



**EXAMINATION REPORT
OF**

PHYSICIANS INSURANCE COMPANY

NAIC Company Code: 11588

**Deerfield Beach, Florida
as of
December 31, 2016**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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October 3, 2017

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 690-138.005, 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, 2016, of the financial condition and corporate affairs of

Physicians Insurance Company
361 E Hillsboro Blvd
Deerfield Beach, Florida 33441

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2012 through December 31, 2016 and commenced with planning at the Florida Office of Insurance Regulation ("Office") on June 6, 2017, to June 8, 2017. The fieldwork commenced on June 6, 2017 and concluded as of October 3, 2017. The Company's last full scope examination by representatives of the Office covered the period of January 1, 2007 through December 31, 2011.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the examination be planned and performed 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 Statements of Statutory Accounting Principles (SSAP).

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 (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

The following is a summary of significant findings of fact, significant non-compliance findings or material changes in the financial statements.

Notice of Change in Directors or Principal Officers

The office was not provided written notice of changes of personnel among the Directors or Principal Officers of the insurer in 2014, 2015 and 2016 within forty-five (45) days of such change. This is a violation of Section 628.261, Florida Statutes.

Previous Examination Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2011.

COMPANY HISTORY

General

The Company was incorporated in Florida on January 31, 2003, licensed on February 26, 2003, and commenced business on March 7, 2003.

The Company's Bylaws were amended on May 1, 2012 and its Articles of Incorporation were amended on May 31, 2005.

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, 2016, the Company's capitalization was as follows:

Number of authorized common capital shares	500,000
Number of shares issued and outstanding	400,000
Total common capital stock	\$1,000,000
Par value per share	\$2.50

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

Acquisitions, Mergers, Disposals, Dissolutions

As of December 31, 2011, one hundred percent (100%) of the Company's issued and outstanding shares of common stock were owned by PIC Group, LLC, a Florida limited liability corporation. On December 27, 2011, the Members of PIC Group, LLC (sellers) entered into a "Membership Interest Purchase Agreement" to sell all of the interests in PIC Group LLC to Texas Medical Liability Trust ("TMLT"). On May 1, 2012, the Office approved the indirect acquisition of the Company by TMLT, a Texas healthcare liability claims trust, pursuant to the terms and conditions of Consent Order No.125138-12-CO. As a result, TMLT owns one hundred percent (100%) of the Company's common stock.

On December 28, 2011, TMLT purchased one hundred percent (100%) of the interests of PIC Group (FB), LLC. Prior to the sale, PIC Group (FB) LLC, was formed as a wholly owned subsidiary of PIC Group LLC and owner of all of the interests in Managed Insurance Services, LLC, National Institute of Quality Assurance, LLC, Insurance Software Design, LLC and Insurance Innovations, LLC.

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

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2016 are shown below.

Directors

Name	City, State	Principal Occupation
Robert David Donohoe ¹	Austin, Texas	President, Physicians Insurance Company
Vincent Lee Kasch	Austin, Texas	Chief Financial Officer & Treasurer, Physicians Insurance Company
Susan Denise Mills	Austin, Texas	Senior Vice President - Claims & Secretary, Physicians Insurance Company
Deborah Jean Giese	Austin, Texas	Vice President - Underwriting, Physicians Insurance Company
John Jarboe Devin	Austin, Texas	Chief Operating Officer, Physicians Insurance Company

¹Chairperson

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
Robert David Donohoe	Austin, Texas	President
Rebecca Sanders (a)	Deerfield Beach, Florida	Vice President - Claims
Greg Michael Harmon	Austin, Texas	Vice President - Claims
Vincent Lee Kasch	Austin, Texas	Chief Financial Officer & Treasurer

Susan Denise Mills	Austin, Texas	Senior Vice President - Claims & Secretary
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(a) Resigned during second quarter of 2016 and was replaced in 2016 by Gregory M. Harmon as Vice President of Claims.

The Company's Board appointed several internal committees. The Board of Directors acts as the Audit Committee and Investment Committee for the Company. The following were the principal internal board committees and their members as of December 31, 2016:

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

Audit Committee

Name	City, State	Title
Robert David Donohoe ¹	Austin, Texas	President, Director
Vincent Lee Kasch	Austin, Texas	Chief Financial Officer & Treasurer, Director
Susan Denise Mills	Austin, Texas	Senior Vice President - Claims & Secretary, Director
Deborah Jean Giese	Austin, Texas	Director
John Jarboe Devin	Austin, Texas	Director

¹ Chairperson

Investment Committee

Name	City, State	Title
Robert David Donohoe ¹	Austin, Texas	President, Director
Vincent Lee Kasch	Austin, Texas	Chief Financial Officer & Treasurer, Director
Susan Denise Mills	Austin, Texas	Senior Vice President - Claims & Secretary, Director

Deborah Jean Giese	Austin, Texas	Director
John Jarboe Devin	Austin, Texas	Director

¹ Chairperson

Holding Company System

Control of the Company was maintained by its parent, PIC Group, LLC, which owned one hundred percent (100%) of the stock issued by the Company, which in turn is owned one hundred percent (100%) by TMLT. The parent has not contributed capital to the Company during the examination period ended December 31, 2016.

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

Tax Allocation Agreement

The Company, along with its parent, TMLT, and its affiliate, Texas Medical Insurance Company, filed a consolidated federal income tax return pursuant to a Tax Allocation Agreement effective May 1, 2012 and continuously effective thereafter until revocation by any party to the agreement. The method of allocation between the Company and its parent and affiliate was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with TMLT. Payments due to TMLT for the estimated installment tax payments shall be made on or before the due date for each installment. After the final determination of the Company's tax liability is made for the applicable tax year, the remaining amount due shall be made as soon after the close of the applicable taxable year as possible, but in no event later than the due date, (including extensions) for filing of the federal, state or local income tax returns. If a refund is due to the Company, such settlement will be made within thirty (30) days after the refund is received by TMLT. All settlements shall be in cash.

Insurance Claim Risk Assessment Services Agreement

Effective December 31, 2006, the Company entered into an Insurance Claim Risk Assessment Services Agreement with the National Institute of Quality Assurance, Inc. ("NIQA"), an affiliate under common ownership and management. NIQA assists the Company by performing certain tests and analysis, the results of which are utilized to assess physicians for future medical

malpractice insurance claims, witness characteristics, and preparation. For services rendered, NIQA assesses the Company an annual fee of \$450 per physician/insured. In addition, NIQA receives a commission of one percent (1%) to five percent (5%) of the prior year premium of the Company. Fees incurred under this agreement during 2016 amounted to \$426,150.

Managing General Underwriting Agreement

Effective January 1, 2012, the Company entered into a Managing General Underwriting Agreement ("MGU") with Managed Insurance Services, LLC ("MIS"), an affiliate under common ownership and management. This agreement replaces the MGU effective September 14, 2007 between the Company and MIS. The initial term is for a time period not to exceed five (5) years, after which the agreement becomes renewable annually, unless otherwise terminated within the guidelines of the agreement. Pursuant to the agreement, MIS will provide the following services: solicitation of business; all usual and customary services to sub-producers, insureds and policyholders; binding risks in accordance with underwriting guidelines and pricing established by the Company; and policy issuance. MIS is entitled to receive commission at a rate of twenty five percent (25%) based on Gross Written Premium on policies bound, written, renewed, or continued. Fees incurred under this agreement during 2016 amounted to \$1,554,719.

Accounts and Records

The Company maintained its principal operational offices in Deerfield Beach, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a Custodial Agreement with Frost Bank executed on December 20, 2012. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

The custodial account with Frost Bank is held in Texas. Frost Bank does not have branch offices within the State of Florida, which is not in compliance with Section 628.271 (2)(b).

Subsequent Event: The company requested approval to hold its custodial assets outside of

the State of Florida on September 1, 2017, and approval was granted by the Office on October 10, 2017.

Independent Auditor Agreement

An independent CPA, Calhoun, Thomson & Matza, LLP, audited the Company's statutory basis financial statements annually for the years 2012, 2013, 2014, 2015, and 2016, in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

