



Paul R. LePage
GOVERNOR

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Eric A. Cioppa
SUPERINTENDENT

June 29, 2018

Eric A. Cioppa, Superintendent
Maine Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Superintendent:

Pursuant to the provisions of 24-A M.R.S. §221 and in conformity with your instructions, a financial examination has been made of the

MEDICAL MUTUAL INSURANCE COMPANY OF MAINE

at its home office in Portland, Maine. The following report is respectfully submitted.



PRINTED ON RECYCLED PAPER

OFFICES LOCATED AT: 76 NORTHERN AVENUE, GARDINER, MAINE 04345
WWW.MAINE.GOV/INSURANCE

PHONE: (207) 624-8475

TTY users call Maine Relay 711

Customer Complaint: 1-800-300-5000

FAX: (207) 624-8599

REPORT OF EXAMINATION
MEDICAL MUTUAL INSURANCE COMPANY OF MAINE
AS OF
DECEMBER 31, 2016


ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified Report of Examination of Medical Mutual Insurance Company of Maine dated June 29, 2018, was delivered to that insurer on July 10, 2018, and;

WHEREAS no hearing with respect to the Report of Examination has been requested by Medical Mutual Insurance Company of Maine;

NOW THEREFORE, I accept the Report of Examination and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S. §226 (3).

Dated: 7-23-18



Eric A. Cioppa, Superintendent

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	1
PRIOR EXAMINATION	1
CURRENT EXAMINATION	1
THE COMPANY	1
HISTORY	1
CORPORATE OWNERSHIP	2
CORPORATE RECORDS	3
CORPORATE GOVERNANCE	3
TRANSACTIONS WITH AFFILIATES	4
TERRITORY & PLAN OF OPERATION	4
REINSURANCE	4
FINANCIAL STATEMENTS	5
STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS	6
STATEMENT OF OPERATIONS	7
STATEMENT OF CAPITAL AND SURPLUS	8
COMMENTS ON THE FINANCIAL STATEMENTS	9
SUBSEQUENT EVENTS	9
SUMMARY OF RECOMMENDATIONS	9
APPENDIX A – STATEMENT OF ACTUARIAL OPINION	11

SCOPE OF EXAMINATION

Medical Mutual Insurance Company of Maine (MMIC or “Company”) was last examined as of December 31, 2011, by the State of Maine Bureau of Insurance (MBOI). This examination covered the period from January 1, 2012, to December 31, 2016.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (NAIC), in conformity with statutory accounting practices, NAIC guidelines, the 2017 Financial Condition Examiners Handbook and the laws, rules, and regulations prescribed or permitted by the State of Maine. The examination consisted of a review of the Company's operations, controls, and corporate governance, valuation of assets, and determination of liabilities at December 31, 2016. The examination also included the identification and evaluation of significant risks that could cause the Company'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. The examination does not attest to the fair presentation of the financial statements included herein. Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

None noted.

CURRENT EXAMINATION

None noted.

THE COMPANY

HISTORY

MMIC was organized as a mutual insurance company under the general laws of the State of Maine on March 20, 1978, and was licensed to transact business on September 1, 1978, by the Superintendent of Insurance. In 1992, the Company became licensed to write medical malpractice insurance in New Hampshire and Vermont, and began to actively write business in New Hampshire during 1992, and in Vermont during 1995. The Company became licensed to write

physicians medical professional liability insurance and hospital medical professional liability insurance in Massachusetts on February 1, 2012 and June 1, 2012, respectively.

In 1997, the Company formed MMIC Services Company, LLC (MMICSC), a wholly owned subsidiary, to provide accounting and data processing services to the Company. MMICSC formed a wholly owned subsidiary, Medical Provider Management Company (MPMC) in 1997, to provide managerial, planning, financial, and other services to health care practices in New England.

In 2002, MMICSC formed a wholly owned subsidiary, Specialty Insurance Placement Services, LLC (SIPS) to provide placement of insurance products other than medical malpractice for the Company's policyholders.

