

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

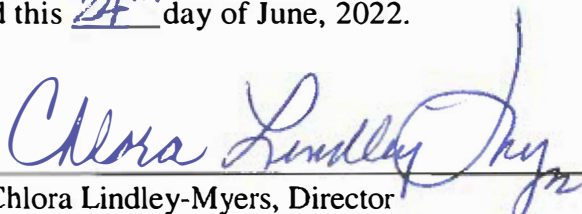
ORDER

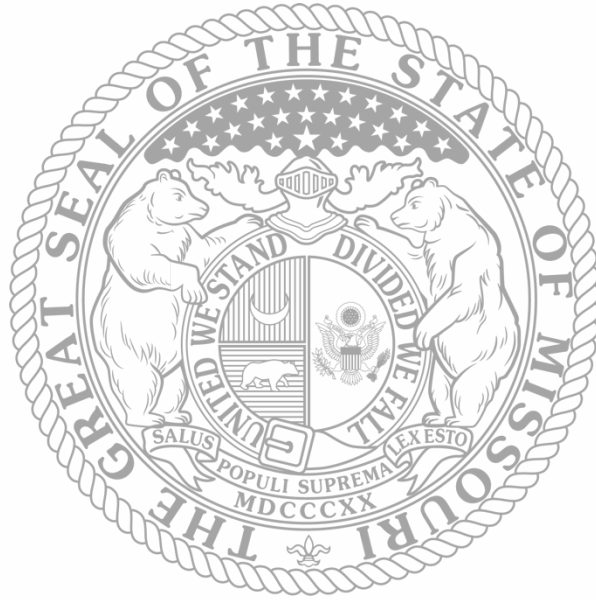
After full consideration and review of the report of the financial examination of Preferred Physicians Medical Risk Retention Group, a Mutual Insurance Company for the period ended December 31, 2020, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Preferred Physicians Medical Risk Retention Group, a Mutual Insurance Company as of December 31, 2020 be and is hereby ADOPTED as filed and for Preferred Physicians Medical Risk Retention Group, a Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 24th day of June, 2022.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

PREFERRED PHYSICIANS MEDICAL RISK RETENTION GROUP, A MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2020

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Kansas City, MO
June 1, 2022

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

**Preferred Physicians Medical Risk Retention Group, a Mutual Insurance Company
(NAIC #44083)**

hereinafter referred to as such, as PPM RRG, or as the Company. Its administrative office is located at 11880 College Boulevard, Suite 300, Overland Park, Kansas, 66210, telephone number 913-262-2585. The fieldwork for this examination began on August 15, 2021, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a multiple-state financial examination of Preferred Physicians Medical Risk Retention Group, a Mutual Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2011 through December 31, 2015. The current examination covers the period of January 1, 2016 through December 31, 2020, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. 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 the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to PPM RRG included investments, claims and reserving, premiums and underwriting, reinsurance, and related

parties. The examination also included a review and evaluation of information technology general controls.

This examination was conducted concurrently with the examinations of the four other insurance companies within the NORCAL Group. California acted as the lead state and examination facilitator for the NORCAL Group examination, with regulators from Texas and Florida acting as participating states.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company 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.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance findings, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

Preferred Physicians Mutual Risk Retention Group, Inc. was incorporated on June 17, 1987, and commenced business on June 22, 1987, as a mutual property and casualty insurance company under the laws of Chapter 379 Revised Statutes of Missouri (RSMo). Pursuant to a Plan of Conversion and Reorganization, the Company was converted from a mutual company to a stock company effective March 14, 1996. The Company changed its name to Preferred Physicians Medical Risk Retention Group, Inc. on the same date. Simultaneously, the Company issued 5,000 shares of common stock, which were acquired by PPM Insurance Services, Inc. (PPMIS), a holding company. Ownership of PPMIS was distributed on a pro-rata basis per policy to PPM RRG's policyholders of record on March 14, 1996. Effective January 1, 2017, NORCAL Mutual Insurance Company (NORCAL) acquired control of PPM RRG through its acquisition of PPMIS. At this time, PPM RRG converted back to a mutual insurance company with ownership of PPM RRG reverting to its members/policyholders, and PPM RRG's name was changed to Preferred Physicians Medical Risk Retention Group, a Mutual Insurance Company. Subsequent to the examination period, effective May 5, 2021, ProAssurance Corporation (ProAssurance) acquired control of PPM RRG through its acquisition of NORCAL.

