

Report on the Examination

As of December 31, 2020

of

Noetic Specialty Insurance Company

by the





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

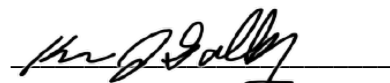
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Michael L. Boguski
President
Noetic Specialty Insurance Company

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of Noetic Specialty Insurance Company for the year ending December 31, 2020 is adopted.

Noetic Specialty Insurance Company 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.



Kevin J. Gaffney, Interim Commissioner

5/23/2022

Date



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May 06, 2022

Kevin J. Gaffney, Interim Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Interim Commissioner Gaffney:

Pursuant to the December 18, 2020 examination order, the Insurance Division's financial examination team has conducted an examination of:

Noetic Specialty Insurance Company
with its offices located at
4795 Meadow Wood Lane, Suite 335 West
Chantilly, VA 20151

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.



SCOPE OF EXAMINATION

As of December 31, 2020, the financial examination of Noetic Specialty Insurance Company (NSIC) 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 NSIC examination was conducted on a stand-alone-basis for the underwriting, reinsurance and claims handling key activities, for the remaining areas of the examination the Department relied upon the procedures performed by the Alabama Department of Insurance. As of December 31, 2020, PRA consisted of thirteen insurance entities as follows, the following ten 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*
- ProAssurance American Mutual, a Risk Retention Group (NAIC #15647) *District of Columbia*
- ProAssurance Insurance Company of America (NAIC #14460) *Illinois*
- Eastern Advantage Assurance Company (NAIC #13019) *Pennsylvania*
- Allied Eastern Indemnity Company (NAIC #11242) *Pennsylvania*
- Eastern Alliance Insurance Company (NAIC #10724) *Pennsylvania*

* ProAssurance Specialty Insurance Company, Inc. was merged into Noetic Specialty Insurance Company prior to completion of the examination and no separate Report on Examination will be issued by Alabama Department of Insurance.

NSIC's last financial condition examination was as of December 31, 2015 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, 2016 through December 31, 2020. 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 NSIC and evaluate system controls and procedures used to mitigate those risks. The 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 NSIC 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 NSIC'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 NSIC.

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

NSIC was a wholly-owned subsidiary of Medmarc Casualty Insurance Company (MCIC) and MCIC also owns 100% of the outstanding stock of Hamilton Resources Corporation (Hamilton) a non-insurance administrative services corporation. In August of 2020, NSIC was transferred to PRA Professional Liability Group, Inc. (also an entity within PRA) and is now a wholly-owned

subsidiary of that entity. During the course of the exam period NSIC declared the following dividends: \$15 million to MCIC in 2018, \$7.5 million to MCIC in 2019 and \$29.2 million to PRA Professional Liability Group, Inc. in 2020.

MANAGEMENT AND CONTROL

Corporate Records

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

Board of Directors

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, 2020:

<u>Name</u>	<u>Residence</u>
Michael L. Boguski ProAssurance Corporation	Alabama

<u>Name</u>	<u>Residence</u>
Edward L. Rand, Jr. ProAssurance Corporation	Alabama
Karen M. Murphy Medmarc Casualty Insurance Company	Virginia

