BEST'S RATING REPORT

ProAssurance®
Treated Fairly

PROASSURANCE GROUP

AMB #: 018559	NAIC #: N/A	FEIN #: N/A
Phone:	Fax:	Website: N/A

Allied Eastern Indemnity Co	A
Eastern Advantage Assurance Co	A
Eastern Alliance Insurance Co	A
Medmarc Casualty Insurance Co	A
Noetic Specialty Insurance Co	A
ProAssurance Amer Mut, A RRG	A
ProAssurance Casualty Company	A
ProAssurance Indemnity Company	A
ProAssurance Ins Co of America	A
ProAssurance Specialty Ins Co	A

Financial Strength Rating
AM BEST
A Excellent

Best's Credit Rating Effective Date
March 16, 2021

Analytical Contacts

Jieqiu Fan
Senior Financial Analyst
Jieqiu.Fan@ambest.com
+1(908) 439-2200 Ext. 5372

Sharon Marks
Associate Director
Sharon.Marks@ambest.com
+1(908) 439-2200 Ext. 5477

Information

Best's Credit Rating Methodology

Guide to Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

Financial data in this report: (i) includes data of affiliated entities that are not rating unit members where analytics benefit from inclusion; and/or (ii) excludes data of rating unit member entities if they operate in different segments or geographic areas than the Rating Unit generally. See list of companies for details of rating unit members and any such included and/or excluded entities.

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

ProAssurance Group

AMB #: 018559
Associated Ultimate Parent: AMB # 050660 - ProAssurance Corporation

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A	**a+**
Excellent	**Excellent**
Outlook: **Stable**	Outlook: **Negative**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Adequate**
Business Profile	**Favorable**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: ProAssurance Group | AMB #: 018559

AMB #	Rating Unit Members	AMB #	Rating Unit Members
012527	Allied Eastern Indemnity Co	022383	ProAssurance Amer Mut, A RRG
013861	Eastern Advantage Assurance Co	002698	ProAssurance Casualty Company
012115	Eastern Alliance Insurance Co	003826	ProAssurance Indemnity Company
002216	Medmarc Casualty Insurance Co	001832	ProAssurance Ins Co of America
012468	Noetic Specialty Insurance Co	011697	ProAssurance Specialty Ins Co

Rating Rationale

Balance Sheet Strength: Strongest

- Balance sheet assessment is supported by ProAssurance's strongest level of risk-adjusted capitalization based on Best's Capital Adequacy Ratio (BCAR) at the 99.6% VaR level. However, Best's view of risk-adjusted capital also considers the reduced embedded equity in loss reserves.
- Available capital and surplus has declined steadily in recent years due to stockholder dividends to the group's publicly traded parent, ProAssurance Corporation.
- Historically favorable loss reserve development on a calendar year and accident year basis. However, recent accident year results showed some deterioration.
- Members of the ProAssurance family of companies benefit from the financial flexibility afforded by the holding company, ProAssurance Corporation, via access to capital. A substantial portion of liquidity held at the ultimate parent, however, is intended to be used for the planned purchase of NORCAL in 2021.
- Common stock leverage much reduced from prior years, balanced by a higher than peers alternative investment portfolio.

Operating Performance: Adequate

- Historical operating results (2018 and prior) compare favorably to the industry and its medical professional liability (MPL) peers. More recent performance trends reflect a deterioration in accident year and calendar year results, as well as return metrics. Results in 2020 and 2019 were impacted by a large national healthcare account. AM Best expects the group's 2021 operating results to show improvement, while the planned acquisition of NORCAL adds some level of uncertainty.
- Underwriting performance in MPL has gradually weakened due to a prolonged soft market reflected in declining premium in competitive markets and increasing loss severity caused by social inflation, higher settlements and higher-than-expected jury awards. Strong rate gains achieved recently and the completed re-underwriting of the whole book that started 18 months ago should improve performance going forward.
- ProAssurance has had consistently favorable calendar year prior year reserve development throughout the years. On an accident year basis, however, there is some deterioration in recent accident year results.

Business Profile: Favorable

- ProAssurance is a leading national provider of MPL insurance in the U.S., covering physicians, physician groups, podiatrists, dentists, chiropractors, hospitals, healthcare systems, clinics, allied professionals, as well as life sciences.
- The group has had a successful track record of partnering and acquiring companies and integrating them into the ProAssurance family of companies. The planned acquisition of California-based NORCAL is expected to be no different but is subject to policyholder and regulatory approvals. The transaction is expected to close by the second quarter of 2021.
- The group benefits from additional product diversification from the Eastern Alliance companies, a specialty workers' compensation underwriter primarily in rural and suburban areas of selected states within the mid-Atlantic, Midwest, Gulf South, and New England regions.
- Recently, the group expanded through joint ventures, segregated portfolio cells and as a capital provider to Lloyd's syndicates 1729 and 6131.

