



MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001
WOOLFOLK BUILDING
JACKSON, MISSISSIPPI 39201
www.doi.state.ms.us

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MAILING ADDRESS
Post Office Box 79
Jackson, Mississippi 39205-0079
TELEPHONE: (601) 359-3569
FAX: (601) 359-2474
WATS: 1-800-562-2957 (Incoming - USA)

March 7, 2008

Mr. Michael D. Houpt, President
Medical Assurance Company of Mississippi
404 West Parkway Place
Ridgeland, MS 39157

Re: Medical Assurance Company of Mississippi
Report of Examination as of December 31, 2006

Dear Mr. Houpt:

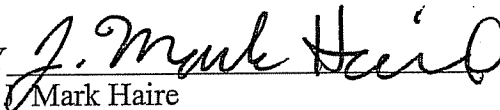
Enclosed is a Corrected Order in the above-referenced matter.

Please note that the only purpose of the Corrected Order is to change the date of the original Order from January 25, 2007, to January 25, 2008.

If you have any questions pertaining to this matter, please do not hesitate to contact this office.

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY 
Mark Haire
Special Assistant Attorney General

MC/JMH/bs
Enclosure

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI**

**IN RE: REPORT OF EXAMINATION OF MEDICAL
ASSURANCE COMPANY OF MISSISSIPPI**

CAUSE NO. 07-5700

CORRECTED ORDER

THIS CAUSE came before the Commissioner of Insurance of the State of Mississippi for the sole purpose of correcting the date of the Order entered in the matter on January 25, 2007. The actual date this Order was signed by the Commissioner was January 25, 2008. Therefore, by virtue of this Corrected Order, the date of the Order in this matter is changed from January 25, 2007, to the correct date of January 25, 2008. Except for this change to correct the date of the Order, the previous Order entered in this matter is adopted herein in its entirety.

SO ORDERED, this the 7th day of March 2008.

MIKE CHANEY
COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

BY Lee Harrell
Lee Harrell
Deputy Commissioner



MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001
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January 25, 2007

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FAX: (601) 359-2474
WATS: 1-800-562-2957 (Incoming - USA)

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. Michael D. Houpt, President
Medical Assurance Company of Mississippi
404 West Parkway Place
Ridgeland, MS 39157

RE: Report of Examination as of December 31, 2006

Dear Mr. Houpt:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.


Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY


J. Mark Haire

Special Assistant Attorney General

MC/JMH/bs
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI**

**IN RE: REPORT OF EXAMINATION OF MEDICAL
ASSURANCE COMPANY OF MISSISSIPPI**

CAUSE NO. 07-5700

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

II.

That Medical Assurance Company of Mississippi is a "Non-profit Medical Liability Insurance Corporation" as per Miss. Code Ann. § 83-47-1 et seq. (Rev. 1999).

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Medical Assurance Company of Mississippi and appointed Joseph R. May, Examiner-In-Charge, to conduct said examination.

IV.

That on or about November 28, 2007, the draft Report of Examination concerning Medical Assurance Company of Mississippi for the period of January 1, 2004 through December 31, 2006, was submitted to the Department by the Examiner-In-Charge, Joseph R. May.

V.

That on or about December 7, 2007, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Department received the Company's response on or about December 18, 2007. After the review of the Company's response, no revisions were made to the draft report.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of Medical Assurance Insurance Company of Mississippi, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, Medical Assurance Company of Mississippi shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that Medical Assurance Company of Mississippi take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

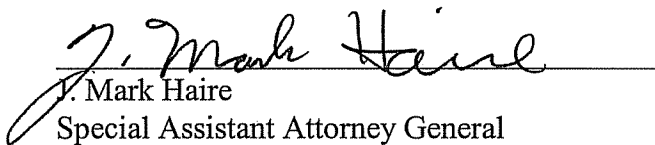
SO ORDERED, this the 25th day of January, 2007.


MIKE CHANEY
COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 25th day of January, 2007, to:

**Mr. Michael D. Houpt, President
Medical Assurance Company of Mississippi
404 West Parkway Place
Ridgeland, MS 39157**


J. Mark Haire
Special Assistant Attorney General

J. Mark Haire
Special Assistant Attorney General
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 2065



Mississippi Insurance Department

Report of Examination

of

**Medical Assurance Company of Mississippi
404 W. Parkway Place
Ridgeland, Mississippi 39157**

As of December 31, 2006

**NAIC Group Code 40
NAIC Company Code 10339**

Medical Assurance Company of Mississippi

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN THE EXAMINATION**

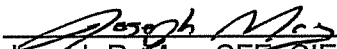
State of Mississippi,

County of Madison,

Joseph R. May being duly sworn, states as follows:

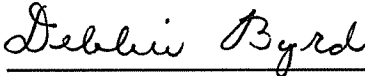
1. I have authority to represent Mississippi Department of Insurance in the examination of Medical Assurance Company of Mississippi.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have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

The affiant says nothing further.



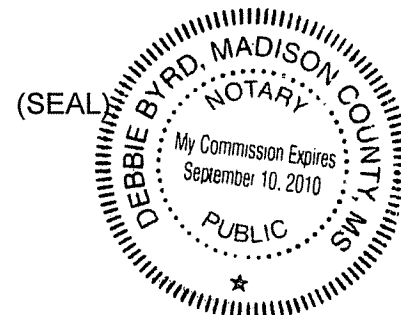
Joseph R. May, CFE, CIE, CPA, CMA, FAHM
Examiner-in-charge

Subscribed and sworn before me by Joseph R. May on this 10th day of January, 2008.



Notary Public

My commission expires SEPTEMBER 10, 2010





MISSISSIPPI INSURANCE DEPARTMENT

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MIKE CHANEY
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Jackson, Mississippi 39205-0079
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November 20, 2007

Honorable George Dale
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205

Dear Commissioner Dale:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination as of December 31, 2006, has been conducted of the affairs and financial condition of:

MEDICAL ASSURANCE COMPANY OF MISSISSIPPI
(NAIC COMPANY CODE 10339)
404 W. Parkway Place
Ridgeland, Mississippi 39157

This examination was commenced in accordance with Miss. Code Ann. § 83-47-15 et seq., and the report of examination is herewith submitted.

INTRODUCTION

This examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered Medical Assurance Company of Mississippi (MACM or Company) operations and financial condition from January 1, 2004, through December 31, 2006, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The MID engaged Carr, Riggs & Ingram, LLC (CRI) to perform the financial and market conduct sections of the examination and Merlinos and Associates, Inc. to perform the actuarial section of the examination.

For purposes of this examination report, the examination period is defined as January 1, 2004 through December 31, 2006, and the examination date is defined as December 31, 2006. The Company was previously examined by the MID as of December 31, 2003.

SCOPE OF EXAMINATION

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

This examination was conducted in accordance with procedures recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

HISTORY OF THE COMPANY

The Company was initially formed by members of the Mississippi State Medical Association (MSMA) as a non-profit, non-share corporation under Chapter 11, Title 79 of the Miss. Code Ann. The Company was granted a Charter of Incorporation on March 17, 1976, as the Mississippi Medical Fraternal and Educational Society.

On October 13, 1977, the Board of Directors approved and adopted a resolution to convert the Society from a not-for-profit corporation, to a not-for-profit medical liability insurance corporation under the provisions of Chapter 491, Laws of 1977, Regular Session, Mississippi Legislature. The Commissioner of Insurance approved the conversion on November 15, 1977.

On June 16, 1982, the Society amended their Charter to legally change the name from Mississippi Medical Fraternal and Educational Society, to its current name of Medical Assurance Company of Mississippi. This was done to more closely identify with Mississippi Code Annotated, Title 83, Chapter 47, which is titled "Nonprofit Medical Liability Insurance Corporations" that governs the operation of the Company and does not require the Company to be licensed.

On December 12, 1991, the Board of Directors voted to amend the Charter of Incorporation to include as its purpose, "to provide medical professional liability insurance and related services to its members and to partnerships, corporations or other entities owned by its members". The amendment also provided that the Corporation "may allocate earnings among its members for distribution upon the retirement, disability or death of the members, pursuant to such terms and conditions as may be established by the Directors of the Corporation; and the Corporation shall make the loss of membership, by death or otherwise, the termination of all interest of such members in the corporate assets, except for such allocation of earnings to which the members may be entitled as established by the Directors of the Corporation."

On December 14, 1994, the Board of Directors adopted an extensive amendment to its Charter of Incorporation. The amendment reflected the following changes that were not previously discussed under other amendments: (1) the type of organization is one of the kind and character described in Miss. Code Ann., Section 83-47-1, et seq., as amended, and (2) the purposes of the corporation are to constitute a nonprofit corporation for the benefit of its members who have applied for, or been granted a license to practice medicine in the State of Mississippi or any other state or jurisdiction.

There were no changes to the Charter of Incorporation made and only clarification changes were made to the Bylaws of the Company during the time period covered by this examination.

HOLDING COMPANY STRUCTURE

As discussed previously in the History section of this report, this Company was organized under Miss. Code Ann., § 83-47-1, (Rev. 1991) et seq., as amended. This Mississippi Code Section has very specific limitations as to the application of other Mississippi Insurance Laws. The Company did appear to be a member of an insurance company holding system as described in Miss. Code Ann., § 83-6-1(d). However, Miss. Code Ann., § 83-47-3 indicates that the Company is exempt from the filing requirements of the "Holding Company Act". As such, the Company has not made these filings with the Mississippi Department of Insurance and these documents were not reviewed as a part of this examination.

Related Party Transactions

At December 31, 2006, the Company owned 100% of the common stock of MACM Insurance Services, Inc. MACM Insurance Services, Inc. is a wholly owned insurance agency that offers various liability insurance products to physicians, hospitals and other health care providers in Mississippi. A review of transactions with this wholly owned subsidiary revealed no material concerns.

MANAGEMENT AND CONTROL

Members

The members of the Company consist of physicians that are the policyholders. No person may be entitled to more than one vote upon any matter submitted to a vote at the meeting of the members.

Any person who has applied for, or been granted, a license to practice medicine in the State of Mississippi or any other state of jurisdiction, may become a member of the Company, provided he/she has first applied for membership on the form prescribed by the Board of Directors and met other requirements as set forth by the Board.

Board of Directors

The Charter of Incorporation and Bylaws vest the management and control of the Company's business and affairs with the Board of Directors. Members of the Board of Directors are elected for a term of three (3) years. At December 31, 2006, the members of the duly elected Board of Directors along with the city of residence and principal specialty were:

<u>Name and City of Residence</u>	<u>Principal Specialty</u>
George Raymond Bush, MD Laurel, MS	Family Practice
Michael Hammond Carter, MD Greenwood, MS	Otolaryngology
Steven Lee Demetropoulos, MD Pascagoula, MS	Emergency Medicine
James Emory Hall, MD Brookhaven, MS	Ophthalmology
John Edward Hill, MD Tupelo, MS	Family Practice
Eric Alexander McVey, III, MD Jackson, MS	Infectious Disease
Earl Thompson Stubblefield, MD Jackson, MS	Obstetrics / Gynecology
William Arthur Whitehead, MD Hattiesburg, MS	General Surgery
Camile Jeffcoat, MD Jackson, MS	Anesthesia

Officers

The officers of the Company at December 31, 2006 were:

<u>Name</u>	<u>Position</u>
William Arthur Whitehead, M.D.	Chairman of Board
Earl Thompson Stubblefield, M.D.	Vice Chairman of Board
Eric Alexander McVey, III, M.D.	Secretary of Board
Michael Duane Houpt	President / Chief Executive Officer
Charles Marshall Dunn, III	Vice President - Claims, Chief Operating Officer
John Walter Gilmer, CPA	Treasurer / Chief Financial Officer

Committees

During the time period covered by this examination, the following committees were utilized by the Company to carry out the certain specified duties: 1. audit committee, 2. investment committee, 3. underwriting review committee, 4. risk management committee, 5. privacy committee and 6. claims committee. The minutes to these committees were reviewed and appeared to be in order and the committees appeared to be provided appropriate oversight by the Board of Directors.

Conflict of Interest

It is the Company's policy that the officers and directors sign an Acknowledgement of Receipt statement annually which notates that they have received a copy of the Standards of Conduct for Directors and Officers. No material concerns were noted upon review of this area of the Company's policies and procedures.

CORPORATE RECORDS

The Charter of Incorporation, Bylaws and amendments thereto were reviewed and duly applied in other sections of this report where appropriate. Minutes of the meetings of the Members, Board of Directors and various committees were reviewed and appeared to be complete and in order with regard to actions brought up at the meetings for deliberation and appropriate action.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained a Financial Institution Bond that exceeded the NAIC suggested minimum coverage for a company of its size. The Company also maintained an insurance program that appeared to provide adequate coverage to protect it from hazards that it may encounter.

DIRECTORS', OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

The Company provides a generally complete health and welfare program for officers and employees. Among the benefits is a qualified employee retirement plan whereby the Company contributes an amount equal to 10% of each eligible employee's compensation to the plan.

REINSURANCE

The Company's reinsurance program provided reinsurance for policies of Physicians' and Surgeons' Professional Liability on a claims made basis and losses occurring with respect to General Liability written in conjunction with the Professional Liability policies on an occurrence basis. This was provided under the following layers of excess of loss treaties.

First Excess Cession Agreement

This agreement was a continuation of a contract first effective January 1, 1986 between MACM and Lloyd Underwriting (49.75%), Aspen Insurance UK Limited (8.94%), AXA Re (14.72%), Hannover Re (8.45%), Transatlantic Reinsurance Company (7.00%), Montpelier Reinsurance Limited (4.48%), and Catlin Insurance Company Ltd (6.46%) with respect to claims made or losses occurring on original policies attaching during the period January 1, 2006 to December 31, 2006, both dates inclusive. This layer covers \$1,000,000 excess over the first \$1,000,000.

Second Excess Cession Agreement

This agreement was a continuation of a contract first effective January 1, 1986 between MACM and Lloyds Underwriting (54.81%), Aspen Insurance UK Limited (6.88%), AXA Re (14.23%), Hannover Re (7.59%), Transatlantic Reinsurance Company (7.00%), and Montpelier Reinsurance Limited (9.49%), with respect to claims made or losses occurring on original policies attaching during the period January 1, 2006 to December 31, 2006, both dates inclusive. This layer covered \$3,000,000 excess over the first \$2,000,000.

Third Excess Cession Agreement

This agreement was a continuation of a contract first effective January 1, 1995 between MACM and Lloyds Underwriting (59.21%), Aspen Insurance UK Limited (7.80%), AXA Re (15.42%), Montpelier Insurance Limited (11.72%), and Catlin Insurance Company Limited (7.50%), in respect to claims made or losses occurring on original policies attaching during the period January 1, 2006 to December 31, 2006, both dates inclusive. This layer covered \$5,000,000 excess over the first \$5,000,000.

Casualty Excess of Loss Reinsurance Agreement

This agreement covered the period January 1, 2006 until January 1, 2007. The reinsurer assumed 90% of \$5,000,000 each and every loss, net of other reinsurance. Coverage may be reinstated as exhausted up to a maximum of 90% of \$10,000,000 during the contract period.

Non-standard Physicians Quota Share Agreement

This agreement covered the period January 1, 2006 through December 31, 2006. The reinsurer assumed 100%, net of 15% ceding commission, of the non-standard physicians and surgeons claims, written in conjunction with professional liability coverage on a claims made basis.

Commutation of Ceded Reinsurance

During 2005 the Company commuted primary excess of loss reinsurance contracts covering open reserves for years 1986 through 1995. The commutation of these treaties resulted in returned premiums to the Company of \$1,924,591 and an assumption of \$1,736,714 of open reserves. The Company also commuted an aggregate stop-loss treaty covering the 2004 and 2005 policy years. The commutation resulted in returned premiums of \$21,066,830 and an assumption of approximately \$3,000,000 in open reserves.

ACCOUNTS AND RECORDS

The Company utilized a computerized accounting system on which general ledger information was maintained. Detailed general ledger information was traced to the trial balance and December 31, 2006, annual statement, without material exception.

MACM is serviced by internal computer programmer analysts and a network administrator. The primary business system was an AS400 attached to an ethernet network. The primary programming language was RPG ILE/400.

The Company did not have an internal audit department; however, there was an audit committee of the Board of Directors that met regularly to discuss financial issues relative to the Company. The Company was audited annually by an independent CPA firm.

It was recommended in the previous examination for the Company to develop and implement a data processing recovery plan. It appears that significant progress has been made towards achieving this objective; however, certain portions of the written plan were still in progress. Based upon such, it was noted during the examination that the Company did not maintain a comprehensive written data disaster recovery plan that was in complete compliance with the criteria established in the NAIC Financial Condition Examiners Handbook. It is recommended that the Company complete the written data processing recovery plan in full compliance with the criteria established in the NAIC Financial Condition Examiners Handbook.

During the actuarial portion of this examination, various issues were noted that were deemed worthy to be indicated in the detail below. Those issues that were recurring comments from the previous examination report are clearly identified and are also addressed under the "Compliance with Previous Recommendations" section of this report.

Loss and Loss Adjustment Expense Reserve Comments:

- The 12/31/06 Statement of Actuarial Opinion failed to meet the guidelines set forth in the 2006 NAIC Annual Statement Instructions in that the Appointed Actuary failed to review the financial ratings of reinsurers and examine Schedule F to address the Company's exposure to reinsurance collectability problems. This is a reiteration of an examination

recommendation presented in the 12/31/03 Report of Examination. It is recommended that the Appointed Actuary include an analysis of reinsurance collectability consistent with Annual Statement instructions and disclose and document this analysis in future Actuarial Reports and Statements of Actuarial Opinion.

- The Appointed Actuary's report is not fully compliant with the requirements set forth in SSAP 55, specifically in that the Appointed Actuary's report only incorporates a single method to estimate required reserves. This is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. It is recommended that, in actuarial reports supporting future Statements of Actuarial Opinion, the Appointed Actuary incorporate additional projection methods as support for indicated reserves. Examples of possible additional methods include:
 - Reported/Paid Loss Development Methods
 - Frequency/Severity Methods
 - Reported/Paid Bornhuetter-Ferguson Methods
- The actuarial analysis did not include reasonability testing for many of the preliminary indications normally included in an actuarial analysis, especially for a line as volatile as Medical Malpractice, such as indicated ultimate severities, pure premiums, loss ratios, etc. Especially given the fact that only one methodology was incorporated in estimating outstanding reserves, reviewing the results for reasonableness is an important step. This is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. It is recommended that, in actuarial reports supporting future Statements of Actuarial Opinion, the Appointed Actuary incorporate reasonability tests, incorporating such information as premium, exposure, and claim counts, for the purpose of reviewing the results/selections of the analysis. Examples of reasonability indicators include:
 - Indicated pure premiums
 - Indicated loss ratios
 - Indicated frequencies/severities
 - Comparison to prior estimates
- The Appointed Actuary made no adjustment for mass tort claims. However, it was noted that the average outstanding reserves for these claims are significantly lower than the average outstanding reserves for claims that are not identified as mass tort. Since the Appointed Actuary utilizes an approach that specifically incorporates outstanding claims, the fact that he makes no adjustment for this segment would tend to distort the estimate of required reserves. This is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. It is recommended that the Appointed Actuary isolate the "mass tort" claims for separate analysis in actuarial reports supporting future Statements of Actuarial Opinion.

DDR Comments:

- The original actuarial report supporting the selected DDR reserves does not document and support the underlying assumptions and selections sufficiently, does not disclose and enumerate each calculation's constituting steps from the basic data to the selections/conclusions, and does not comply with the requirement (presented in the 2006 NAIC Annual Statement Instructions) that another actuary be able to evaluate the work. This is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. It is recommended that future actuarial reports supporting the selected

extended reporting endorsement policy reserve (DDR reserve) include sufficient documentation and disclosure to comply with the NAIC Annual Statement Instructions that another actuary be able to evaluate the work.

- The tests to ascertain the reasonability of the projection model assumptions (e.g. comparison of outputs for retirements, lapses, etc against actual experience) was not documented in the actuarial report nor performed on a sufficiently comprehensive set of data. This is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. It is recommended that future actuarial reports contain documentation of reasonability tests, such as comparisons of methodology outputs to actual experience for recent years, to demonstrate that key model assumptions (such as lapse/termination rates, retirement, mortality, etc) do not result in model results that are inconsistent with the Company's actual experience.

**MEDICAL ASSURANCE COMPANY OF MISSISSIPPI
FINANCIAL STATEMENTS
EXAMINATION AS OF DECEMBER 31, 2006**

Introduction

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2006, a Statement of Operations for the year ended December 31, 2006, a Reconciliation of Surplus as Regards Policyholders for examination period ended December 31, 2006, and a Reconciliation of Examination Adjustments to Surplus at December 31, 2006.

Medical Assurance Company of Mississippi

Statement of Admitted Assets, Liabilities, Surplus and Other Funds – Statutory Basis

<i>December 31,</i>	2006
Assets	
Bonds	\$ 182,462,000
Common stocks	97,230,568
Real estate	1,268,476
Cash and short-term investments	27,023,106
Other invested assets - life insurance cash values	499,858
<hr/>	
Total cash and invested assets	308,484,008
Investment income due and accrued	1,837,974
Premiums and agents' balances in course of collection	27,562
Reinsurance recoverable from reinsurers	258,935
Current federal and income tax recoverable	1,734,111
Due from affiliates	70,541
<hr/>	
Total admitted assets	\$ 312,413,131
<hr/>	
Liabilities, Surplus and Other Funds	
Losses	\$ 113,402,284
Loss adjustment expenses	63,650,060
Extended reporting endorsement policy reserves	19,016,000
Accounts payable and accrued expenses - other expenses	257,166
Net deferred tax liability	50,000
Borrowed money	876,000
Advance premium	8,591,960
Funds held by company under reinsurance treaties	9,164,341
Retirement plan liability	372,793
<hr/>	
Total liabilities	215,380,604
Gross paid in and contributed surplus	1,349,232
Unassigned funds (surplus)	95,683,295
<hr/>	
Surplus as regards policyholders	97,032,527
<hr/>	
Total liabilities and surplus as regards policyholders	\$ 312,413,131
<hr/>	

Medical Assurance Company of Mississippi

Statement of Operations – Statutory Basis

<i>For the Year Ended December 31,</i>	2006
Underwriting Income	
Premiums earned	\$ 38,254,165
Deductions	
Losses incurred	11,239,444
Loss expenses incurred	12,156,034
Other underwriting expenses incurred	4,261,784
Change in extended reporting endorsement policy reserve	2,566,695
Total underwriting deductions	30,223,957
Net underwriting gain	8,030,208
Investment Income	
Net investment income earned	11,125,402
Net realized capital gains	7,855,332
Net investment gain	18,980,734
Other Income	
Miscellaneous income	70,657
Net income before dividends to policyholders and before federal income taxes	27,081,599
Federal income taxes incurred	8,339,465
Net income	\$ 18,742,134

Medical Assurance Company of Mississippi

Reconciliation of Surplus as Regards Policyholders – Statutory Basis

For the examination period ended December 31, 2006

	2004	2005	2006
Surplus, beginning of the year	\$ 60,243,916	\$ 68,633,890	\$ 76,669,634
Net income	4,943,716	11,576,856	18,742,134
Net unrealized capital gains or (losses)	5,339,338	(2,910,172)	4,690,552
Change in net deferred income tax	(385,000)	910,000	(1,550,000)
Change in non-admitted assets	25,925	13,063	(249,325)
Aggregate write-ins for gains and losses in surplus	(1,534,005)	(1,554,003)	(1,270,468)
Surplus, end of the year	\$ 68,633,890	\$ 76,669,634	\$ 97,032,527

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS AS REGARDS
POLICYHOLDERS
DECEMBER 31, 2006**

As a result of this examination, there have been no changes affecting surplus as regards policyholders made to the admitted asset, liability, and surplus balances reported by the Company in the December 31, 2006, annual statement. The "Surplus as Regards Policyholders" reported by the Company of \$97,032,527 is accepted as reasonably stated for purposes of the balance sheet per the examination.

MARKET CONDUCT ACTIVITIES

A full market conduct examination was not performed; however, particular areas of the Company's market conduct were examined in connection with the financial examination. No significant issues were noted. It is possible that if a full market conduct examination had been performed in accordance with the NAIC Market Conduct Handbook, that conclusions could have been different from those reached during the financial examination.

Many of the traditional sections of the market conduct activities were not included as a part of this examination, as they were either not applicable due to company operations and/or traditional insurance laws did not apply due to the issues discussed previously in the History section of this report. As previously indicated, this Company was organized under Miss. Code Ann., § 83-47-1, (Rev. 1991) et seq., as amended. This Mississippi Code Section has very specific limitations as to the application of other Mississippi Insurance Laws. Those items that were included within the limited market conduct procedures and were deemed worthy of report comment are included below.

Territory and Plan of Operation

The Company writes business and provides insurance services in the State of Mississippi and the contiguous counties in adjoining states. The Company does not actively seek business in any other state but amended its charter in 1995 to facilitate providing coverage to its physicians who may cross state lines in the normal course of their practice. At December 31, 2006, the Company reported written premiums only in the State of Mississippi.

The Company writes one policy form that provides the availability of the following coverages:

Professional Liability - this is written on a claims-made basis. Such coverage applies only if the medical incident occurred on or after the retroactive date of the policy and was reported during the policy period;

Office Premises & Personal Injury Liability - this coverage is written on an occurrence basis and applies only if the incident causing bodily injury, property damage, or personal injury occurred during the policy period;

Additional Insureds/Additional Interest Liability - this coverage is written on an occurrence basis and applies only if the medical incident occurred during the policy period. This coverage applies to additional insureds that may be covered under a physician's policy;

Contractual/Vicarious Liability - this provides occurrence coverage for damages resulting from the acts of another physician for which the insured is legally responsible.

MACM offers limits ranging from \$500,000 per occurrence with \$1,500,000 annual aggregate to \$10,000,000 per occurrence with \$10,000,000 annual aggregate.

The Company has nine premium classes in effect that are based on actuarial assumptions associated with the risk involved in a specific area of medical practice.

COMMITMENTS AND CONTINGENCIES

During and subsequent to the examination period, the Company was involved in certain litigation outside the normal course of business. In the opinion of management, based on the advice of legal counsel, meritorious defenses exist. There were no estimates of potential settlement amounts that could be determined for examination purposes.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Following are comments made in the previous examination report, as of December 31, 2003 that were not adequately addressed subsequent to the previous examination. As such, the same recommendations or related recommendations are again recorded in the Comments and Recommendations section of this report. It is recommended that management aggressively pursue addressing these issues to fully comply with the directives of the Mississippi Department of Insurance. The recommendations below are recorded exactly as originally reported in the previous examination, as of December 31, 2003.

Previous Exam Report Recommendation No. 2:

- It is recommended that the Company develop and implement a data processing recovery plan in accordance with Part 1, Section IV of the NAIC Financial Condition Examiners Handbook.

Current Status:

- While significant progress was made towards addressing this recommendation, certain areas of the written plan were still not completely developed and were not in full compliance with the criteria established in the NAIC Financial Condition Examiners Handbook. Based upon such, this issue was not considered completely addressed during the time period from the previous examination to the current examination and is again included as recommendation number one (1) in the Comments and Recommendations section of this report.

Previous Exam Report Recommendation No. 4:

- It is recommended that the actuarial database contained in the actuarial report and which underlies the Appointed Actuary's analysis be expanded to include the following:
 - a. Reported Claim Counts
 - b. Closed Claim Counts
 - c. Open Claim Counts
 - d. Earned Exposures

Current Status:

- This issue was not appropriately addressed during the time period from the previous examination to the current examination and is again included as a part of recommendation number four (4) in the Comments and Recommendations section of this report.

Previous Exam Report Recommendation No. 5:

- It is recommended that the actuary incorporate additional projections methodologies and reasonability tests that incorporate claim counts and exposure.

Current Status:

- This issue was not appropriately addressed during the time period from the previous examination to the current examination and is again included as a part of recommendation number three (3) in the Comments and Recommendations section of this report.

Previous Exam Report Recommendation No. 7:

- It is recommended that the Appointed Actuary separately analyze "mass tort" claims due to the change in the mix of these claims by report year and the much lower severity associated with these claims.

Current Status:

- This issue was not appropriately addressed during the time period from the previous examination to the current examination and is again included as a part of recommendation number five (5) in the Comments and Recommendations section of this report.

Previous Exam Report Recommendation No. 10:

- It is recommended that the Appointed Actuary include an analysis of reinsurance collectability consistent with Annual Statement instructions and document this analysis in future Actuarial Reports.

Current Status:

- This issue was not appropriately addressed during the time period from the previous examination to the current examination and is again included as recommendation number two (2) in the Comments and Recommendations section of this report.

Previous Exam Report Recommendation No. 11:

- It is recommended that future actuarial reports supporting the selected extended reporting endorsement policy reserve (DDR reserve) include sufficient documentation and disclosure to comply with the 2004 and future Annual Statement Instructions and Actuarial Standard of Practice.

Current Status:

- This issue was not appropriately addressed during the time period from the previous examination to the current examination and is again included as recommendation number six (6) in the Comments and Recommendations section of this report.

Previous Exam Report Recommendation No. 12:

- It is recommended that future actuarial reports contain reasonability tests, such as comparisons of methodology outputs to actual experience for recent years, to demonstrate that key model assumptions (such as lapse/termination rates, retirement, mortality, etc.) do not result in estimates that are inconsistent with the Company's actual experience.

Current Status:

- This issue was not appropriately addressed during the time period from the previous examination to the current examination and is again included as recommendation number seven (7) in the Comments and Recommendations section of this report.

CURRENT EXAMINATION COMMENTS AND RECOMMENDATIONS

1. It is recommended that the Company complete the written data processing recovery plan in full compliance with the criteria established in the NAIC Financial Condition Examiners Handbook. (see pages 9 and 18)
2. It is recommended that the Appointed Actuary include an analysis of reinsurance collectability consistent with Annual Statement instructions and disclose and document this analysis in future Actuarial Reports and Statements of Actuarial Opinion. This is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. (see pages 9 and 19)
3. It is recommended that, in actuarial reports supporting future Statements of Actuarial Opinion, the Appointed Actuary incorporate additional projection methods as support for indicated reserves. Examples of possible additional methods include:
 - Reported/Paid Loss Development Methods
 - Frequency/Severity Methods
 - Reported/Paid Bornhuetter-Ferguson MethodsThis is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. (see pages 10 and 19)
4. It is recommended that, in actuarial reports supporting future Statements of Actuarial Opinion, the Appointed Actuary incorporate reasonability tests, incorporating such information as premium, exposure, and claim counts, for the purpose of reviewing the results/selections of the analysis. Examples of reasonability indicators include:
 - Indicated pure premiums
 - Indicated loss ratios
 - Indicated frequencies/severities
 - Comparison to prior estimatesThis is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. (see pages 10 and 19)
5. It is recommended that the Appointed Actuary isolate the "mass tort" claims for separate analysis in actuarial reports supporting future Statements of Actuarial Opinion. This is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. (see pages 10 and 19)
6. It is recommended that future actuarial reports supporting the selected extended reporting endorsement policy reserve (DDR reserve) include sufficient documentation and disclosure to comply with the NAIC Annual Statement Instructions that another actuary be able to evaluate the work. This is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. (see pages 10 and 19)
7. It is recommended that future actuarial reports contain documentation of reasonability tests, such as comparisons of methodology outputs to actual experience for recent years, to demonstrate that key model assumptions (such as lapse/termination rates, retirement, mortality, etc) do not result in model results that are inconsistent with the Company's actual experience. This is a reiteration of an examination recommendation presented in the 12/31/03 Report of Examination. (see pages 11 and 20)

SUBSEQUENT EVENTS

MACM decreased its base premium rates for 2007 by 10%. During 2007 MACM also announced plans for an additional 15.5% rate decrease to become effective for calendar year 2008.

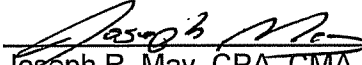
ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-charge	Joseph R. May, CPA, CMA, CFE, CIE, FAHM
Administrative Review	Elton H. Sims, CPA
Actuary	Robert P. Daniels, ACAS, MAAA
Actuary	Matthew P. Merlino, FCAS, MAAA
Automation Examiner	J. Scott Joyner, AES, CISA, CGAP
Examiner	Amanda W. Annison, CPA
Examiner	Whitney Craig, CPA
Examiner	Angie Plunkett

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Joseph R. May, CPA, CMA, CFE, CIE, FAHM
Examiner-in-charge