

REPORT ON EXAMINATION

OF

HEALTHCARE PROFESSIONALS INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2014

DATE OF REPORT

FEBRUARY 24, 2016

EXAMINER

SUSAN WEIJOLA, CPCU

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

February 24, 2016

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31261 dated December 1, 2014, attached hereto, I have made an examination into the condition and affairs of Healthcare Professionals Insurance Company Inc., as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Healthcare Professionals Insurance Company, Inc.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s home office located at 217 Great Oaks Boulevard, Albany, NY 12203.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the five year period from January 1, 2010 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners relied upon audit work performed by the Company’s independent public accountants where deemed appropriate by the examiner.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Healthcare Professionals Insurance Company, Inc. (“HPIC”) was incorporated under the laws of the State of New York on June 7, 2005 and commenced business on January 10, 2006. HPIC was a wholly owned subsidiary of HANYS Member Hospitals Self-Insurance Trust (the “Trust”). The Trust was formed in response to the mandate of the Medical Malpractice Reform Act of 1985 and represented the interests of over eighty hospitals in New York State. HPIC was sold to HPIC Holdings, Inc. on March 1, 2013.

The Company was formed for the purpose of writing professional liability insurance for hospitals and physicians. For physicians and surgeons, the Company writes excess liability policies pursuant to Section 18 of Chapter 266 of the Laws of 1986, as from time to time amended and extended (“Section 18” policies or coverages). The Company can write hospital professional liability insurance policies for hospitals on either a primary or excess layer basis.

Capital paid in is \$10,000,000 consisting of 100 shares of \$100,000 par value per share common stock. Gross paid in and contributed surplus is \$10,000,010. Gross paid in and contributed surplus did not change during the examination period.

A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than ten members. The board meets at least four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Samuel Francis Bosco Wynantskill, NY	Chief of Emergency Medicine St. Peter's Health Partners
Joseph Patrick Corcoran Washington Township, NJ	Consultant to the President New York Eye and Ear Infirmary
Dennis James Loughridge Guilderland, NY	Secretary Healthcare Professionals Insurance Company, Inc.
Arthur Gordon McAleer, Jr. Rockport, ME	President McAleer & Associates
Mark Daryl Morris Slingerlands, NY	President & Chief Executive Officer Healthcare Professionals Insurance Company, Inc.
Edward Gerard Murphy, MD Fairfield, CT	Operating Partner Radius Ventures
Cleo Mae Ostrander Saratoga Springs, NY	Vice President, Finance Healthcare Professionals Insurance Company, Inc.
Mark Carl Schoell Orchard Park, NY	Chief Executive Officer United Memorial Medical Center
Daniel Peter Walsh Fairfield, CT	Healthcare Management Consultant
Howard Jay Williams, MD Manlius, NY	Chairman & Chief Executive Officer Associated Medical Professionals of NY, PLLC

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

Upon review of the Charter and By-laws, it was noted that Article II Section 1 (a) states "The business and property of the Company shall be conducted and managed by a Board of Directors consisting of not less than seven nor more than nine directors." After a review of the board meeting minutes and the Jurat Page of the 2014 annual statement filed with the Department, it was noted that there were ten active members of the board.

Subsequent to the examination date, the Company amended its by-laws to change the number of directors to not less than seven nor more than ten. Nevertheless, it is recommended that the Company fully comply with the provisions of its charter and by-laws at all times. It is noted that a similar recommendation was included in the prior examination report.

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Edward Gerard Murphy, MD	Executive Chairman
Joseph Patrick Corcoran	Vice Chairman
Mark Daryl Morris	President & Chief Executive Officer
Dennis James Loughridge	Secretary
Mark Carl Schoell	Treasurer

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in New York only.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York

Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$3,800,000.

The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2010	\$31,844,031
2011	\$27,315,188
2012	\$22,663,335
2013	\$25,733,090
2014	\$23,645,011

The Company writes medical professional liability for physicians and hospitals on a direct basis. Since 2006, the direct hospital business was written through the Free Trade Zone.

Subsequent to the examination date, the Company submitted a rate filing for hospital and direct pay physicians excess business. The direct pay excess coverage is for physicians and dentists who do not qualify for the NYS Section 18 program. The filing is currently under review by the Department.

C. Reinsurance

Assumed Reinsurance

Assumed reinsurance accounted for approximately 32% of the Company's gross premiums written at December 31, 2014. As of the examination date, the Company assumes 50% of upstate hospital primary and excess liability coverage pursuant to a reinsurance treaty with an authorized cedant, Medical Liability Mutual Insurance Company ("MLMIC").

Under a separate reinsurance treaty, the Company assumed 50% of physician excess business written by MLMIC for the 2006-2007 and 2007-2008 policy years. The treaty was not renewed effective July 1, 2008.

The Company entered into a reinsurance treaty to assume 100% of all business written by its former parent, the Trust, during 2005 and 2006. Effective July 1, 2007, the treaty was rescinded and replaced with a novation agreement, whereas, HPIC assumed directly all of the liabilities under the physician excess policies for July 1, 2005 through June 30, 2006 and July 1, 2006 through June 30, 2007.

Ceded Reinsurance

As of the examination date, the Company was not actively ceding premiums.

The Company reported reinsurance recoverables of approximately \$9.5 million related to the following two excess reinsurance agreements: 1. the professional liability excess cessions reinsurance treaty with Transatlantic Reinsurance Company and 2. the 50% cession of physician excess business with MLMIC for the 2006-2007 and 2007-2008 policy years. Both of the aforementioned reinsurance agreements are in run-off.

The examination review of Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62R. Representations were supported by appropriate risk transfer documentation and by an attestation from the Chief Executive Officer, pursuant to the NAIC Annual Statement Instructions.

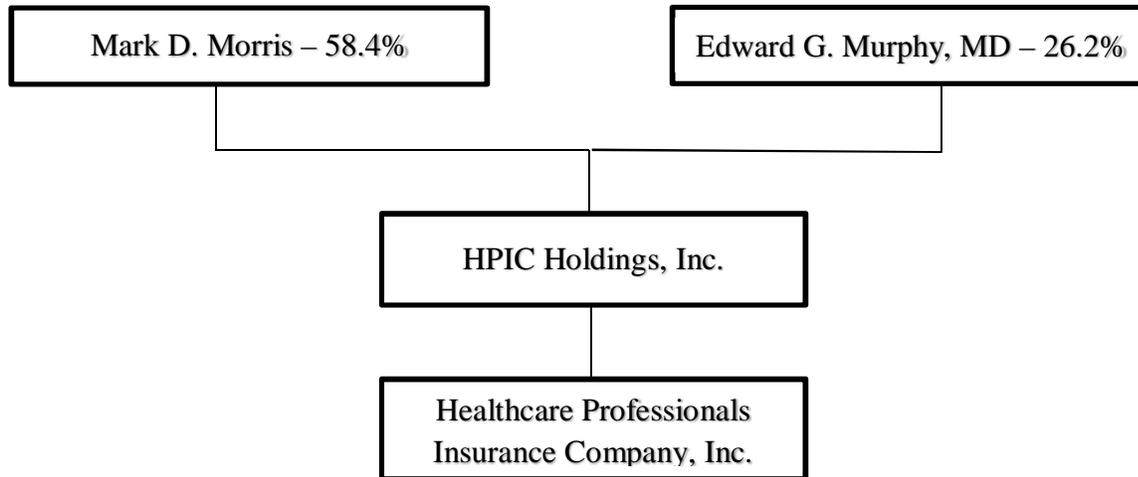
D. Holding Company System

The Company is a wholly-owned subsidiary of HPIC Holdings, Inc. (“HHI”), a Delaware corporation.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner except for the 2014 statement. Pursuant to Part 80-1.4 of New York Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company’s fiscal year.

