

JUN 26 2020

FILED

CERTIFICATION

June 26, 2020

I, Bruce R. Range, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

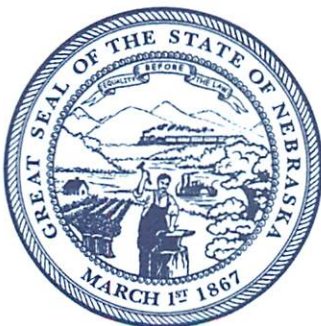
PREFERRED PROFESSIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Range

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

PREFERRED PROFESSIONAL INSURANCE COMPANY

11605 MIRACLE HILLS DRIVE, SUITE 200

OMAHA, NEBRASKA 68154

dated as of December 31, 2018 verified under oath by the examiner-in-charge on
May 22, 2020 and received by the company on June 2, 2020, has been adopted
without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 16th day of June 2020.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

PREFERRED PROFESSIONAL INSURANCE COMPANY

as of

December 31, 2018



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Lincoln, Nebraska
May 5, 2020

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
1135 M Street, Suite 300
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

PREFERRED PROFESSIONAL INSURANCE COMPANY
11605 Miracle Hills Drive, Suite 200
Omaha, NE 68154

(hereinafter also referred to as the “Company”) and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2014 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2018, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, Ohio, Massachusetts, New Jersey, and the District of Columbia participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company’s affiliates, Medical Professional Mutual Insurance Company, Healthcare Underwriters Group, Inc., Coverys, RRG Inc., Preferred Professional RRG, Coverys Specialty Insurance Company, and ProSelect Insurance Company.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Massachusetts Division of Insurance as the coordinating state and the Nebraska Department of Insurance, Ohio Department of Insurance, New Jersey Department of Banking and Insurance, and the District of Columbia Department of Insurance, Securities, and Banking. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their

respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Shareholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions, and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination

process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by PricewaterhouseCoopers LLP ("PwC"), the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2017 and 2018. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Nebraska on June 30, 1976, and commenced business on July 1 of that same year as a mutual insurance association under the provisions of LB 809, Second Session, 84th Legislature, with its offices located in Omaha, Nebraska. The Articles of Incorporation were amended on July 9, 1976 to provide for perpetual existence as a mutual company. The Articles were again amended on July 11, 1979 to allow for the Company to operate as a not-for-profit corporation by limiting its membership to hospitals which were organized exclusively for religious, charitable, educational, or scientific purposes. It then became qualified as a Federal Income Tax exempt corporation.

Effective February 22, 1985, the Articles of Incorporation were amended to expand the membership to include “for profit” hospitals, this effectively removed the Company's tax-exempt status. The Articles of Incorporation were restated effective March 26, 1986, to convert the Company's operations to that of a non-assessable mutual insurance company, whereby no member would be liable for any debt obligations of the Company. In a subsequent restatement of its Articles of Incorporation, effective December 11, 1987, the Company's name was changed from Hospital Mutual Insurance Company to Preferred Physicians Insurance Company, and its corporate structure was changed to that of a stock insurance company.

The shareholders of Preferred Physicians Insurance Company (PPIC) and Consolidated Catholic Casualty Risk Retention Group (CCCRRG) approved a business combination effective October 1, 1998. Simultaneous to the business combination, CCCRRG assumed a run-off position for its existing liability portfolio. At the same time, by way of dividends from both companies, an eleven-owner system became shareholders of the continuing PPIC. PPIC assumed the excess liability insurance business previously written by CCCRRG upon renewal. The name of the Company was then changed from Preferred Physicians Insurance Company to Preferred Professional Insurance Company.

Effective August 1, 2014, the Company restated its Articles of Incorporation in connection with its Agreement and Plan of Merger with ProMutual Group, Inc. (ProMutual). As a result of the restatement, the number of shares the Company is authorized to issue was changed to 100 shares, all of which are of a par value of \$1.00 each. This was further amended on December 19, 2014 to change the number of shares the Company is authorized to issue to 100,000 shares, all of which are of a par value of \$50.00 each and are of the same class and are common shares.

