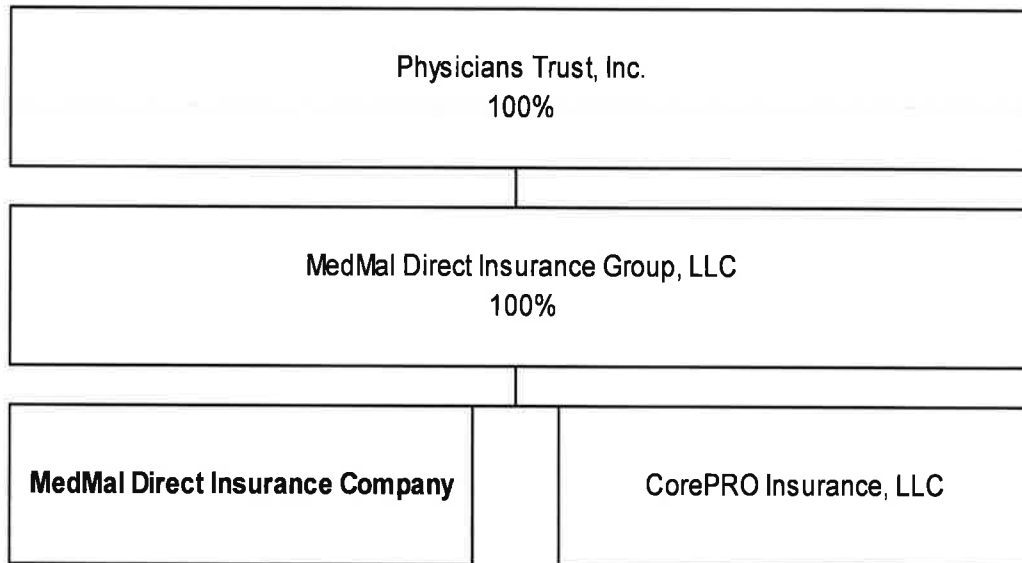
Johnson Lambert LLP, an independent CPA, audited the Company's statutory basis financial statements annually for the years 2014, 2015, 2016, 2017, and 2018. Supporting work papers were prepared by the CPA firm and were reviewed as part of the examination.

#### **Corporate Records Review**

The recorded minutes of the Board of Directors (Board) and internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions.

**MedMal Direct Insurance Company  
Simplified Organizational Chart  
December 31, 2018**

A simplified organizational chart as of December 31, 2018, reflecting the holding company group, is shown below. A complete organizational chart of the holding company group was disclosed in the Company's 2018 annual statement (Schedule Y – Part 1).



**Subsequent Event**

The Company formally dissolved their parent MedMal Direct Insurance Group, LLC (MDIG) December 12, 2019 MDIG was dissolved leaving the Company a wholly owned subsidiary of PTI. There were no operational changes to the Company due to the dissolution of MDIG

## TERRITORY AND PLAN OF OPERATIONS

As of December 31, 2018, the Company was authorized to transact insurance in the following states:

|          |                |              |
|----------|----------------|--------------|
| Florida  | Indiana        | Oklahoma     |
| Alabama  | Missouri       | Pennsylvania |
| Georgia  | North Carolina | Texas        |
| Illinois | Ohio           | Virginia     |

The Company was authorized to transact insurance in Florida on June 17, 2010, and is currently authorized for Medical Malpractice as of December 31, 2018.

## REINSURANCE

Reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, and reporting and settlement information deadlines.

### Reinsurance Assumed

The Company did not assume any reinsurance during the examination period.

### Reinsurance Ceded

The Company ceded risk through an excess of loss reinsurance agreement with clash coverage, to various Lloyd's Syndicates in order to limit its financial exposure to large claims, by using Lockton Re, LP as a reinsurance intermediary. The treaty period covered claims made from March 1, 2014, through March 1, 2017. Under the per risk excess of loss coverage, the reinsurers paid up to \$750,000 per loss insured, in excess of \$250,000. Under the clash coverage, the reinsurers paid up to \$500,000 per loss occurrence, in excess of \$500,000. Each loss occurrence under the clash coverage provision comprised at least three insureds.

