Best's Rating Report

OMIC
Ophthalmic Mutual Insurance Company
A Risk Retention Group

Domiciliary Address: 159 Bank Street, 4th Floor, Burlington, Vermont, United States 05401

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AMB #: 010844 **NAIC #:** 44105 **FEIN#:** 94-3047990

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Financial Strength Rating
AM BEST
A Excellent

Best's Credit Rating Effective Date
March 23, 2020

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Information

Best's Credit Rating Methodology

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Market Segment Outlooks

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Ophthalmic Mutual Insurance Company (A Risk Retention Group)

AMB #: 010844 | **NAIC #:** 44105 | **FEIN#:** 94-3047990

Best's Credit Ratings

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A	**a+**
Excellent	**Excellent**
Outlook: **Stable**	Outlook: **Negative**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Strong**
Business Profile	**Neutral**
Enterprise Risk Management	**Appropriate**

Rating Rationale

Balance Sheet Strength: Strongest

- Risk-adjusted capitalization is at the strongest level as measured by Best's Capital Adequacy Ratio (BCAR).
- Long-term history of organic surplus growth despite substantial policyholder dividends, which is a function of the RRG business model and commitment to its members.
- Generally favorable loss reserve development from conservative reserving practices.
- Conservative investment portfolio that predominantly consists of high-quality fixed-income securities.

Operating Performance: Strong

- Total operating earnings have been strong and the primary driver of surplus growth.
- Strong underwriting profitability in earlier years, however, margins have compressed more recently following the impacts of the significant 2016 rate decrease and some large claims that closed in 2019.
- Favorable reserve development benefited underwriting results in earlier years; however, the magnitude of reserve take-downs has declined resulting in modest adverse development through 2019.
- Investment income, as measured by return on invested assets, outperforms the composite and contributed over 21 points to the operating ratio on a five-year average.

Business Profile: Neutral

- Dominant player in the US ophthalmic medical professional liability (MPL) market.
- Business is distributed geographically across all states.
- Concentration risk as a mono-line MPL insurer for one specialty segment of insureds, however, management has significant knowledge and experience within their niche market.

Enterprise Risk Management: Appropriate

- Risk management framework and capabilities are appropriate for the company's risk profile.
- Risks are identified in core areas: underwriting, claims, and finance.
- Significant board of directors' involvement.
- Disaster recovery plans are in place.

Outlook

- The negative outlook on the Long-Term ICR reflects the company's declining operating performance. The outlook on the FSR is stable.

Rating Drivers

- Neither upward movement in the ratings nor a positive revision of the Long-Term ICR outlook is likely at this time. Factors that may lead to negative rating consideration include continued adverse trends in operating performance, which could worsen with a rise in claims frequency and/or severity while market pricing remains soft and interest rates remain low.

Credit Analysis

Balance Sheet Strength

OMIC's balance sheet strength primarily reflects its risk-adjusted capitalization at the strongest level, quality of invested assets, sound liquidity, and conservative reserving practices.

Capitalization

Risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), is at the strongest level. The capital position reflects OMIC's conservative underwriting leverage, favorable loss reserve development trends, and below average investment leverage. Underwriting leverage measures declined during the prior five-year period and remain below those of the MPL composite.

Balance Sheet Strength (Continued...)

This is primarily due to surplus growth, a decrease in loss reserves, and relatively stable premium levels. Surplus grew considerably during the period, despite policyholder dividends, primarily driven by underwriting and investment income.

The company paid annual policyholder dividends in each of the prior five years, which have averaged 15% to 20% of net premiums earned. In addition to dividends, OMIC issued partial returns of contributed surplus to policyholders that have left due to death, disability or retirement. The company advises the Vermont Department of Banking, Insurance, Securities, and Healthcare Administration each year that a partial surplus return is anticipated.

OMIC maintains sound balance sheet liquidity as non-affiliated invested assets exceed overall liabilities. In addition, the current, quick and overall liquidity ratios compare favorably to the peer group composite. Furthermore, 87% of invested assets were in highly liquid bonds, short-term investments and cash as of December 31, 2019. Liquidity has been enhanced by the generation of positive operating cash flows in each of the last five years, despite the payment of significant policyholder dividends during the period.

Asset Liability Management - Investments

OMIC places the bulk of its invested assets in fixed-income instruments, largely in tax-exempt municipal bonds and, to a lesser extent, US government, corporate and mortgage backed securities. The municipal bond portfolio is diversified across two thirds of all states and is comprised of both revenue-backed and general obligation issues. The remaining invested assets consist of cash and common stocks. Common stock leverage remains at an acceptable level and well below the average of the medical professional liability composite.

Reserve Adequacy

OMIC has historically maintained a conservative loss reserve position. In total, the company experienced favorable development on an accident year basis for each of the prior five years. However, there has been some adverse development on a calendar basis from 2017 through 2019, reversing a long history of favorable development. Loss reserves, which are not discounted, are maintained typically at or above actuarial point estimates, but well within recommended ranges. In addition, given the company's low loss reserve leverage, the extent of any potential prior year reserve development, and its effects on surplus and risk-adjusted capitalization, would be expected to be minimal.

Operating Performance

OMIC is a Risk Retention Group (RRG), which is owned by its members and policyholders, and is committed to returning dividends to their members and do not stockpile capital as part of their business model. As such, their goal is to maximize dividends and minimize pricing, while maintaining a prudent and responsible level of surplus. Having said that, the company has taken steps to reduce their level of dividends from approximately 20% prior to 2019, to 14% in 2019

Operating performance was strong over the last five years, however, experience for 2017 through 2019 has been in line with the industry composite, due to policyholder dividends. Operating income during this period was driven by profitable, yet variable, underwriting results and a steady stream of net investment income, primarily from yields on the fixed income portfolio. Modest growth of investment income was due to increases in the invested asset base, which offset a decline in bond yields during the earlier portion of the period. Realized and unrealized capital gains/losses have had a minor impact on operating performance during this period.

Underwriting results were strong during the earlier portion of the prior five-year period but margins have compressed in more recent years following a 12.8% rate decrease in 2016 and increases in severity in 2018and 2019. Nevertheless, OMIC's reported combined ratio continues to outperform the industry composite on a five-year average basis. Fluctuations in underwriting performance during this period also reflect fluctuations in the amount of prior year reserve development reported throughout the period. Favorable reserve development was seen in 2015 and 2016. However, the company reported slight adverse loss reserve development in 2017 through 2019. OMIC's underwriting expense ratio is slightly higher than its peers due to higher costs associated with writing business across the U.S. and the lower premiums charged for ophthalmologists compared to other physicians and surgeons.

Underwriting results through year end 2019 were negative, driven mostly by a reduction in favorable development, and a handful of claims which developed adversely.

Business Profile

OMIC specializes in underwriting professional liability insurance for ophthalmologists throughout the United States. Its mission is to serve the needs of members of the American Academy of Ophthalmology (AAO) by providing medical liability insurance products and

Business Profile (Continued...)

services. OMIC strives to be a leader in the medical liability community and to promote quality ophthalmic care and patient safety. The company is licensed in Vermont and operates in other states under the authority of the Liability Risk Retention Act of 1986. Policyholders are required to be members of the sponsoring organization, the AAO.

Coverage is marketed to individual practitioners, group practices and networks. OMIC also offers coverage for employed optometrists and nurse anesthetists. OMIC also provides coverage for eye banks and surgery centers. The vast majority of business is produced on a direct basis.

All policies are issued on non-assessable claims-made forms. Typical limits are $1.0 million each medical incident and $3.0 million in the aggregate; however, limits up to $5.0 million each medical incident and $10.0 million in the aggregate are offered. The company also provides tail coverage to qualified policyholders upon death, disability or retirement. Extended reporting period coverage is also offered to insureds upon termination.

The professional liability policy includes $25,000 in defense coverage for disciplinary proceedings. There are an additional sixteen benefits covered under a single $100,000 limit, which is 100% reinsured. Reimbursement coverage is provided for seven regulatory proceedings under the Broad Regulatory Protection (BPR) provision. Billing errors investigations and violations of the HIPAA privacy and security regulations are covered under this benefit as well as EMTALA, DEA, STARK Act, covered licensure, and peer review actions. The policy also includes nine Cyber Liability (e-MD) coverages that address multimedia liability; security and privacy liability and breach response costs; security and privacy regulatory defense and penalties; network asset protection; cyber extortion; non-compliance with PCISS; and cyber terrorism.

OMIC is operated by a staff of insurance professionals at its main administrative offices in San Francisco, headed by the president and chief executive officer, Timothy J. Padovese. A small home office in Burlington, Vermont, is maintained through SRS Insurance Services. Since April 1993, all underwriting and claims activities have been performed in-house.

Enterprise Risk Management

OMIC has implemented an enterprise risk management (ERM) identification process with emphasis on the core areas of its operations. The impact of the identified risks is evaluated by the board of directors. The risk management framework includes interacting committees between operational departments and the company's centralized decision makers. Excess capital is available to provide for increased capacity in the future and/or when a hard market develops, exhibiting attention to cycle management. Management is very seasoned and has been consistent at OMIC for over 10 years. Disaster recovery plans are in place and data is backed up at an off-site location.

Reinsurance Summary

OMIC maintains excess of loss reinsurance that provides coverage for losses up to $5.0 million per occurrence subject to a retention of $1.0 million. A clash cover provides additional protection of $5.0 million in excess of $5.0 million. The company also maintains an Awards Made cover (95% placed) which provides coverage up to $5.0 million per occurrence and includes protection for prior years. The first layer of $5.0 million in excess of $1.0 million is flat rated. The principal reinsurance providers are Lloyd's of London syndicates, TransRe, and Hannover Re. This reinsurance structure has been in place since January 1, 2016, and renewed without increase in fees or changes in participation on January 1, 2020

Prior to January 1, 2016 OMIC maintained excess of loss reinsurance that provided coverage for losses up to $1.25 million per occurrence subject to a retention of $0.75 million. A clash cover provided additional protection of $5.0 million in excess of $5.0 million. The company also maintained an Awards Made cover which provided coverage up to $5.0 million per occurrence and included protection for prior years. The working layer of $1.25 million in excess of $0.75 million was swing rated.

Financial Statements

	Year End - December 31			
	2019		2018	
Balance Sheet	**USD (000)**	**%**	**USD (000)**	**%**
Cash and Short Term Investments	15,131	4.8	15,002	5.0
Bonds	248,535	78.6	238,695	80.1
Preferred and Common Stock	41,093	13.0	33,920	11.4
Total Cash and Invested Assets	304,759	96.4	287,616	96.5
Premium Balances	7,546	2.4	7,067	2.4
Other Assets	3,801	1.2	3,287	1.1
Total Assets	316,107	100.0	297,971	100.0
Loss and Loss Adjustment Expense Reserves:				
Net Reported Loss Reserves	14,252	4.5	15,263	5.1
Net IBNR Loss Reserves	15,826	5.0	11,801	4.0
Net LAE Reserves	21,224	6.7	18,490	6.2
Total Net Loss and LAE Reserves	51,303	16.2	45,554	15.3
Net Unearned Premiums	25,209	8.0	24,213	8.1
Other Liabilities	16,573	5.2	14,581	4.9
Total Liabilities	93,085	29.4	84,349	28.3
Paid-In and Contributed Surplus	84	...	84	...
Unassigned Surplus	222,937	70.5	213,538	71.7
Total Policyholders' Surplus	223,022	70.6	213,622	71.7
Total Liabilities and Surplus	316,107	100.0	297,971	100.0

Source: BestLink® - Best's Financial Suite

Last Update
April 15, 2020

Identifiers
AMB #: 010844
NAIC #: 44105
FEIN #: 94-3047990

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Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Ophthalmic Mutual Insurance Company (A Risk Retention Group)

Operations

Date Incorporated: August 27, 1987 **|** **Date Commenced:** September 30, 1987

Domiciled: Vermont, United States

Licensed: (Current since 11/15/2001). The company is licensed in Vermont. It is authorized in all other states under the Federal Liability Risk Retention Act and operates in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NY, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WV, WI and WY.

Business Type: Property/Casualty
Organization Type: Mutual - RRG (Risk Retention Group)
Marketing Type: Direct Response
Financial Size: VIII ($100 Million to $250 Million)

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: 010844 - Ophthalmic Mutual Insurance Co (A RRG)

Refer to the Best's Credit Report for AMB# 010844 - Ophthalmic Mutual Insurance Company (A Risk Retention Group) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

Best's Credit Rating History

AM Best has assigned ratings on this company since 1994. In our opinion, the company has an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to Rating History in BestLink:

	Best's Financial Strength Ratings			Best's Long-Term Issuer Credit Ratings		
Effective Date	**Rating**	**Outlook**	**Action**	**Rating**	**Outlook**	**Action**
Current - Mar 23, 2020	**A**	**Stable**	**Affirmed**	**a+**	**Negative**	**Affirmed**
Feb 22, 2019	A	Stable	Affirmed	a+	Negative	Affirmed
Jan 25, 2018	A	Stable	Affirmed	a+	Stable	Affirmed
Jan 19, 2017	A	Stable	Affirmed	a+	Stable	Affirmed
Jan 14, 2016	A	Stable	Affirmed	a+	Stable	Affirmed

Management

OMIC is operated by a staff of insurance professionals at its main administrative offices in San Francisco, headed by the president and chief executive officer, Timothy J. Padovese. A small home office in Burlington, Vermont, is maintained through SRS Insurance Services. Since April 1993, all underwriting and claims activities have been performed in-house.

Officers

Vice Chairwoman of the Board: Daniel J. Briceland
President and CEO: Timothy J. Padovese
Vice President and CFO: Ricci A. Rascoe
Vice President: Ray E. Fontenot (Underwriting)
Vice President: Mary E. Kelley (Product Management)
Vice President: Robert J. Widi (Marketing and Sales)
Secretary: Ann Acers-Warn, M.D.
Secretary: Denise R. Chamblee, M.D.
Treasurer: Robert E. Wiggins, M.D.

Directors

Daniel J. Briceland, M.D. (Chairman)
Steven L. Brown, M.D.
Denise R. Chamblee, M.D.
Bradley D. Fouraker, M.D.
Robert S. Gold, M.D.
David W. Parke II, M.D.
Ronald W. Pelton, M.D.
Steven I. Rosenfeld, M.D.
Gregory L. Skuta, M.D.
Michael C. Tigani, M.D.
Ann Acers-Warn, M.D.
Robert E. Wiggins, M.D.
Russell A. Young
Robert G. Famte M.D.
Pauline T. Merrill, M.D.

History

OMIC was incorporated under the laws of Colorado on August 27, 1987, as a mutual insurer. It was organized under the Federal Liability Risk Retention Act of 1986 and commenced operations on September 30, 1987. On January 1, 1994, the company was re-domesticated under the captive insurance laws of Vermont as a mutual insurer and risk retention group.

Paid-in surplus of approximately $97,000 is composed of insured capital contributions that are non-interest bearing and are refundable at the discretion of the company. During 2013, a plan to return capital contributions to original members was approved by the board of directors and approximately $1,119,000 has been paid through year-end 2016. Prior to November 1, 1992, each policyholder upon acceptance by OMIC was required to make a surplus contribution. The amounts of the surplus contributions were determined by the type of policy issued and were equal to 80 percent to 100 percent of the annual mature claims-made premium. Beginning in 1994, the company has returned contributions based on its operating performance and financial condition. At December 31, 2018, Paid-in surplus of approximately $84,000, remains and is refundable at the discretion of the company. The company continues to search for the last few remaining original members and return this paid-in capital.

In 2002, the OMIC Board of Directors made modifications to the company's bylaws. This was prompted in anticipation of marketing to and writing major group accounts that operate as part of an academic teaching program in ophthalmology and/or are situated within a health care entity primarily dedicated to providing ophthalmic care and treatment. Additionally, the amended bylaws authorize coverage to non-ophthalmologists who are an integral part of providing medical services exclusively to ophthalmology patients at the facility.

Best's Credit Rating Methodology | Disclaimer | Best's Credit Rating Guide