Mergers, Acquisitions, and Major Corporate Events

As noted in the General subsection above, effective January 1, 2017, NORCAL acquired control of PPM RRG through its acquisition of PPMIS.

A summary of the ProAssurance acquisition of NORCAL and change in control subsequent to the examination period is provided in the Subsequent Events section of this report.

Dividends and Capital Contributions

In 2016, PPM RRG paid an ordinary dividend to PPMIS in the amount of \$3,000,000. In 2017, in connection with NORCAL's acquisition of PPMIS, PPM RRG paid an extraordinary dividend to PPMIS in the amount of \$131,325,616.

The Company did not receive any capital contributions during the examination period.

Surplus Notes

The Company issued a \$5,000,000 surplus note to NORCAL on January 1, 2017. The note bears 2% annual interest and matures on January 1, 2037. As of December 31, 2020, the carrying value of the note was \$5,000,000.

MANAGEMENT AND CONTROL**Board of Directors**

The management of the Company is vested in a Board of Directors that is elected by the Members. The Company's Bylaws specify that there shall be no less than nine and no more than thirteen members of the Board of Directors. The Board of Directors elected and serving as of December 31, 2020, was as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Sandra L. Beretta, MD San Mateo, CA	Obstetrician and Gynecologist Mills-Peninsula Health Services-Burlingame
Fabiola Cobarrubias, MD, MBA San Francisco, CA	Hospitalist California Pacific Medical Center
Stephen K. Cyrus, MBA Virginia Beach, VA	Administrator Atlantic Anesthesia, Inc.
T. Scott Diener, MSIM, CPCU San Francisco, CA	President and Chief Executive Officer NORCAL Group
Robert P. Edwards, MD Salt Lake City, UT	Anesthesiologist Mountain West Anesthesia
Derick T. George, MD, MBA Port Jefferson, NY	Anesthesiologist Mather – St. Charles Health Alliance
Ian J. Kallmeyer, MD Phoenix, AZ	Anesthesiologist Banner – University Medical Center Phoenix
Rebecca J. Patchin, MD Riverside, CA	Retired Anesthesiologist Loma Linda University Medical Center
Harry B. Richardson, Jr., MD Santa Rosa, CA	Retired Hematologist and Oncologist Hematology/Medical Oncology in Sonoma County
Steven R. Sanford, JD Topeka, KS	Retired President and Chief Executive Officer PPM RRG
William R. Vetter, MD Jackson, CA	Cardiologist Sutter Medical Group

Subsequent to the examination period and in connection with the May 5, 2021 acquisition of NORCAL by ProAssurance, the following board changes occurred:

On May 5, 2021, Fabiola Cobarrubias, MD, and Theodore S. Diener resigned from the board, and on June 24, 2021, Sandra L. Beretta, MD, and Rebecca J. Patchin, MD, resigned from the board.

On June 24, 2021 the following new directors joined the board: Michael L. Boguski, President, ProAssurance Specialty P&C Operating Division; Dana S. Hendricks, Executive Vice President, Chief Financial Officer, and Treasurer, ProAssurance; Jeffrey P. Lisenby, Executive Vice President and General Counsel, ProAssurance; and Robert D. Francis, Executive Vice President, Underwriting and Operations, for the Healthcare Professional Liability operation with the ProAssurance Specialty P&C Operating Division.

