

Report on the Examination

As of December 31, 2015

of

**Medmarc Insurance Group
(Medmarc Casualty Insurance Company
and Noetic Specialty Insurance Company)**

by the

Vermont Department of Financial Regulation

Division of Insurance





State of Vermont
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

For consumer assistance:
[Banking] 888-568-4547
[Insurance] 800-964-1784
[Securities] 877-550-3907
www.dfr.vermont.gov

Edward L. Rand, Jr.
President
Medmarc Insurance Group

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of Medmarc Insurance Group for the year ending December 31, 2015 is adopted.

Medmarc Insurance Group may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.

A handwritten signature in blue ink, appearing to read "M. Pieciak", written over a horizontal line.

Michael S. Pieciak, Commissioner

5/11/17

Date



Banking
802-828-3307

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Captive Insurance
802-828-3304

Securities
802-828-3420

MEDMARC INSURANCE GROUP
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April 13, 2017

Michael S. Pieciak, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Pieciak:

Pursuant to the January 14, 2016 examination order, the Insurance Division's financial examination team has conducted an examination of:

Medmarc Insurance Group
(Medmarc Casualty Insurance Company and Noetic Specialty Insurance Company)
with their offices located at
14280 Park Meadow Drive, Suite 300
Chantilly, VA 20151-2219

The examination was performed pursuant to 8 V.S.A. §3563 in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



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MEDMARC INSURANCE GROUP
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SCOPE OF EXAMINATION

As of December 31, 2015, the financial examination of Medmarc Casualty Insurance Company (MCIC) and Noetic Specialty Insurance Company (NSIC), also known as Medmarc Insurance Group (MIG) was performed. The examination was coordinated with the Alabama Department of Insurance with their concurrent examination of the ProAssurance Group (PRA). One of the goals of a coordinated examination is to gain efficiencies and prevent duplication. The MIG examination was conducted on a stand-alone-basis except for the investment key activity in which the Department relied upon the procedures performed by the Alabama Department of Insurance. As of December 31, 2015, PRA consisted of eleven insurance entities as follows, the following seven entities participated in the examination:

- ProAssurance Indemnity Company, Inc. (NAIC #33391) *Alabama*
- ProAssurance Specialty Insurance Company, Inc. (NAIC #10179) *Alabama*
- ProAssurance Casualty Company (NAIC #38954) *Michigan*
- Medmarc Casualty Insurance Company (NAIC #22241) *Vermont*
- Noetic Specialty Insurance Company (NAIC #17400) *Vermont*
- Podiatry Insurance Company of America (NAIC #14460) *Illinois*
- PACO Assurance Company (NAIC #10222) *Illinois*

MIG's last financial condition examination was as of December 31, 2012 for the previous three-year period. The Reports on Examination of each of the entities participating above will be issued under separate cover by their respective domestic state regulators.

The examination was conducted pursuant to 8 V.S.A. §3563 and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from January 1, 2013 through December 31, 2015. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of MIG and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying

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and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of MIG 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 MIG's financial statements.

This examination report includes significant findings of fact, as mentioned in 8 V.S.A. §3574 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 separately communicated to other regulators and/or MIG.

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings in the prior exam report or the current exam report. There were no adjustments made to the annual statement based on this examination.

HISTORY

MIG was acquired by a subsidiary of ProAssurance Corporation (NAIC Group Code 2698) through a sponsored demutualization of Medmarc Mutual Insurance Company (MMIC) on January 2, 2013. In conjunction with the acquisition, MMIC's name changed to Medmarc Insurance Company. On February 1, 2013, Medmarc Insurance Company was merged into MCIC with MCIC surviving the merger. NSIC is a wholly-owned subsidiary of MCIC and MCIC also owns

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100% of the outstanding stock of Hamilton Resources Corporation (Hamilton) a non-insurance administrative services corporation.

MANAGEMENT AND CONTROL

Corporate Records

MIG's statutory home office is located in Chantilly, Virginia, and MIG maintains its corporate records in this location. Examiners reviewed the minutes of the Board of Directors and key committees thereof and determined that the minutes adequately approve and support MIG's transactions and events and that the meetings and minutes are in compliance with MIG's articles and By-Laws.

Medmarc Casualty Insurance Company

The stockholders elect Directors at the annual meeting of the stockholders. The Board of Directors consists of not less than three and not more than fifteen members. The Board of Directors holds at least four regularly scheduled meetings per calendar year. A majority of the Directors are necessary and sufficient to constitute a quorum for the transaction of business. The Directors may designate an Executive Committee, which consists of not less than three nor more than five Directors. The Directors may from time to time designate one or more committees. MCIC has no committees of its own as they are maintained at the PRA level.