The Company filed Form HC1 for 2014 more than 120 days following the end of its ultimate holding company's fiscal year. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

The following is a chart of the holding company system at December 31, 2014:



At December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

Tax Sharing Agreement

Effective October 1, 2014, a tax sharing agreement was entered into by HPIC with HHI. The agreement sets forth the terms relating to the allocation of federal income tax liabilities for taxable years in which they file consolidated federal income tax returns. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	65%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	85%
Premiums in course of collection to surplus as regards policyholders	4%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$171,502,588	86.7%
Other underwriting expenses incurred	28,892,457	14.6%
Net underwriting loss	<u>(2,564,167)</u>	<u>(1.3)%</u>
Premiums earned	<u>\$197,830,878</u>	<u>100.00%</u>

F. Risk Management and Internal Controls

- i. During this examination, it was noted that the Company lacks a formal succession plan. Accordingly, it is recommended that the Company develop a formal succession plan in order to address the sudden departure of key executive staff that could be detrimental to the Company.
- ii. A risk focused assessment and review of the Company's information technology ("IT") general controls was performed in accordance with NAIC requirements as outlined in the Financial Condition Examiner's Handbook.

Based on the review, the Company does not have formal IT policies sufficient for IT governance, IT procurement, security, monitoring of service providers, business continuity and disaster recovery, data retention, physical controls and monitoring of IT. The absence of such policies indicates that the Company's controls in the captioned areas appear to be inadequate.

It is recommended that the Company strengthen its controls in these areas by establishing formal IT policies.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$212,568,055	\$ 0	\$212,568,055
Cash, cash equivalents and short-term investments	27,116,572		27,116,572
MMIP Asset	6,920,361		6,920,361
Investment income due and accrued	1,397,232		1,397,232
Uncollected premiums and agents' balances in the course of collection	2,399,581		2,399,581
Deferred premiums, agents' balances and installments booked but deferred and not yet due	19,085,093		19,085,093
Net deferred tax asset	3,467,044	1,573,791	1,893,253
Electronic data processing equipment and software	8,945		8,945
Furniture and equipment, including health care delivery assets	32,319		32,319
MMIP Accrued Interest	39,730	0	39,730
Prepaid Expenses	104,208	104,208	0
Deferred Comp	<u>5,710,975</u>	<u>0</u>	<u>5,710,975</u>
Total assets	<u>\$278,850,115</u>	<u>\$1,677,999</u>	<u>\$277,172,116</u>

Liabilities, surplus and other funds

	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and Loss Adjustment Expenses	\$205,249,000	\$194,713,029	\$(10,535,971)
Other expenses (excluding taxes, licenses and fees)	230,248	230,248	
Current federal and foreign income taxes	4,937,167	4,937,167	
Unearned premiums	16,360,477	16,360,477	
Deferred Comp Liability	4,159,095	4,159,095	
Miscellaneous Payable	2,962,106	2,962,106	
MMIP PDR Reserve	<u>174,337</u>	<u>174,337</u>	<u>0</u>
Total liabilities	<u>234,072,430</u>	<u>223,536,459</u>	<u>(10,535,971)</u>
 <u>Surplus and Other Funds</u>			
Common capital stock	10,000,000	\$10,000,000	
Gross paid in and contributed surplus	10,000,010	10,000,010	
Unassigned funds (surplus)	<u>23,099,676</u>	<u>33,635,647</u>	<u>10,535,971</u>
Surplus as regards policyholders	<u>43,099,686</u>	<u>53,635,657</u>	<u>10,535,971</u>
Totals	<u>\$277,172,116</u>	<u>\$277,172,116</u>	<u>\$ 0</u>

Note: The Company is unaware of any potential exposure to any tax assessments and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period was \$17,997,459 as detailed below:

Underwriting Income

Premiums earned		\$197,830,878
Deductions:		
Losses and loss adjustment expenses incurred	\$171,502,588	
Other underwriting expenses incurred	29,018,409	
Aggregate write-ins for underwriting deductions	<u>(125,952)</u>	
Total underwriting deductions		<u>200,395,045</u>
Net underwriting gain or (loss)		\$ (2,564,167)

