OPHTHALMIC MUTUAL INSURANCE COMPANY

A Risk Retention Group

Domiciliary Address: 159 Bank Street, 4th Floor, Burlington, Vermont 05401 United States
Administrative Office: 655 Beach Street, San Francisco, California, 94109-1336 United States

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

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AM BEST
A
EXCELLENT
Financial Strength Rating

Best's Credit Rating Effective Date
April 21, 2023

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Information

Best's Credit Rating Methodology

Guide to Best's Credit Ratings

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: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

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

Rating Rationale

Balance Sheet Strength: Strongest

- Strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR).
- Long-term history of organic surplus growth despite substantial policyholder dividends, which are a function of the RRG business model and commitment to its members.
- Conservative investment portfolio that primarily consists of high-quality fixed-income securities.

Operating Performance: Adequate

- Underwriting performance, prior to policyholder dividends, has been adequate and in-line with the medical professional liability (MPL) composite average.
- Investment performance has generated consistent income and moderate capital gains.
- Positive net income in each of the most recent five years.

Business Profile: Neutral

- Ophthalmic Mutual Insurance Company (a Risk Retention Group) (OMIC) is a Vermont-domiciled risk retention group that specializes in providing MPL insurance to ophthalmologists.
- The company maintains a dominant position in the US ophthalmic MPL market.
- Although concentrated in terms of specialty, the book of business is well diversified across the US.
- Long-tenured management team with significant depth of experience.

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 involvement by the board of directors.
- Disaster recovery plans are in place.

Outlook

- The stable outlooks reflect the expectation that OMIC will maintain its overall balance sheet strength assessment supported by risk-adjusted capitalization at the strongest level, as measured by BCAR, including a stabilization in prior year reserves, while ongoing strategic initiatives implemented by management will maintain stable operating performance metrics that are in line with the company's adequate-assessed MPL peers.

Rating Drivers

- Negative rating movement may occur following further adverse reserve development on prior years, leading to a decline in the balance sheet strength assessment.
- Negative rating action may also occur if a deteriorating trend in operating performance occurs that results in unfavorable performance relative to the industry and/or its medical professional liability peers.

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, 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. This is

Balance Sheet Strength (Continued...)

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 approximately 10% 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, 84% of invested assets were in highly liquid bonds, short-term investments and cash as of December 31, 2022. 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 composed 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

Reserves are evaluated on an annual basis by an independent actuarial consultant, with quarterly true-ups. As of year end 2022, net reserves of $81.4 million are carried at the midpoint of the independent actuary's reasonable range of estimates. Reserve development has been mixed with strengthening on four of the past nine calendar years, through 2022. From an accident year perspective, development has generally been favorable although AY 2018 has seen a 15.4% increase from original estimates and AY 2021 has experienced a more modest 4.5% increase. In 2022, OMIC reported a small amount of favorable development. Estimated ultimates were consistent with the independent actuary's prior analysis.

Operating Performance

Premium growth has been solid in recent years. Growth has come through broadening its market position and geographic footprint, with the company going from writing more than $1 million of direct premium in 11 states as of year end 2018 to 21 states at year end 2022. In addition, OMIC has developed relationships with private equity (PE) organizations that have acquired ophthalmologist groups in recent years. Premium collected from PE groups in 2022 was approximately $10 million.

Underwriting performance over the most recent five year period has been adequate. OMIC's five year average combined ratio before policyholder dividends is close in-line with the MPL composite average. The company's loss ratio compares favorably while the underwriting expense ratio lags. The elevated expense ratio reflects higher costs associated with writing business across the US and the lower premiums charged for ophthalmologists compared to other physicians and surgeons. Policyholder dividends have been consistently paid on an annual basis, averaging 10.7 points on the combined ratio.

Investment performance has been solid and is the primary source of pretax earnings over the period. OMIC has consistently generated $8.4 - 8.8 million of income in each of the most recent five years. Cumulative investment income of $42.6 million has more than offset $29.9 million of cumulative post-dividend underwriting losses. Yield compares favorably to the composite five year average while other return on invested asset metrics lag due to the overweight bonds and underweight equities positioning of the portfolio, relative to peers. Realized capital gains have typically been modest, although gains of $2.9 million and $1.4 million were reported in 2020 and 2021, respectively. Unrealized gains and losses have fluctuated alongside market conditions, but have typically been favorable with 2018 and 2022 being the exceptions.

Pretax earnings have been generated in four of the most recent five years. 2020 is the exception due to the magnitude of underwriting loss exceeding investment and other income, resulting in a pretax loss of $1.4 million. Cumulatively, OMIC generated $17.2 million of pretax earnings over the five year period. Net income has been consistently positive, with the 2020 pretax loss being more than offset by realized gains. In 2022, the company reported solid results with pretax earnings of $5.5 million and net income of $4.9 million. AM Best's expectations are for roughly similar results in 2023.

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 high quality medical liability insurance products and 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. Insured ophthalmologists are required to be members of the sponsoring organization, the AAO.

Coverage is marketed to individual practitioners, group practices, and networks. OMIC offers coverage to ophthalmologists, employed optometrists and nurse anesthetists, and professional entities including, 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 per claim and $3.0 million in the aggregate; however, limits up to $5.0 million per claim and $10.0 million in the aggregate are offered. The company also provides tail coverage to qualified insureds 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.

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 interaction between committees, 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.

Examples of critical identified risks include a single $15 million loss, stock/bond market crash, ransomware and loss of business to private equity groups. OMIC has developed mitigation plans to address each one of these key risk factors, accordingly.

Reinsurance Summary

OMIC maintains excess of loss reinsurance that provides coverage for losses up to $5 million per occurrence subject to a retention of $1 million. A clash cover provides additional protection of $5 million in excess of $5 million. The company also maintains an Awards Made cover (95% placed) which provides coverage up to $5 million per occurrence and includes protection for prior years. The first layer of $4 million in excess of $1.0 million is flat rated. The principal reinsurance providers are Lloyd's of London syndicates, TransRe, and Hannover Re.

Environmental, Social & Governance

AM Best views the main ESG risks to OMIC to be governance and social inflation. Governance includes all decision-making matters, such as policy setting, underwriting, reserving, risk mitigation, claims management, setting corporate strategy, and hiring practices, as well as establishing risk tolerances and risk appetites that are appropriate for the company and its stakeholders. Assessment of good corporate governance depends on how well management and the board at OMIC execute on these matters. At this point, governance at OMIC has been appropriate.

Social inflation in the US, as defined by AM Best, is the rise in current or future claims caused by higher court awards and legislated increases in claims payments driven by societal behavior, including changes in demographics, litigation financing, a perceived decay in

Enterprise Risk Management (Continued...)

the public trust of corporations, and changes in tort reform. As a medical professional liability insurer, social inflation could present some challenges in the future.

OMIC's exposure to material environmental risks is considered to be low.

Financial Statements

	Year End - December 31			
	2022		2021	
Balance Sheet	**USD (000)**	**%**	**USD (000)**	**%**
Cash and Short Term Investments	29,200	8.1	22,731	6.4
Bonds	265,779	73.3	274,558	77.1
Preferred and Common Stock	52,141	14.4	45,147	12.7
Total Cash and Invested Assets	347,120	95.7	342,436	96.2
Premium Balances	12,797	3.5	10,959	3.1
Net Deferred Tax Asset	91	...	...	...
Other Assets	2,565	0.7	2,649	0.7
Total Assets	362,573	100.0	356,044	100.0
Loss and Loss Adjustment Expense Reserves:				
Net Reported Loss Reserves	16,328	4.5	16,520	4.6
Net IBNR Loss Reserves	33,867	9.3	27,111	7.6
Net LAE Reserves	31,206	8.6	27,147	7.6
Total Net Loss and LAE Reserves	81,401	22.5	70,778	19.9
Net Unearned Premiums	31,815	8.8	30,790	8.6
Other Liabilities	13,653	3.8	15,641	4.4
Total Liabilities	126,869	35.0	117,210	32.9
Paid-In and Contributed Surplus	62	...	63	...
Unassigned Surplus	235,642	65.0	238,772	67.1
Total Policyholders' Surplus	235,705	65.0	238,835	67.1
Total Liabilities and Surplus	362,573	100.0	356,044	100.0

Source: BestLink® - Best's Financial Suite

Last Update
April 21, 2023

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

Contact Information

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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). 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. The company is licensed in Vermont.

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 - Apr 21, 2023	**A**	**Stable**	**Affirmed**	**a**	**Stable**	**Affirmed**
Apr 13, 2022	A	Stable	Affirmed	a	Stable	Affirmed
May 5, 2021	A	Stable	Affirmed	a	Stable	Downgraded
Mar 23, 2020	A	Stable	Affirmed	a+	Negative	Affirmed
Feb 22, 2019	A	Stable	Affirmed	a+	Negative	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

Chair: Daniel J. Briceland, M.D.
Vice Chair: Steven I. Rosenfeld, M.D.
President, CEO: Timothy J. Padovese
Vice President, CFO: Ricci A. Rascoe
Secretary, Vice President: Mary E. Kelley
General Counsel, Secretary, Vice President: Kimberly K. Wynkoop
Vice President: Ray E. Fontenot
Vice President: Linda D. Harrison, PhD
Vice President: Ryan M. Bucsi
Vice President: Neil E. Simons
Vice President: Robert J. Widi
Secretary: Patricia Henderson
Secretary: Christopher J. Plumpton
Secretary: Robert S. Gold, M.D.
Secretary: Derick A. White
Treasurer: Robert E. Wiggins, M.D.

Directors

Ann Acers-Warn, M.D.
Daniel J. Briceland, M.D.
Denise R. Chamblee, M.D.
Robert G. Fante, M.D.
Bradley D. Fouraker, M.D.
Robert S. Gold, M.D.
Pauline T. Merrill, 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.
Robert E. Wiggins, M.D.
Russell A. Young, Esq.

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.

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, 2021, Paid-in Surplus of approximately $63,000 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.