The following were elected to the Board of Directors of MCIC in accordance with the By-Laws and serving as of December 31, 2015:

<u>Name</u>	<u>Residence</u>
Mary Todd Peterson Medmarc Insurance Group	Virginia
Edward J. Rand, Jr. ProAssurance Corporation	Alabama
W. Stancil Starnes ProAssurance Corporation	Alabama

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Officers:

The Officers are a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer, and such other Officers as may be appointed. Two or more offices may be held by the same person except offices of the President and Secretary.

The Officers of MCIC as of December 31, 2015 were as follows:

<u>Name</u>	<u>Title</u>
W. Stancil Starnes	Chairman
Mary Todd Peterson	President
Karen M. Murphy	Senior Vice President & Secretary
John L. Ajello	Vice President
Richard J. Butler	Vice President
Lawrence K. Cochran	Vice President
Howard H. Friedman	Vice President
David L. Maurer	Vice President
Lori L. Watson	Vice President
Nigel J. Griffey	Senior Vice President & Treasurer
Francis A. Stockwell, III	Vice President & Chief Underwriting Officer
Brian S. Kern	Assistant Secretary
Jeffrey P. Lisenby	Assistant Secretary
Kathryn A. Neville	Assistant Secretary
Lindsey E. Hunt	Assistant Treasurer
Edward L. Rand, Jr.	Vice President & Assistant Treasurer

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Noetic Specialty Insurance Company

The Directors are elected at the annual meeting or a special meeting called for that purpose. The Board of Directors consists of not less than three and not more than fifteen members. Each Director holds office until the next annual election of Directors, or until death, resignation or removal. The Board of Directors holds at least four quarterly meetings per calendar year. Special meetings are held when called by the Chairman of the Board or by the President or by one-third of the Directors. A majority of the Board is necessary and sufficient to constitute a quorum for the transaction of business. The Board of Directors may designate an Executive Committee, which consists of not less than three nor more than five Directors. The Board may from time to time designate one or more committees. NSIC has no committees of its own as they are maintained at the PRA level.

The following were elected to the Board of Directors of NSIC in accordance with the By-Laws and serving as of December 31, 2015:

<u>Name</u>	<u>Residence</u>
Mary Todd Peterson Medmarc Insurance Group	Virginia
Edward J. Rand, Jr. ProAssurance Corporation	Alabama
W. Stancil Starnes ProAssurance Corporation	Alabama

Officers:

The Officers are a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer, and such other Officers as may be appointed. Each Officer is chosen by the Board of Directors. Two or more offices may be held by the same person, except the offices of President and Secretary.

The Officers of NSIC as of December 31, 2015 were as follows:

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<u>Name</u>	<u>Title</u>
W. Stancil Starnes	Chairman
Mary Todd Peterson	President
Karen M. Murphy	Senior Vice President & Secretary
John L. Ajello	Vice President
Richard J. Butler	Vice President
Lawrence K. Cochran	Vice President
Howard H. Friedman	Vice President
David L. Maurer	Vice President
Lori L. Watson	Vice President
Nigel J. Griffey	Senior Vice President & Treasurer
Francis A. Stockwell, III	Vice President & Chief Underwriting Officer
Brian S. Kern	Assistant Secretary
Jeffrey P. Lisenby	Assistant Secretary
Kathryn A. Neville	Assistant Secretary
Lindsey E. Hunt	Assistant Treasurer
Edward L. Rand, Jr.	Vice President & Assistant Treasurer

Affiliated Companies

MIG participates in an expense allocation and management services agreement with affiliated PRA entities, as well as a tax sharing agreement.

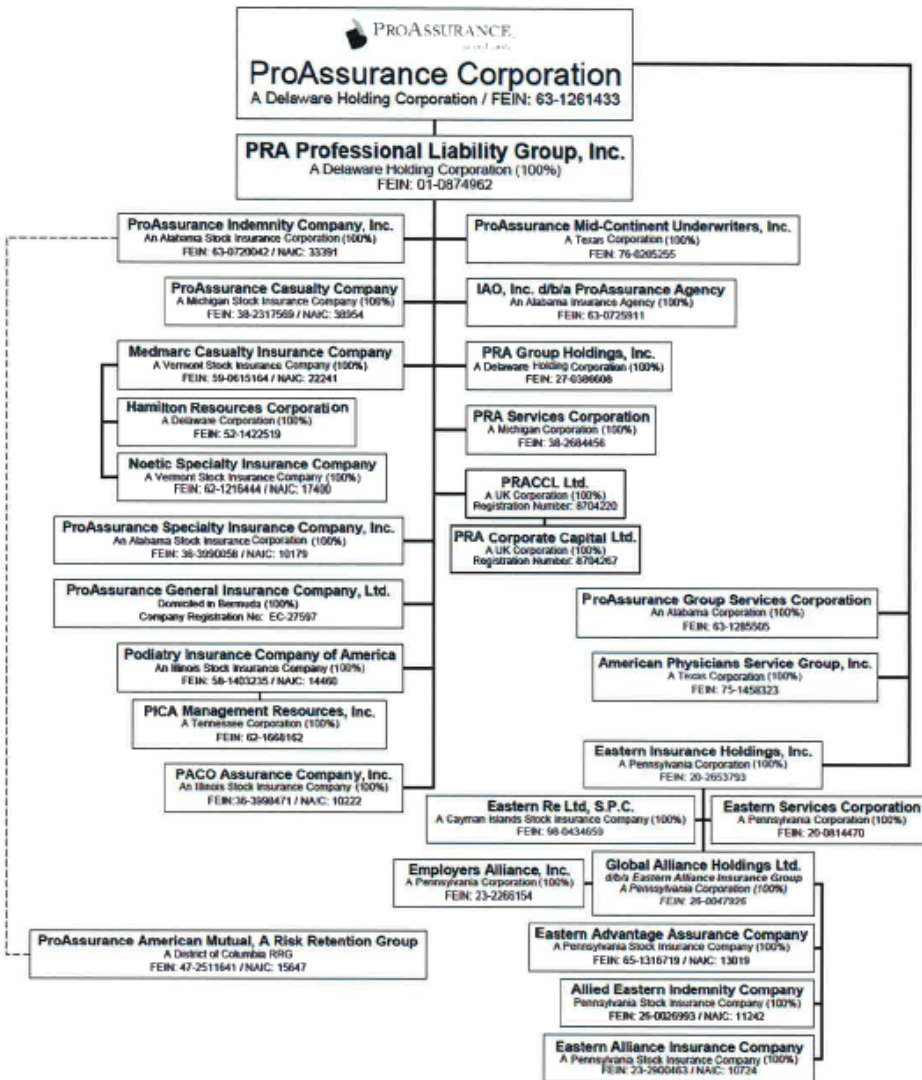
Starting on May 1, 2015, MIG began offering legal professional liability policies to two entities within PRA, ProAssurance Casualty Company and ProAssurance Indemnity Company, Inc. as each of their respective policies written expired. MIG also participates in an aggregate stop loss reinsurance agreement with ProAssurance Casualty Company.

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Within MIG, Hamilton Resources Corporation pays for certain program and administrative services, such as underwriting, billing and collection, claims management, loss prevention, marketing and financial management. These costs incurred are then reimbursed by MCIC and NSIC in accordance with an intercompany expense allocation agreement. The MIG entities pool and invest cash to maximize short-term investment income and minimize bank charges. Interest earned on the combined short-term investment account is allocated based on the intercompany expense allocation agreement.

Organizational Chart

The corporate structure as of December 31, 2015 is as follows:

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TERRITORY AND PLAN OF OPERATIONS

Medmarc Casualty Insurance Company

MCIC provides coverage on a primary basis, within specified limits, for products liability insurance risks of manufacturers and distributors of medical technology and life sciences products. In addition, MCIC provides lawyers' liability professional liability coverage to small law firms. MCIC is licensed to write business in all 50 states as well as the District of Columbia.

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Noetic Specialty Insurance Company

NSIC provides coverage on a primary basis, within specified limits, for products liability insurance risks of manufacturers and distributors of medical technology and life sciences products. In addition, NSIC provides lawyers' liability professional liability coverage to small law firms. In 2014, NSIC introduced errors and omissions liability policy for economic injury that is tailored to the life sciences industry. NSIC is licensed to write business in all 50 states as well as the District of Columbia.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by MIG with the Vermont Department of Financial Regulation and present the financial condition of each Company for the period ending December 31, 2015.