Investment Income

Net investment income earned	23,964,458	
Net realized capital gain	<u>5,948,438</u>	
Net investment gain or (loss)		29,912,896

Other Income

Net gain or (loss) from agents' or premium balances charged off	(2,097)	
Aggregate write-ins for miscellaneous income	<u>5,818,334</u>	
Total other income		<u>5,816,237</u>

Net income before federal and foreign income taxes		33,164,966
Federal and foreign income taxes incurred		<u>15,167,507</u>
Net Income		<u>\$17,997,459</u>

C. Capital and surplus account

Surplus as regards policyholders increased \$14,595,110 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	\$28,504,576
Net income	\$17,997,459		
Change in net unrealized foreign exchange capital gain (loss)		\$ 9,178	
Change in nonadmitted assets	1,587,392		
Change in provision for reinsurance		1,380,580	
Change in treasury stock	<u>0</u>	<u>3,600,000</u>	
Net increase (decrease) in surplus	<u>\$19,584,868</u>	<u>\$4,989,758</u>	<u>14,595,110</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$43,099,686</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$205,249,000 is \$10,535,971 more than the \$194,713,029 reported by the Company in its December 31, 2014, filed annual statement. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

The examination change is due to the following:

While HPIC’s carried reserves are within the Department’s range of reasonable reserve estimates on both gross and net basis, and on both nominal and discounted basis, they are closer to the low end of the Department’s reasonable range when the reserves are reviewed on a discounted basis. The major differences are in the Physicians Excess Occurrence segment where

the Department's central estimate is substantially higher than HPIC's net discounted carried reserves. This is in large part due to the discounting methodology utilized by the Company that is not consistent with generally accepted actuarial practice.

Accordingly, it is recommended that the Company address the reserving inadequacy and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A	<p>It was recommended that the Company comply fully with the provisions of its charter and by-laws at all times.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	6
B	<p>It was recommended that the Company file with the Department its annual holding company registration statement ("NAIC FORM B") pursuant to the provisions of Department Circular Letter No. 10 (2010).</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	10
	<p>It was recommended that, in the future, the Company prepare a written agreement before entering into any service arrangements with its parent in Compliance with Section 1608 (c) of the NYIL.</p> <p>The Company has complied with this recommendation.</p>	11
C	<p>It was recommended that the Company classify its expenses in accordance with the Annual Statement Instructions and Department Regulation 30.</p> <p>The Company has complied with this recommendation.</p>	13

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u> It is recommended that the Company fully comply with the provisions of its charter and by-laws at all times.	5
B. <u>Holding Company System</u>	
i. It is recommended that the Company file its annual holding company registration statement ("NAIC Form B") with the Department in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.	8
C. <u>Risk Management and Internal Controls</u>	
i. It is recommended that the Company develop a formal succession plan in order to address the sudden departure of key executive staff that would be detrimental to the Company.	9
ii. It is recommended that the Company strengthen its controls in the IT governance, security, operations and alignment with business needs areas by establishing formal IT policies in these areas.	9
D. <u>Losses and loss adjustment expenses</u> It is recommended that the Company address the reserving inadequacy and increase its carried loss and loss adjustment expense reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55.	14

Respectfully submitted,

SUSAN WEIJOLA, CPCU
SENIOR INSURANCE EXAMINER

STATE OF NEW YORK)
)ss:
COUNTY OF ALBANY)

Susan Weijola, being duly sworn, deposes and says that the foregoing report, subscribed by her is true to the best of her knowledge and belief.

SUSAN WEIJOLA, CPCU

Subscribed and sworn to before me

this _____ day of _____, 2016.

APPOINTMENT NO. 31261

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Susan Weijola

as a proper person to examine the affairs of the

Healthcare Professional Insurance Company Inc.

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 1st day of December, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



*Rolf Kaumann
Deputy Chief Examiner*