Senior Officers

The officers elected and serving, as of December 31, 2020, were as follows:

<u>Name</u>	<u>Office</u>
Robert P. Edwards, MD	Chairman of the Board of Directors
Wade D. Willard	President and Chief Operating Officer
Deanna R. Olson	Treasurer, Secretary, Vice President Finance
Brian J. Thomas	Vice President, Risk Management
John M. Morhiser	Vice President, Underwriting
Stephen J. Stark	Vice President, Business Development
Nancy E. Kuhn	Assistant Secretary

Principal Committees

Pursuant to the Bylaws, the Board of Directors may appoint such committees as may be deemed advisable or necessary. As of December 31, 2020, the committees were as follows:

Audit, Actuarial, and Compensation

Stephen K. Cyrus, Chair
Robert P. Edwards, MD
Derick T. George, MD, MBA
Harry B. Richardson, Jr., MD

Governance

Sandra L. Beretta, MD, Chair
Robert P. Edwards MD
Rebecca J. Patchin, MD
William R. Vetter, MD

Effective June 24, 2021, Michael L. Boguski and Robert D. Francis replaced Sandra L. Beretta, MD, and Rebecca J. Patchin, MD, on the Governance Committee.

Corporate Records

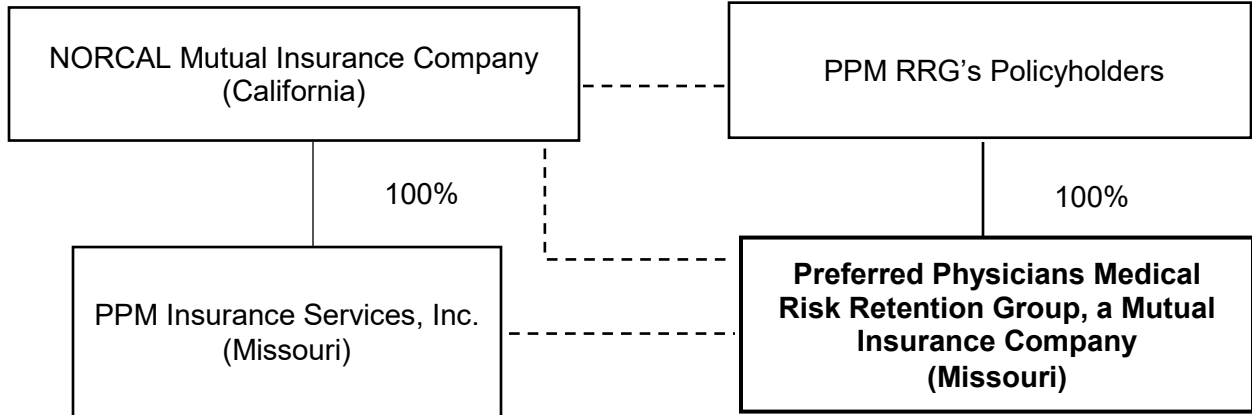
The Company's Articles of Incorporation and Bylaws were reviewed. The Articles of Incorporation and Bylaws were amended on January 1, 2017, to change PPM RRG from a stock company to a mutual company, and to change the maximum number of Board of Directors' members from fifteen to thirteen. The Bylaws were amended again on November 26, 2018, to change the date of the annual Members' meeting. The minutes of the Members, Board of Directors, and Committees of the Board were also reviewed for the period under examination.

Holding Company, Subsidiaries, and Affiliates

PPM RRG is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). Prior to January 1, 2017, the Company was directly owned by PPMIS. As of January 1, 2017, PPMIS was acquired by NORCAL, PPM RRG reverted to a mutual insurer owned by its policyholders and managed by PPMIS. The acquisition resulted in NORCAL becoming the ultimate controlling entity of PPM RRG. Changes to the Holding Company System subsequent to the examination period related to the ProAssurance acquisition of NORCAL are discussed in the Subsequent Events section of this report.

Organizational Chart

The following abbreviated organizational chart depicts the applicable portion of the holding company group as of December 31, 2020:



Affiliation between PPM Insurance Services, Inc. and PPM RRG is through a management services agreement. Affiliation between NORCAL Mutual Insurance Company and PPM RRG is by way of a surplus note, reinsurance agreement, and a policyholder/members' voting agreement.

NORCAL's affiliates in the states of California, Texas, Delaware, and Florida are not depicted in the organizational chart. NORCAL and its affiliates are collectively referred to as the NORCAL Group.