The Company is authorized by its Articles of Incorporation to transact and write all types of insurance and reinsurance authorized by the Nebraska Insurance Code, with the exception of life insurance, title insurance, and variable annuities. The Company's current Certificate of Authority authorizes the Company to write the lines of insurance as provided under Section 44-201 Paragraphs 4, 5, 7, 8, 9, 10, 11, 12, and 18 of the Nebraska Insurance Laws.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person", as reported in the 2018 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Medical Professional Mutual Insurance Company
 - Coverys RRG, Inc.
 - ProMutual Group, Inc.
 - Preferred Professional Insurance Company
 - Physicians Consultants, Inc.
 - Preferred Professional RRG
 - ProSelect Insurance Company
 - Coverys Specialty Insurance Company
 - ProMutual Solutions Insurance Company
 - Capital Risk Solutions, A Segregated Portfolio Company
 - ProMutual Insurance Agency, Inc.
 - Coverys Insurance Services, Inc.
 - Coverys Capital Limited
 - Coverys Capital No. 2 Limited
 - Coverys Capital No. 3 Limited
 - Coverys UK Holding Co. Limited
 - Coverys Managing Agency Limited
 - Coverys 1975 Underwriting Limited
 - Coverys MA Services Limited
 - CMAL LLC
 - DTW 1991 Underwriting Limited
 - Global Insurance Management Company, Inc.
 - Healthcare Underwriters Group, Inc.
 - Med-IQ, Inc.

Coverys Community Healthcare Foundation, Inc.
Coverys Research and Development Corporation
Archway Health Holdings, LLC (44% interest)
Strategic Risk Solutions, Inc. (25% interest)
Pack Health, LLC (13.793% interest)

Shareholder

Article II, Section 2 of the Company's By-Laws provides that, "annual meetings of the Shareholders, commencing with the year 2015, shall be held before June 30, at such place and time as the Board of Directors may determine, at which they shall elect by majority vote a Board of Directors, receive the report of the Officers and Directors, and transact such other business as may properly be brought before the meeting."

Article II of the Company's Articles of Incorporation states that, "the number of shares of the Company is authorized to issue is 100,000 shares, all of which are of a par value of \$50.00 each and are of the same class and are common shares." ProMutual owns all of the shares of the Company.

In October of 2018, the Company paid an extra ordinary dividend of \$80,000,000 to its parent, ProMutual. The dividend was previously submitted to, and approved by, the Nebraska Department of Insurance.

Surplus Note

The Company holds a \$750,000 surplus note issued by Preferred Professional RRG (PPRRG) on January 2, 2013. An additional \$50,000 surplus note was acquired in December of 2015. Per the terms of the note, any transactions involving the surplus note must first be approved by the District of Columbia Department of Insurance, Securities, and Banking. There have been no transactions regarding this surplus note since its inception. The Company is

currently non-admitting the value of the surplus note as the issuing company does not meet the statutory surplus requirements of SSAP 41.

Board of Directors

Article V, Section 1 of the Company's By-Laws provides that, “the number of Directors shall be fixed by resolution of the Board of Directors, but shall not be less than five. At all times, at least one Director shall be a resident of the state of Nebraska and at least one-fifth of all Directors shall be persons who are not Officers or employees of the Company.” Article V, Section 2 of the Company’s By-Laws provides that, “the Directors, other than the first Board of Directors, shall be elected at the annual meeting of the Shareholders, and each Director elected shall serve until the next succeeding annual meeting and until his successor shall have been elected and qualified.”

The following persons were serving as Directors at December 31, 2018:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Gregg L. Hanson North Attleboro, Massachusetts	President and Chief Executive Officer, Medical Professional Mutual Insurance Company
Lynnette M. Matza Omaha, Nebraska	President and Chief Executive Officer, Preferred Professional Insurance Company
Todd C. Mills Westford, Massachusetts	Chief Financial Officer and Treasurer, Medical Professional Insurance Company
Joseph G. Murphy Charlestown, Massachusetts	Chief Operating Officer, Medical Professional Mutual Insurance Company
Mary L. Ursul Grand Rapids, Michigan	Executive Vice President, Medical Professional Mutual Insurance Company

Officers

Article VIII, Section 1 of the Company's By-Laws provides that, “the Officers of the Company shall be chosen by the Board of Directors and shall be a President, a Vice President, a

Secretary and a Treasurer, none of whom need be a member of the Board. The Board of Directors may also choose additional Vice Presidents, one or more Assistant Secretaries and Assistant Treasurers, and such other Officers and agents as it shall deem necessary.”

The following is a listing of Officers elected and serving the Company at December 31, 2018:

<u>Name</u>	<u>Office</u>
Lynnette M. Matza	President and Chief Executive Officer
Joseph G. Murphy	Secretary and Chief Operating Officer
Todd C. Mills	Treasurer
Anders G. Backlund	Senior Vice President - Claims and Chief Risk Officer
Denise A. Hill	Senior Vice President, Chief Compliance Officer and General Counsel
James T. McCoy	Senior Vice President – Insurance Operations, Chief Underwriting Officer and Assistant Secretary
Karen A. Riley	Senior Vice President – Finance, Chief Financial Officer, and Assistant Treasurer
James O. Walters	Senior Vice President - Information Systems

TRANSACTIONS WITH AFFILIATES

Employee Leasing Agreement

The Company has an Employee Leasing Agreement with its wholly owned subsidiary, Physicians Consultants, Inc. (PCI). Services rendered to PCI include 1) soliciting, writing, and servicing insurance accounts sold by PCI issued through the Company, 2) general administrative support of PCI, and 3) clerical support as necessary. The Company is responsible for all licensing and documentation of hours spent on services performed. The agreement was effective May 5, 2005.

Service Agreement

The Company and PCI have also entered into a Service Agreement whereby the Company appoints PCI as its agent representative. PCI shall pay the Company for the actual cost for assets,

supplies, and services rendered to PCI not covered by any other agreement and the Company will pay a commission for insurance services rendered on the Company's behalf. This agreement was effective April 13, 2009.

Tax Sharing Agreement

Medical Professional Mutual Insurance Company (MPMIC), the ultimate controlling entity, and its affiliates ProSelect National Insurance Company, Inc. ProSelect Insurance Company (PSIC), ProMutual Group, and ProMutual Insurance Agency, Inc., entered into an amended Federal Income Tax Allocation Agreement, effective September 1, 2009, under which federal income tax returns are filed on a consolidated basis, to include the acquired entities FinCor Holdings, Inc., FinCor Solutions, Inc., The Risk Management and Patient Safety Institute, MHA Insurance Company, and Washington Casualty Company, and to reflect a new methodology in the allocation by Company. The Agreement was amended effective June 30, 2013, to reflect the name change of FinCor Solutions, Inc. to Coverys Insurance Services, Inc., and to provide that any entity which may in the future be acquired, created or otherwise be required to become a member of the affiliated group and a participant in the affiliated group consolidated federal tax return, will automatically join in and be bound by the Agreement. Effective as of August 1, 2014, PPIC and PCI became participants.

Management and Service Agreements

Effective January 1, 2013, the Company entered into a Management and Service Agreement with Preferred Professional RRG (PPRRG) a risk retention group domiciled in the District of Columbia. Under the agreement the Company provides underwriting, claims, financial and general management services to PPRRG.

Effective January 1, 2017 the Company entered in to administration and management services agreements with PSIC. Under the agreement, the affiliates agree to provide each other with the following services in connection with their operations: general administration services relating to network security, cybersecurity regulation, data warehousing, investment advisory, accounting, claims, human resources, preparation and rendering of reports to any regulatory agency, communications, marketing, and business referrals. The companies will reimburse each other on a cost basis.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states and the District of Columbia.

