STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

Utah Medical Insurance Association

of

Salt Lake City, Utah

as of

December 31, 2007

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September 5, 2008

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Honorable Morris J. Chaves, Superintendent
Secretary, Western Zone, NAIC
New Mexico Department of Insurance
PO Drawer 1269
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Honorable D. Kent Michie
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2007, has been made of the financial condition and business affairs of:

UTAH MEDICAL INSURANCE ASSOCIATION
of
Salt Lake City, Utah

hereinafter referred to in this report as the Association, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2004, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

A letter of representation attesting to the Association's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Association's management at the conclusion of the examination.

Examination Procedure Employed

A multi-state financial examination of the Association was performed using the Risk-Focused Surveillance Approach based on the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The intent is to broaden and enhance the identification of risks inherent in the Association's operations and utilize that evaluation in formulating the ongoing surveillance of the Association. The primary objectives of the examination were to reach overall conclusions about the governance and risk management environment under which the Association operates, as well as its financial condition and operating performance during the examination period.

The examination was conducted under the association plan of the NAIC. The participating examiners represented the Western zone.

The initial phase of the examination focused on evaluating the Association's governance, as well as its business approach, to develop an examination plan tailored to the Association's individual operating profile. Significant functional areas were selected for review. The following functional areas were selected for examination: Investments, Losses/Benefits, Reinsurance, and Premium.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering any mitigating factors. Mitigating factors considered included corporate governance and work performed by external auditors. Interviews were held with the senior management of the Association to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk examination procedures were reduced where considered appropriate.

An independent certified public accounting (CPA) firm was retained to audit the Association's financial records for the years ended 2004 through 2007. Audit reports generated by the firm were made available for the examination's review. Audit working papers were made available to the examination and utilized for examination purposes when deemed appropriate.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Association has addressed all of the important points and recommendations noted in the prior examination report.

HISTORY

General

The Association was organized on November 20, 1978, as an unincorporated interinsurance exchange to provide medical professional liability insurance and related premises liability insurance. The Association commenced business in the state of Utah on December 1, 1978.

The Association is an insurer operating under the provisions of U.C.A. § 31A-5-108. The Association is managed by its attorney-in-fact, USMA Insurance Management Company (USMA-IMC), a wholly owned subsidiary of the Utah Medical Association and organized for the purpose of acting as attorney-in-fact for the Association and its members.

During the period covered by this examination, there were no amendments made to the Association's rules and regulations.

Dividends to Policyholders

The Association neither declared nor paid any dividends during the examination period.

Management

The Rules and Regulations of the Association bestow overall supervision to the board of governors consisting of twelve individuals. The membership of the Association elects the board of governors for three-year staggered terms. The following governors were serving as of December 31, 2007, and are identified below by date of expiring terms:

The following persons served as governors of the Association as of December 31, 2007:

December 31, 2007	December 31, 2008	December 31, 2009
Jay Swedberg, MD Casper, Wyoming	Brent K. Lind, MD American Fork, Utah	Kelly L. Banks, MD Bozeman, Montana
Randall J. Stockham, MD Salt Lake City, Utah	Richard Labasky, MD Salt Lake City, Utah	Gil Schorlemmer, MD Salt Lake City, Utah
Douglas R. Mower, MD American Fork, Utah	Mark S. Shockey, MD Salt Lake City, Utah	James B. Stinson, MD Salt Lake City, Utah
Russell B. Shields, MD Bountiful, Utah	Brian Shiozawa, MD Salt Lake City, Utah	Scott E. Bingham, MD Provo, Utah

Officers serving at December 31, 2007, were as follows:

Name	Title
Mark S. Shockey, MD	Chairman of the Board
Randal J. Stockham, MD	Vice Chairman
Brent K. Lind, MD	Secretary
Scott E. Bingham, MD	Assistant Secretary

The Association does not have separate committees. The Governors receive and review reports of committees and management of the attorney-in-fact, USMA-IMC.

Conflict of Interest Procedure

During the period covered by the examination, governors and officers of the Association completed conflict of interest statements annually. No exceptions were noted.

Corporate Records

Association records generated during the examination period were reviewed. The records consisted of minutes from the meetings of the board of governors and records of USMA-IMC. The minutes contained detailed information about the Association including current events, officer and governor elections, investment transactions and regulatory issues. The minutes adequately approved and supported the Association's transactions and events.

The prior examination report as of December 31, 2003 was distributed to the board of governors on May 16, 2005.

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

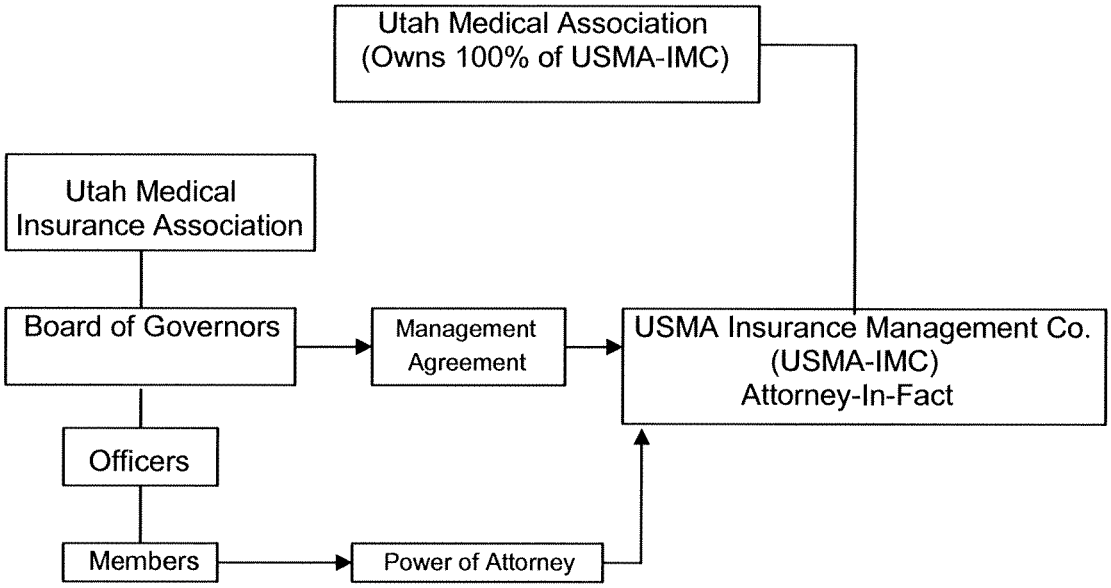
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Association during the examination period.

Surplus Debentures

No surplus debentures were issued or retired during the examination period and none were outstanding as of December 31, 2007.

AFFILIATED COMPANIES

The Association is an interinsurance exchange managed by its attorney-in-fact, USMA-IMC, a Utah corporation wholly owned by the Utah Medical Association as follows:



Transactions with Affiliates

The board of governors was authorized to contract with the attorney-in-fact and had general supervision over the operations of the attorney-in-fact. The management agreement provides that the attorney-in-fact shall be responsible for the administration of the Association including the production, underwriting and servicing of insurance for Association members. As consideration for management services, the attorney-in-fact was entitled to 20% of the net billed premiums and underwriting fees as determined by the board of governors.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an insurer of the Association's size and premium volume is not less than $800,000. As of the examination date, the Association participated in fidelity bond coverage of $1,000,000. The Association also had additional insurance protection against loss from Directors, Officers and Organization liability and Insurance Professional Liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Association had no employees during the examination period.

STATUTORY DEPOSITS

The Association's statutory deposit requirement was $1,600,000 pursuant to U.C.A. § 31A-5-211(2)(b)(vi) and (e). The statutory deposit maintained in the policyholders behalf, as of December 31, 2007 was as follows:

State	Description	Book Value	Fair Value
Utah	U.S. Treasury Bond	$ 1,969,899	$ 2,008,368

A special deposit held for the State of Nevada Division of Insurance and not held for the benefit of all policyholders as of December 31, 2007, was as follows:

State	Description	Book Value	Fair Value
Nevada	U.S. Treasury Bond	$ 246,237	$ 251,046

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Association offers claims-made professional liability insurance including the following:

Medical Liability Protection and Coverage (Medical Malpractice) provides coverage for claims made, relating to medical care a covered physician provided or failed to provide, with limits up to $5,000,000 individual and $7,000,000 aggregate. Office based physicians are required to purchase Professional Premises Liability Coverage with limits up to $1,000,000 individual and $3,000,000 aggregate. The premises coverage also includes coverage up to $50,000 for bodily damage and liability for an accident occurring on the office premises with an aggregate limit of $100,000 during any policy period. The Association retention limit is $600,000 as of December 31, 2007.

Fraud and Abuse Coverage (Medefense) provides individual coverage up to a limit of $1,000,000 each loss and $1,000,000 aggregate for each year, and group coverage up to a limit of $5,000,000 each loss and $5,000,000 aggregate for each year. Providing for payment of legal expenses incurred by the policy holder to defend against disciplinary actions taken by a health care entity for credentials, privileges, or membership; state licensing board for unprofessional conduct; actions by HHS for Medicare and Medicaid fraud and abuse; and for any actions taken for HIPAA violations. This coverage is fully reinsured as of December 31, 2007.

Employers Practices Liability Coverage provides for payment of legal costs up to $25,000 incurred in defense of wrongful termination, workplace harassment, sexual harassment, discrimination, retaliation and workplace tort actions (defamation, invasion of privacy, wrongful discipline, deprivation of career opportunity) of a physician's employees. The Association retains 10% of the liability.

No Fault Coverage: On request medical costs up to the no fault limit of $5,000 incurred by a patient as a result of an injury resulting from an insured physician's treatment, failure to treat or as a result of an accident in the office can be paid up to one year after the event occurred. The Association retains this liability.

The policy forms issued during the examination period were consistent with Department approved forms.

Territory and Plan of Operation

The Association was licensed and authorized to transact medical malpractice and related premises liability insurance in the following five states as of December 31, 2007:

Idaho	Montana	Nevada	Utah	Wyoming

As of December 31, 2007, the Association marketed its products under a general agency plan in the states of Wyoming and Idaho. The Association markets directly in Utah and Montana; the president of the attorney-in-fact was licensed in those states.

Advertising and Sales Material

The Association insurance products are marketed through direct mailing and brochures in Idaho, Montana and Wyoming; advertisements in regional medical association publications in Utah and Montana; and through its website UMIA.com. These items were reviewed without exception.

Treatment of Policyholders

During the examination period, there were no complaints filed with the Department by policyholders. The examiners encountered no other items of concern regarding the treatment of policyholders. The Association maintains control over policyholder complaints.

REINSURANCE

Assumed

The Association neither maintained, nor entered into any assumed reinsurance arrangements during the examination period.

Ceded

The Association had various reinsurance contracts in effect during the examination period. The reinsurance coverage is provided through various reinsurers including Domestic Reinsurers, International Reinsurers and London Reinsurers.

As of December 31, 2007, the reinsurance contracts and limits of coverage were as follows:

1. Primary excess of loss and first excess cession reinsurance with coverage for policies classified by the Association as Medical Practitioners' Professional Liability including Professional Premises Liability, Hospital Professional Liability and Associated Commercial General Liability business issued on a Primary, Umbrella or Excess Following Form basis including all other ancillary coverage.

   Whenever the Association becomes liable to pay a loss under any Policy in an amount in excess of $600,000, each Policy or insured, the amount recoverable from the Reinsurer is the amount in excess of $600,000, not to exceed $2,400,000. Additionally, whenever two or more Policies or insureds are involved in the same Loss Occurrence the amount recoverable from the Reinsurer is the amount in excess of $600,000 not to exceed $2,400,000.

   Whenever the Association becomes liable to pay a loss under any Policy an amount in excess of $1,000,000, each Policy or insured, and/or $3,000,000 in the aggregate, the amount recoverable from the Reinsurer is the amount in excess of the foregoing, but the amount recoverable does not exceed $1,000,000, each Policy or insured, and/or $1,000,000 in the aggregate.

2. Second excess cession reinsurance for policies classified by the Association as Medical Practitioners' Professional Liability including Professional Premises Liability, Hospital Professional Liability and Associated Commercial General Liability business are issued on a Primary, Umbrella or Excess Following Form basis including all other ancillary coverage.

   Whenever the Association becomes liable to pay a loss under any Policy an amount in excess of $2,000,000, each Policy, and/or $4,000,000 in the aggregate, the amount recoverable from the Reinsurer is the amount in excess of the foregoing, but not to exceed $4,000,000 each loss, each Policy and/or $4,000,000 in the aggregate.

3. Catastrophe "Awards Made" excess of loss reinsurance for policies classified by the Association as Medical Practitioners' Professional Liability including Professional Premises Liability, Hospital Professional Liability and Associated Commercial General Liability business. This Contract is only to indemnify the Association in respect of all liability incurred as the result of that portion of the Association's Ultimate Net Loss relating to Awards in Excess of Original Policy Limits and/or relating to Extra Contractual Obligations.

The Reinsurer is liable in respect to each Loss Occurrence, for the Association's Ultimate Net Loss in excess of the Association's applicable underlying reinsurance program, subject to a limit of liability to the Reinsurer of $5,000,000 each Loss Occurrence. The Association retains a 5% part of 100% share of its excess liability.

4. Medefense and Medefense Plus quota share reinsurance for endorsements to its Policies issued or renewed for physicians' excess legal expense reimbursement, including Fraud and Abuse and violation of HIPAA Privacy Regulations, including fines and penalties.

   The Reinsurer accepts 100% of the Association's Net Liability, subject to a maximum limits of liability of $100,000 each loss and/or $100,000 annual aggregate any one original Policy endorsement for Medefense. Additionally, with respect to Medefense Plus the Reinsurer agrees to accept 100% of the Association's Net Liability, subject to a maximum limit of liability of $1,000,000 each loss and/or $1,000,000 annual aggregate and in respect to Group Aggregate, a maximum of liability of $5,000,000 each loss and/or $5,000,000 annual aggregate.

5. Physicians employment practices legal expenses and loss reimbursement quota share reinsurance for endorsements to its Policies issued or renewed and classified by the Association as Physicians Employment Practices Legal Expense and Loss Reimbursement Insurance business.

   The Association cedes to the Reinsurer 90.0% of the Association's Net Liability, subject to a maximum limit of 100% of $25,000 in any insured or Policy as applicable.

The examination reviewed of the reinsurance program of the Association, and determined that the underlying reinsurance contracts and processes provided evidence of transfer of risk.

ACCOUNTS AND RECORDS

The Association's accounting systems were maintained on a local area network. Subsidiary records were maintained in commercial software applications on stand-alone personal computers.

An independent certified public accounting firm audited the Association's records during the period covered by this examination. Audit reports generated by the auditors for the years 2004 through 2007 were made available for the examiner's use.

FINANCIAL STATEMENT

The following financial statements were prepared from the Association's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2007

STATEMENT OF INCOME for the Year Ended December 31, 2007

RECONCILIATION OF CAPITAL AND SURPLUS – 2004 through 2007

The accompanying NOTES TO FINANCIAL STATEMENT are an integral part of the financial statements.

UTAH MEDICAL INSURANCE ASSOCIATION
BALANCE SHEET
as of December 31, 2007

ASSETS

	Net Admitted Assets	Notes
Bonds	$ 189,798,148	
Common Stocks	10,009,757	
Cash and short-term investments	12,265,288	
Investment income due and accrued	2,658,071	
Uncollected premiums and agents' balances	936,245	(1)
Deferred premiums, agents' balances and installments booked but deferred	573,020	(1)
Amounts recoverable from reinsurers	1,297,953	
Current federal and foreign income tax recoverable	163,224	
Net deferred tax asset	1,911,765	
Total assets	$ 219,613,471	

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses	$ 101,735,090	
Loss adjustment expenses	33,619,121	
Commissions payable	89,886	
Other expenses	12,566	
Taxes, licenses and fees	324,288	
Unearned premium	8,603,278	
Advance premiums	9,101,224	(1)
Ceded reinsurance premiums payable	15,246,371	
Total liabilities	168,731,824	
Unassigned funds (surplus)	50,881,647	
Surplus as regards policyholders	50,881,647	
Totals	$ 219,613,471	

UTAH MEDICAL INSURANCE ASSOCIATION
STATEMENT OF INCOME
for the Year Ended December 31, 2007

	Amount
	Total
Underwriting Income	
Premiums earned	$ 57,408,864
Deductions	
Losses incurred	32,230,532
Loss expenses incurred	22,923,120
Other underwriting expenses incurred	4,987,676
Total underwriting deductions	60,141,328
Total underwriting gain or (loss)	(2,732,464)
Investment Income	
Net investment income earned	7,549,842
Net realized capital gains (losses)	968,440
Net investment gain (loss)	8,518,282
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(209,415)
Finance and services charges not included in premium	118,792
Total other income	(90,623)
Net income before dividends to policyholders	5,695,195
Dividends to policyholders	0
Net income after dividends to policyholders	5,695,195
Federal income taxes incurred	2,023,658
Net Income	$ 3,671,537

UTAH MEDICAL INSURANCE ASSOCIATION
RECONCILIATION OF CAPITAL AND SURPLUS
2004 through 2007

	2004	2005	2006	Per Exam 2007
Surplus as regards policyholders, prior year	$ 36,428,460	$ 39,639,349	$ 43,140,120	$ 47,184,521
Net income or (loss)	2,372,478	3,853,855	4,330,622	3,671,537
Change in net unrealized captial gains or (losses)	126,300	(30,792)	172,262	(2,812)
Change in net deferred income tax	166,499	215,335	304,879	1,060,225
Change in nonadmitted assets	522,601	(551,120)	(763,391)	(1,031,824)
Change in provision for reinsurance	23,011	13,493	29	
Change in surplus as regards policyholders	3,210,889	3,500,771	4,044,401	3,697,126
Surplus as regards policyholders, end of reporting year	$ 39,639,349	$ 43,140,120	$ 47,184,521	$ 50,881,647

NOTES TO FINANCIAL STATEMENT

(1)	Uncollected premiums	$936,245
	Deferred premiums	$573,020
	Advance premiums	$9,101,224

The Association reported an Uncollected premium asset of $907,777, Deferred premiums asset of $ 3,073,706 and an Advanced premiums liability of $11,573,442. The examination identified an overstatement of deferred premium and requested the Association review the deferred premium detail. The Association identified deferred premium assets and advance premium liabilities that were created when deferred balances were not reduced by normal billing and subsequent account payments were seen as advance payments. The examination reduced the Deferred premium asset by $2,500,686 with an offset reduction to Advance Premium liability of $2,472,218 and an increase of uncollected premium of $28,468.

CAPITAL AND SURPLUS

The Association's surplus as regards policyholders was determined to be unchanged from the amount reported in the Association's annual statement as of December 31, 2007. The following schedule identifies the account changes:

Description	Annual Statement Dr (Cr)	Per Examination	Change in Surplus Inc. (Dec.)	Notes
Deferred premium	$ 3,073,706	$ 573,020	$ (2,500,686)	(1)
Uncollected premium and agents balances	$ 907,777	$ 936,245	$ 28,468	(1)
Advance premium	$ (11,573,442)	$ (9,101,224)	$ 2,472,218	(1)
Total examination changes			0	
Total surplus as regards policyholders per Associatation			50,881,647	
Total surplus as regards policyholders per examination			$ 50,881,647	

The Association's permanent surplus requirement was $1,600,000 as specified in U.C.A. §31A-5-211(2)(b)(vi) and (e). As defined by U.C.A. § 31A-17 Part 6, the Association had total adjusted capital of $50,881,647, which significantly exceeded the Association authorized control level risk-based capital (RBC) requirement of $8,120,237.

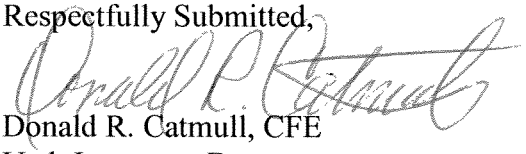
SUMMARY OF EXAMINATION FINDINGS

1. The examination identified an overstatement of deferred premium and requested the Association review the deferred premium detail. The Association identified deferred premium assets and advance premium liabilities that were created when deferred balances were not reduced by normal billing and subsequent account payments were seen as advance payments. The examination reduced the Deferred premium asset by $2,500,686 with an offset reduction to Advance Premium liability of $2,472,218 and an increase of uncollected premium of $28,468. There was no effect to surplus. (NOTES TO FINANCIAL STATEMENT)

ACKNOWLEDGEMENT

Michael Lamb, FCAS, MAAA, of the actuarial firm of Michael Lamb, LLC performed the actuarial phases of the examination. Hermoliva Abejar participated in the examination representing the Utah Insurance Department and Colette M. Hogan Sawyer, CFE, Assistant Chief Examiner, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Association.

Respectfully Submitted,



Donald R. Catmull, CFE
Utah Insurance Department