Corporate Records Review

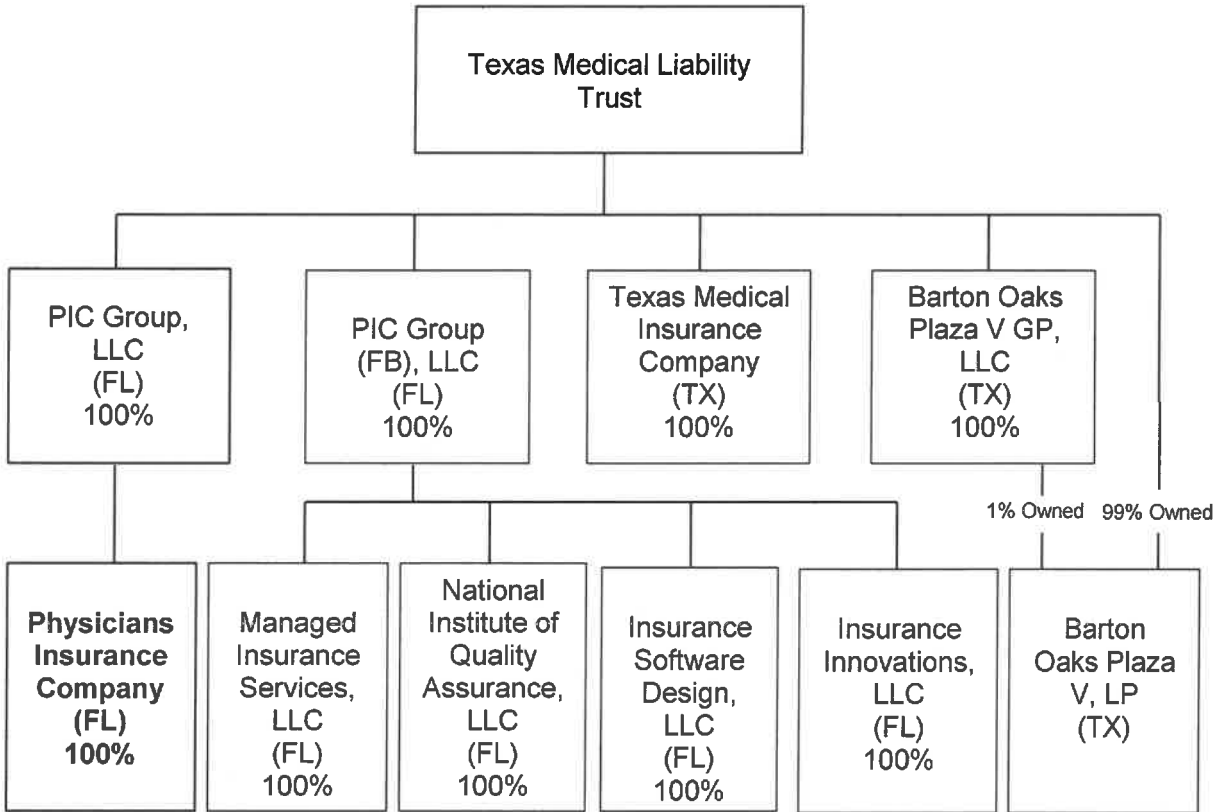
The recorded minutes of the Shareholder(s), Board of Directors ("Board") and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

Conflict of Interest

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

An organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2016 annual statement provided a list of all related companies of the holding company group.

**Physicians Insurance Company
Organizational Chart
December 31, 2016**



TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the States of Florida and Texas.

The Company was authorized to transact one line of business, Medical Professional Liability insurance, in Florida on February 26, 2003, and is currently authorized for Medical Professional Liability coverage as of December 31, 2016.

The Company was authorized to transact Medical Professional Liability insurance in Texas on February 26, 2003, and is currently authorized for this line of coverage as of December 31, 2016.

Treatment of Policyholders

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

REINSURANCE

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

Reinsurance Assumed

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

Reinsurance Ceded

The Company ceded risk on a Per Event Excess of Loss Reinsurance Contract renewed January 1, 2016, and originally entered into on January 1, 2015. The agreement provided a limit of \$1,750,000 excess of \$250,000 per event, with loss adjustment expenses covered as a part of the ultimate net loss. The limit was increased in 2016 to \$3,000,000 excess of \$250,000.

Two reinsurance agreements were not renewed in 2015. A quota share reinsurance agreement with Aspen American Insurance Company expired on December 31, 2014, and a quota share reinsurance agreement with TMLT (the parent company), was not renewed beginning February 1, 2015. In years prior to 2015, risks were ceded to various authorized and unauthorized reinsurance companies. Letters of credit were obtained for all risks ceded to unauthorized reinsurers. All reinsurance contracts were negotiated and approved by the Company utilizing the services of a reinsurance intermediary.

The Company commuted a reinsurance contract covering multiple treaty years in 2015. There was no reinsurance recoverable attached to the commuted contract. In accordance with SSAP 62R, Property and Casualty Reinsurance, the commutation was recorded as an increase to premiums earned of \$168,894 and the net effect of the transactions was an increase of underwriting income of \$168,894.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

INFORMATION TECHNOLOGY REPORT

Michael Nadeau, CISA, AES, CPA, CFE, Manager, of Eide Bailly, LLP, 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 required by Section 624.411, Florida Statutes.

State	Description	Par Value	Market Value
FL	Cash Deposit	\$ 550,000.00	\$ 550,000.00
FL	Cash Interest	\$ 178,096.30	\$ 178,096.30
TOTAL FLORIDA DEPOSITS		\$ 728,096.30	\$ 728,096.30

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation 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 Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages.

Physicians Insurance Company

Assets

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Bonds	\$7,327,347		\$7,327,347
Stocks:			
Preferred stock	296,810		296,810
Real Estate:			
Properties occupied by Company	1,568,313		1,568,313
Cash, cash equivalents and short-term investments	3,127,535		3,127,535
Investment income due and accrued	82,692		82,692
Premiums and considerations:			
Uncollected premium and agents' balances in the course of collection	1,399,888		1,399,888
Reinsurance:			
Amounts recoverable from reinsurers	33,855		33,855
Health care and other amounts receivable	2,224		2,224
Totals	<u>\$13,838,664</u>	<u>\$0</u>	<u>\$13,838,664</u>

Physicians Insurance Company
Liabilities, Surplus and Other Funds

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,709,848		\$2,709,848
Loss adjustment expenses	1,491,505		1,491,505
Other expenses	15,466		15,466
Taxes, licenses and fees	21,209		21,209
Unearned premium	2,948,154		2,948,154
Ceded reinsurance premiums payable	185,940		185,940
Payable to parent, subsidiaries and affiliates	<u>159,866</u>		<u>159,866</u>
Total Liabilities	\$7,531,988	\$0	\$7,531,988
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	4,000,000		4,000,000
Unassigned funds (surplus)	<u>1,306,676</u>		<u>1,306,676</u>
Surplus as regards policyholders	<u>\$6,306,676</u>	<u>\$0</u>	<u>\$6,306,676</u>
Total liabilities, surplus and other funds	<u><u>\$13,838,664</u></u>	<u><u>\$0</u></u>	<u><u>\$13,838,664</u></u>

Physicians Insurance Company
Statement of Income
December 31, 2016

Underwriting Income

Premiums earned		\$4,285,499
	Deductions:	
Losses incurred		\$2,010,273
Loss adjustment expenses incurred		1,406,513
Other underwriting expenses incurred		2,256,333
Total underwriting deductions		\$5,673,119
Net underwriting gain or (loss)		(\$1,387,620)

Investment Income

Net investment income earned		\$200,487
Net realized capital gains or (losses)		8,356
Net investment gain or (loss)		\$208,843

Other Income

Finance and service charges not included in premiums		22,623
Aggregate write-ins for miscellaneous income		66,120
Total other income		\$88,743

Net income before dividends to policyholders, after captial gains tax and before all other federal & foreign income taxes		(\$1,090,034)
Dividends to policyholders		0
Net Income, after dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes		(\$1,090,034)
Federal & foreign income taxes		0
Net Income		(\$1,090,034)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$7,413,171
Net Income (loss)		(\$1,090,034)
Change in net unrealized capital gains or losses less capital gains tax of \$(6,841)		(13,279)
Change in non-admitted assets		217,009
Change in net deferred income tax		(220,191)
Change in surplus as regards policyholders for the year		(\$1,106,495)
Surplus as regards policyholders, December 31 current year		\$6,306,676

Physicians Insurance Company
Reconciliation of Capital and Surplus
December 31, 2016

No adjustments were made to surplus as regards policyholders as a result of this examination.

Capital/Surplus Change during Examination Period

Surplus at December 31, 2011, per Examination	\$8,623,208
Net Income	(\$2,102,927)
Change in net unrealized capital gains or (losses)	\$5,949
Change in net deferred income tax	(\$391,289)
Change in non admitted assets	\$96,554
Cumulative effect of changes in accounting principles	\$75,181
Surplus at December 31, 2016, per Examination	<u>\$6,306,676</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses \$4,201,353

Brendan Leonard (ACAS, MAAA) of Perr & Knight, who was appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016 made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Daniel A. Reppert (FCAS, MAAA), of Financial Risk Analysts, LLC, reviewed the loss and loss adjustment expense workpapers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$6,306,676, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Custodial Agreement

The custodial account the Company has with Frost Bank is held in Texas. Frost Bank does not have branch offices within the State of Florida, which is not in compliance with Section 628.271 (2)(b). The company requested approval to hold its custodial assets outside of the State of Florida on September 1, 2017, and approval was granted by the Office on October 10, 2017.

SUMMARY OF RECOMMENDATIONS

Notice of Change in Directors or Principal Officers

We recommend the Company report changes in directors and principal officers within forty-five (45) days of such change in compliance with Section 628.261, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Physicians Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards policyholders was \$6,306,676, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, James W. Menck (CFE, CPA, CIA, MCM), Examiner-in-Charge, and Michael R. Nadeau (CPA, CFE, CISA, AES), Robert (Bob) R. Burch (CPA, CFE, MCM, CIE), and Sara J. Schumacher (CPA, CFE, MCM) of Eide Bailly, LLP, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell (MBA), FCCM, Financial Examiner/Analyst Supervisor, Examination Manager and Paula Bowyer (APIR), Financial Examiner/Analyst II, Participating Examiner. Additionally, Daniel A. Reppert (FCAS, MAAA), of Financial Risk Analysts, LLC, and Michael Nadeau (CPA, CFE, CISA, AES), IT Specialist of Eide Bailly, LLP, are recognized for participation in the examination.

Respectfully submitted,



Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation