



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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December 1, 2016

MR LANE KENT
PRESIDENT
PREMIER ADMINISTRATIVE SOLUTIONS
13600 ICOT BLVD BUILDING A
CLEARWATER FL 33760

Re: Form A – Acquisition of Control of Southern Guaranty Insurance Company (“SGIC”) by Premier Servicing, LLC

Dear Mr. Kent:

The State of Wisconsin Office of the Commissioner of Insurance (“OCI”) has completed its review of the November 10, 2016 response to OCI’s October 16, 2016 application follow-up letter. Our review identified additional issues, as indicated below. To ensure that the application process continues to move forward, please provide the following information at your earliest convenience:

- 1. Pro Forma Financial Statements: The revised Pro Forma Balance Sheet was mathematically incorrect (the Assets – Liabilities ≠ Capital and Surplus). The Corrected figures are provided below:

Table with 4 columns: [\$'s in 000's], 2017, 2018, 2019. Row: Corrected C&S: 2,772, 2,069, 3,302

It was also noted that the Pro Forma Financial Statements indicate that SGIC would not meet its minimum Capital & Surplus (\$3M) for 2017 and 2018. [Please note that Wisconsin requires all insurers that write medical malpractice insurance to maintain compulsory surplus which is the greater of \$3M, or the sum of 50% of the net premiums written for medical malpractice insurance in the previous 12-months, plus 20% of net premiums written for all other lines. Insurers are also expected to meet Wisconsin’s security surplus requirements, which is 140% of compulsory surplus for insurers that write premiums of \$10M or less.]

Please provide corrected Pro Forma financial statements, along with a narrative discussing what steps the Applicant intends to take to ensure that the SGIC will meet its statutory capital and surplus requirements at all times.

- 2. Capitalization/Feasibility Study: A recent Best’s Journal Special Report on financially impaired companies (dated June 23, 2014) indicated that small to moderately-sized insurers (with surplus of \$20M or less) have a significantly greater risk of insolvency. The same report also noted that financially impaired companies that wrote medical professional liability insurance comprised 4.8% of the impaired companies for 2013.

Moreover, according to the Wisconsin Medical Malpractice Market Share Report for 2015, the minimum and average capital and surplus for the top 10 medical malpractice writers in 2015 (representing over 93% of the Wisconsin market) was:

- o Minimum C&S: \$ 36,885,512
o Average C&S: \$1,406,666,980

In contrast, the Applicant is projecting \$2-\$3M of capital & surplus for 2017 – 2019.

In the absence of an independent third party feasibility study performed by a qualified actuarial or public accounting firm to support the reasonableness/financial soundness of the financial projections and the underlying assumptions, OCI is unable to discern whether the financial projections provided by the Applicant are reliable, and financially sound for a company proposing to write medical malpractice insurance.

Please provide a third party feasibility study as to the reasonableness and financial soundness of the financial projections and underlying assumptions. [Note: The feasibility study should be prepared by an independent qualified actuarial or public accounting firm that is experienced in preparing feasibility studies for the insurance industry.]

Please mail all information to my attention at the address listed at the top of this letter. [Or alternatively, you may email your response to: kristin.forsberg@wisconsin.gov.] Please feel free to call me at (608) 266-9896 should you have any questions.

Sincerely,



Kristin L. Forsberg, CPA, CFE
Bureau of Financial Analysis and Examinations