Officers

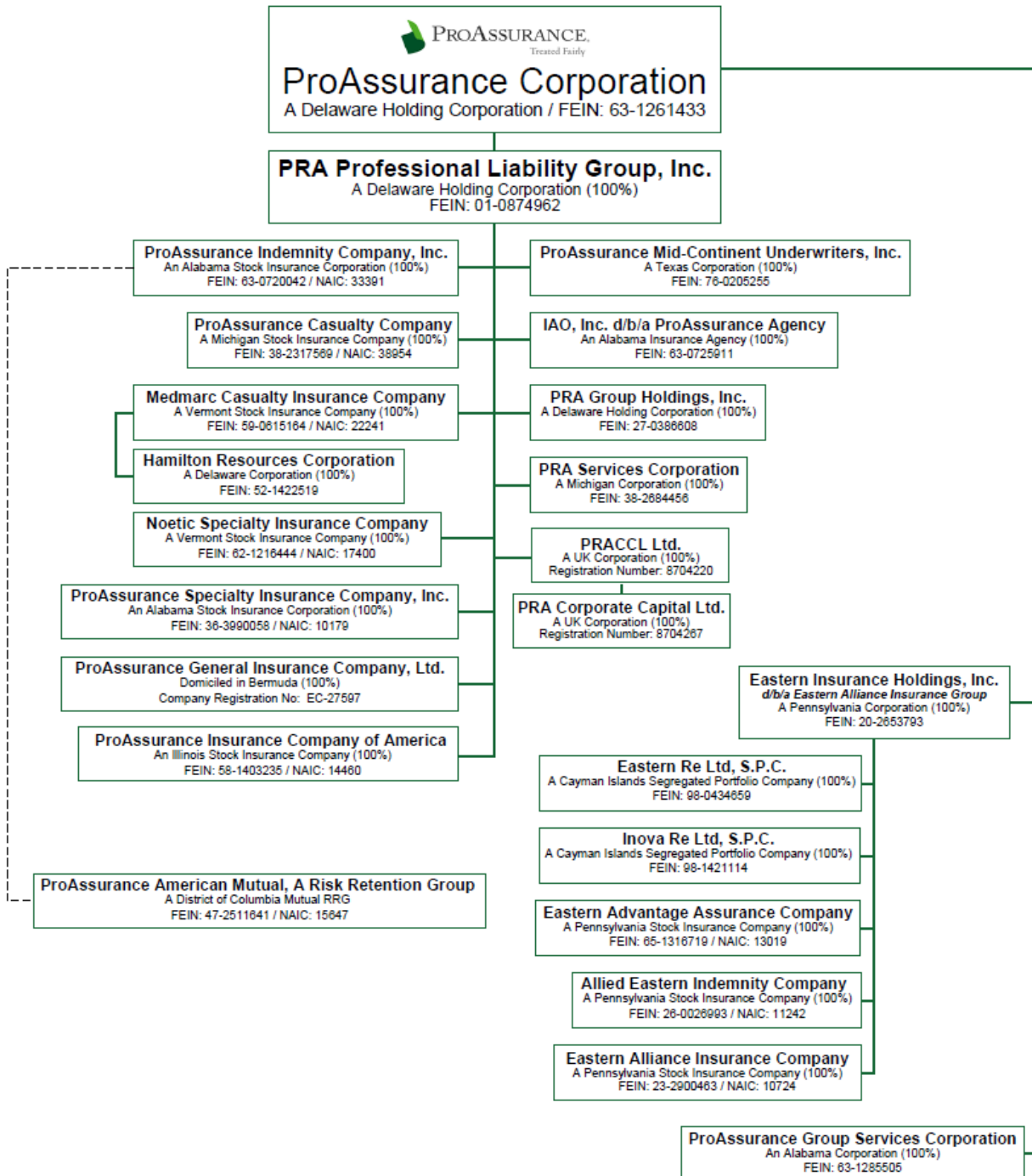
The Officers are a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer, and such other Officers as may be appointed. Each Officer is chosen by the Board of Directors. Two or more offices may be held by the same person, except the offices of President and Secretary.

The Officers of NSIC as of December 31, 2020 were as follows:

<u>Name</u>	<u>Title</u>
Edward L. Rand, Jr.	Chairman
Michael L. Boguski	President
Dana S. Hendricks	Treasurer
Kathryn A. Neville	Secretary
Karen M. Murphy	Executive Vice President
Francis A. Stockwell, III	Chief Underwriting Officer
John L. Ajello	Vice President
Richard J. Butler	Vice President
Lawrence K. Cochran	Vice President
Lori H. Watson	Vice President
Sonia M. Valdes	Vice President
Brian S. Kern	Assistant Secretary
Jeffrey P. Lisenby	Assistant Secretary

Organizational Chart

The corporate structure as of December 31, 2020 is as follows:



Affiliated Companies

NSIC participates in an expense allocation and management services agreement with affiliated PRA entities, as well as a tax sharing agreement. The management services agreement provides reimbursement to PRA for services provided at the corporate level. Fees are determined based on prior year direct written premium by line of business and the integration level of the Company, which is subject to senior management approval.

NSIC also participated in an aggregate stop loss reinsurance agreement with ProAssurance Casualty Company. This agreement was non-renewed effective January 1, 2017.

During the exam period Hamilton paid for certain program and administrative services, such as underwriting, billing and collection, claims management, loss prevention, marketing and financial management. These costs incurred were then reimbursed by NSIC in accordance with an intercompany expense allocation agreement. This agreement was terminated in 2018.

TERRITORY AND PLAN OF OPERATIONS

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' 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 authorized to write business in all 50 states as well as the District of Columbia. In 2019, NSIC began providing coverage on an excess basis, within specified limits, for life sciences companies.

REINSURANCE

As of October 2020, NSIC jointly with MCIC retained 100% of the first \$2 million per occurrence and in the aggregate above the insureds' deductibles for its core business written. Also as of October 1, 2020, the entities retained 2.5% of the layer above \$2 million. During the exam period,

until October 2020, NSIC jointly with MCIC retained 100% of the first \$1 million per occurrence and in the aggregate above the insureds' deductibles for its core business written as well as retaining 10% of the layer above \$1 million. This resulted in maximum retentions per occurrence and in aggregate of \$2.2 million and \$1.9 million in 2020 and 2019, respectively. The 2020 and 2019 reinsurance contracts were negotiated on improved terms.

Errors and omissions policies issued were ceded to the core business reinsurance treaties for both 2020 and 2019.

Lawyers' professional liability policies written by NSIC are covered by PRA reinsurance treaties, which reinsure the layers \$4 million excess of \$1 million.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by NSIC with the Vermont Department of Financial Regulation and present the financial condition of each Company for the period ending December 31, 2020.

Statement of Assets, Liabilities and Capital and Surplus

Bonds	\$ 66,486,906
Cash and short-term investments	11,801,073
Other invested assets	<u>11,228,690</u>
Total cash and investments	89,516,669
Accrued investment income	349,406
Reinsurance recoverable	276,701
Agents' balances and uncollected premiums	2,977,601
Net deferred tax assets	721,925
Receivable from affiliates	740,000
Other assets	<u>268,003</u>
Total assets	<u><u>\$ 94,850,305</u></u>
Losses and loss adjustment expenses	\$ 22,107,746
Unearned Premiums	9,596,593
Premiums, commissions and other accrued expenses	304,199
Ceded reinsurance premiums	1,208,587
Amounts withheld for others	175
Payable to affiliates	771,918
Current federal income taxes	<u>2,818,129</u>
Total liabilities	<u>36,807,347</u>
Common stock	3,600,000
Paid in surplus	35,304,919
Unassigned surplus	<u>19,138,039</u>
Total capital and surplus	<u>58,042,958</u>
Total liabilities and capital and surplus	<u><u>\$ 94,850,305</u></u>

Statement of Income

Net premiums earned	\$ 15,339,808
Losses and LAE incurred	4,270,162
Other underwriting expenses incurred	<u>3,311,837</u>
Net underwriting gain	<u>7,757,809</u>
Net investment income earned	2,208,594
Net realized capital gains, net of current tax expense	<u>1,091,113</u>
Net investment gain	<u>3,299,707</u>
Other expenses	<u>(9,579)</u>
Income before federal income taxes	11,047,937
Federal income tax expense	<u>2,140,335</u>
Net income	<u><u>\$ 8,907,602</u></u>

Statement of Changes in Capital and Surplus

Capital and surplus, January 1, 2020	\$ 77,973,309
Net income	8,907,602
Change in net unrealized capital gains, net	689,840
Change in nonadmitted assets	(264,811)
Change in deferred tax assets	(62,982)
Dividends to stockholders	<u>(29,200,000)</u>
Change in capital and surplus	<u>(19,930,351)</u>
Capital and surplus, December 31, 2020	<u><u>\$ 58,042,958</u></u>

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared a worldwide pandemic due to a novel coronavirus outbreak, known as COVID 19. The direct and indirect effects of the pandemic on the financial health and operations of the Company may be material, however, the ultimate impact is not determinable at this time.

As of December 31, 2020, NSIC merged with another PRA entity, NSIC remained the surviving entity and subsequently changed its name to ProAssurance Specialty Insurance Company while retaining the same NAIC Company Code of 17400.

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, Lisa Bergeron, Examiner III, and Jenny Jeffers, AES 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 Ducharme

Karen Ducharme, CPA, CFE
Chief Examiner, Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Ducharme, 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 19th day of May, 2022

Valerie L. Stark

Notary Public