

BEST'S RATING REPORT



PROASSURANCE GROUP

Domiciliary Address: 100 Brookwood Place, Birmingham, Alabama, United States 35209

Mailing: P.O. Box 590009, Birmingham, Alabama, United States 35259-0009

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



Best's Credit Rating Effective Date

February 26, 2020

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](#)
- [Understanding 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)

A
Excellent
Outlook: Stable
Action: Downgraded

Issuer Credit Rating (ICR)

a+
Excellent
Outlook: Negative
Action: Downgraded

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
012527	Allied Eastern Indemnity Co
013861	Eastern Advantage Assurance Co
012115	Eastern Alliance Insurance Co
002216	Medmarc Casualty Insurance Co
012468	Noetic Specialty Insurance Co

AMB #	Rating Unit Members
022383	ProAssurance Amer Mut, A RRG
002698	ProAssurance Casualty Company
003826	ProAssurance Indemnity Company
001832	ProAssurance Ins Co of America
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 also declined steadily in recent years as excess capital is returned to stakeholders.
- Historically favorable loss reserve development on a calendar year and accident year basis. However, the benefits of a once robust reserve position are no longer present. In the fourth quarter of 2019, the company posted a \$30.4 million reserve charge.
- 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 2020.
- ProAssurance's planned acquisition of NORCAL in 2020 is likely to place some additional strain on the group's consolidated proforma risk-adjusted capitalization.

Operating Performance: **Adequate**

- Five-year (2014-2018) average operating results compare favorably to the industry and its medical professional liability (MPL) peers. However, more recent performance trends reflect a deterioration in more recent accident year and calendar year results, which are becoming more in line with industry averages. This also includes measures such as returns on revenue and equity. Prospective results are also expected to be challenged in 2020 and again in 2021 with the planned acquisition of NORCAL.
- 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.
- While prior year reserve redundancies have played a material role in advancing earnings over the years, much of its past reserve redundancies have been exhausted. The group posted adverse development of \$30.4 million in the fourth quarter of 2019 and \$11.8 million of favorable development for the full year of 2019.

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 end of 2020.
- 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 majority capital provider to Lloyd's Syndicate 1729.

Enterprise Risk Management: **Appropriate**

- Started formalizing ERM activities in 2009.
- The group ranks its risks in order of impact/likelihood/level of control, which are monitored by an Enterprise Risk Analysis Committee.
- Continuing improvement with quantification of risk individually and in aggregate and with stochastic modeling.
- The framework has expanded to include ERM activities at the corporate level and subsidiary level.

Outlook

- The negative outlook on the Long-Term ICR reflects the decreasing trend of ProAssurance's capital adequacy, as measured by BCAR, driven by lower underwriting profits and reduced embedded equity in loss reserves. The planned acquisition of NORCAL in 2020 is likely to place some additional strain on the group's consolidated risk-adjusted capitalization. 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 or deteriorating claim loss trends.

Credit Analysis

Balance Sheet Strength

Capitalization

The group's risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), remains at the strongest level. However available capital and surplus has declined steadily in recent years as excess capital is returned to shareholders. Policyholders surplus decreased around 46% over the most recent five year period ending 2019. 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. Common stock leverage is lower than the composite average while underwriting leverage is higher.

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 2019, long-term bonds still comprised most of the portfolio. The proportion of common shares and alternative investment (investments in real estate and tax credit partnerships) has decreased. The bond portfolio has a relatively short average duration at around 3. More than half of the bond portfolio is invested in high-grade corporate bonds. The portfolio's overall credit quality is excellent.

Reserve Adequacy

We view the group as 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 in the fourth quarter of 2019, the company posted a \$30.4 million reserve charge, driven by a single large healthcare account. Overall we view the group's reserve cushions as significantly diminished.

Holding Company Assessment

The holding company ProAssurance Corporation is publicly traded. It has \$250 million senior debt due 2023. As of year-end 2019, the unadjusted leverage ratio stood at 16.1%. Balancing the low leverage and financial flexibility is the group's willingness and history of returning capital to its investors through special and regular dividends and share repurchases. Since 2007, ProAssurance Corp has paid \$1.3 billion shareholders' dividends and repurchased \$748 million shares.

Operating Performance

Five-year (2014-2018) average operating results compare favorably to the industry and its medical professional liability (MPL) peers. However, more recent performance trends reflect a deterioration in more recent accident year and calendar year results, which are becoming more in line with industry averages. This also includes measures such as returns on revenue and equity. Prospective results are also expected to be challenged in 2020 and again in 2021 with the planned acquisition of NORCAL.

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 - 2018 and at 9 months 2019 as the gradual decrease of physician premiums are offset by premium increases in hospitals and other facilities. The company remains focused on maintaining underwriting discipline and premium adequacy in its risk selection in very competitive markets. Ceded premiums are also increasing as the company continues to implement shared risk arrangements with strategic partners in programs such as Certitude (Ascension); CAPAssurance, a cooperative venture between ProAssurance and the Cooperative of American Physicians, a California based medical professional liability insurer that is otherwise unaffiliated with ProAssurance; and Lloyd's Syndicate 1729 in which ProAssurance recently reduced its participation from 61% to 29%, and Lloyd's Syndicate 6131, a special purpose arrangement within Syndicate 1729, for which ProAssurance is the 100% capital provider.

