

IN THE DISTRICT COURT OF SHAWNEE COUNTY, KANSAS
DIVISION 6

VICKI SCHMIDT,)	
COMMISSIONER OF)	
INSURANCE,)	
<i>In her Official Capacity,</i>)	
)	
Petitioner,)	Case No. 2019 CV 351
)	
vs.)	
)	
PHYSICIANS STANDARD INSURANCE)	
COMPANY,)	
)	
Respondent.)	

LIQUIDATOR’S ELEVENTH STATUS REPORT

Vicki Schmidt, in her capacity as the court-appointed liquidator (“**Liquidator**”) of Physicians Standard Insurance Company (“**PSIC**”), provides the following status report relating to PSIC, pursuant to the Court’s Order of Liquidation (“**Liquidation Order**”), the Court’s Order on Liquidator’s Motion to Establish Certain Procedures, Extend Certain Deadlines, and to Approve Fees and Expenses in Relation to PSIC (“**Procedural Order**”), and K.S.A. 40-3622(d).

I. Introduction

This Court (the “**Liquidation Court**”) entered the Liquidation Order effective December 1, 2019 (“**Liquidation Date**”). Subsequently, on May 22, 2020, the Court issued its Procedural Order, which set deadlines for filing status report of every 6 months beginning June 1, 2020. This status report focuses on developments that occurred since the Liquidator filed her last report on November 27, 2024.

II. Update on Policyholder and Other Creditor Claims-Related Activities

As previously reported, the Liquidator received a total of 137¹ proofs of claim (“**POCs**”) These POCs involved administrative claims, policyholder claims, and general creditor claims. Between the date of the Liquidator’s Tenth Status Report and the date of this report, the Liquidator denied 33 Class 2 POCs totaling \$1,913,704.38, and one Class 7 claim in the amount of \$16,000, which was filed out of time.² To date, the Liquidator has denied, resolved or reclassified all but 5 policyholder (Class 2) claims totaling \$369,708³ Of the 5 remaining policyholder claims, 3 claims totaling \$52,438 will be allowed; one claim for \$17,270.00 was denied but is subject to further evaluation⁴ after receipt of a timely objection to the denial; and the final claim was denied because the claimant, an insured who seeks policy coverage in relation to a medical malpractice claim, obtained a discharge of the claimant’s liability through a Chapter 7 bankruptcy. The Missouri Property & Casualty Insurance Guaranty Association (“**MIGA**”) is currently defending the claimant insured in relation to the medical malpractice claim.

The amount of lower priority, Class 5-9 claims as of March 31, 2025, which have not been denied or otherwise resolved is shown in Exhibit A attached to this report. The Liquidator anticipates that she will submit a report and recommendation of a plan for distribution for allowed claims pursuant to K.S.A. 40-3642 on or before the next status report is to be filed with the Liquidation Court on December 1, 2025. This would include claims for administrative (Class 1)

¹ Some proofs of claim contained more than one claim or more than one class of claim.

² No objections to these denials were received by the applicable deadlines for filing objections.

³ The financial statement (Exhibit A) reflects pending “Class 2 Claims remaining with the Liquidator” in the amount of \$1,345,139 at March 31, 2025. Since that date, the Liquidator has denied \$975,431 of those claims, without any timely objection to the denials. Thus, the remaining amount is \$369,708.

⁴ If this POC is not resolved, a hearing on the objection will be scheduled before the Liquidation Court.

and policyholder (Class 2) claims submitted by MIGA and the Kansas Insurance Guaranty Association as shown in Exhibit A.

III. Update on Claims Handled by MIGA

In addition to the one remaining POC (described above) involving a medical malpractice claim against a PSIC insured which is being handled by MIGA, MIGA is handling two other medical malpractice claims for which no corresponding POC has been submitted to date. MIGA has reserved amounts for possible claims losses and ongoing defense costs for these three remaining claims, which are shown in Exhibit A. Forty-nine other insured loss claims which were handled by MIGA on behalf of PSIC have been settled or dismissed.⁵ MIGA continues to provide the Liquidator with quarterly financial reports on the amounts it has incurred in administrative expenses and loss claim costs, including defense costs, which are shown in Exhibit A.

IV. Litigation Update

As has been described in earlier status reports, PSIC was previously majority-owned by a medical malpractice insurer based in Missouri, Missouri Professionals Mutual-Professional Indemnity Association (“**MPM-PPIA**”). On or about March 10, 2018, PSIC and MPM-PPIA entered into a Policy Acquisition Agreement under which MPM-PPIA’s policy business was transferred to PSIC. The Liquidator contends that this transaction rendered PSIC insolvent. Within one year of that transaction, MPM-PPIA filed for voluntary receivership in Franklin County, Missouri.⁶ PSIC went into receivership shortly thereafter. MPM-PPIA and PSIC asserted various

⁵ These included claims by third parties, such as patients against PSIC-insured medical providers filed either (1) before the date of the Liquidation Order, or (2) after the date of the Liquidation Order but which PSIC had notice of prior to the date of liquidation.

⁶ *In re: Missouri Professionals Mutual-Physicians Professional Association*, Case No. 18AB-CC00267.

claims against each other in the respective receiverships. In addition, the Liquidator for PSIC asserted various tort and other causes of action against various individuals and entities.⁷

As detailed in the Liquidator's Tenth Status Report, all litigation claims relating to the insolvency of PSIC have been or were in the process of being settled. The following summarizes the status of the litigation claims which had not been finalized at the time the Tenth Status Report was filed:

- a. On February 25, 2025, the Liquidation Court entered an order approving the Liquidator's settlement agreement with Jonathan L. Downard ("**Downard**"), in his capacity as a director and/or officer of PSIC, PSIC's former third-party administrator, Corporate Insurance Services ("**CIS**"), and PSIC's former landlord, and The Baltic & Mediterranean Company, LLC ("**B&M**"), under which these defendants must pay PSIC\$175,000, with \$150,000 paid after approval by the Liquidation Court and \$25,000 paid on or before October 15, 2025. The first settlement payment for \$150,000 was received by PSIC on April 9, 2025.
- b. On March 5, 2025, the Liquidation Court approved the Liquidator's settlement agreement with Downard, in his capacity as an attorney, and his law firm, Hansen, Stierberger, Downard, Schroeder & Head LLC ("**HSDSH**"), under which HSDSH consented to judgment against it on the Liquidator's legal malpractice claim and HSDSH and Downard assigned their respective rights and claims against their legal malpractice insurer to the Liquidator. On May 1, 2025, the Liquidation Court held a hearing to determine the amount of damages that should be awarded on the Liquidator's

⁷ *Schmidt v. MPM-PPIA, et al.*, U.S. District Court for Kansas, Case No. 20-4047-JAR-ADM.

legal malpractice claim against HSDSH. On May 5, 2025, the Liquidation Court entered a judgment against HSDSH and in favor of the Liquidator in the amount of \$10,756,627. The Liquidator is considering various options for pursuing collection of the judgment from the legal malpractice carrier. A stipulation of dismissal of all defendants was filed by the parties in the federal district court action on April 10, 2025, resulting in the termination of the federal court action.

V. Update on Data Security Incident (Ransomware)

As reported in the Liquidator's Tenth Status Report, the PSIC servers were stored with an IT vendor in Union, Missouri (the "**Storage Vendor**"). The Storage Vendor reported that in March 2024, a criminal actor gained unauthorized access to the PSIC servers, encrypted the data, and was holding the data ransom. Because the Liquidator had a backup of the data stored to the servers, the Liquidator did not need to evaluate the ransomware demand. However, the Liquidator had to arrange for restoration and evaluation of the backup data through another IT vendor.

The Liquidator provided notice of the breach as set forth in detail in the Tenth Status Report. At this time, the Liquidator is finalizing the terms of a release and settlement agreement with the Storage Vendor. The Liquidator will then file a motion with the Liquidation Court for approval of the agreement and for the Liquidator to arrange for secure destruction of the servers, as they no longer serve any useful purpose and there is a backup of the data on the servers.

VI. Online Information Regarding the Liquidation Matter

As referenced above, the Liquidator maintains information on the Kansas Department of Insurance's ("**Department**") website to provide historical and ongoing information about the PSIC Liquidation for access by the public and claimants. Information includes links to court orders,

various notifications to policyholders since 2019, and filings by the Liquidator with the court. This information can be found at the Department's website at: <https://insurance.kansas.gov/legal-issues/#psic>. The Liquidator also maintains a dedicated email address for PSIC-related matters which is monitored daily: kdoi.psic@ks.gov.

VII. Accounting and Other Items

PSIC's Statement of Net Assets and Net Liabilities (Unaudited) as of March 31, 2025, is attached to this status report as Exhibit A. The Liquidator will continue to amend or supplement that asset list pursuant to K.S.A. 40-3628(a) or at the Court's request.

Respectfully submitted,

VICKI SCHMIDT, COMMISSIONER OF
INSURANCE, AS LIQUIDATOR

/s/ Kirsten A. Byrd

Kirsten A. Byrd
Husch Blackwell LLP
4801 Main Street, Suite 1000
Kansas City, Missouri 64112
(816) 983-8000 (Phone)
(816) 983-8080 (FAX)
kirsten.byrd@huschblackwell.com

KS #19602

Douglas J. Schmidt
Horn Aylward & Bandy, LLC.
2600 Grand Boulevard, Suite 1100
Kansas City, MO 64108
(816) 595-7729 (Phone)
dschmidt@hab-law.com

Pro hac vice

Philip R. Michael
Lead Regulatory Counsel
Kansas Department of Insurance
1300 SW Arrowhead Road
Topeka, KS 66604
(785) 296-7809
philip.michael@ks.gov

KS #26072

ATTORNEYS FOR THE LIQUIDATOR

CERTIFICATE OF SERVICE

The undersigned certifies a true and correct copy of the above and foregoing was filed on June 2, 2025 using the Court's electronic filing system which provided notice to all attorneys of record and by email to the following:

Shelley Forrest
Missouri Department of Insurance
Shelley.Forrest@insurance.mo.gov

Tamara Kopp
The Missouri Insurance Guaranty Association
tkopp@mo-iga.org

Chad Anderson
Kansas Insurance Guaranty Association
canderson@wgfs.org
tmock@fisherpatterson.com

/s/ Kirsten A. Byrd
Attorney for Petitioner

EXHIBIT A

Physicians Standard Insurance Company
Statement of Net Assets and Net Liabilities (Unaudited)
As of March 31, 2025

Notes:

Assets	3.31.2025	
Cash Assets - Checking/Savings	\$ 3,562,153	
Short and Long Term Investments	\$ 736,715	
Accounts Receivable-Downard	\$ 175,000	
Total Assets	\$ 4,473,868	
Liabilities		
Class 1 Administrative Claims		
Liquidator Administrative Expenses Accounts Payable	\$ 36,983	
MIGA Administrative Expenses Incurred	1,017,026	From D Report
MIGA anticipated future administrative expenses ¹	\$ 19,326	From MIGA Summary
Liquidator Anticipated Future Legal-Related Expenses ²	\$ 484,117	
Liquidator Anticipated Future Miscellaneous Expenses ³	\$ 144,947	
Total Class 1 Expenses	\$ 1,702,399	
Assets less Class 1 Administrative Expenses	\$ 2,771,469	
Class 2 Policyholder Claims		
MIGA Claims Paid through 3.31.25 ⁴	4,947,465	D Report
Reserve for MIGA Anticipated Future Claim Payments and defense costs	\$ 128,840	MIGA Summary
KIGA ⁵ Unearned Premium Refunded	\$ 2,310	
Class 2 Claims remaining with Liquidator ⁶	\$1,345,139	
Total Class 2 Claims	\$ 6,423,754	
Proofs of Claims Classes 3 to 9⁷	\$ 56,000	POC Report
Total Liabilities (All classes)	\$ 8,182,153	
Total Net Liabilities (Assets minus liabilities)	\$ (3,708,285)	

1. Estimates provided by staff of the Missouri Insurance Guaranty Association ("MIGA") to finalize PSIC MIGA-covered claims through 12/31/2027.

2. These include future anticipated fees for outside counsel for assistance with liquidation-related matters, including drafting and filing of status reports, assistance with POC objections, development of a distribution plan for allowed claims, and handling other matters necessary to finalizing the liquidation.

3. Includes anticipated administrative costs such as accounting, bank service fees, retrieval of server backup data, and storage of data transferred to the Guaranty Associations through 12/31/27.

4. Includes reimbursement of unearned premium of \$299,715, Claim payments of \$3,029,576 and Defense and Containment Expenses of \$1,618,175, as shown in the March 31, 2025, MIGA D Report.

5. Kansas Insurance Guaranty Association

6. Pending denials for 27 POCs totaling \$975,431 became final between 4.1.25 and 5.31.25, as no timely objections to those denials were received. The amount remaining as of the filing of this report is \$369,708. This includes 3 claims which will be allowed by the Liquidator (totaling \$52,438.00), an objection to a denied claim (totaling \$17,270), and one claim relating to litigation being handled by MIGA (\$300,000).

7. Includes three claims, consisting of two general creditor claims and one shareholder claim.