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Statement of Assets

	MCIC	NSIC
Equity securities	\$ 102,251,662	\$ -
Fixed-maturity securities	111,320,957	107,913,188
Real estate fund	11,559,293	-
Cash and short-term investments	11,523,946	3,579,699
Other invested assets	<u>16,097,087</u>	<u>2,133,987</u>
 Total cash and investments	 252,752,945	 113,626,874
 Premiums and agents' balances	 2,729,955	 1,935,062
Reinsurance recoverable on loss and LAE	311,189	36,878
Investment income receivable	1,115,747	987,685
Federal income tax recoverable	89,565	-
Deferred tax asset	1,884,628	1,584,552
Receivable from affiliates	930,311	-
Restricted cash held in trust	7,951	-
Accrued policy surcharges for guaranty fund assessments	13,648	-
Funds held by reinsured companies	450,000	-
Other assets	<u>113,473</u>	<u>13,704</u>
 Total assets	 <u><u>\$ 260,399,412</u></u>	 <u><u>\$ 118,184,755</u></u>

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Statement of Liabilities and Capital and Surplus

	MCIC	NSIC
Losses and loss adjustment expenses	\$ 57,058,764	\$ 38,855,911
Unearned Premiums	16,687,589	6,872,233
Premiums, commissions and other accrued expenses	621,565	311,938
Federal income tax	-	348,922
Ceded reinsurance premiums	831,643	466,204
Amounts withheld for others	578	-
Non-compete agreements	950,000	-
Provisions for reinsurance	18,000	-
Payable to affiliates	-	2,713,262
Other liabilities	<u>151,246</u>	<u>49,922</u>
 Total liabilities	 <u>76,319,385</u>	 <u>49,618,392</u>
 Common stock	 3,000,000	 3,600,000
Paid in and contributed surplus	29,177,766	35,304,919
Unassigned surplus	<u>151,902,261</u>	<u>29,661,444</u>
 Total capital and surplus	 <u>184,080,027</u>	 <u>68,566,363</u>
 Total liabilities and capital and surplus	 <u><u>\$ 260,399,412</u></u>	 <u><u>118,184,755</u></u>

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Statement of Income

	MCIC	NSIC
Net premiums earned	\$ 21,516,637	\$ 11,824,359
Losses and LAE incurred	10,224,233	3,883,626
Other underwriting expenses incurred	<u>9,573,636</u>	<u>4,513,643</u>
Net underwriting gain	<u>1,718,768</u>	<u>3,427,090</u>
Net investment income earned	4,996,267	2,968,276
Net realized capital gains, net of current tax expense	<u>2,901,398</u>	<u>2,285</u>
Net investment gain	<u>7,897,665</u>	<u>2,970,561</u>
Other expenses	<u>(10,616)</u>	<u>(21,227)</u>
Income before federal income taxes	9,605,817	6,376,424
Federal income tax expense	<u>(1,599,833)</u>	<u>(2,016,799)</u>
Net income	<u><u>\$ 8,005,984</u></u>	<u><u>\$ 4,359,625</u></u>

Statement of Changes in Capital and Surplus

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	MCIC	NSIC
Capital and surplus, January 1, 2015	\$ 172,611,454	\$ 63,190,634
Net income	8,005,984	4,359,625
Change in net unrealized capital gains, net	3,669,666	26,671
Change in nonadmitted assets	(346,878)	1,199,694
Change in deferred tax assets	117,801	(210,261)
Change in provision for reinsurance	22,000	0
Change in capital and surplus	<u>11,468,573</u>	<u>5,375,729</u>
Capital and surplus, December 31, 2015	<u>\$ 184,080,027</u>	<u>\$ 68,566,363</u>

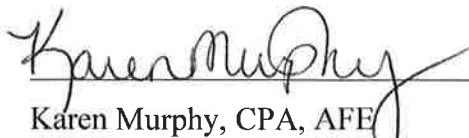
COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report. In such cases, these matters were thoroughly discussed with responsible personnel during the examination.

CONCLUSION

In addition to the undersigned, Miranda Cloutier, Examiner in Charge, Jesse Lussier, Administrative Examiner, KC Ng, Examiner II participated in the examination. Additionally, work completed by the Alabama Department of Insurance in this coordinated examination of PRA was accepted to support conclusions in certain areas of the examination.

Respectfully submitted,



Karen Murphy, CPA, AFE
Chief Examiner, Division of Insurance
Vermont Department of Financial Regulation

**MEDMARC INSURANCE GROUP
EXAMINATION REPORT
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STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Murphy, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me

This 10th day of May, 2017



Notary Public