Intercompany Transactions

Following the acquisition by NORCAL, effective January 1, 2017, PPM RRG and PPMIS entered into a Management Services Agreement under which PPMIS agreed to perform various management services for PPM RRG. Services provided under the agreement included accounting, tax and auditing, underwriting, claims, investing, and other functional support services.

PPM RRG is also party to an Intercompany Affiliate Service Agreement and a Consolidated Income Tax Agreement with NORCAL and other NORCAL affiliates. Under the service agreement, the parties desire to cooperate in the performance of administrative and special services and agree to share use of day-to-day operations of property, equipment, and facilities. Under the tax agreement, NORCAL and its affiliates agree to file a consolidated tax return.

The Company is also party to reinsurance agreements with affiliates that are described in the Reinsurance section of this report.

TERRITORY AND PLAN OF OPERATION

PPM RRG is licensed under Chapter 379 RSMo to write the business of property and casualty insurance in the state of Missouri, and is registered and authorized in the remaining 49 states and the District of Columbia. The Company writes one line of business, medical professional liability coverage for anesthesia practices. Marketing is through direct mail, in-house sales force, and outside agencies.

The Company's policies are issued primarily on a claims-made basis. Policyholders can also purchase an extended reporting endorsement, which provides coverage on an occurrence basis. As of December 31, 2020, approximately 94.8% of direct premiums written were on a claims-made basis, with the remaining 5.2% being on an occurrence basis.

GROWTH OF COMPANY AND LOSS EXPERIENCE

Effective January 1, 2017, PPM RRG entered into both a loss portfolio transfer agreement (LPT) and a 100% quota share agreement with NORCAL. Under the LPT, PPM RRG ceded to NORCAL 100% of its existing reserves (excluding unallocated loss adjustment expenses) as of December 31, 2016. Under the quota share agreement, PPM RRG cedes to NORCAL 100% of premiums and associated liabilities for new and renewal business written on or after January 1, 2017. As a result of these agreements, PPM RRG reported negative net premiums written in 2017, and did not report any net premiums written or earned, or net losses incurred for 2018 through 2020.

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2016	2017	2018	2019	2020
Direct Premiums Written	\$ 36,489	\$ 35,786	\$ 35,170	\$ 34,222	\$ 33,258
Reinsurance Ceded:					
Affiliates	-	109,503	35,045	34,222	33,258
Non-Affiliates	9,676	108	125	-	-
Net Premiums Written	\$ 26,813	\$ (73,825)	\$ -	\$ -	\$ -

Assumed Reinsurance

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

Ceded Reinsurance

In 2016, the Company was party to an excess of loss reinsurance agreement with the following participating reinsurers: Ace Property & Casualty Insurance Company, Axis Reinsurance Company, Berkley Insurance Company, Hannover Ruckversicherung-Aktiengesellschaft, and Transatlantic Reinsurance Company. Under the agreement, the reinsurers participated in losses in excess of the Company's retention of \$300,000 per claim up to a loss limit of \$1.0 million per claim exclusive of extra contractual obligations and/or excess limits liability. Total reinsurer liability was limited to \$3.7 million each insured, each claim, under this coverage. The agreement also provided coverage for policies with limits greater than \$1 million each insured, each claim, issued to insureds domiciled in the states of New York and Virginia. The reinsurers agreed to indemnify the Company for losses in excess of \$1.0 million each insured, each claim, limited to 90% of \$1.3 million for New York policies and 90% of \$1.25 million for Virginia policies.

From January 1, 2016 through December 31, 2019, General Reinsurance Corporation provided coverage for policies with limits in excess of \$1.0 million on a per-risk basis under a facultative reinsurance agreement. This agreement was discontinued effective January 1, 2020, as NORCAL reinsures all excess policy amounts.

As noted under the Growth of Company and Loss Experience section above, effective January 1, 2017, PPM RRG entered into an LPT agreement and a quota share agreement with NORCAL.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, KPMG LLP, of Philadelphia, Pennsylvania, performed the statutory audit of the Company for the years 2017 through 2020. RSM US LLP, of Springfield, Illinois, performed the statutory audit of the Company for 2016. Reliance was placed upon the CPA workpapers as deemed appropriate. Such reliance included, but was not limited to, identification of key processes and controls and substantive testing procedures.