The Company ceded risk through an excess of loss reinsurance agreement with clash coverage to various Lloyd's Syndicates using Integro Insurance Brokers as a reinsurance intermediary,

covering claims made from January 1, 2015, through January 1, 2018. Under the per risk excess of loss coverage, the reinsurers paid up to \$600,000 per loss insured, in excess of \$400,000. Under the clash coverage, the reinsurers paid up to \$1,000,000 per loss occurrence, in excess of \$400,000. Each loss occurrence under the clash coverage provision comprised at least two insureds.

The Company ceded risk through a quota share reinsurance agreement with Swiss Reinsurance America Corporation for 2015 only.

The Company ceded risk through a quota share reinsurance agreement with Liberty Mutual Insurance Company for years 2015, 2016, 2017, and 2018 respectively.

Subsequent Event: The Company terminated the agreement with Liberty Mutual Insurance Company effective January 1, 2019. The Company restructured the XOL reinsurance program effective January 1, 2019. A quota share placement was not a component of the new treaty.

### **INFORMATION TECHNOLOGY REPORT**

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

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as with various state officials as required or permitted by individual state law:

| <u>State</u>                    | <u>Description</u>      | <u>Par Value</u>    | <u>Market Value</u> |
|---------------------------------|-------------------------|---------------------|---------------------|
| FL                              | Cash                    | \$ 300,000          | \$ 300,000          |
| GA                              | Cash                    | \$ 25,172           | \$ 25,172           |
| NC                              | US Treasury & Bonds     | \$ 207,700          | \$ 207,428          |
| OK                              | UTGO Bond               | \$ 340,273          | \$ 333,717          |
| TX                              | Municipal/Treasury Note | \$ 2,096,189        | \$ 2,116,634        |
| VA                              | Municipal Bond          | \$ 367,012          | \$ 360,852          |
| <b>Total Statutory Deposits</b> |                         | <u>\$ 3,336,346</u> | <u>\$ 3,343,803</u> |

## **FINANCIAL STATEMENTS**

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Income; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2018. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2018. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)



**MedMal Direct Insurance Company**  
**Assets**  
**December 31, 2018**

|  | Per<br>Company       | Examination<br>Adjustments | Per<br>Examination   |
|--|----------------------|----------------------------|----------------------|
| Bonds  | \$ 28,849,768        | \$ -                       | \$ 28,849,768        |
| Stocks:  |                      |                            |                      |
| Preferred stocks                                     | 1,234,505            |                            | 1,234,505            |
| Common stocks  | 1,325,374            |                            | 1,325,374            |
| Cash, cash equivalents, and short-term investments   | 5,400,349            |                            | 5,400,349            |
| Receivables for securities                           | 951                  |                            | 951                  |
| Investment income due and accrued                    | 279,133              |                            | 279,133              |
| Agents' balances                                     |                      |                            |                      |
| Uncollected premiums                                 | 839,622              |                            | 839,622              |
| Deferred premiums                                    | -                    |                            | -                    |
| Reinsurance recoverable                              | 1,042,952            |                            | 1,042,952            |
| Other amounts receivable under reinsurance contracts | 214,095              |                            | 214,095              |
| Current federal income tax recoverable               | 18,859               |                            | 18,859               |
| Net deferred tax asset                               | 1,046,708            |                            | 1,046,708            |
| Receivable from parents, subsidiaries and affiliates | 79,656               |                            | 79,656               |
| Rounding   | <u>(1)</u>           | <u>-</u>                   | <u>(1)</u>           |
| Totals   | <u>\$ 40,331,971</u> | <u>\$ -</u>                | <u>\$ 40,331,971</u> |

**MedMal Direct Insurance Company  
Liabilities, Surplus and Other Funds  
December 31, 2018**

|   | Per<br>Company                     | Examination<br>Adjustments | Per<br>Examination                 |
|---|------------------------------------|----------------------------|------------------------------------|
| Losses  | \$ 10,660,451                      |                            | \$ 10,660,451                      |
| Loss adjustment expenses                          | 5,630,286                          |                            | 5,630,286                          |
| Other expenses                                    | 268,042                            |                            | 268,042                            |
| Taxes, licenses and fees                          | 103,823                            |                            | 103,823                            |
| Unearned premiums                                 | 6,936,992                          |                            | 6,936,992                          |
| Advance premium                                   | 727,312                            |                            | 727,312                            |
| Ceded reinsurance premiums payable                | 1,508,288                          |                            | 1,508,288                          |
| Payable for Securities                            | 146                                |                            | 146                                |
| Aggregate write-ins for liabilities               | <u>102,069</u>                     |                            | <u>102,069</u>                     |
| <b>Total Liabilities</b>                          | <b><u>\$ 25,937,409</u></b>        | <b><u>\$ -</u></b>         | <b><u>\$ 25,937,409</u></b>        |
| Common capital stock                              | \$4,750,620                        |                            | \$ 4,750,620                       |
| Gross paid in and contributed surplus             | 17,149,380                         |                            | 17,149,380                         |
| Unassigned funds (surplus)                        | <u>(7,505,438)</u>                 |                            | <u>(7,505,438)</u>                 |
| Surplus as regards policyholders                  | <u>14,394,562</u>                  | <u>-</u>                   | <u>14,394,562</u>                  |
| <b>Total liabilities, surplus and other funds</b> | <b><u><u>\$ 40,331,971</u></u></b> | <b><u><u>\$ -</u></u></b>  | <b><u><u>\$ 40,331,971</u></u></b> |

**MedMal Direct Insurance Company**  
**State of Income**  
**December 31, 2018**

|  | Per<br>Company        | Examination<br>Adjustments | Per<br>Examination    |
|--|-----------------------|----------------------------|-----------------------|
| <b>Underwriting Income</b>                                 |                       |                            |                       |
| Premiums earned  | \$ 12,503,593         |                            | \$ 12,503,593         |
| <b>Deductions</b>  |                       |                            |                       |
| Losses incurred  | \$ 7,685,133          | \$ -                       | \$ 7,685,133          |
| Loss adjustment expenses incurred                          | 2,851,483             |                            | 2,851,483             |
| Other underwriting expenses incurred                       | 5,114,204             |                            | 5,114,204             |
| Total underwriting deductions                              | <u>\$ 15,650,820</u>  | <u>\$ -</u>                | <u>\$ 15,650,820</u>  |
| Net underwriting gain or (loss)                            | <u>\$ (3,147,227)</u> | <u>\$ -</u>                | <u>\$ (3,147,227)</u> |
| <b>Investment Income</b>                                   |                       |                            |                       |
| Net investment income earned                               | 562,018               |                            | \$562,018             |
| Net realized capital gains or (losses)                     | 215,947               |                            | 215,947               |
| Net investment gain or (loss)                              | <u>\$ 777,965</u>     | <u>\$ -</u>                | <u>\$ 777,965</u>     |
| <b>Other Income</b>  |                       |                            |                       |
| Aggregate write-ins for miscellaneous income               | 33,341                |                            | 33,341                |
| Total other income   | <u>\$ 33,341</u>      | <u>\$ -</u>                | <u>\$ 33,341</u>      |
| Rounding   |                       |                            |                       |
| Net income before federal & foreign income taxes           | (2,335,921)           | -                          | (2,335,921)           |
| Federal & foreign income taxes                             | (66,019)              |                            | (66,019)              |
| Net Income   | <u>\$ (2,269,902)</u> | <u>\$ -</u>                | <u>\$ (2,269,902)</u> |
| <b>Capital and Surplus Account</b>                         |                       |                            |                       |
| Surplus as regards policyholders, December 31 prior year   | \$ 16,848,498         |                            | \$ 16,848,498         |
| Net Income   | (2,269,902)           | \$ -                       | (2,269,902)           |
| Net unrealized capital gains or losses                     | (292,770)             |                            | (292,770)             |
| Change in net unrealized foreign exchange capital loss     | (293)                 |                            | (293)                 |
| Change in net deferred income tax                          | (292,474)             |                            | (292,474)             |
| Change in non-admitted assets                              | 393,501               |                            | 393,501               |
| Change in provision for reinsurance                        | 8,000                 |                            | 8,000                 |
| Rounding   | 2                     |                            | 2                     |
| Change in surplus  | <u>\$ (2,453,936)</u> | <u>\$ -</u>                | <u>\$ (2,453,936)</u> |
| Surplus as regards policyholders, December 31 current year | <u>\$ 14,394,562</u>  | <u>\$ -</u>                | <u>\$ 14,394,562</u>  |

**MedMal Direct Insurance Company  
Reconciliation of Capital and Surplus  
December 31, 2018**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

|  |                      |                       |
|--|----------------------|-----------------------|
| Surplus as regards policyholders December 31, 2013 per Examination |                      | \$ 10,450,482         |
|  | <u>Increase</u>      | <u>Decrease</u>       |
| Net Income (loss)  |                      | \$ (4,854,546)        |
| Change in net unrealized capital gain (loss)                       |                      | (126,435)             |
| Change in net deferred income tax                                  | 458,667              |                       |
| Change in net unrealized foreign exchange capital gain             |                      |                       |
| Change in non-admitted assets                                      |                      | (910,425)             |
| Change in provision for reinsurance                                |                      | -                     |
| Surplus paid in  | 9,999,560            |                       |
| Aggregate write-ins for gains and losses in surplus                |                      | (622,744)             |
| Rounding   | 3                    |                       |
| Total Gains and Losses   | <u>\$ 10,458,230</u> | <u>\$ (6,514,150)</u> |
| Net Increase/(Decrease) in surplus as regards policyholders        |                      | <u>3,944,080</u>      |
| Surplus at December 31, 2018 Prior to Examination Adjustment       |                      | <u>14,394,562</u>     |
| Examination Adjustment to Surplus                                  |                      | <u>-</u>              |
| Surplus as regards policyholders December 31, 2018 per Examination |                      | <u>\$ 14,394,562</u>  |

## **COMMENTS ON FINANCIAL STATEMENTS**

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

The Company recorded \$3.361M on Schedule P - Part 1, Column 23, Salvage and Subrogation Anticipated ("S&S") in the Company's 2018 Annual Statement. The Company based its reported amounts on the anticipated proceeds from a lawsuit filed in December of 2018, against one of their previous law firms. An attorney from one of those firms had represented the Company in previous litigation and the Company is claiming legal malpractice and breach of fiduciary duty by that attorney.

#### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$14,394,562, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

## **SUBSEQUENT EVENTS**

The Company completed the Subsequent Events Inquiry; Timothy R. Bone retired from the Company's Board of Directors effective September 20, 2019.

Timothy R. Bone retired as Chief Claims Officer and Vice-President from the company effective December 31, 2018.

P. Butler Ball stepped down as CEO and President of the company effective December 31, 2018. Mr. Ball, a founder, continues to serve on the Company's Board of Directors.

Thomas B. Carter was hired as Senior Vice President of Sales and Marketing in 2018. Mr. Carter replaced Melodee S. Dixon as Secretary of the Company effective January 1, 2019.

Meredith Hines was promoted to Vice-President of Underwriting effective July 1, 2019.

Daniel Dupre was hired as Vice-President of Claims effective March 4, 2019, to replace James Lacey who resigned March 1, 2019.

The Company became aware on April 14, 2020, of an actual fraud attempt where someone tried to cash a fraudulent check (approximately \$1,900) on a company bank account that was closed in 2019. The check was identified as fraudulent upon presentation to the cashier and the attempt was thwarted. The company also notified the bank of this incident.

On January 1, 2019, the Company terminated their reinsurance agreement with Liberty Mutual Insurance Company, ultimately restructuring their reinsurance program, which resulted in increased limit protections at a lower cost, generating increased profitability and improvements in the Company's cash flow.

On December 12, 2019, the Company dissolved their immediate parent MedMal Direct Insurance Group.

On March 9, 2020, Florida Declared a State of Emergency due to the ongoing concerns related to Coronavirus. Subsequent to the emergency declaration the Company began to provide Coronavirus updates on their website.

## **SUMMARY OF RECOMMENDATIONS**

None

## CONCLUSION

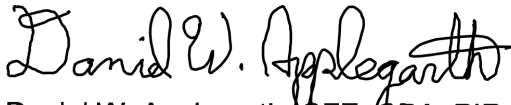
The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Insurance Company as of December 31, 2018, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, Tracy D. Gates, CFE, CISA, Participating Examiner and IT Specialist, Travis R. Harrison, CPA and Lori G. Jester, Participating Examiners, of Highland Clark, LLC, also participated in the examination. Members of the Office who participated in the examination include Jeff Rockwell, Analyst Supervisor, Examination Manager. Additionally, Michael Solomon, FCAS, MAAA, CERA of The Actuarial Advantage is recognized for participation in the examination.

Respectfully submitted,



Sheri L Kenney, CFE, MCM  
Highland Clark, LLC  
Representing the Florida Office of Insurance Regulation



Daniel W. Applegarth, CFE, CPA, PIR  
Chief Financial Examiner  
P&C Financial Oversight  
Florida Office of Insurance Regulation