Operating Performance (Continued...)

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.

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 full year 2018 and 9 months 2019.

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 by the end of 2020.

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.

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 24 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

Enterprise Risk Management (Continued...)

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 has a number of reinsurance arrangements in place for professional liability risks. Within the core treaties, the retention for all states is \$1 million per claim. The first layer covers \$4 million excess of \$1 million and the second layer covers \$25 million excess of \$5 million. ProAssurance retains a small percentage in each layer.

The group also has a number of fronting and quota share arrangements that apply to certain groups of HCPL policies, generally those associated with a group of affiliated insureds or with a large practice group or facility. The primary reinsurance agreements are negotiated and renewed annually at October 1. There was no significant change in the cost or structure of the healthcare professional liability agreements renewed on October 1, 2017.

In addition to the core treaties, ProAssurance also cedes certain large / hospital excess risks on a facultative basis. Effective April 1, 2011, ProAssurance Indemnity and ProAssurance Casualty entered into a quota share treaty to cede certain physician business to Ascension Health Insurance, Ltd., the captive insurer of Ascension. The business ceded under this treaty is written by ProAssurance under a program to provide coverage to physicians affiliated with Ascension's hospitals and limited to the first \$1 million of policy limits. The quota share percentage is variable, based on the origin of the business, but is expected to approximate 50% over time.

In 2015, ProAssurance established ProAssurance American Mutual, RRG. ProAssurance Indemnity is the company's sponsor and reinsurer, covering all losses over \$1 million and 95% of losses up to \$1 million.

For workers compensation ProAssurance has excess of loss reinsurance coverage attaching at \$500K and covers \$119.5 million per loss event.

Financial Statements

	9-Months		Year End - December 31			
	2019		2018		2017	
Balance Sheet	USD (000)	%	USD (000)	%	USD (000)	%
Cash and Short Term Investments	146,578	4.2	193,367	5.9	151,941	4.6
Bonds	2,030,603	58.3	1,838,420	55.7	1,894,146	56.8
Preferred and Common Stock	315,312	9.1	358,859	10.9	401,285	12.0
Other Invested Assets	377,118	10.8	370,688	11.2	398,649	12.0
Total Cash and Invested Assets	2,869,611	82.5	2,761,334	83.7	2,846,021	85.4
Premium Balances	377,551	10.8	333,208	10.1	305,520	9.2
Net Deferred Tax Asset	25,017	0.7	24,245	0.7	29,567	0.9
Other Assets	207,919	6.0	179,286	5.4	152,778	4.6
Total Assets	3,480,099	100.0	3,298,072	100.0	3,333,885	100.0
Loss and Loss Adjustment Expense Reserves:						
Net Reported Loss Reserves*	1,153,276	33.1	924,776	28.0	874,177	26.2
Net INBR Loss Reserves*	453,549	13.0	-4,015	-0.1	-6,037	-0.2
Net LAE Reserves	627,067	19.0	648,987	19.5
Total Net Loss and LAE Reserves	1,606,825	46.2	1,547,829	46.9	1,517,127	45.5
Net Unearned Premiums	404,894	11.6	383,116	11.6	362,982	10.9
Other Liabilities	455,809	13.1	336,218	10.2	288,681	8.7
Total Liabilities	2,467,528	70.9	2,267,163	68.7	2,168,790	65.1
Capital Stock	35,187	1.0	35,187	1.1	35,187	1.1
Paid-In and Contributed Surplus	510,333	14.7	510,333	15.5	510,333	15.3
Unassigned Surplus	455,138	13.1	474,664	14.4	609,481	18.3
Other Surplus	11,912	0.3	10,725	0.3	10,094	0.3
Total Policyholders' Surplus	1,012,571	29.1	1,030,909	31.3	1,165,095	34.9
Total Liabilities and Surplus	3,480,099	100.0	3,298,072	100.0	3,333,885	100.0

Source: BestLink® - Best's Financial Suite

* Interim reserves balances include LAE.

Last Update

February 28, 2020

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: February 26, 2020Rating rationale and credit analysis can be found in the [Best's Credit Report for AMB# 018559 - ProAssurance Group](#).

AMB#	Rating Unit Members	Best's Credit Ratings	
		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.

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, AM Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, AM Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

Visit <http://www.ambest.com/ratings/index.html> for additional information or <http://www.ambest.com/terms.html> for details on the Terms of Use.

[Best's Credit Rating Methodology](#) | [Disclaimer](#) | [Best's Credit Rating Guide](#)

Copyright © 2020 A.M. Best Company, Inc. and/or its affiliates. All rights reserved.

No portion of this content may be reproduced, distributed, or stored in a database or retrieval system, or transmitted in any form or by any means without the prior written permission of AM Best. While the content was obtained from sources believed to be reliable, its accuracy is not guaranteed. For additional details, refer to our Terms of Use available at AM Best website: www.ambest.com/terms.