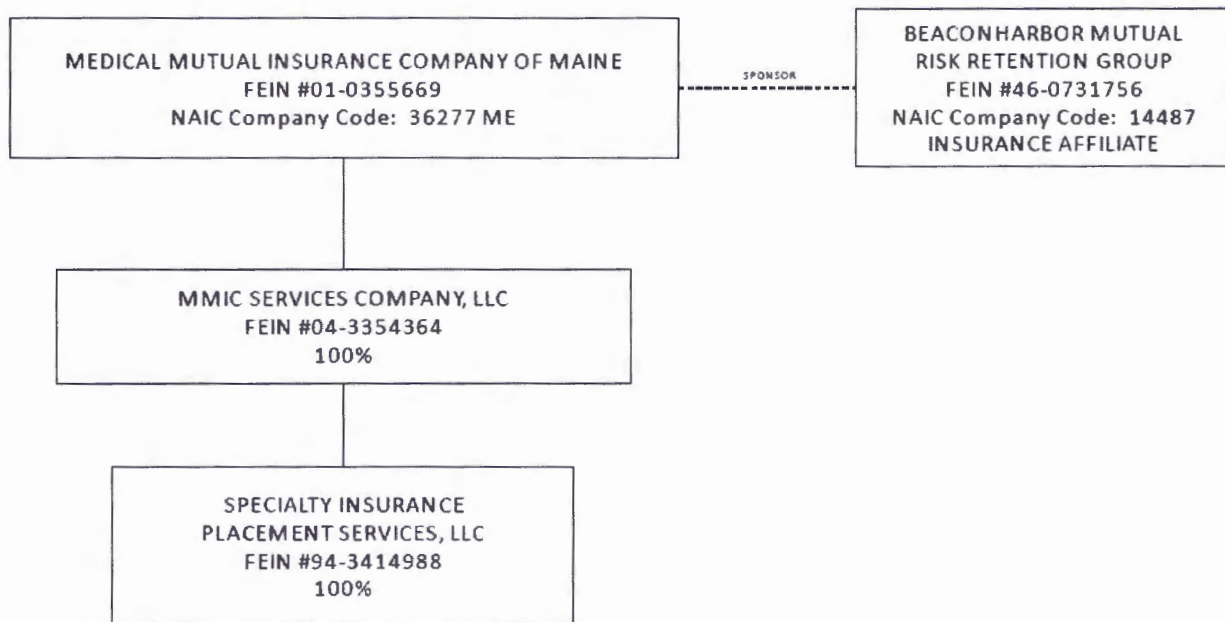
Operations of MPMC were discontinued on June 30, 2003. Assets of MPMC were distributed to MMICSC and the Company. In 2004, the Company's board of directors voted to discontinue operations of Technology Services Division of MMICSC effective December 31, 2005.

In 2012, MMIC sponsored the creation of a risk retention group formed as an industrial insured captive insurance company, BeaconHarbor Mutual Risk Retention Group (BHMRRG), primarily for the purpose of providing cross-border coverage for insureds in states in which MMIC is not admitted. BHMRRG is domiciled in the state of Maine and licensed to write Medical Malpractice and Other Liability (e.g. cyber coverage). BHMRRG is authorized to write coverage in Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont.

MMIC has entered into a surplus note agreement in order to lend BHMRRG up to \$5 million. The Company has capitalized BHMRRG for \$1,050,000 as of December 31, 2016.

CORPORATE OWNERSHIP

MMIC's corporate ownership structure follows:



CORPORATE RECORDS

MMIC's articles of incorporation, bylaws, and minutes of the board of directors meetings held during the period under examination were reviewed.

CORPORATE GOVERNANCE

The Company is governed and overseen by its board of directors and management team.

As of December 31, 2016, the board of directors of the Company consisted of the following members:

<u>Name</u>	<u>Title</u>
William L. Medd, M.D.	Chairman
William F. D'Angelo, M.D.	Vice Chairman
Peter W. Bates, M.D.	Director
Cynthia A. DeSoi, M.D.	Director
Matthew C. Dugan, D.O.	Director
Sean T. Hanley, M.D.	Director
Wendy J. Jones	Director
Frank W. Lavoie, M.D.	Director
John A. Marzinzik	Director
David B. McDermott, M.D.	Director
Jeremy R. Morton, M.D.	Director
Robert D. Sansonetti, M.D.	Director
Lois N. Skillings	Director
O. Robert Stevens, M.D.	Director
James M. Totten	Director

As of December 31, 2016, the officers of the Company consisted of the following individuals:

<u>Name</u>	<u>Title</u>
Frank W. Lavoie, M.D.	President
O. Robert Stevens, M.D.	Treasurer
William L. Medd, M.D.	Chairman
Cynthia A. DeSoi, M.D.	Secretary
William F. D'Angelo, M.D.	Vice Chairman
Barbara T. Sinclair	VP/CFO
John P. Doyle	VP Marketing/Administration
Stephen D. Hodgkin	VP/CIO
David L. Johnson	VP Underwriting
Mary Elizabeth Knox	VP Claims
Cheryl L. Peaslee	VP Risk Management

TRANSACTIONS WITH AFFILIATES

The Company provides certain management services to its subsidiaries under an operating agreement with MMICSC.

The Company provides certain management and administration services to its affiliate, BHMRRG, under the terms of a written management services agreement.

TERRITORY & PLAN OF OPERATION

The Company was formed to transact the business of medical professional liability insurance for health care providers including health care facilities and institutions, physicians licensed to practice medicine and other medical personnel, and to transact the business of liability insurance, generally, for such persons, facilities, and institutions. The Company is licensed and writes business in Maine, New Hampshire, Vermont, and Massachusetts.

REINSURANCE

The Company has an excess of loss agreement with various reinsurers wherein the Company's net retention is \$750,000 with coverage up to \$17,000,000 in excess of its net retention.

The table below describes the layers of the Company's reinsurance agreement in place at December 31, 2016:

<u>Professional Liability, Primary General Liability, and Umbrella Excess Liability</u>		
<u>Description</u>	<u>Company Retention</u>	<u>Reinsured Amount</u>
First Layer	\$750,000 per claim	\$1,250,000 per claim
Second Layer	\$2,000,000 per claim \$4,000,000 in aggregate per insured	Up to \$15,000,000 per claim and/or in aggregate per insured
Clash / Systemic *	\$1,750,000 per loss event	\$10,000,000 per loss event

*Coverage for multiple defendants on same claim or multiple related claims of the same issue

<u>Managed Health Care Liability and Business Errors and Omissions Liability</u>		
<u>Description</u>	<u>Company Retention</u>	<u>Reinsured Amount</u>
First & Only Layer	\$100,000 per claim	\$900,000 per claim

The Company provides cyber liability insurance on a claims-made basis to its policyholders. This business is 100% ceded to various reinsurers.

MMIC provides reinsurance coverage for BHMRRG through a separate quota share contract. BHMRRG cedes 95% of the first \$1 million of net liability for each claim or occurrence, for each insured, and 100% of net liability in excess of \$1 million.

FINANCIAL STATEMENTS

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Operations, and the Statement of Capital and Surplus are as presented by management and audited by the Company's external auditors. It should be noted that these financial statements have not been audited by the Maine Bureau of Insurance and thus the Maine Bureau of Insurance does not express an opinion on the financial statements as a whole.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2016**

Assets

Bonds	\$ 207,695,291
Common stocks	42,122,717
Cash, cash equivalents, and short term investments	24,141,521
Other invested assets	1,000
Receivables for securities	4,164
Investment income due and accrued	1,671,095
Uncollected premiums in the course of collection	515,075
Deferred premiums, agents' balances and installments	17,533,917
Amounts recoverable from reinsurers	373,640
Electronic data processing equipment and software	110,935
Receivables from subsidiaries and affiliates	78,692
Aggregate write-ins	2,974,686
Total assets	<u>\$ 297,222,733</u>

Liabilities

Losses	62,125,171
Loss adjustment expenses	29,240,961
Commissions payable	79,552
Other expenses	721,537
Taxes, licenses and fees	178,361
Current federal income taxes	1,715,663
Net deferred tax liability	1,765,571
Unearned premiums	21,456,623
Advance premiums	205,312
Policyholder dividends declared and unpaid	2,021,439
Ceded reinsurance premiums payable	5,988,477
Amounts withheld or retained for account of others	1,344,473
Aggregate write-ins for liabilities	4,563,604
Total liabilities	<u>131,406,744</u>

Capital and Surplus

Unassigned funds	<u>165,815,989</u>
Surplus as regards policyholders	<u>165,815,989</u>
Total liabilities, capital and surplus	<u>\$ 297,222,733</u>

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2016

Premiums earned	\$ 36,524,117
Deductions:	
Losses incurred	17,318,039
Loss adjustment expenses	8,328,387
Other underwriting expenses	9,157,178
Aggregate write-ins for underwriting deductions	62,240
Total underwriting deductions	<u>34,865,844</u>
Total underwriting gain	<u>1,658,273</u>
Net investment income earned	7,703,543
Net realized capital gains net of capital gains taxes	749,936
Net investment income	<u>8,453,479</u>
Finance and service charges	34,450
Aggregate write-ins for miscellaneous income	19,428
Total other income	<u>53,878</u>
Net income before dividends and federal income taxes	10,165,630
Dividends to policyholders	1,818,767
Net income before federal income taxes	<u>8,346,863</u>
Federal income taxes	1,584,263
Net income	<u><u>\$ 6,762,600</u></u>

**STATEMENT OF CAPITAL AND SURPLUS
YEARS ENDED DECEMBER 31, 2016**

Surplus, December 31, 2015	\$ 157,551,044
Net income	6,762,600
Change in net unrealized capital gains (losses), net of capital gains tax	2,756,893
Change in net deferred income tax	(1,240,639)
Change in nonadmitted assets	(48,633)
Aggregate write-ins for gains and losses in surplus	34,724
Net change in capital and surplus	<u>8,264,945</u>
Surplus, December 31, 2016	<u><u>\$ 165,815,989</u></u>

COMMENTS ON THE FINANCIAL STATEMENTS

NOTE 1 – RESERVES

Lewis & Ellis, Inc. (“Consulting Actuary”) was engaged to provide actuarial assistance with the financial examination of the Company as of December 31, 2016. The reserves as reported by the Company were determined to be reasonable based on the review performed by the Consulting Actuary.

NOTE 2 – CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the four-year period since the MBOI's last examination of the Company, dated December 31, 2011:

Capital and surplus, December 31, 2011	\$ 110,332,656
Net income	54,714,218
Change in net unrealized capital gains (losses), net of capital gains tax	14,488,912
Change in net deferred income tax	(5,946,018)
Change in nonadmitted assets	1,867,676
Change in surplus notes	(10,000,000)
Cumulative effect of changes in accounting principles	316,505
Aggregate write-ins for gains and losses in surplus	42,040
Net change in capital and surplus	<u>55,483,333</u>
Capital and surplus, December 31, 2016	<u>\$ 165,815,989</u>

SUBSEQUENT EVENTS

Subsequent to December 31, 2016, there were no significant material items that came to our attention for inclusion in the report of examination.

SUMMARY OF RECOMMENDATIONS

There are no report level recommendations.

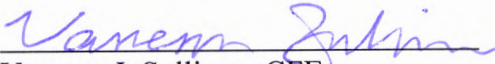
STATE OF MAINE
COUNTY OF KENNEBEC, SS

Vanessa J. Sullivan, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination of the condition and affairs of the

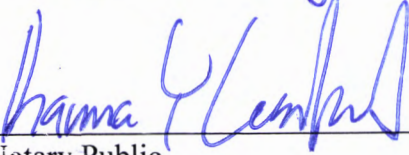
MEDICAL MUTUAL INSURANCE COMPANY OF MAINE

located in Portland, Maine as of December 31, 2016, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. The following examiners from the Bureau of Insurance assisted:

- Arias Wan, CPA, CFE
- Audrey L. Wade, CFE, CISA
- Ebrahim Fazeli
- Erin L. Gaddis
- Sarah A. Hyde


Vanessa J. Sullivan, CFE

Subscribed and sworn to before me
This 23 day of July, 2018


Notary Public
My Commission Expires:

KARMA LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2023

APPENDIX A – STATEMENT OF ACTUARIAL OPINION

APPENDIX

MEDICAL MUTUAL INSURANCE COMPANY OF MAINE Statement of Actuarial Opinion as of December 31, 2016

I, Patrick Glenn am Vice President of the firm of Lewis & Ellis, Inc. ("L&E"). I am a Member of the American Academy of Actuaries and meet its qualification standards and I am an Associate of the Casualty Actuarial Society. I was retained by the Maine Bureau of Insurance ("MBOI") to render this Opinion on the liabilities of Medical Mutual Insurance Company of Maine ("Company").

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by the Company and the data contained in the actuarial report prepared by Chad Karls, FCAS, MAAA, of Milliman, Inc. He is a consulting actuary. I conclude that the aforementioned reserves carried by the Company make a reasonable provision for the associated liabilities through December 31, 2016.

I believe the calculations were performed in accordance with commonly accepted reserving methods and are based on appropriate actuarial factors given the risk exposures under the policy provisions. My estimates of the reserves make no provision for the extraordinary future emergence of either new classes of losses or post-contractual expansions of policy coverages.

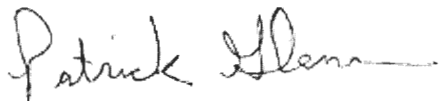
With respect to ceded losses and loss adjustment expenses and unearned premiums, I have relied on the Company's assertion that all ceded reinsurance is valid and collectible.

I have examined the reserves listed in Exhibit A, as shown in the Company's Annual Statement as prepared for filing with state regulatory officials as of December 31, 2016. The items in the SCOPE, on which I am issuing an opinion, reflect the Loss Reserve Disclosure items (8 thru 13) in Exhibit B.

In my opinion, the amounts carried in Exhibit A on account of the items identified:

- (i) are consistent with reserves amounts computed in accordance with generally accepted actuarial standards and principles;
- (ii) meet the requirements of the insurance laws of Maine; and,
- (iii) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company, in the aggregate, under the terms of its policies and agreements.

LEWIS & ELLIS, INC.



Patrick Glenn, A.C.A.S., A.S.A., M.A.A.A.
Vice President & Consulting Actuary

June 1, 2018

Appendix (continued)

STATEMENT OF ACTUARIAL OPINION

Medical Mutual Insurance Company of Maine

Exhibit A: SCOPE

<u>Loss and Loss Adjustment Expense Reserves:</u>	<u>Amount:</u>
(1) Reserve for Unpaid Losses (Liabilities, Surplus, and Other Funds page, Line 1)	<u>\$ 62,125,171</u>
(2) Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus, and Other Funds page, Line 3)	<u>\$ 29,240,961</u>
(3) Reserve for Unpaid Losses - Direct and Assumed (Schedule P, Part 1, Totals from Cols. 13 and 15)	<u>\$ 77,925,000</u>
(4) Reserve for Unpaid Loss Adjustment Expenses - Direct & Assumed (Schedule P, Part 1, Totals from Cols. 17, 19, and 21)	<u>\$ 29,907,000</u>
(5) The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed"	<u>\$ 0</u>
(6) Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	<u>\$ 0</u>
 <u>Premium Reserves:</u>	
(7) Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	<u>\$ 0</u>
(8) Reserve for Net Unearned Premiums for Long Duration Contracts	<u>\$ 0</u>
(9) Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (DDR Reserve, Schedule P Int.1.2)	<u>\$ 1,118,033</u>

Appendix (continued)

Medical Mutual Insurance Company of Maine

Exhibit B: DISCLOSURES

	Column 1	Column 2	Column 3	Column 4
1. Name of the Appointed Actuary		Glenn	Patrick	D.
2. The Appointed Actuary's Relationship to the Company. Enter E or C based upon the following: E if an Employee C if a Consultant			<u>C</u>	
3. The Appointed Actuary is a Qualified Actuary based upon what qualification? Enter F, A, M, or O based upon the following: F if a Fellow of the Casualty Actuarial Society (FCAS) A if an Associate of the Casualty Actuarial Society (ACAS) M if not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries (MAAA) approved by the Casualty Practice Council, as documented with the attached approval letter. O for Other			<u>A</u>	
4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following: R if Reasonable I if Inadequate or Deficient Provision E if Excessive or Redundant Provision Q if Qualified. Use Q when part of the OPINION is qualified. N if No Opinion			<u>R</u>	
5. Materiality Standard expressed in US dollars (Used to answer question #6)	<u>\$24,872,398</u>			
6. Is there a Significant Risk of Material Adverse Deviation?			Yes []	No [X]
7. Statutory Surplus	<u>\$165,815,989</u>			
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	<u>\$ 0</u>			
9. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P				
9.1 Nontabular Discount	<u>\$ 0</u>			
9.2 Tabular Discount	<u>\$ 0</u>			
10. The net reserves for losses and expenses for the company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines	<u>\$ 0</u>			
11. The net reserves for losses and loss adjustment expenses that the company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines. *				
11.1 Asbestos, as disclosed in the Notes to Financial Statements	<u>\$ 0</u>			
11.2 Environmental, as disclosed in the Notes to Financial Statements	<u>\$ 0</u>			
12. The total claims made extended loss and expense reserve (Schedule P Interrogatories)				
12.1 Amount reported as loss reserves	<u>\$ 0</u>			
12.2 Amount reported as unearned premium reserves	<u>\$ 1,118,033</u>			
13. Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	<u>\$ 0</u>			