STATE OF OREGON

DEPARTMENT OF CONSUMER & BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

UMIA INSURANCE, INC.
BEAVERTON, OREGON

AS OF

DECEMBER 31, 2017

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DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

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NAIC COMPANY CODE 36676

AS OF

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SALUTATION

February 28, 2019

Honorable Cameron Smith, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

UMIA INSURANCE, INC.
1915 NW AmberGlen Pkwy, Suite 400
Beaverton, OR 97006

NAIC Company Code 36676

Hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our regular, quinquennial, multi-state examination of UMIA Insurance, Inc., conducted with the insurance regulators from the States of Arkansas and Minnesota, for the coordinated examination of insurers under the Constellation, Inc. (Constellation) holding company system. The Minnesota Department of Commerce was designated as the lead state. The last examination of this property and casualty insurance company was completed as of December 31, 2012. This examination covers the period of January 1, 2013, to December 31, 2017.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The Company was organized in the State of Utah on November 22, 1978, as an unincorporated Inter-Insurance exchange, to provide medical professional liability insurance and related medical premises liability insurance. The Company commenced business on December 1, 1978, as the Utah Medical Insurance Association and was authorized as a property and casualty insurer operating under the provisions of U.C.A. §31A-5-108. The Company was managed by its attorney-in-fact, USMA Insurance Management Company, a wholly owned subsidiary of the Utah Medical Association, and was organized for the purpose of acting as attorney-in-fact for the Company and its members.

During 2012, the Company filed an application for re-domestication from Utah to Oregon in accordance with Oregon Revised Statutes (ORS) 731.363 and ORS 731.367. The process required that the Company become admitted as an unincorporated foreign insurer and then become a domestic insurer. On October 22, 2012, the re-domestication became effective.

On June 30, 2013, the Company became a wholly owned subsidiary of MMIC Insurance, Inc., (MMIC), which Constellation, Inc. is the ultimate controlling entity.

Effective June 30, 2013 and pursuant to the Plan of Conversion and Merger approved by the Director of the Oregon Department of Consumer and Business Services on April 30, 2013, the Company converted from a reciprocal to a mutual insurer, and then to a for-profit stock company and changed its name to UMIA Insurance, Inc.

Capitalization

Subsequent to the conversion from an Association to a stock company and subject to Article III of the Company's Restated Articles of Incorporation, the Company is authorized to issue 10,000,000 shares of common stock, with a par value of $1 per share.

MMIC owns all 1,000 shares at $1 par value of capital stock issued and outstanding, with a reported paid in and contributed surplus of $2,999,000 after the ownership change in 2013. No changes were made during the period under examination.

Dividends to Stockholders and Other Distributions

Since the last examination, the Company declared and paid dividends totaling $68,900,000 to its sole stockholder, as follows:

Declared Date	Paid Date	Amount	Description
08/06/2013	08/22/2013	$ 16,900,000	Ordinary
04/01/2014	05/09/2014	6,000,000	Extraordinary
04/01/2015	05/10/2015	15,000,000	Ordinary
04/01/2016	05/12/2016	20,000,000	Ordinary
04/03/2017	05/13/2017	11,000,000	Ordinary

The Company made the proper disclosure of the distributions to the director of the Department of Consumer and Business Services (DCBS) in accordance with the reporting requirements established by ORS 732.554 and 732.576.

CORPORATE RECORDS

Board Minutes

In general, the review of the board minutes of the Company, including those of its ultimate and direct parents, supported the transactions of the Company and the actions taken by its directors and officers. A quorum, as defined by the Company's Bylaws, met at all of the meetings held during the period under review.

Per paragraph 4.1 and paragraph 4.3 of the Bylaws, the Board may create committees; the Company's Board has delegated a number of its responsibilities to its parent's board, MMIC Insurance, Inc. and ultimate parent committees, as synergies were being addressed subsequent to the acquisition, however, the Examiners found no formal authorization from the Company's Board of Directors delegating the corporate duties to its parent or ultimate parent for the investment, budget, other approvals and governance. In addition, Article 5.7 requires approval of the President's salary by the Board from time to time which was not noted in the Board minutes during the period under examination.

I recommend that the Company's Board of Directors approve the salary of the Company's officers, pursuant to ORS 732.320(3).

Articles of Incorporation

The Restated Articles of Incorporation were filed June 30, 2013. As noted in the Company History above, the name of the Corporation was changed to UMIA Insurance, Inc. and its structure was changed from a mutual insurer to a stock insurer. The Articles of Incorporation conformed to Oregon Insurance Code.

Bylaws

The Corporate Bylaws were adopted June 30, 2013. The Bylaws conformed to Oregon statutes. However, the examiners noted Article 2.1 requires an annual meeting of shareholders. Per response from the Company, the Amended and Restated Agreement and Plan of Merger addresses the election of its Directors, "The Board of Directors of the Company shall at all times prior to the payment of the Purchase Price, include three members designated by the Member Representatives and four members designated by Parent. Two of the directors designated by the Parent shall be Oregon residents...The articles of incorporation or bylaws of the Company shall provide in accordance with Oregon Law that the President and Chief Executive Officer, acting on behalf of the sole shareholder, shall have a veto right over major decisions." The agreement did not change the requirements noted in Articles 2.1 regarding its annual meeting nor its purpose of annually electing directors.

I recommend the Company comply with its bylaws regarding annual shareholder meetings and in the election of its Directors.

MANAGEMENT AND CONTROL

Board of Directors

Management and control of the Company is vested in the Board of Directors. The Company's Amended Bylaws, Section 3.2.1, state that the Board shall be comprised of seven (7) directors consisting of four persons designated by MMIC Insurance, Inc., and three persons designated by the Member Representatives (as that term is defined in the Agreement and Plan of Merger). Section 3.8 describes a quorum as a majority of the number of directors. As of December 31, 2017, the Company was governed by a seven-member Board of Directors as follows:

Name and Address	Principal Affiliation	Member Since
Lee T. Arostegui, MD Plymouth, Minnesota	Emergency Medicine Emergency Care Consultants, PA	2015
Jonathan D. Brewer, DO Bend, Oregon	Pulmonary/Critical Care and Sleep Bend Memorial Clinic	2013
Cynthia J. Ferrier, MD Lake Oswego, Oregon	Internal Medicine GreenField Health	2013
Lynn M. Gaufin, MD Provo, Utah	Neurosurgery Utah Neurological Clinic	2013
Ronald A. Miller, MD * Whitefish, Montana	Family Medicine North Valley Hospital	2013
Mark D. Odland, MD Edina, Minnesota	General Surgery	2013
Mark S. Shockey, MD Salt Lake City, Utah	Pulmonary Internal Medicine St. Mark's Hospital/HCA	2013

*Chairman

The Company's Board met all of the requirements of ORS 732.305.

Officers

Article 5.1 of the Company's Bylaws state that officers of the corporation shall be a President and a Secretary. Principal officers serving at December 31, 2017, were as follows:

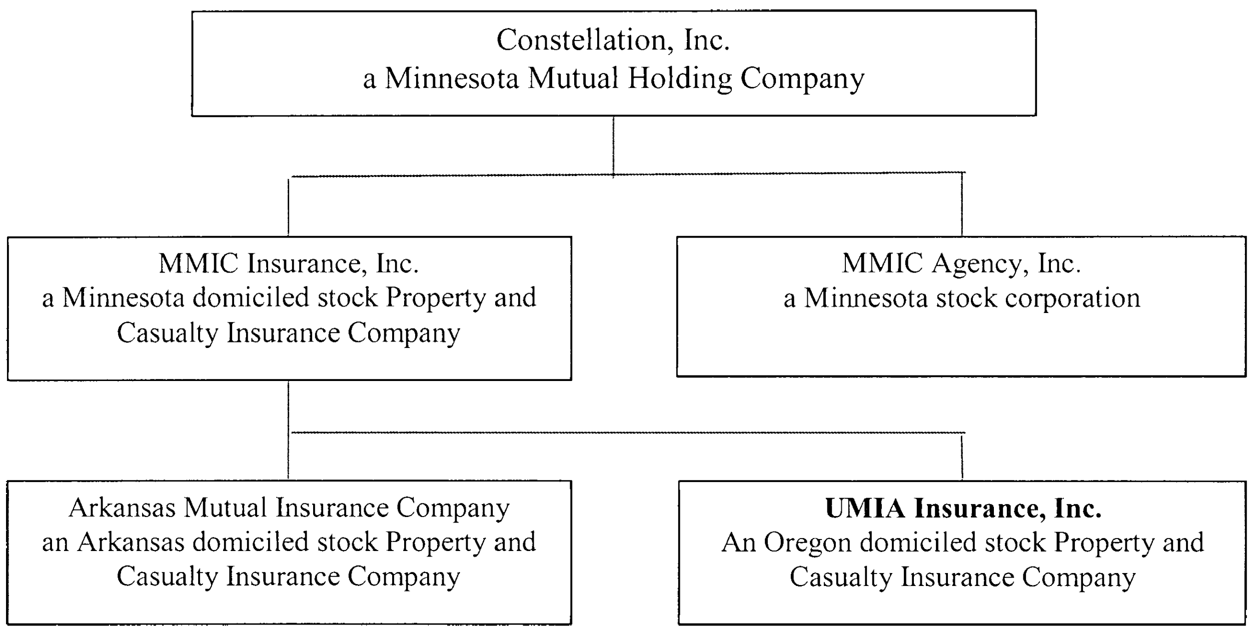
Officer	Office
William J. McDonough	President
Nicholas Ghiselli	VP Legal/General Counsel
Jay A. Koepsell	VP, Finance/CFO
Lori H. Trygg	SVP, Legal/CLO

Conflict of Interest

The Company requires officers and directors to annually report any conflicts of interest or violations of ethical business practices to the Company. From a review of the completed conflict of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

Insurance Company Holding System

The Company is a member of an insurance company holding system with Constellation, Inc., a mutual holding company domiciled in the State of Minnesota, is the ultimate controlling entity. The following is an abbreviated organization chart (all subsidiaries are 100% owned):



Intercompany Agreements

The following agreements are in place between the Company and entities within the insurance company holding system:

Definitive Agreement

As part of the Plan of Conversion and Merger dated April 9, 2013 and approved by the Director of the Oregon Department of Consumer and Business Services on April 30, 2013, Constellation and MMIC are required to maintain the Company's Risk Based Capital in excess of 400 percent of the authorized control level. The agreement requires the Purchase Price to be paid in installments over five years. The obligation to pay the Purchase Price is the joint and several obligation of the parent.

Service Agreement

Effective July 1, 2017 Constellation (as Manager) entered into a new service agreement with each of its subsidiaries. The Manager will provide all general administration and management of the day to day business of the Companies. The agreement requires the Companies to reimburse expenses, direct or indirect, and all cost allocations trued-up to actual cost of services provided. It shall pay its share of operating general and overhead expenses of Manager which are incurred by Manager to provide the services to the Companies under a proscribed allocation method, in accordance with SSAP No. 25 and SSAP No. 70. Amounts payable shall be determined and settled within 45 days after the month which the payment is due.

Tax Sharing Agreement

This Agreement was executed on July 1, 2017 but effective for tax year 2017 among the affiliated companies, including the Company. This agreement supersedes any prior agreements to allocate federal income tax and shall apply to the taxable year ending December 31, 2017. The agreement used the IRS basic method number two, whereby allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated return. Intercompany tax balances generally settle annually with a reconciling adjustment made after the consolidated federal income tax return is filed.

Under the terms of the agreement, Constellation will make all payments due for the group's federal tax liability and each member of the group shall reimburse Constellation subsequent to the payment. Each party shall then compute its separate tax liability, including any tax credit available for that period, using a separate return basis, as if each member filed their return separately. Final settlement will be made within 30 days after the filing date of the consolidated return.

FIDELITY BOND AND OTHER INSURANCE

The insurance coverage is provided through insurance policies with the Company listed as an insured. The Company is insured up to $5,000,000 per occurrence, after a $75,000 single loss deductible, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage met the coverage recommended by the NAIC.

Other insurance coverages in force at December 31, 2017, were found to be adequate, and are as follows:

Directors and officer liability	Errors and omissions
Employment practices	Commercial liability
Umbrella Liability	Business Travel Accident
Workers Compensation	Auto Liability and Physical Damage

TERRITORY AND PLAN OF OPERATION

The Company was licensed and authorized to transact medical malpractice and premises liability insurance in the following eight states, reporting written premium in five, as follows:

Idaho	$ 735,980
Montana	6,973,757
Nebraska	-
Nevada	-
Oregon	9,129
Utah	23,429,577
Washington	-
Wyoming	5,954,968
Total Direct Premium	$ 37,103,411

As of December 31, 2017, the Company markets its products under a general agency plan in the states of Wyoming and Idaho. The Company markets with a mix of direct and agency partnerships in the states of Utah and Montana.

GROWTH OF THE COMPANY

The growth of the Company since the last financial examination is reflected in the following schedule. The amounts were derived from Company's filed annual statements, except in those years where a report of examination has been prepared by the Oregon Division of Financial Regulation.

Year	Assets	Liabilities	Surplus and Other Funds	Net Income (Loss)
2012*	$ 272,220,682	$ 172,319,929	$ 99,900,753	$ 16,963,362
2013	264,381,992	161,632,548	102,749,443	12,418,828
2014	271,226,072	158,165,016	113,061,055	15,350,305
2015	255,192,762	138,110,281	117,082,481	20,358,257
2016	232,033,714	123,907,973	108,125,741	11,304,054
2017*	224,910,925	113,549,141	111,361,783	9,561,889

*Per examination

The changes in liabilities during the period are the result of reduced premium volume and for the period 2013 through 2015, some reserve reductions. Changes to assets and surplus are the result of positive net underwriting income and net investments gains offset by dividends paid to the parent.

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were obtained from copies of the Company's filed annual statements and, where indicated, from the previous examination reports.

Year	(1) Premium Earned	(2) Losses and LAE Incurred	(3) Other Underwriting Expenses Incurred	(2)+(3)/(1) Combined Ratio
2013*	44,982,183	27,426,381	6,160,123	74.7%
2014	63,582,842	47,082,782	6,488,092	84.3%
2015	41,463,509	14,834,388	7,594,703	54.1%
2016	39,808,084	30,540,289	6,265,364	92.5%
2017*	35,915,958	29,606,140	6,154,940	99.6%

*Per examination

REINSURANCE

Assumed

None.

Ceded

At December 31, 2017, the Company maintained a reinsurance program with various reinsurers. It was determined the reinsurance agreements clearly specified the risk taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk. A summary of the program is as follows:

TYPE	COVERAGE
1. Excess cessions	First Excess: 90% Excess of $2,000,000 not to exceed $19,000,000.
2. "Systemic Event" excess of loss	Retention $3,000,000. Systemic coverage covers losses from a common loss occurrence when it involves at least two claims or at least two policies or insureds. Obligations subject to limit of $15,000,000 each loss occurrence
3. "Awards Made" excess of loss	Retention $5,000,000. The awards-made coverage covers losses arising from awards in excess of policy limits and extra contractual obligation awards and provides reinsurance coverage for losses in excess of $5,000,000 per occurrence subject to limit of $15,000,000 each loss occurrence. Maximum combined exposure to

	reinsurer for the systemic and awards made coverage is $30,000,000.

4. CYBER SOLUTIONS®/MEDEFENSE® PLUS and employment practices coverage quota share reinsurance contract

(a) Physicians:	Coverage A: 70% quota share with limit of $100,000 per occurrence each individual and $500,000 each entity. Coverage B: 70% quota share for excess $100,000 up to $1,000,000 coverage. Additional coverage above $1,000,000 is 100% quota share excess of Coverage A and B for policy limits of up to $10,000,000 and $5,000,000 maximum annual aggregate any one Policy endorsement. As respects to Medefense® Plus for Physicians: the maximum liability shall be up to $1,000,000 each loss, each coverage section, and $5,000,000 maximum annual aggregate any one Policy endorsement.
(b) Hospitals:	Coverage A: 70% quota share with limit of $100,000 per occurrence. Coverage B: 100% quota share for excess $100,000 up to excess of Coverage A for policy limits of up to $10,000,000. As respects to Medefense® Plus for Hospitals: the maximum liability shall be up to $1,000,000 each loss, each coverage section, and $5,000,000 maximum annual aggregate any one Policy endorsement.
(c) Healthcare Facilities:	Coverage A: 70% quota share with limit of $100,000 per occurrence. Coverage B: 100% quota share for excess $100,000 up to $10,000,000 coverage. For Medefense® Plus of Healthcare Facilities: the maximum liability shall be up to $1,000,000 each loss, each coverage section, and $5,000,000 maximum annual aggregate any one Policy endorsement.
(d) Employment Practices Quota Share	Employment Practices Coverage: 100% quota share of net liability subject to maximum limit of $25,000 and $100,000 in the aggregate.

The reinsurance agreements contained a proper insolvency clause in accordance with ORS 731.508(3), as required to take reserve credits for reinsurance ceded.

In view of the Company's reported surplus of $111,361,783 at December 31, 2017, the insurer does not maintain risk on any one subject in excess of 10% of its surplus to policyholders, in compliance with ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in its December 31, 2017, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

STATUTORY DEPOSIT

The Company had deposits with the Department of Consumer Business Services, Oregon Division of Financial Regulation, pursuant to the provisions of ORS 731.632. The deposit consisted of US Treasury Notes with a par value of $100,000. In addition, the Company has on deposit with Oregon for the benefit of Nevada policyholders and for the benefit of all policyholders a US Treasury Note with a par value of $200,000 and $1,698,000, respectively. These were confirmed with the Division and were properly reported on Schedule E – Part 3.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations or comments made as a result of the prior examination.

SUBSEQUENT EVENTS

An ordinary dividend declared April 3, 2018 in the amount of $11.1 million was paid May 14, 2018 by the Company to its parent and supplemented the final disbursement from MMIC Insurance, Inc. to the prior owners in the amount of $43.5 million, including interest.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statement. These statements include:

Statement of Assets
Statement of Liabilities, Surplus, and Other Funds
Statement of Income
Reconciliation of Capital and Surplus Since the last Examination

UMIA INSURANCE, INC.
ASSETS
As of December 31, 2017

ASSETS	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	$149,505,750	$ -	$149,505,750	1
Preferred stocks	1,145,908	-	1,145,908	1
Common stocks	57,966,567	-	57,966,567	1
Cash, cash equivalents and short-term investments	12,371,953	-	12,371,953	1
Receivable for securities	7,312		7,312	
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	$ 220,997,490	$ -	$ 220,997,490	
Investment income due and accrued	1,722,303	-	1,722,303	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	427,442	-	427,442	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,618,208	-	1,618,208	
Other amounts receivable under reinsurers contracts	69,654	-	69,654	
Net deferred tax asset	-	-	-	
Aggregate write-ins for other than invested assets	75,828	-	75,828	
Total Assets	$ 224,910,925	$ -	$ 224,910,925	

UMIA INSURANCE, INC.
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2017

LIABILITIES, SURPLUS AND OTHER FUNDS	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	$ 69,941,618	$ -	$ 69,941,618	2
Loss adjustment expenses	24,342,688	-	24,342,688	2
Commissions payable	382,854	-	382,854	
Other expenses	261,479	-	261,479	
Taxes, licenses and fees	102,515	-	102,515	
Current FIT payable	1,854,231	-	1,854,231	
Net deferred tax liability	1,556,620	-	1,556,620	
Unearned premiums	9,003,257	-	9,003,257	
Advance premiums	4,026,690	-	4,026,690	
Ceded reinsurance premiums payable	376,633	-	376,633	
Funds held by company under reinsurance treaties	1,084	-	1,084	
Payable to parent, subsidiaries and affiliates	1,632,918	-	1,632,918	
Payable for securities	66,556	-	66,556	
Aggregate write-ins for liabilities	-	-	-	
Total Liabilities	$ 113,549,141	$ -	$ 113,549,141	
Common capital stock	$ 1,000	$ -	$ 1,000	
Gross paid in and contributed surplus	2,999,000	-	2,999,000	
Unassigned funds (surplus)	108,361,783	-	108,361,783	
Surplus as regards policyholders	111,361,783	-	111,361,783	
Total Liabilities, Surplus and other Funds	$ 224,910,925	$ -	$ 224,910,925	

UMIA INSURANCE, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2017

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting Income				
Premiums earned	$ 35,915,958	$ -	$ 35,915,958	
Deductions				
Losses incurred	15,000,000	-	15,000,000	
Loss expenses incurred	14,606,140	-	14,606,140	
Other underwriting expenses incurred	6,154,940	-	6,154,940	
Aggregate write-ins for underwriting deductions	-	-	-	
Total underwriting deductions	35,761,080	-	35,761,080	
Net underwriting gain or (loss)	154,878	-	154,878	
Investment Income				
Net investment income earned	7,183,476	-	7,183,476	
Net realized capital gains or (losses)	2,694,053	-	2,694,053	
Net investment gain or (loss)	9,877,530	-	9,877,530	
Other Income				
Net gain or (loss) from agents' or premium balances charged off	575	-	575	
Aggregate write-ins for miscellaneous income	7,390	-	7,390	
Total other income	7,965	-	7,965	
Dividends to policyholders	-	-	-	
Federal and foreign income taxes incurred	478,484	-	478,484	
Net income	$ 9,561,889	$ -	$ 9,561,889	

UMIA INSURANCE, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2017	2016	2015	2014	2013
Surplus as regards policyholders, December 31, previous year	$108,125,741	$117,082,481	$113,061,055	$ 102,749,443	$ 99,900,753
Net income	9,561,889	11,304,054	20,358,257	15,350,305	12,418,828
Change in net unrealized capital gains or (losses)	5,923,364	437,243	(994,292)	1,349,505	2,551,210
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-	-	-
Change in net deferred income tax	(1,263,236)	(723,078)	(316,793)	(550,323)	1,135,801
Change in non-admitted assets	14,025	25,041	(25,747)	162,126	653,767
Change in provision for reinsurance	-	-	-	-	-
Change in surplus notes	-	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-	-
Capital changes:					
Paid in	-	-	-	-	1,000
Transferred from surplus (Stock Dividend)	-	-	-	-	-
Transferred to surplus	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	2,999,000
Transferred to capital (Stock Dividend)	-	-	-	-	-
Transferred from capital	-	-	-	-	-
Dividends to parent (cash)	(11,000,000)	(20,000,000)	(15,000,000)	(6,000,000)	(16,900,000)
Change in treasury stock	-	-	-	-	-
Examination adjustment	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	-	(10,916)
Change in surplus as regards policyholders for the year	3,236,042	(8,956,740)	4,021,426	10,311,613	2,848,690
Surplus as regards policyholders, December 31, current year	$111,361,783	$108,125,741	$117,082,481	$ 113,061,055	$102,749,443

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

The examiner verified the balances in the investment and cash accounts were held in the name of the Company, and confirmed the balances held with the respective custodians and banks.

The Company's long-term bond investments were in US Treasury obligations, federal agency bonds, municipal obligations, and corporate issues. The Company did report a small exposure in mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2017, and the carrying book value comprised 6.0% of the total long-term bond portfolio, or 4.0% of all invested assets.

Preferred and Common stocks were comprised of unaffiliated exchange listed industrial, miscellaneous stocks and mutual funds.

Cash and short-term deposits consisted of cash on deposit and three short-term money market fund and Treasury Bills.

A comparison of the investments over the past five years is as follows:

	A	B	C	Ratio	Ratio	Ratio
Year	Bonds	Common/ Preferred Stocks	Cash and Short-term	A/ Total Assets	B/ Total Assets	C/ Total Assets
2012*	$ 232,883,515	$ 18,225,499	$14,389,893	85.6%	6.7%	5.3%
2013	196,542,533	43,135,034	15,382,808	74.3%	16.3%	5.8%
2014	191,618,893	56,405,175	14,970,479	70.7%	20.8%	5.5%
2015	179,922,536	58,299,364	12,087,652	70.5%	22.9%	4.7%
2016	159,844,727	59,499,989	8,336,306	68.9%	25.6%	3.6%
2017*	149,505,750	59,112,475	12,371,953	66.5%	26.3%	5.5%

*Per examination

A Committee of its Parent and Ultimate Parent approved the investment transactions pursuant to ORS 733.740. However, the Examiners were unable to determine whether proper authority was granted by the Company's Board to approve investments pursuant to ORS 733.730.

I recommend the Company's Board of Directors or committee thereof, comply with ORS 733.730 and approve all investment, sales and exchanges thereof and/or that delegation of the Board's authority is performed in accordance with its Bylaws and documented by the board.

As of December 31, 2017, sufficient invested assets were invested in amply secured obligations of the United States or FDIC insured cash deposits, as required by ORS 733.580.

Effective January 2, 2015, the Company entered into a custody agreement with Northern Trust Company. The agreement was amended in November 19, 2018, to contain all the relevant protections described in OAR 836-027-0200(4)(a)-(l). An additional custodial agreement was executed with First State Trust Company effective December 19, 2018, for a portion of the Company's investments. This agreement contains all the relevant protections described in OAR 835-027-0200(4) (a)-(l).

Note 2 – Actuarial Reserves

Ryan J. Crawford, FCAS, MAAA, CPCU, Chief Actuary of the Constellation Group, opined on the Company's loss and loss adjustment expense reserves as of December 31, 2017. Mr. Crawford prepared an actuarial analysis of the Company experience for the purpose of developing estimates of unpaid loss and loss adjustment expense (LAE) at year-end 2017. In addition, the unearned premium provision for future utilization of death, disability, and retirement (DDR) premium waiver benefit (free tail) in the Company's claims-made policy was included in the opinion.

David Dahl, FCAS, MAAA, Property/Casualty Actuary for the Oregon Division of Financial Regulation, reviewed Mr. Crawford's reports for reasonableness. Mr. Dahl reviewed the reconciliation of the data used in the Company's Actuarial Report to the data in the actuarial work papers and found them to be consistent. He relied on work performed by the examiners who reviewed the underlying data used to create the annual statement filing, as well as prepared his own independent calculations.

The review was based upon the following:

1. The data, methods, and calculations used in the Actuarial Report supporting the Actuarial Opinion as of December 31, 2017.
2. The data, methods, and calculations used by the company to establish its liabilities as of December 31, 2017.
3. The Management and Discussion Analysis of the December 31, 2017 Annual Statement.
4. Independent actuarial tests as necessary.

Since medical professional liability claims can be reported years after the medical incident in question and take several years to reach settlement, there can be significant uncertainty regarding the loss and LAE reserve estimate. For all business lines, the company reported approximately $4.5 million of one-year favorable loss and LAE development and approximately $10.6 million of two-year favorable development in Part 2 of Schedule P as of December 31, 2017. The one-year development is approximately 4.8% of the 2017 year end reserve liability for loss and loss adjustment expense and 4.2% of the 2017 year end policyholder surplus.

DDR (unearned premium) reserve

Death, disability, and retirement (DDR) coverage is offered to physicians who meet the policy conditions for this coverage free of charge when their practice is discontinued. DDR coverage is available to a physician who has purchased five or more years of continuous coverage. The cost of this coverage is funded from a premium allowance the physician pays for in the professional liability coverage as an active practitioner. The DDR reserve is the difference between the present value of the expected claims from physicians who elect coverage and present value of the expected premium collected to fund the coverage.

The company currently hold $6.5 million of unearned premium to provide DDR coverage. The appointed actuary estimate's $4.7 million of DDR liability for the company. Although there are significant sources of uncertainty with the DDR reserve, the DDR reserve estimate as of 12/31/2017 appears to be reasonable. The total reported unearned premium reserve as of December 31, 2017 is $9.0 million.

Conclusions

Mr. Dahl determined UMIA Insurance, Inc.'s liability for Loss and Loss Adjustment Expense and unearned premium as of December 31, 2017, was found to be reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination, however, the following is a summary of the recommendations made in this report of examination:

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7 I recommend that the Company's Board of Directors approve the salary of the Company's officers, pursuant to ORS 732.320(3).

8 I recommend the Company comply with its bylaws regarding annual shareholder meetings and in the election of its Directors.

22 I recommend the Company's Board of Directors or committee thereof, comply with ORS 733.730 and approve all investment, sales and exchanges thereof and/or that delegation of the Board's authority is performed in accordance with its Bylaws and documented by the board.

CONCLUSION

During the five year period covered by this examination, the surplus of the Company has increased from $99,900,753, as presented in the December 31, 2012 report of examination, to $111,361,783, as shown in this report. The comparative assets and liabilities are:

	December 31, 2017	2012	Change
Assets	$ 224,910,925	$ 272,220,682	$(47,309,757)
Liabilities	113,549,141	172,319,929	58,770,788
Surplus	$ 111,361,783	$ 99,900,753	$ 11,461,030

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Tho Le, AFE, staff examiner, and David Dahl, FCAS, MAAA, Property/Casualty Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in this examination. In addition, examiners and contractors representing the Minnesota Department of Commerce – Insurance participated and their cooperation during this coordinated examination is greatly appreciated.

Respectfully submitted,

Joseph A. Rome, CFE, CIE
Lead Examiner – EIC
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)

County of Marion)

Joseph A. Rome, CFE, CIE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of UMIA Insurance, Inc., Beaverton, Oregon.

2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon 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. The examination of UMIA Insurance, Inc. was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Joseph A. Rome, CFE, CIE
Lead Examiner – EIC
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 1st day of July, 2019.

Lauren N. Bodine
Notary Public in and for the State of Oregon

My Commission Expires: 1/22/2022

OFFICIAL STAMP
LAUREN NICOLE BODINE
NOTARY PUBLIC - OREGON
COMMISSION NO. 970483
MY COMMISSION EXPIRES JANUARY 22, 2022