The Company is a direct writer of insurance coverages, with all underwriting and marketing performed by employees of the Company or through an agreement with PCI, a wholly-owned subsidiary. The Company's plan of operation for its legacy business is to support the Catholic healthcare ministry of its former shareholders by providing a wide array of insurance products and related services to preferred physicians and other healthcare providers. On a limited basis, physicians and healthcare providers who are unaffiliated with the former shareholders, but who maintain a business relationship with the former shareholders, are also provided these products and services.

All claims, other than most of the fronted programs, the auto programs, and the workers compensation programs, are handled by the home office claims department in Omaha, Nebraska. Procedures and guidelines are established and monitored by the claims department. Contracts are in place with qualified third party administrators for the fronted programs, the auto programs,

and the workers compensation programs insured by the Company but not handled by the home office claims department.

Through the acquisition of the Company, new agency affiliations have been made available within the new holding company structure. The Company has expanded its marketing distribution to include agencies already identified within the holding company structure, owned by MPMIC.

REINSURANCE

Assumed

The Company assumes Healthcare Provider Professional Liability insurance from Catholic Relief Insurance Company of America (CRIC) covering healthcare providers and employed attorneys for Catholic Mutual Relief Society of America (CMRS). The Company provides coverage of \$800,000 excess of \$200,000 of ultimate net loss each insured with one or two exceptions where limits of \$1,800,000 excess of \$200,000 were provided, each loss of Not-For-Profit Professional Liability and related General Liability business. In all cases the limits provided are retroceded under the physician and surgeon treaty in place at that time with the current coverages noted in this report under the “Reinsurance – Ceded; Non-Fronted Physician and Surgeon” section below.

The Company assumes reinsurance from its affiliate, PPRRG effective April 26, 2013. This excess of loss contract covers policies issued by PPRRG providing professional liability to physicians and surgeons and related health care providers and medical facilities. PPRRG retains \$50,000 of any one loss and the Company is liable for all incurred losses in excess of \$50,000.

Ceded

The Company has several different insurance programs, with unique reinsurance in place for each. The insurance programs consist of the non-fronted physician and surgeon policies, non-fronted other lines, fronted auto and workers compensation, and fronted programs reinsured by off-shore captives of the Company's former shareholders.

Non-Fronted Physician and Surgeon

Effective January 1, 2018, the Company entered into a quota share agreement with various Lloyd's of London Syndicates (#510, #4141, and #1880) for policies classified as e-MD™/Medefense™ Plus Network Security and Privacy business for healthcare providers. Coverage A, which covers policies with original endorsement limits of \$50,000, provides for the cessation of 65% of the Company's net liability, subject to a maximum liability of \$50,000 per insured and \$250,000 each insured entity. Coverage B, which covers original policy endorsements in excess of \$50,000, provides for the cessation of 100% of the difference between coverage A and Company's net liability of \$1,000,000 each loss, each covered section, and \$1,000,000 maximum annual aggregate any one policy endorsement.

Effective from July 1, 2018 until June 30, 2019, the Company entered into an excess of loss reinsurance agreement providing coverage for Medical Professional Liability and related General Liability, Healthcare Provider Professional Liability, Miscellaneous Healthcare Facility Liability, and Employed Attorneys and Healthcare Provider Professional Liability business assumed from CMRS. The Company has entered into similar agreements for the period of July 1 to June 30 for prior years.

Coverage is placed with reinsurers through an intermediary, Willis Re Inc., for the following:

- A. \$500,000 XS \$500,000 ultimate net loss each claim or occurrence, each insured.
- B. \$5,000,000 XS \$1,000,000 ultimate net loss each claim or occurrence, each insured in excess of policy limits and extra contractual obligations.
- C. \$5,000,000 XS \$1,000,000 of loss adjustment expenses arising out of each loss event. Up to \$5,000,000.
- D. 80% in excess of \$75,000 not to exceed \$1,000,000 on any successful or settled declaratory judgment action regarding a claim.
- E. The Company shall retain an Annual Aggregate Deductible in addition to and after satisfaction of its initial retention each Claim or Occurrence, each Insured, or each Loss Event as set forth in paragraphs A, B and C above. The Company's AAD shall equal the aggregate paid subject excess losses under Coverage A, B or C, up to an amount equal to 9.0% of the Company's Subject Gross Net Written Premium for the term of this Contract.

Participants under this agreement, with their participation percentages, are; Markel Global Reinsurance Company (15%), Munich Reinsurance America, Inc. (20%), Navigators Insurance Company (5%), Odyssey Reinsurance Company (3.75%), Transatlantic Reinsurance Company (10%), and Hannover Ruck SE (40%)

Effective January 1, 2018, the Company participants in an excess of loss reinsurance treaty for the professional and general liability which is brokered by BMS. The Company's attachment level is \$1,000,000 in the certain states and \$2,000,000 in all remaining states. The treaty provides \$25,000,000 of coverage as follows:

- Auxiliary Layer - \$1,000,000 xs \$1,000,000
- First Layer - \$3,000,000 xs \$2,000,000
- Second Layer - \$11,000,000 xs \$5,000,000
- Third Layer - \$10,000,000 xs \$16,000,000

BMS also places Awards Made and Common Loss coverage on behalf of the Company. Common Loss coverage provides \$20,000,000 xs \$20,000,000. This coverage provides protection for multiple claims determined to occur from a common event or series of events. The

Awards Made policy provides coverage for awards in excess of original policy limits and/or relating to extra contractual obligations on its policies. The coverage is \$17,000,000 xs \$3,000,000.

Effective May 18, 2018, the Company entered into an agreement with Premier Physicians Insurance Company to cede a 50% quota share on physician and surgeon policies. The Company is the beneficiary under a trust agreement providing pledged assets for liabilities held under this agreement.

Non-Fronted Other Lines

Other lines of non-fronted insurance including Long Term Care Professional Liability, General Liability, and Umbrella Liability are reinsured under multiple facultative contracts individually negotiated.

Effective September 1, 2001, the Company entered into an agreement with CRIC to cede a 50% quota share on Workers' Compensation coverages to the Archdiocese of New York, and any other entities that are related to the Archdiocese of New York. The Company is the beneficiary under a trust agreement providing pledged assets for liabilities held under this agreement.

Fronted Programs

Effective December 31, 2006, the Company fronts business for CRIC, a not-for-profit Vermont domiciled captive insurance company and wholly-owned subsidiary of CMRS. The Company has entered into a reinsurance contract with CRIC pertinent to Commercial Automobile Liability and Physical Damage and Workers' Compensation and Employers Liability risks associated with members of the CMRS whereby the Company cedes \$500,000 of

each claim to CRIC. Effective January 1, 2016, PPIC is no longer fronting the large workers' compensation and commercial automobile programs.

Effective December 1, 2005, the Company entered into an agreement with CRIC to front Professional Liability policies to long term care facilities in the state of Pennsylvania and Professional Liability and General Liability coverages to long term care facilities and other entities related to the facilities located in Kansas and other states as requested by CRIC.

Effective January 1, 2014, the Company entered into an agreement with Hills Insurance Company (Hills) to front Workers' Compensation excess coverages for hospitals, physicians and surgeons, and related healthcare and other entities of the Franciscan Alliance System.

The Company is the beneficiary under trust agreements providing pledged assets for liabilities held under these fronting arrangements with CRIC and Hills.

Effective October 1, 2017 the Company entered a fronting agreement with Omaha National Insurance Company, a non-affiliate, to issue workers compensation and employers liability insurance in California. The majority of the premiums are reinsured under three treaties with the Company retaining 5% of the first \$1,000,000 of limits. Coverage is placed with reinsurers through an intermediary, Willis Re Inc., for the following:

Quota Share up to \$1,000,000 – 25% to Omaha National Insurance Company, 35% to Third Point Reinsurance (USA) Ltd. (54 Months), 22.5% to Sirius Bermuda Insurance Co. Limited (18 months), and 12.5% to Tokio Millenium Re Ag.(18 months)

Per Person Excess of Loss: Layer 1 - \$1,000,000 XS of \$1,000,000 Layer 2 - \$3,000,000 XS of \$2,000,000 Layer 3 - \$5,000,000 excess of \$5,000,000.

