

Karima M. Woods, Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **ProAssurance American Mutual, A Risk Retention Group**, as of
December 31, 2019

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **ProAssurance American Mutual, A Risk Retention Group** (the “Company”), as of December 31, 2019 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The Department reported on the financial condition of the Company in the attached Report on Examination (“Financial Condition Examination Report”).

In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 23rd day of March 2021, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

Pursuant to D.C. Official Code § 31-1404(d)(1), this Order is considered a final administrative decision, and may be appealed.

Pursuant to D.C. Official Code § 31-1404(d)(1), the Company shall, within 30 days of the issuance of the adopted Financial Condition Examination Report, file affidavits executed by each of the Directors of the Company wherein each of the Directors shall state under oath that they have received a copy of the adopted Financial Condition Examination Report and this order.

Pursuant to D.C. Official Code § 31-1404(e)(1), the Department will continue to hold the content of the above-referenced report as private and confidential information for a period of 10 days from the date of this Order.



Dana Sheppard

Dana Sheppard
Associate Commissioner
Risk Finance Bureau

Government of the District of Columbia

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

PROASSURANCE AMERICAN MUTUAL, A
RISK RETENTION GROUP

AS OF

DECEMBER 31, 2019

NAIC NUMBER 15647

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Washington, D.C.
February 19, 2021

Honorable Karima M. Woods
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, D.C. 20002

Dear Commissioner Woods:

In accordance with Section 31-3931.14 of the District of Columbia Official Code (“Code”), and with Chapter 14 of Title 31 of the Code, we have examined the financial condition and activities of

ProAssurance American Mutual, A Risk Retention Group

hereinafter referred to as the “Company” or “ProAssurance RRG”.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2015 through December 31, 2019, including any material transactions and/or events noted occurring subsequent to December 31, 2019, was conducted by the District of Columbia Department of Insurance, Securities and Banking (the “Department”).

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and the policies and standards established by the Department. 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, pursuant to Section 31-1404(a) of the District of Columbia Official Code 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 are separately communicated to other regulators and/or the company.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2016 through 2019. For the year 2015, the Company received an exemption from the Department for an annual audit due to the short period of operations and a low volume of written premiums. We placed substantial reliance on the audited financial statements for calendar years 2016 through 2018, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2019. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2019. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

SUMMARY OF SIGNIFICANT FINDINGS

The results of this examination disclosed no material adverse findings, significant findings of non-compliance, or material changes in financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first financial examination of the Company.

HISTORY

General:

ProAssurance RRG was incorporated on January 1, 2015 as an association captive insurance company, operating as a risk retention group, under the captive insurance laws of the District of Columbia. The Company commenced business on November 1, 2015.

The Company was sponsored by ProAssurance Indemnity Company, Inc. ("ProAssurance Indemnity"), an Alabama domiciled insurance company, to provide medical professional liability insurance to physicians, dentists, podiatrists, allied healthcare professionals, hospitals, healthcare systems and other healthcare facilities in the State of New York and potentially other states.

ProAssurance Indemnity acts as the Company's program manager, captive manager, and reinsurer, managing the Company's daily operations. Both the Company and ProAssurance Indemnity are members of the ProAssurance holding company group. ProAssurance Corporation, a publicly traded Delaware holding corporation, is the ultimate controlling entity of the ProAssurance holding company group. See detailed information regarding the ProAssurance holding company group in the "Affiliated Parties and Transactions" section of this report.

Membership:

As a risk retention group, the Company is owned by its member insureds, consisting of physicians, dentists, podiatrists, hospitals and other healthcare facilities and allied healthcare professionals. As a mutual insurer, ProAssurance RRG does not issue stock or other certificates of ownership. Each insured is automatically a member and owner of ProAssurance RRG.

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's directors serving as of December 31, 2019 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Michael L. Boguski Alabama	President, Specialty P&C ProAssurance Corporation
John L. Ajello Virginia	VP Underwriting, VP Business Development & Marketing Medmarc Insurance Group
Kevin M. Shook* Pennsylvania	President, Workers Compensation Insurance ProAssurance Corporation

*Kevin M. Shook resigned as a director of ProAssurance RRG in June 2020 and was replaced by Mary Todd Peterson.

The following persons were serving as the ProAssurance RRG's officers as of December 31, 2019:

<u>Name</u>	<u>Position</u>
Michael L. Boguski	President
Dana S. Hendricks	Treasurer
Kathryn A. Neville	Secretary

Committees:

As of December 31, 2019, the Company's board of directors had established the following committees:

Executive Committee

Michael L. Boguski
Kevin M. Shook

Investment Committee

Michael L. Boguski
Kevin M. Shook
John L. Ajello

Audit Committee

The audit committee of the Company's ultimate controlling parent, ProAssurance Corporation, serves as the Company's audit committee.

Conflicts of Interest:

The Company has an established procedure for the disclosure of any material interests or affiliations on the part of its directors and officers. Our review of the conflict of interest statements signed by the Company's directors and officers for the period under examination disclosed no conflicts that would adversely affect the Company. Furthermore, no additional conflicts of interest were identified during our examination.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and members for the period under examination. Based on our review, it appears that the minutes have documented the review and approval of the Company's significant transactions and events.

Captive Manager:

ProAssurance Indemnity acts as the Company's captive manager since inception, providing regulatory services to the Company.

Affiliated Parties and Transactions:

As previously indicated in the "History" section of this report, the Company and its sponsor, ProAssurance Indemnity, are members of the ProAssurance holding company group. The ultimate controlling entity of the holding company group is ProAssurance Corporation. However, neither ProAssurance Indemnity nor ProAssurance Corporation have ownership interest in the Company. The Company is affiliated with the ProAssurance holding company group by common management and control.

During the period under examination, ProAssurance Indemnity has been managing the Company's daily business operations under a management agreement and a program management

agreement, collectively referred to as the “Agreements”. In addition, ProAssurance Indemnity contributed to the Company’s initial capitalization with a \$10 million surplus note, pursuant to a subordinated surplus note agreement (“Surplus Note”). Under the Company’s bylaws and the terms of Surplus Note, until the Surplus Note is paid in full, with interest, ProAssurance Indemnity has the following rights relating to control of the Company: (i) ProAssurance Indemnity has the right to appoint no less than one third (1/3) of all members to the Company’s board; and (ii) The Company’s CEO and the third party administrator providing services to the Company may not be dismissed without ProAssurance Indemnity’s consent.

During the period under examination and up to the date of this Report, the Company has the following transactions with ProAssurance Indemnity and other affiliates:

ProAssurance Indemnity provided the initial capitalization of the Company with a \$10,000,000 surplus note dated January 8, 2015 which matures on January 8, 2040. The surplus note interest rate is 6.25% per annum and no interest or principal shall be paid without prior approval of the Department. No interest payments have been accrued or made since inception. Unrecorded interest of \$3,170,139 has been accumulated since inception and in accordance with the terms of the Surplus Note agreement, the Company reported the unrecorded interest as deferred interest in Note 13 of the Notes to the Financial Statements in the 2019 Annual Statement.

Through the Agreements with ProAssurance Indemnity, effective January 1, 2015, the Company’s daily operations, including financial and accounting services, information technology, underwriting, marketing, claims handling, risk management functions, administrative, managerial, organizational, and regulatory services, are managed by ProAssurance Indemnity. As of December 31, 2019, compensation for the services provided is \$800,000 annually for general and other acquisition expenses, \$650,000 annually for claims administration expenses, and two percent (2%) annually of gross written premium for captive management expenses, payable on a quarterly basis.

In addition, the Company is a party to a reinsurance agreement with ProAssurance Indemnity. See further details regarding this agreement in the “Reinsurance” section of this Report.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed in the District of Columbia, and was registered as a risk retention group in the following states: Arkansas, California, Connecticut, Florida, Illinois, Louisiana, Massachusetts, New Jersey, New York, Oklahoma, Pennsylvania, Rhode Island and Texas. During 2019, the Company wrote premiums of approximately \$8.5 million, all in Connecticut, Florida, and New York.

The Company offers medical professional liability insurance on both a claims made and occurrence basis to dentists, podiatrists, allied healthcare professionals, hospitals, healthcare systems and other healthcare facilities, with limits of \$1 million per occurrence and \$3 million in the aggregate. Higher limits up to \$5 million per occurrence and \$7 million in the aggregate are also offered. The Company also offers cyber liability coverage, with limits up to \$100,000 per occurrence and \$500,000 in the aggregate, as well as general liability coverage with a limit of \$1

million per occurrence and \$3 million in the aggregate. All coverages are reinsured through a quota-share reinsurance agreement with ProAssurance Indemnity.

The Company has no employees and its daily business operations are managed by ProAssurance Indemnity in Birmingham, Alabama.

REINSURANCE

Assumed:

The Company did not assume any business during the examination period.

Ceded:

For the period under the examination, the Company was a party to a quota-share reinsurance agreement with ProAssurance Indemnity. Under the terms of the agreement, the Company ceded to ProAssurance Indemnity ninety-five percent (95%) of premiums and losses for policies with coverage limits up to \$1 million per claim. In addition, under the terms of the agreement, the Company ceded to ProAssurance Indemnity one hundred percent (100%) of premiums and losses for policies with coverage limits in excess of \$1 million per claim, unearned premium reserves for extended reporting coverage for death, disability or retirement (“DDR”), and cyber liability coverages. The Company received a ceding commission of thirty-five percent (35%) of the premiums ceded. The agreement is automatically renewed annually until terminated by either party by written notice to the other party given at least 12 months prior to the expiration date.

During 2019, the Company ceded premiums of approximately \$8,173,000 under this agreement. As of December 31, 2019, the Company reported amounts recoverable from reinsurers of approximately \$294,000, representing amounts recoverable on paid losses. In addition, the Company reported ceded loss reserves of approximately \$20,050,000 and ceded unearned premiums of approximately \$4,331,000. If the reinsurer was unable to meet its obligations under the agreement, the Company would be liable for any defaulted amounts.

FINANCIAL STATEMENTS

The following financial statements are based on the Annual Statement filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The financial statements were prepared in accordance with Statutory Accounting Principles (“SAP”) prescribed or permitted by the Department. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

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BALANCE SHEET

ASSETS

	<i>December 31, 2019</i>
Bonds	\$ 9,028,320
Stocks	-
Cash and cash equivalents	<u>3,918,566</u>
Subtotal cash and invested assets	\$ 12,946,886
Investment income due and accrued	3,704
Uncollected premiums and agent's balances in the course of collection	600,474
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,135,224
Amounts recoverable from reinsurers	293,736
Current federal and foreign income tax recoverable and interest thereon	5,980
Net deferred tax asset	38,773
Total	<u><u>\$ 15,024,777</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2019</i>
Losses (NOTE 1)	\$ 634,774
Loss adjustment expenses (NOTE 1)	277,941
Commissions payable, contingent commissions and similar charges	164,575
Other expenses	23,196
Taxes, licenses and fees (excluding federal and foreign income taxes)	26,850
Unearned premiums after deducting \$4,331,153 for ceded reinsurance	154,738
Advance premium	370,837
Ceded reinsurance premiums payable	1,032,223
Payable to parent, subsidiaries and affiliates	<u>247,925</u>
Total liabilities	<u>\$ 2,933,059</u>
Surplus notes	\$ 10,000,000
Surplus (unassigned funds)	<u>2,091,718</u>
Total surplus	<u>\$ 12,091,718</u>
Total liabilities and surplus	<u>\$ 15,024,777</u>

STATEMENT OF INCOME

	<i>December 31, 2019</i>
UNDERWRITING INCOME	
Premiums earned	\$ 354,126
DEDUCTIONS	
Losses incurred	383,221
Loss adjustment expenses incurred	234,843
Other underwriting expenses incurred	(881,245)
Total underwriting deductions	\$ (263,181)
Net underwriting gain	\$ 617,307
INVESTMENT INCOME	
Net investment income earned	\$ 257,259
OTHER INCOME	
Net loss from agents' or premium balances charged off	(9,305)
Net Income before dividends and taxes	\$ 865,261
Federal taxes	205,578
Net income	<u>\$ 659,683</u>

CAPITAL AND SURPLUS ACCOUNT

Initial capital	\$ 10,000,000
Net income, 2015	51,742
Change in net deferred income tax	1,075
Change in nonadmitted assets	(646)
Net change in surplus, 2015	<u>10,052,171</u>
 Total capital and surplus, December 31, 2015	 <u>\$ 10,052,171</u>
 Net income, 2016	 166,998
Change in net deferred income tax	2,461
Change in nonadmitted assets	(254)
Net change in surplus, 2016	<u>169,205</u>
 Total capital and surplus, December 31, 2016	 <u>10,221,376</u>
 Net income, 2017	 428,500
Change in net unrealized capital losses	(105,137)
Change in net deferred income tax	3,340
Change in nonadmitted assets	(2,725)
Net change in surplus, 2017	<u>323,978</u>
 Total capital and surplus, December 31, 2017	 <u>10,545,354</u>
 Net income, 2018	 761,555
Change in net unrealized capital losses	(59,360)
Change in deferred income tax	14,244
Change in nonadmitted assets	(31,223)
Net change in surplus, 2018	<u>685,216</u>
 Total capital and surplus, December 31, 2018	 <u>11,230,570</u>
 Net income, 2019	 659,683
Change in net unrealized capital gains less capital gains tax of \$13,436	215,044
Change in net deferred income tax	33,254
Change in nonadmitted assets	(46,833)
Net change in surplus, 2019	<u>861,148</u>
 Total capital and surplus, December 31, 2019	 <u>\$ 12,091,718</u>

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of our examination.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Loss and Loss Adjustment Expense Reserves:

The Company reported "Losses" and "Loss adjustment expenses" reserves net of reinsurance totaling \$634,774 and \$277,941, respectively. These reserves represent management's best estimate of the net amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2019.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2019 were reviewed as part of our examination. As part of our review, we relied on the Company's actuary, who concluded that the reserves on the Company's books appeared to be sufficient. In addition, as part of our review, the Department utilized an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's actuary. The examination actuary concluded that the methodologies and assumptions utilized by the Company's independent actuary to compute the reserves, and the amount of the loss reserves reported by the Company as of December 31, 2019, were reasonable and adequate.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy and on the health care system. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown have also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still not fully known as of the date of this report. The Department is monitoring the COVID-19 outbreak for impacts to insurers (including risk retention groups), and to insurance products. Potential impacts to insurers include coverage disputes, reduced liquidity, delayed collection of receivables, increased claims, and impacts to other areas of operations. The Department and all insurance regulators, with the assistance of the National Association of Insurance Commissioners (NAIC), are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Department has been in communication with the Company regarding the impacts of COVID-19 on its business operations and financial position. During the examination no significant concerns or findings related to COVID-19 were noted and as of the date of this report, management has reported no significant impacts from COVID-19.

We noted no other significant subsequent events as of the date of this report.

SUMMARY OF RECOMMENDATIONS

During the examination, no issues warranting recommendations in this examination report were noted.

SIGNATURES

In addition to the undersigned, Robin Roberts, CFE and Michael Nadeau, CFE, CISA, both from Eide Bailly LLP, both representing the Department, and Rebecca Davis, PIR, from the Department, participated in this examination as members of the examination team.

The actuarial portion of this examination was completed by David Christhlf, ACAS, MAAA, of the Department.

Respectfully submitted,



James Menck, CFE
Examiner-In-Charge
Eide Bailly LLP

Under the Supervision of,



Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance,
Securities and Banking



Karima M. Woods, Commissioner

Via E-mail

March 9, 2021

Michael Leonard Boguski, President and Chairman
ProAssurance American Mutual, A Risk Retention Group
100 Brookwood Place
Birmingham, AL 35209

RE: Examination of ProAssurance American Mutual, A Risk Retention Group, as of
December 31, 2019

Dear Mr. Boguski:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination (“Report”) of the affairs and financial condition of ProAssurance American Mutual, A Risk Retention Group (the “Company”), as of December 31, 2019.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report contains a section entitled “Summary of Recommendations” that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company’s position on any of these points is contrary to the Examiner’s findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there is no “Summary of Recommendations” requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by April 8, 2021. The signed response should be on the Company’s letterhead and sent electronically via e-mail to me, in an adobe “pdf” format, to sean.odonnell@dc.gov.

Sincerely,

A handwritten signature in blue ink that reads "Sean O'Donnell".

Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau



March 17, 2021

Mr. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
1050 First Street NE, Suite 801
Washington, DC 20002

RE: Examination of ProAssurance American Mutual, A Risk Retention Group,
as of December 31, 2019

Dear Mr. O'Donnell:

Thank you for your letter of March 9, 2021 regarding the above noted examination report.

Please let this letter serve as notice that the Company does not have any errors or omissions to bring to your attention and the Company accepts the Report.

Thank you for your oversight and professionalism during this examination. We appreciate the Department's efforts on this exam.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael L. Boguski".

Michael L. Boguski
President

Karima M. Woods, Commissioner

Via E-mail

March 22, 2021

Michael L. Boguski, President and Chairman
ProAssurance American Mutual, A Risk Retention Group
100 Brookwood Place
Birmingham, AL 35209

RE: Examination of ProAssurance American Mutual, A Risk Retention Group, as of
December 31, 2019

Dear Mr. Boguski:

We are in receipt of your response, dated March 17, 2021, regarding the Report on Examination of ProAssurance American Mutual, A Risk Retention Group, (the “Company”), as of December 31, 2019. The response is deemed adequate.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the District of Columbia Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10-day period has passed, the Report will be publicly available.

Pursuant to Section 31-1404(d)(1) of the District of Columbia Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each of the Company’s directors stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,



Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau