

JUN 27 2022

FILED

CERTIFICATION

June 27, 2022

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

PHYSICIANS MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2020

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.





DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

PHYSICIANS MUTUAL INSURANCE COMPANY

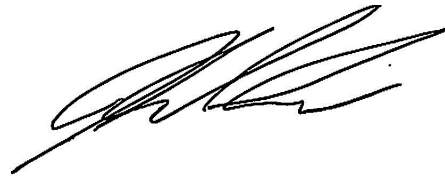
2600 DODGE STREET

OMAHA, NEBRASKA 68131

dated as of December 31, 2020, verified under oath by the examiner-in-charge on
June 1, 2022, and received by the company on June 3, 2022, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 17th day of June 2022.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read "Justin C. Schrader", written in a cursive style.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

PHYSICIANS MUTUAL INSURANCE COMPANY

as of

DECEMBER 31, 2020

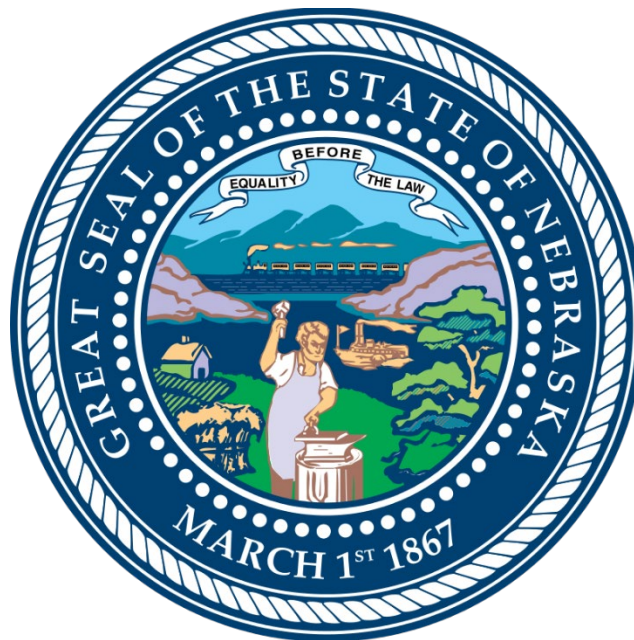


TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation	1
Introduction.....	1
Scope of Examination.....	1
Description of Company	3
History	3
Management and Control.....	4
Holding Company	4
Policyholders.....	5
Board of Directors.....	5
Officers	6
Committees	7
Transactions with Affiliates.....	8
Service Agreement.....	8
Net Worth Agreement.....	9
Territory and Plan of Operation.....	9
Reinsurance.....	10
Assumed.....	10
Ceded	10
General	11
Body of Reports	11
Growth	11
Financial Statements	11
Examination Changes in Financial Statements.....	15
Compliance with Previous Recommendations	15
Commentary on Current Examination Findings.....	15
Summary of Comments and Recommendations.....	15
Acknowledgment	16

Omaha, Nebraska
May 13, 2022

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

PHYSICIANS MUTUAL INSURANCE COMPANY
2600 Dodge Street
Omaha, Nebraska 68131

(hereinafter also referred to as the “Company”), and the report of such examination is respectfully presented herein.

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2016. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2020 and such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

The same examination staff conducted a concurrent financial condition examination of the Company’s subsidiary, Physicians Life Insurance Company (PLIC).

SCOPE OF EXAMINATION

The examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to

evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

The Nebraska Department of Insurance made a general review of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Policyholders, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions, and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected, and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Deloitte & Touche LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2019 and 2020. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company commenced business as Physicians Casualty Association of America (Physicians Casualty) in Omaha, Nebraska on February 15, 1902. Its original Articles of Incorporation provided for an existence of 50 years from said date and allowed for its nature of business to be that of an accident indemnity mutual assessment association. Such Articles were

filed on May 17, 1902. Subsequent amendment to these Articles of Incorporation granted the Company perpetual existence effective February 1, 1952.

An affiliated entity, Physicians Health Association of America (Physicians Health), was formed on March 6, 1912. Its nature of business was that of a health indemnity mutual assessment association. The two associations jointly conducted business from offices located in Omaha, Nebraska with their field of operations being limited to members of the medical and dental professions residing within the United States. Physicians Health was consolidated with and merged into Physicians Casualty under the provisions of a Consolidation Agreement, which was entered into on November 7, 1961 and approved by order of the Nebraska Department of Insurance on December 15, 1961.

The Company's present name, Physicians Mutual Insurance Company, was adopted by proper amendment to its Articles of Incorporation, effective March 1, 1962. Its plan of operation changed at that time from that of an assessment association to a mutual legal reserve accident and health insurance company. Under provisions of its current charter, and in conformity with Nebraska Statutes, the Company is authorized to write the kinds of insurance prescribed in Section 44-201, Subsection (4) of the Nebraska Insurance Statutes (sickness and accident insurance).

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person," as reported in the 2020 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Physicians Mutual Insurance Company
Physicians Life Insurance Company
Physicians Mutual Insurance Company Foundation
Physicians Mutual Services Corporation
Seniors Information Network, LLC
National Association of Medicare Members, Inc.

Policyholders

Article IV of the Articles of Incorporation states, “every person, corporation, association or partnership which is a Policyholder of the Company shall be a member and shall be entitled to one vote in person or by proxy at the annual or special meetings of the members.” Article X of the Articles of Incorporation states that, “annual meetings of the members shall be held at the home office of the Company...on the third Saturday of February of each year to receive the reports of the Officers, to elect Directors and to transact such other business as shall properly come before such meetings.”

Board of Directors

Article V of the Articles of Incorporation states, “the Company shall be managed by a Board of Directors consisting of not less than five (5) members, divided into three (3) groups as nearly equal in number as is possible, who shall be elected from the members and at least one (1) of whom shall be a citizen of the State of Nebraska. At least one-third of the total number of Directors shall be persons who are not Officers or employees of the Company or of any entity controlling, controlled by, or under common control with the Company and who are not beneficial owners of a controlling interest in the voting stock of the Company or any affiliated entity.”

The following persons were serving as Directors at December 31, 2020:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Daniel E. Burkey Omaha, Nebraska	Retired Chief Financial Officer, Creighton University
James T. Canedy, M.D. Omaha, Nebraska	Practicing Physician and Treasurer of the Company
William A. Cutler III Omaha, Nebraska	Funeral Director
Timothy C. Fitzgibbons, M.D. Omaha, Nebraska	Practicing Physician
Martin M. Mancuso, M.D. Omaha, Nebraska	Practicing Physician and Secretary of the Company
Robert A. Reed Omaha, Nebraska	Executive Chairman of the Board of Directors & Senior Finance and Strategic Counsel
Robert A. Reed, Jr. Omaha, Nebraska	President and Chief Executive Officer of the Company

Officers

Article VI of the Articles of Incorporation states, “the Officers of the Company shall consist of a President, a Secretary, and a Treasurer, who shall be elected by the Directors and who shall hold office until their successors are elected and qualified. The Directors may select one or more Vice Presidents and may designate one or more other offices, and assign their duties and responsibilities.”

The Officers are nominated by the Compensation Committee on an annual basis, with the exception of Robert Reed and Robert Reed, Jr., who are under contract with the Company.

The following is a listing of Senior Officers elected and serving the Company at December 31, 2020:

<u>Name</u>	<u>Office</u>
Robert A. Reed	Executive Chairman of the Board of Directors and Senior Finance and Strategic Counsel
Robert A. Reed, Jr.	President and Chief Executive Officer

<u>Name</u>	<u>Office</u>
Martin M. Mancuso, M.D.	Secretary
James T. Canedy, M.D.	Treasurer
Melissa J. Crawford	Senior Vice President – Chief Marketing Officer
Howard G. Daubert	Senior Vice President – Corporate Services Group
Robert L. Gunia	Senior Vice President – Public Affairs Group and Assistant Secretary
Edward J. Kaspar	Senior Vice President – Customer Group
Edward J. Mullen	Senior Vice President – Chief Financial Officer and Assistant Treasurer
Mark E. Lehman	Appointed Actuary

Committees

Article IV of the Company’s By-Laws states, “the Board of Directors... may designate from its members an Executive Committee, which shall consist of at least three Directors, together with the Chairman of the Board, the President and the Secretary, which shall have and may exercise all the authority of the Board of Directors when the entire Board of Directors are not in session; the Board of Directors may also designate one or more other committees consisting of at least two Directors...”

The following persons were serving on the Investment Committee at December 31, 2020:

Daniel E. Burkey	James T. Canedy, M.D.
Timothy C. Fitzgibbons, M.D.	Robert A. Reed, Sr.
Robert A. Reed, Jr.	

The following persons were serving on the Claims and Underwriting Committee at December 31, 2020:

William A. Cutler, III	Timothy C. Fitzgibbons, M.D.
Martin M. Mancuso, M.D.	Robert A. Reed, Jr.

The following persons were serving on the Audit Committee at December 31, 2020:

Daniel E. Burkey	James T. Canedy, M.D.
William A. Cutler, III	Timothy C. Fitzgibbons, M.D.
Robert A. Reed, Sr.	Robert A. Reed, Jr.

The following persons were serving on the Compensation Committee at December 31, 2020:

Daniel E. Burkey	James T. Canedy, M.D.
Timothy C. Fitzgibbons, M.D.	Martin M. Mancuso, M.D.

The following persons were serving on the Corporate Governance Committee at December 31, 2020:

James T. Canedy, M.D.	William A. Cutler, III
Martin M. Mancuso, M.D.	Robert A. Reed, Jr.

TRANSACTIONS WITH AFFILIATES

Service Agreement

The Company provides equipment, space, and personnel necessary for the operations of its subsidiaries. By agreement dated June 24, 1997 and amended January 1, 2004, the Company agrees to perform all reasonable services necessary in connection with the solicitation, issuance, and servicing of policies and claims in connection with policies previously issued and hereafter issued by PLIC. Compensation for these services is the actual salary represented by the time spent in the performance of such services, and costs and expenses associated with respect to equipment, office space, and other overhead expenses represented by the time and use devoted to such services. The Company is also to receive payment for any direct expenses paid on behalf of PLIC. Upon 60 day's prior written notice to the other party, either party may terminate the Agreement. The total expenses allocated under this agreement to PLIC during 2020 and 2019 were \$36,500,407 and \$34,124,104, respectively.

Net Worth Agreement

The Company entered into a Net Worth Agreement with PLIC effective January 1, 1993, whereby the Company agrees to take any actions necessary to maintain PLIC's financial position with a surplus level in excess of Risk Based Capital requirements.

This agreement can be canceled by either party with a written 90-day notice provided such termination does not eliminate the obligation of the Company to infuse cash into PLIC with respect to the obligation to support, supplement, or permit the timely payment of contractual claims received by PLIC from policyholders of insurance contracts or annuity contracts during the term of the agreement.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states and the District of Columbia.

During the period covered by this examination, business was produced by direct mail, television, radio, newspaper, email, internet advertisement and face-to-face solicitation through the Company's integrated distribution channels.

The integrated distribution channels include the Demand Generation, Journey Management, Telesales, eCommerce, and Agency Departments. These departments are each under the direction of an Officer of the Company and focus on both the acquisition of new customers and gaining additional sales from existing customers.

The Agency Department oversees over 1,000 sales agents. These agents are independent contractors who act as career agents for the Company. All contracted agents receive commissions and can also earn cash bonuses and lead or advertising credits by meeting production and persistency requirements.

REINSURANCE

Assumed

Effective January 1, 2004, the Company entered into a reinsurance agreement with PLIC that replaced the previous reinsurance agreement effective January 1, 2003. Per the January 1, 2004 agreement, the Company assumes 100% of the liabilities associated with PLIC's Medicare Supplement insurance. PLIC is paid a "front fee allowance" of 3% of premiums. PLIC discontinued sales of its Medicare Supplement business between 7/1/2010 and 6/30/2019. Medicare Supplement business was sold through the Company during this timeframe. Medicare Supplement policies were again sold by PLIC starting 7/1/2019 and continuing through the date of this report. The agreement with PLIC is still in effect, with premiums of \$86,937,749 and reserves assumed of \$14,798,267 in 2020.

Ceded

The Company ceded \$12,513,991 of accident and health premiums to various reinsurers in 2020, \$11,035,079 of which was dental business ceded to Ameritas Life Insurance Corp. (Ameritas). Under the terms of the quota share contract with Ameritas, which has been in effect since 2003 and subsequently amended, the Company cedes to Ameritas a 15% quota share participation in the Company's dental risks. This participation excludes risks considered "individual policies" risks that are subject to the terms of an automatic coinsurance reinsurance agreement between the Company and AAA Life Insurance Company, as well as any additional vision insurance risk assumed by the Company on the same reinsured policies. Any other policy forms that both the Company and Ameritas mutually agree in writing to add may be added after the effective date. Ameritas also acts as the Company's third-party administrator for their dental business.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORTS

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Bonds	\$1,826,710,278	\$1,889,650,025	\$1,942,268,489	\$2,022,929,664
Admitted assets	2,291,892,719	2,356,292,530	2,480,535,724	2,599,100,676
Aggregate reserves for				
accident & health contracts	1,181,871,563	1,215,379,700	1,278,093,223	1,306,404,544
Total liabilities	1,340,721,695	1,362,930,956	1,443,151,361	1,497,026,696
Capital and surplus	951,171,024	993,361,574	1,037,384,362	1,102,073,981
Premium income	436,194,407	463,459,329	485,799,855	495,514,117
Net investment income	96,730,749	101,936,586	104,870,803	104,933,424
Disability benefits	300,226,193	311,581,256	334,108,337	323,883,744
Net income	39,775,598	52,083,553	47,269,470	71,525,499

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2020

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$2,022,929,664		\$2,022,929,664
Preferred stocks	63,565,743		63,565,743
Common stocks	384,511,956	\$ 220,572	384,291,384
Properties occupied by the company	16,576,773		16,576,773
Properties held for sale	204,577		204,577
Cash and cash equivalents	62,033,899		62,033,899
Other invested assets	14,343,915		14,343,915
Receivables for securities	<u>264,013</u>	<u>101,400</u>	<u>162,613</u>
Subtotal, cash and invested assets	\$2,564,430,540	\$ 321,972	\$2,564,108,568
Investment income due and accrued	19,710,449		19,710,449
Uncollected premiums and agents' Balances in the course of collection	2,154	2,154	
Other amounts receivable under reinsurance contracts	15,555		15,555
Current federal and foreign income tax recoverable and interest thereon	2,220,549		2,220,549
Net deferred tax asset	34,747,312	23,922,613	10,824,699
Guaranty funds receivable	1,910,089		1,910,089
Electronic data processing equipment	23,010,033	22,700,151	309,882
Furniture and equipment	5,225,024	5,225,024	
Receivables from parent, subsidiaries and affiliates	886		886
Health care and other amounts receivable	6,443,272	6,443,272	
Funds on deposit	45,258	45,258	
Prepaid expenses	21,458,901	21,458,901	
Debit suspense	20,574	20,574	
Pension and defined contribution plans	<u>14,610,555</u>	<u>14,610,555</u>	
Totals	<u>\$2,693,851,151</u>	<u>\$94,750,475</u>	<u>\$2,599,100,676</u>

Liabilities, Surplus, and Other Funds

Aggregate reserve for accident and health contracts	\$1,306,404,544
Contract claims for accident and health	43,642,651
Premiums and annuity considerations for accident and health	10,876,283
Provision for experience rating refunds	8,200,000
Other amounts payable on reinsurance	716,198
Interest maintenance reserve	12,619,101
Commissions to agents due or accrued	406,025
General expenses due or accrued	12,269,525
Taxes, licenses and fees due or accrued	2,000,609
Amounts withheld or retained by company as agent or trustee	262,494
Remittances and items not allocated	12,702,197
Liability for benefits for employees and agents	1,600,000
Asset valuation reserve	46,866,457
Payable to parent, subsidiaries and affiliates	658,261
Drafts outstanding	8,999,817
Payable for securities	11,600,874
Commitment on prepaid expenses	12,749,607
Other post retirement benefits	2,005,455
Minimum post retirement liability	<u>2,446,597</u>
Total liabilities	<u>\$1,497,026,696</u>
Unassigned funds	<u>\$1,102,073,981</u>
Total capital and surplus	<u>\$1,102,073,981</u>
Totals	<u>\$2,599,100,676</u>

SUMMARY OF OPERATIONS – 2020

Premiums and annuity considerations	\$495,514,117
Net investment income	104,933,424
Amortization of interest maintenance reserve	1,338,153
Commissions and expense allowances on reinsurance ceded	4,508,269
Miscellaneous income	<u>725,650</u>
Totals	\$607,019,613
Disability benefits and benefits under accident and health contracts	323,883,744
Increase in aggregate reserves	<u>28,311,320</u>
Totals	\$352,195,064
Commissions on premiums, annuity considerations, and deposit type contracts	26,540,368
Commissions and expense allowances on reinsurance assumed	4,161,387
General insurance expenses	125,564,140
Insurance taxes, licenses and fees	<u>13,599,677</u>
Totals	\$522,060,636
Net gain from operations before federal income taxes and net realized capital gains	84,958,977
Federal income taxes incurred	13,881,580
Net realized capital gains	<u>448,102</u>
Net income	<u>\$ 71,525,499</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and surplus, beginning	\$919,165,915	\$951,171,024	\$ 993,361,574	\$1,037,384,362
Net income	\$ 39,775,598	\$ 52,083,553	\$ 47,269,470	\$ 71,525,499
Change in net unrealized capital gains	8,014,313	(10,610,535)	34,968,177	106,880
Change in net deferred income tax	(32,788,977)	(3,113,863)	(3,172,753)	(1,301,827)
Change in nonadmitted assets	25,713,934	(11,397,812)	6,796,761	(6,740,273)
Change in reserve on account of change in valuation basis			(25,618,779)	
Change in asset valuation reserve	(6,883,273)	13,254,365	(16,539,845)	(2,907,617)
Pension benefit recovery plan	(1,826,486)	1,974,842	319,758	4,006,961
Net change for the year	<u>\$ 32,005,109</u>	<u>\$ 42,190,550</u>	<u>\$ 44,022,788</u>	<u>\$ 64,689,623</u>
Capital and surplus, ending	<u>\$951,171,024</u>	<u>\$993,361,574</u>	<u>\$1,037,384,362</u>	<u>\$1,102,073,985</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$1,102,073,981, as reported in the Company's 2020 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no comments or recommendations that have been made as a result of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Kim Hurst, CFE, John Wiatr, CFE, Linda Scholl, CISA, CFE, APIR, Financial Examiners; Gary Evans, CISA, AES, Information Systems Specialist; and Derek Wallman, ASA, Actuarial Examiner; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Tadd K. Wegner, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Tadd K. Wegner, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examinations of Physicians Mutual Insurance Company and Physicians Life Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examinations of Physicians Mutual Insurance Company and Physicians Life Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Tadd K. Wegner
Examiner-in-Charge's Signature

Subscribed and sworn before me by Tadd K. Wegner on this 1st day of June, 2022.



(SEAL)

Shelly G. Storie
Notary Public

My commission expires 1/16/24 [date].