CAT Excess of Loss - \$10,000,000 XS of \$10,000,000

Fronted Offshore Programs

The Company has entered into a number of fronting arrangements whereby risks written on physicians and other healthcare providers who maintain business relationships with former

shareholders of the Company are 100% ceded to off-shore captives owned by the former shareholders.

The Company has issued a number of policies covering risks including Comprehensive General Liability, Medical Professional Liability, Employment Practices Liability, Workers' Compensation, and Related Professional Liability policies to certain hospitals, physicians, and other healthcare providers owned by, or affiliated with, the Company's former shareholders. Two of these agreements, Marillac Insurance Company Ltd. and Catholic Health Partners Insurance Ltd. are retroactive agreements and will be further discussed under the caption, "Retroactive Reinsurance" below. All of these policies are reinsured 100% by the former shareholders' wholly-owned off-shore captives, which are all domiciled in Grand Cayman, Cayman Islands as follows:

<u>Former Shareholder</u>	<u>Off-Shore Captive</u>
Ascension Health	Ascension Health Insurance Ltd.
Bon Secours Health System	Bon Secours Assurance Company Ltd.
Catholic Health Initiatives	First Initiatives Insurance Ltd.
Mercy Health	CHP Insurance Ltd.
CHRISTUS Health	Emerald Assurance Cayman Ltd.
Daughters of Charity Health System	Marillac Insurance Company Ltd.
Hospital Sisters Health System	Renaissance Quality Insurance Ltd.
Trinity Health Corporation	Trinity Assurance Ltd.

The Company is the beneficiary of Letters of Credit to cover the liabilities ceded to Ascension Health Insurance Ltd., Bon Secours Assurance Company Ltd., Catholic Health Partners Insurance Ltd., Emerald Assurance Cayman Ltd., Marillac Insurance Company Ltd., and Renaissance Quality Insurance Ltd.

The Company is the beneficiary under several trust agreements providing pledged assets for liabilities held under the fronting agreements with First Initiatives Insurance Ltd., and Trinity Assurance Ltd.

The Company entered into a fronting arrangement effective October 1, 2018 for risks written on a hospital for Banner Health and is ceded 100% to its off-shore captive, Banner Indemnity, Ltd., domiciled in Grand Cayman, Cayman Islands. The Company is a beneficiary of a Letter of Credit to cover the liabilities ceded to Banner Indemnity, Ltd

Retroactive

On January 1, 2002, seven California healthcare facilities formerly in Catholic Health West separated to form the Daughters of Charity Health System (O'Connor Hospital, RFK Medical Center, Seton Coastside, Seton Medical Center, St. Francis Medical Center, St. Louise Regional Hospital, and St. Vincent Medical Center). Effective January 1, 2002, the Company entered into a workers' compensation insurance policy with Daughters of Charity Health System (DCHS) to cover certain hospitals, healthcare providers, and other entities which are owned by, or affiliated with, DCHS. Prior to this date, DCHS retained workers compensation' for its hospitals, physicians and surgeons, and related healthcare providers as part of a self-insurance program with a retention of \$250,000. This policy covered the retention on claims from July 1, 1978 through December 31, 2001 and 100% of claims after January 1, 2002.

Effective January 1, 2002, the Company entered into a reinsurance agreement with DCHS, S.P., a protected cell company in the Cayman Islands and affiliate of DCHS, who was substituted with Marillac Insurance Company, Ltd. (Marillac), a Cayman Islands company and wholly-owned subsidiary of DCHS, on December 30, 2003 covering the \$250,000 retention from July 1, 1978 to December 31, 2001. Sedgwick Claim Management Services, Inc. (Sedgwick) is assigned as the claims manager.

Effective August 1, 2009, the Company entered into a medical professional liability insurance policy with Catholic Health Partners (CHP) which provides coverage related to the

following entities: Mercy Hospital of Scranton, PA; Mercy Special Care Hospital of Nanticoke; Mercy Hospital Wilkes Barre; Mercy Hospital Johnston; and Mercy Tyler Hospital during the periods which they were owned by CHP. This business was previously written through a CHP self-insured trust. Effective July 24, 2014, CHP changed its name to Mercy Health.

In connection with the above mentioned policy and effective August 1, 2009, the Company entered into a reinsurance agreement with CHPIL, a Cayman Islands company and wholly-owned subsidiary of CHP, covering 100% of the medical professional liability policy described above. The Company has assigned CHP as the claims manager for the business covered by this policy.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Bonds	\$219,363,819	\$219,210,458	\$227,742,398	\$217,786,966
Common stock	39,174,964	44,806,327	55,643,499	0
Admitted assets	295,126,423	325,640,507	327,417,870	257,219,293
Losses	69,084,743	72,331,715	62,428,482	59,130,715
Loss adjustment expenses	30,283,201	31,618,168	33,185,137	31,684,317
Total liabilities	138,258,545	155,463,536	145,166,325	149,422,558
Capital and surplus	156,867,878	170,176,971	182,251,545	107,796,736
Premium income	36,508,486	47,199,168	34,547,074	37,347,672
Losses	18,570,182	13,679,193	11,868,526	18,217,115
Net income	7,336,066	11,809,228	4,569,554	24,033,868

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2018

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$217,786,966		\$217,786,966
Common stock	1,027,657	\$1,027,657	
Cash and cash equivalents	11,692,196		11,692,196
Other invested assets	<u>800,000</u>	<u>800,000</u>	
Subtotal, cash and invested assets	\$231,306,819	\$1,827,657	\$229,479,162
Investment income due and accrued	1,730,135		1,730,135
Uncollected premiums and agents' balances in the course of collection	209,200	122,176	87,024
Deferred premiums and agents' balances booked but deferred and not yet due	20,942,498		20,942,498
Amounts recoverable from reinsurance	1,428,381		1,428,381
Net deferred tax asset	2,668,870		2,668,870
Electronic data processing equipment	63,750	23,730	40,019
Furniture and equipment	28,017	28,017	
Receivable from parent, subsidiaries and affiliates	612,169		612,169
Miscellaneous receivable	18,053	18,053	
Premium and state income tax deposits	<u>231,035</u>		<u>231,035</u>
Totals	<u>\$259,238,927</u>	<u>\$2,019,634</u>	<u>\$257,219,293</u>

Liabilities, Surplus, and Other Funds

Losses	\$ 59,130,715
Loss adjustment expenses	31,684,317
Commissions payable	589,820
Other expenses	4,355,656
Taxes, licenses and fees	1,874,222
Current federal and foreign income taxes	6,121,493
Unearned premiums	27,765,651
Advance premium	1,421,153
Ceded reinsurance premium payable	15,507,735
Funds held by company under reinsurance treaties	638,079
Amounts withheld or retained by company for account of others	418,282
Provision for reinsurance	418,458
Payable to parent, subsidiaries and affiliates	344,165
Reserves on retroactive reinsurance ceded	(1,012,829)
Miscellaneous payable	<u>165,640</u>
Total liabilities	<u>\$149,422,558</u>
Special surplus from retroactive funds	\$ 1,012,829
Common capital stock	5,000,000
Gross paid in and contributed surplus	43,353,304
Unassigned funds	<u>58,430,602</u>
Total capital and surplus	<u>\$107,796,736</u>
Totals	<u>\$257,219,293</u>

STATEMENT OF INCOME – 2018

Underwriting Income

Premiums earned	\$37,347,672
Losses incurred	\$18,217,115
Loss adjustment expenses incurred	11,982,527
Other underwriting expenses incurred	9,681,503
Prior year reinsurance payable correction	<u>3,110,987</u>
Total underwriting deductions	<u>\$42,992,132</u>
Net underwriting loss	<u>\$ (5,644,460)</u>

Investment Income

Net investment income earned	7,237,130
Net realized capital gain	<u>\$22,074,207</u>
Net investment gain	\$29,311,337

Other Income

Management fee/education revenues	21,002
Change in incurred retroactive reinsurance	66,540
NCCI recovery	<u>1,115</u>
Net income before federal income taxes	\$23,755,534
Federal income taxes incurred	<u>(278,334)</u>
Net income	<u>\$24,033,868</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus, beginning	\$150,691,145	\$156,867,878	\$170,176,971	\$182,251,545
Net income	7,336,066	11,809,228	4,569,554	24,033,868
Change in net unrealized capital gain or losses	(1,339,738)	647,958	9,863,442	(18,085,023)
Change in net deferred income tax	372,047	984,141	(3,111,283)	(172,585)
Change in nonadmitted assets	10,146	70,747	584,996	(49,516))
Change in provision for reinsurance	(201,788)	(202,981)	167,865	(181,554)
Dividends to stockholders	<u> </u>	<u> </u>	<u> </u>	<u>(80,000,000)</u>
Net change for the year	<u>\$ 6,176,733</u>	<u>\$ 13,309,093</u>	<u>\$ 12,074,574</u>	<u>\$(74,454,809)</u>
Capital and surplus, ending	<u>\$156,867,878</u>	<u>\$170,176,971</u>	<u>\$182,251,545</u>	<u>\$107,796,736</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$58,430,602 as reported in the Company's 2018 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Custodial Agreement Compliance

The Company's custodial agreement with Northern Trust, in effect during the exam period, did not contain required provisions outlined in Nebraska Administrative Rules and Regulations Title 210, Chapter 81 (210 NAC Ch. 81 s 003). The agreement was subsequently amended to include the necessary language and reference Nebraska as the state of incorporation.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

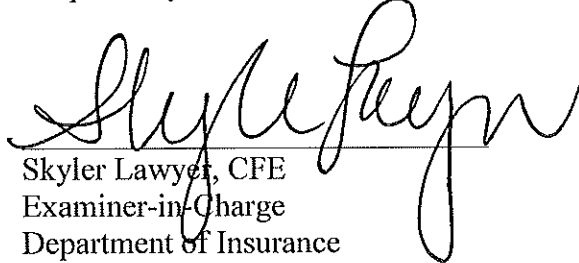
There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Gordon Hay, FCAS, MAAA, CPCU with the Nebraska Department of Insurance and Financial Examiners, Information Systems Specialists, and Actuarial Examiners with or contracted by the Massachusetts Division of Insurance, Ohio Department of Insurance, New Jersey Department of Banking and Insurance, and the District of Columbia Department of Insurance, Securities, and Banking; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Skyler Lawyer, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

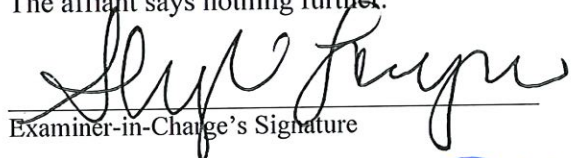
State of Nebraska,

County of Lancaster,

Skyler Lawyer, being duly sworn, states as follows:

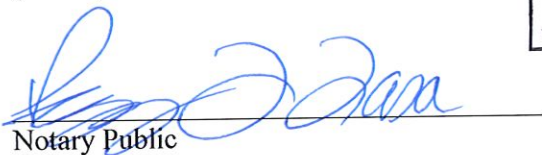
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Preferred Professional Insurance Company
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of the Preferred Professional Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

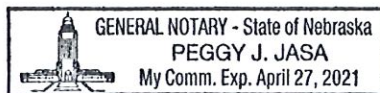
The affiant says nothing further.


Examiner-in-Charge's Signature

Subscribed and sworn before me by Skyler Lawyer on this 22 day of May, 2020.

(SEAL)


Notary Public



My commission expires 4-27-2021 [date].