Enterprise Risk Management: Appropriate

- The group ranks its risks in order of impact/likelihood/level of control, and these are monitored by an Enterprise Risk Analysis Committee.
- Continuing improvement with quantification of risk individually and in aggregate with stochastic modeling.
- The framework has expanded to include ERM activities both at the corporate level and subsidiary level.

Outlook

- The negative Long-Term ICR outlook reflects the decline in risk-adjusted capitalization, as measured by BCAR, driven by lower underwriting profits and reduced embedded equity in loss reserves. Uncertainty with regards to reserve development, as well as the execution risks associated with the planned acquisition of NORCAL, which is expected to close in the second quarter of 2021, and the ensuing integration of the acquired entity also are factors in the negative outlook. The outlook on the FSR is stable.

Rating Drivers

- Negative rating actions could occur if the group experiences materially weaker loss experience, reserve deficiency trends, or significant reductions in risk-adjusted capitalization, which could be driven by adverse impacts in the medical professional liability market from pricing competition, tort reform, deteriorating claim loss trends or arising out of the pending acquisition and integration of NORCAL.

Credit Analysis

Balance Sheet Strength

Capitalization

Risk-adjusted capitalization, as measured by BCAR, remains at the strongest level, however, has declined over the prior five-year period. Available capital and surplus has declined steadily in recent years as excess capital is returned to shareholders. Overall policyholders surplus decline was approximately 41% over the most recent five year period ending 2020. The dividend activity has funded the various capital management activities of the parent corporation, including the payment of shareholder dividends (special and regular), mergers and acquisitions, share repurchases, and debt redemptions. Net and gross underwriting leverage ratios are now elevated relative to composite averages, the result of the aforementioned reductions in policyholders surplus and modest growth in loss reserves and premiums during this time.

The group maintains adequate liquidity as non-affiliated invested assets exceed overall liabilities; however, liquidity measures generally trail those of the MPL composite and overall property casualty industry. Cash flow measures are comparable to those of the industry.

Asset Liability Management - Investments

The investment portfolio is managed to preserve capital and to seek yield in appropriate risk / reward opportunities. The investment portfolio has declined sequentially over the past five years. At the end of 2020, long-term bonds still comprised most of the portfolio. Fixed-income investments have a relatively short average duration at approximately three years. More than half of the bond portfolio is invested in high-grade corporate bonds. The portfolio's overall credit quality is excellent. The proportion of common shares and alternative investment (investments in real estate and tax credit partnerships), particularly in 2020 as the group actively reduced their allocation to equities in order to preserve capital for the planned acquisition of NORCAL.

Reserve Adequacy

Historically, ProAssurance has been generally conservative in establishing initial reserves and also cautious in recognizing the impact of the underlying trends. The group had favorable loss reserve development on a calendar year and accident year basis for many years. However, adverse loss reserve development was reported on the most recent accident years. In addition, in the fourth quarter of 2019, the group's statutory favorable reserve development was greatly reduced following losses from a single large healthcare account, which was subsequently non-renewed. Overall we view the group's reserve cushions as significantly diminished.

Holding Company Assessment

AM Best views the ultimate parent, ProAssurance Corporation (PRA), as a neutral factor in the group's rating. PRA has the ability to access the capital markets and maintains financial leverage ratios that are well within AM Best ranges for the current rating. Balancing the low leverage and financial flexibility is the PRA's willingness and history of returning capital to its investors through special and regular dividends and share repurchases as well as its dependence on its insurance operations to service existing debt obligations and maintain holding company liquidity.

Operating Performance

ProAssurance's 2018 and prior operating results compared favorably to the industry and its medical professional liability (MPL) peers. More recent performance trends reflect a deterioration in more recent accident year and calendar year results, as well as returns on revenue and equity. 2020 and 2019 results were impacted by a large national healthcare account. We expect ProAssurance's operating results to improve in 2021 and forward, following the completion of the re-underwriting of the whole book that started 18 months ago, and driven by rate increases. The NORCAL acquisition, expected to be completed by the second quarter of 2021, could be a source of volatility.

Operating Performance (Continued...)

Underwriting performance in MPL has gradually weakened due to a prolonged soft market reflected in declining premium in competitive markets and increasing loss severity caused by social inflation, higher settlements and higher-than-expected jury awards.

Direct written premium increased in 2016 - 2019 as the gradual decrease of physician premiums are offset by premium increases in hospitals and other facilities, but declined in 2020, due to the re-underwriting. The company remains focused on maintaining underwriting discipline and premium adequacy in its risk selection in very competitive markets.

Management believes that its corporate strategy is most effective when it is applied locally to underwriting and claims. As such, ProAssurance has established a regional underwriting and claims presence in key markets. This has allowed the group to benefit from the local perspective and capitalize on the local knowledge gained from a legal standpoint. Claim defense is one of the group's core competencies and ProAssurance remains committed to the aggressive defense of non-meritorious claims, which management believes provides a long term competitive advantage.

The group's workers compensation line, written through its Eastern Alliance Insurance Group companies, is consistently profitable in the past five years and since inception, continues to outperform its peers. The group emphasizes rural underwriting territories with strong economies and diverse employer classifications, and focuses on risk management programs that would bring an injured worker backer to employment quickly.

ProAssurance maintains a conservative investment approach that focuses primarily on fixed income markets, with limited exposure to equity markets.

ProAssurance's net investment income has declined steadily in the past 5 years due to persistently low yields and a gradually decreasing asset base as management returns capital to investors through dividends. However, net investment income increased by 30% in 2018 from the company's alternative investment portfolio. Within the portfolio, the group experienced net realized investment gains for 2016 - 2020.

Business Profile

ProAssurance is a leading national provider of medical professional liability insurance in the U.S., covering physicians, physician groups, podiatrists, dentists, chiropractors, hospitals, healthcare systems, clinics, allied professionals, as well as life sciences. The consolidated group also writes workers compensation through Eastern Alliance Insurance Group (EAIG), a specialty workers compensation underwriter. For MPL the group has licenses in all fifty states and the District of Columbia, with the majority of its business written in the Midwestern and Southeastern regions of the United States. The group is the market leader in Alabama, Delaware, District of Columbia, Nevada, and Wisconsin. Independent agents and brokers produce two-thirds of ProAssurance's business. However, business in Alabama and Florida is produced on a direct basis, and dual distribution is utilized to varying degrees in the District of Columbia and Missouri. Companies within the group are engaged in the delivery of professional liability insurance to physicians and surgeons, dentists, hospitals and others involved in the health care industry. In addition, through Medmarc Casualty Insurance Company and Noetic Specialty Insurance Company, the group provides product liability and completed operations liability coverage to manufacturers and distributors of medical technology and life science products and for clinical trials of these products, and effective January 1, 2017, housed the limited amount of legal professional liability business written within ProAssurance. In 2015, ProAssurance established Washington D.C. domiciled ProAssurance American Mutual, RRG (PAM) to provide coverage for physician medical professional liability, facility medical professional liability, and related general liability on a claims-made basis.

The group has had a successful track record of partnering and acquiring companies and integrating them into the ProAssurance family of companies. The planned acquisition of California-based NORCAL is expected to be no different but is subject to policyholder and regulatory approvals. The transaction is expected to close in the second quarter of 2021.

Policy limits range from $250,000 (offered only where mandated by law) up to typically $1 million per occurrence and $3 million in the aggregate for physicians with limits in certain jurisdictions designed around state specific provisions, such as patient compensation funds. Higher limits are offered in a variety structures which may include with facultative quotes through the company's reinsurance partners. Policies are written on claims made forms in all states; a small amount of occurrence coverage is written for physicians in Wisconsin where a state fund bears responsibility for losses greater than $1.0 million. A limited amount of dental professional liability coverage is also written on an occurrence form.

EAIG (consisting of Eastern Alliance Insurance Company, Eastern Advantage Assurance Co and Allied Eastern Indemnity Co), writes workers compensation primarily in rural and suburban areas of selected states within the mid-Atlantic, Midwest, Gulf South, and New England regions. About half of direct written premiums were in Pennsylvania. The target market is small to mid-sized employers (1,000 employees or less) generating an average workers' compensation premiums size of approximately $20,000. The group offers workers' compensation coverage on a diverse platform including guaranteed cost, alternative markets, deductible, retrospective rating and policyholder dividend type of programs.

Business Profile (Continued...)

EAIG is affiliated with Inova Re and Eastern Re Ltd., S.P.C. (Eastern Re) through its common ownership by an intermediate holding company, Eastern Insurance Holdings Inc., and ultimately by ProAssurance Corporation. Inova Re is a Cayman Islands - domiciled reinsurance company that offers alternative market workers compensation solution to individual companies, groups and associations through the creation of segregated portfolio cells. It currently consists of 26 segregated portfolios including a cell that assumes 100% medical professional liability business from ProAssurance. EAIG cedes 100% of losses arising under the policies insured to Inova Re.

Enterprise Risk Management

The organization's enterprise risk management program (ERM) is comprehensive and makes use of various factors to assess the impact of risk on operations and capital levels across a wide range of time periods, jurisdictions, and market cycles. ERM policies and procedures are centralized at the executive level and include significant participation from the board of directors and external consultants. Analysis includes in depth reviews of market factors, discussion of strategic opportunities, and stress testing using economic capital models. Risk tolerances are clearly defined and actionable plans are in place to address challenges. The organization uses specific financial factors to measure overall operational performance and successful implementation of strategic initiatives. Programs and policies are continually monitored and updated with changes in business profile or risk levels. Given its national presence, the organization has extensive business continuation plans in place.

Reinsurance Summary

ProAssurance generally reinsures risks under treaties (excess of loss reinsurance agreements) which are renewed annually. The Healthcare Professional Liability (HCPL) treaty renews annually on October 1 and, for the October 1, 2020 renewal, ProAssurance increased the retention to $2 million from $1 million and added provisions for reinstatement premiums which resulted in a reduction to the gross rate paid under the renewed treaty. The Medical Technology Liability treaty renewed on October 1, 2020 at a lower rate than the previous agreement, with an increase in retention to $2 million from $1 million. The Workers' Compensation treaty renews annually on May 1. The traditional workers' compensation treaty renewed May 1, 2020 at a higher rate than the previous agreement, with an increase in the AAD to 3.16% from 2.1% of subject earned premium, in excess of the $0.5 million retention per loss occurrence. The limit on this treaty is $119.5 million.

Financial Statements

	9-Months 2020		Year End - December 31 2019		2018	
Balance Sheet	**USD (000)**	**%**	**USD (000)**	**%**	**USD (000)**	**%**
Cash and Short Term Investments	321,751	9.3	260,831	7.9	193,367	5.9
Bonds	2,119,113	61.5	2,002,398	60.3	1,838,420	55.7
Preferred and Common Stock	41,508	1.2	149,516	4.5	358,859	10.9
Other Invested Assets	325,537	9.4	369,776	11.1	370,688	11.2
Total Cash and Invested Assets	2,807,909	81.4	2,782,520	83.8	2,761,334	83.7
Premium Balances	317,583	9.2	312,701	9.4	333,208	10.1
Net Deferred Tax Asset	28,050	0.8	30,722	0.9	24,245	0.7
Other Assets	294,696	8.5	195,530	5.9	179,286	5.4
Total Assets	3,448,238	100.0	3,321,473	100.0	3,298,072	100.0
Loss and Loss Adjustment Expense Reserves:						
Net Reported Loss Reserves*	1,173,653	34.0	938,833	28.3	924,776	28.0
Net IBNR Loss Reserves*	602,058	17.5	65,054	2.0	-4,015	-0.1
Net LAE Reserves	...	...	685,175	20.6	627,067	19.0
Total Net Loss and LAE Reserves	1,775,711	51.5	1,689,062	50.9	1,547,829	46.9
Net Unearned Premiums	379,556	11.0	379,574	11.4	383,116	11.6
Other Liabilities	438,420	12.7	340,693	10.3	336,218	10.2
Total Liabilities	2,593,687	75.2	2,409,328	72.5	2,267,163	68.7
Capital Stock	35,837	1.0	32,237	1.0	35,187	1.1
Paid-In and Contributed Surplus	646,088	18.7	513,283	15.5	510,333	15.5
Unassigned Surplus	161,901	4.7	353,478	10.6	474,664	14.4
Other Surplus	10,725	0.3	13,146	0.4	10,725	0.3
Total Policyholders' Surplus	854,550	24.8	912,145	27.5	1,030,909	31.3
Total Liabilities and Surplus	3,448,238	100.0	3,321,473	100.0	3,298,072	100.0

Source: BestLink® - Best's Financial Suite
* Interim reserves balances include LAE.

Last Update
March 16, 2021

Identifiers
AMB #: 018559

This company is a data record that AM Best utilizes to represent the AM Best Consolidated financials for the Property/Casualty business of AMB#: 050660 ProAssurance Corporation.

AMB#: 003826 ProAssurance Indemnity Company, Inc. has been assigned as the AMB Group Lead for this consolidation and should be used to access name, address, or other contact information for this AM Best Consolidated Group.

Financial Data Presented

See LINK for details of the entities represented by the data presented in this report.

ProAssurance Group

Operations

Date Incorporated: October 01, 1976

Domiciled: Alabama, United States

Business Type: Property/Casualty
Organization Type: Stock
Marketing Type: Independent Agency

Best's Credit Ratings

Rating Relationship

This group represents an AM Best Rating Unit. In our opinion, companies under this Rating Unit have an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

Best's Credit Rating Effective Date: March 16, 2021

Rating rationale and credit analysis can be found in the Best's Credit Report for AMB# 018559 - ProAssurance Group.

		Best's Credit Ratings	
AMB#	**Rating Unit Members**	**Financial Strength Rating**	**Long-Term Issuer Credit Rating**
012527	Allied Eastern Indemnity Co	A	a+
013861	Eastern Advantage Assurance Co	A	a+
012115	Eastern Alliance Insurance Co	A	a+
002216	Medmarc Casualty Insurance Co	A	a+
012468	Noetic Specialty Insurance Co	A	a+
022383	ProAssurance Amer Mut, A RRG	A	a+
002698	ProAssurance Casualty Company	A	a+
003826	ProAssurance Indemnity Company	A	a+
001832	ProAssurance Ins Co of America	A	a+
011697	ProAssurance Specialty Ins Co	A	a+

History

ProAssurance Indemnity Company, Inc. was formed as a mutual insurance company, Mutual Assurance Society of Alabama in 1976, to write professional liability insurance for Alabama physicians. The name was later shortened to Mutual Assurance, Inc. The company demutualized in 1991, and later became a subsidiary of Medical Assurance, Inc., an insurance holding company formed in 1996. Numerous acquisitions of smaller medical professional liability insurers pre-dated the 2001 merger that created ProAssurance Corporation; subsequent to that merger, there have been a number of other transactions. The West Virginia Hospital Insurance

Company, a West Virginia medical professional liability writer acquired in 1993, was later renamed Medical Assurance of West Virginia, Inc., then Woodbrook Casualty Insurance, Inc. and merged into ProAssurance Indemnity effective December 31, 2008. American Physicians Insurance Company, a leading writer of medical professional liability insurance in Texas and surrounding states, was acquired by ProAssurance in late 2010 and was merged into ProAssurance Indemnity effective September 16, 2011. The NCRIC Group, the leading writer of medical professional liability policies in the District of Columbia, was acquired by ProAssurance Corporation in 2005 and subsequently renamed ProAssurance National Capital Insurance Company. It was merged into ProAssurance Indemnity effective July 1, 2012.

ProAssurance Casualty Company was formed in 1980, as Physicians Insurance Company of Michigan before changing its name first to ProNational Insurance Company, and then to ProAssurance Casualty. It is currently among Michigan's leading providers of medical professional liability insurance, with a greater than 20% share of direct premiums written. The company is also well represented in Florida as a result of the 1998 merger of Physicians Protective Trust Fund (PPTF) into ProNational. ProAssurance Casualty is currently endorsed by various county medical societies and specialty organizations in Illinois, Florida, Michigan and Wisconsin. Physicians Insurance Company of Wisconsin, the leading writer of medical professional liability insurance in Wisconsin, was acquired by ProAssurance in 2006 and subsequently renamed ProAssurance Wisconsin before being merged into ProAssurance Casualty effective December 31, 2011. Independent Nevada Doctors Insurance Exchange was acquired by ProAssurance in 2012 and was merged into ProAssurance Indemnity effective October 1, 2013.

ProAssurance Specialty Insurance Company, Inc.'s. (ProAssurance Specialty) origins date back to 1994, when ProNational formed a wholly owned subsidiary, PICOM Insurance Company of Illinois, to renew a book of physician professional liability insurance formerly written by a physician-owned carrier in that state. This gave the group a significant entry into the Illinois market and broadened the group's spread of underwriting risk. In September 2002, the subsidiary adopted the name of Red Mountain Casualty Insurance Company, Inc., re-domesticated to Alabama and began writing business in several states on an excess and surplus lines basis. The company adopted its current name at the end of 2008, in order to identify better with its parent organization.

Best's Credit Rating Methodology | Disclaimer | Best's Credit Rating Guide