Actuarial Opinion

The Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Christopher Walker, FCAS, MAAA, for all years in the examination period. Mr. Walker was employed by PricewaterhouseCoopers LLP in Chicago, Illinois.

Consulting Actuary

Pursuant to a contract with the Department, Daniel W. Lupton, FCAS, MAAA, of Taylor & Mulder, Inc., reviewed the underlying actuarial assumptions and methodologies used by PPM RRG to determine the adequacy of loss reserves and LAE reserves. Mr. Lupton determined that the Company made a reasonable provision for the loss and LAE reserves that were reported in the statutory financial statements, as of December 31, 2020.

Information Systems

In conjunction with this examination, Kimberly Dobbs, CFE, AES, CISA, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Preferred Physicians Medical Risk Retention Group, a Mutual Insurance Company for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 10,985,620	\$ -	\$ 10,985,620
Cash, Cash Equivalents, and Short- Term Investments	4,005,734	-	4,005,734
Investment Income Due and Accrued	8,003	-	8,003
Reinsurance:			
Amounts Recoverable from Reinsurers	26,988	-	26,988
Net Deferred Tax Asset	200,670	-	200,670
Aggregate Write-Ins for Other-Than- Invested Assets	14,985	14,985	-
TOTAL ASSETS	\$ 15,242,000	\$ 14,985	\$ 15,227,015

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Loss Adjustment Expenses	\$ 2,614,980
Other Expenses	1,965,391
Taxes, Licenses, and Fees	313,947
Advance Premiums	2,584,331
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	2,351,402
Amounts Withheld or Retained by Company for Account of Others	396,964
TOTAL LIABILITIES	\$ 10,227,015
Surplus Notes	5,000,000
TOTAL CAPITAL AND SURPLUS	\$ 5,000,000
TOTAL LIABILITIES AND SURPLUS	\$ 15,227,015

STATEMENT OF INCOME
For the Year Ended December 31, 2020

Premiums Earned	\$	-
DEDUCTIONS:		
Loss Adjustment Expenses Incurred		1,139,159
Other Underwriting Expenses Incurred		(992,070)
Total Underwriting Deductions	\$	147,089
Net Underwriting Gain (Loss)	\$	(147,089)
Net Investment Income Earned		143,293
Net Realized Capital Gains		2,999
Net Investment Gain (Loss)	\$	146,292
Federal and Foreign Income Taxes Incurred		1,038
NET INCOME (LOSS)	\$	(1,835)

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2016 to December 31, 2020

(\$000s omitted)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and Surplus,					
Beginning of Year	\$ 123,727	\$ 130,985	\$ 5,000	\$ 5,000	\$ 5,000
Net Income (Loss)	9,746	2,141	(188)	2	(2)
Change in Net Unrealized Capital Gains (Losses)					
Less Capital Gains Tax	455	-	-	-	-
Change in Net Deferred Income Tax	223	(2,600)	188	(2)	2
Change in Nonadmitted Assets	(167)	800	-	-	-
Change in Surplus Notes	-	5,000	-	-	-
Capital Changes:	-	-	-	-	-
Paid In	-	(800)	-	-	-
Surplus Adjustments:	-	-	-	-	-
Paid In	-	(13,095)	-	-	-
Dividends to Stockholders	(3,000)	(117,431)	-	-	-
Net Change in Capital and Surplus	\$ 7,258	\$ (125,985)	\$ -	\$ -	\$ -
Capital and Surplus, End of Year	\$ 130,985	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

On February 20, 2020, the NORCAL Group announced the signing of a definitive agreement under which all the companies of the NORCAL Group would become a part of ProAssurance, a Delaware corporation, following the demutualization of NORCAL Mutual Insurance Company into NORCAL Insurance Company. The acquisition was completed on May 5, 2021, with ProAssurance purchasing over 98% of NORCAL's stock.

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Sara McNeely, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance