

REPORT ON EXAMINATION

OF

HEALTHCARE PROFESSIONALS INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

APRIL 19, 2021

EXAMINER

SABU CHERIAN

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Department of Financial Services

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Acting Superintendent

October 1, 2021

Honorable Adrienne A. Harris
Acting 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 31958 dated June 25, 2019, attached hereto, I have made an examination into the condition and affairs of Healthcare Professionals Insurance Company as of December 31, 2018, 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.

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, New York 12203.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Healthcare Professionals Insurance Company, a single-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the four-year period from January 1, 2015 through December 31, 2018. 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, which requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the 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 was incorporated under the laws of the State of New York on June 7, 2005 and commenced business on January 10, 2006. The Company 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 80 hospitals in New York State. The Company was formed for the purposed of writing professional liability insurance for hospitals and physicians. For physicians and surgeons, the Company wrote excess liability policies pursuant to Section 18 of Chapter 266 of the Laws of New York of 1986, as from time to time amended and extended (“Section 18” policies or coverages).

On July 1, 2007, the Company entered into a novation agreement with the Trust. Pursuant to the terms of the agreement, the Company acquired all liabilities for Section 18 of Chapter 266 of the Laws of New York State of 1986 policies of excess medical malpractice liability insurance and all liabilities for direct pay first layer excess liability policies for occurrences July 1, 2005 through June 30, 2006 and July 1, 2006 through June 30, 2007 originally written by the Trust. The prior reinsurance treaty with the Trust that ceded 100% quota share of liabilities for these policies was rescinded.

On March 1, 2013, the Trust sold the Company to HPIC Holdings, Inc. On June 30, 2017, the Company was placed into voluntary run-off.

A. Corporate Governance

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 four times during each calendar year. At December 31, 2018, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Samuel Francis Bosco, MD Wynantskill, New York	Physician, St. Peter’s Health Partners
Joseph Patrick Corcoran Longboat Key, Florida	Vice Chairman, HPIC Holdings, Inc.
Dennis James Loughridge Voorheesville, New York	Secretary, HPIC Holdings, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Veronica Katherine Loughridge Voorheesville, New York	President & Chief Executive Officer, Healthcare Professionals Insurance Company
Arthur Gordon McAleer Rockport, Maine	Compliance Officer, Bixby & Company, LLC
Mark Daryl Morris Sarasota, Florida	Chairman of the Board, HPIC Holdings, Inc.
Cleo Mae Ostrander Saratoga Springs, New York	Vice President, Finance, Healthcare Professionals Insurance Company
Mark Carl Schoell Orchard Park, New York	Volunteer, Rochester Regional Health Systems, United Memorial Medical Center
Howard Jay Williams, M.D. Manlius, New York	Chairman & Chief Executive Officer, Associated Medical Professional of NY, PLLC

As of December 31, 2018, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Mark Daryl Morris	Chairman
Joseph Patrick Corcoran	Vice Chairman
Veronica Katherine Loughridge	President & Chief Executive Officer
Dennis James Loughridge	Secretary
Mark Carl Schoell	Treasurer

B. Territory and Plan of Operation

As of December 31, 2018, 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

<u>Paragraph</u>	<u>Line of Business</u>
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 upon 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.

As previously noted, during 2017, the Company stopped writing business and went into run-off. The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2015	\$20,190,666	\$10,179,514	\$30,370,180
2016	\$21,112,811	\$ 11,675	\$21,124,486
2017	\$ 1,788,248	0	\$ 1,788,248
2018	\$ 190,735	0	\$ 190,735

The Company was licensed to write multiple lines of business; however, it wrote only professional liability (medical malpractice) insurance for hospitals and physicians. Through 2014, the direct hospital business was written through the Free Trade Zone, pursuant to Section 6302 of the New York Insurance Law. In 2015, the Company was no longer able to write in the Free Trade Zone and submitted a rate filing for hospital business. Subsequently, in 2015, the Company did not renew its hospital primary business.

On October 28, 2013, the Company signed an Assumption of Liabilities Agreement for the Trust's participation share in the Medical Malpractice Insurance Pool of New York State ("MMIP"). Current premiums represent allocated premiums from the MMIP.

Assumed premiums were derived from a reinsurance treaty whereby the Company assumed 50% of upstate hospital primary and excess malpractice insurance from Medical Liability Mutual Insurance Company ("MLMIC"). This treaty was non-renewed effective December 31, 2015. Furthermore, this treaty was commuted on March 24, 2021, whereby the Company paid a commutation fee of \$17,646,495. The

commutation resulted in a gain of approximately \$2,700,000 to the Company's surplus position in the first quarter of 2021.

C. Reinsurance Ceded

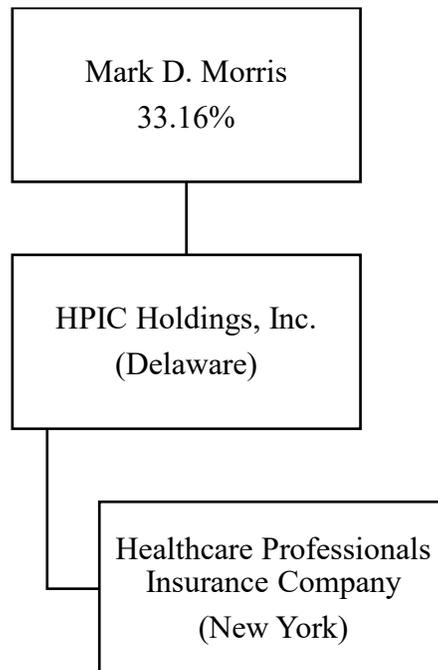
As of the examination date, the Company is in run-off status, and has no material reinsurance recoverables.

D. Holding Company System

The Company is a wholly owned subsidiary of HPIC Holdings, Inc. ("HHI"), a Delaware corporation. HHI is a private holding company that is ultimately controlled, as defined by Section 1501 of the New York Insurance Law, by Mark D. Morris.

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 pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2018:



Holding Company Agreements

At December 31, 2018, the Company was party to the following agreement with other members of its holding company system:

Tax Allocation Agreement

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

E. Significant Ratios

The ratios normally contained herein are not applicable due to the Company's run-off status.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2018, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$108,162,022	\$ 0	\$108,162,022
Common stocks (stocks)	43,577,448	0	43,577,448
Cash, cash equivalents and short-term investments	4,463,610	0	4,463,610
MMIP asset	8,526,290	0	8,526,290
Investment income due and accrued	971,883	0	971,883
Deferred premiums, agents' balances and installments booked but deferred and not yet due	631,172	0	631,172
Current federal and foreign income tax recoverable and interest thereon	280,093	0	280,093
Net deferred tax asset	1,597,650	310,731	1,286,919
Electronic data processing equipment and software	6,352	0	6,352
Furniture and equipment, including health care delivery assets	2,817	2,817	0
MMIP accrued interest	55,882	0	55,882
Prepaid expenses	92,810	92,810	0
Deferred compensation	3,690,789	0	3,690,789
A/R miscellaneous	<u>125,453</u>	<u>0</u>	<u>125,453</u>
Total assets	<u>\$172,184,271</u>	<u>\$406,358</u>	<u>\$171,777,913</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$105,138,924
Other expenses (excluding taxes, licenses and fees)	204,831
Unearned premiums	33,873
Deferred compensation liability	4,346,027
Miscellaneous payable	2,276,290
MMIP PDR reserve	<u>3,226</u>
Total liabilities	\$112,003,171

Surplus and Other Funds

Common capital stock	\$10,000,000
Gross paid in and contributed surplus	10,000,010
Unassigned funds (surplus)	<u>39,774,732</u>
Surplus as regards policyholders	<u>59,774,742</u>
Total liabilities, surplus and other funds	<u>\$171,777,913</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2015 through 2018. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$28,305,563, as detailed below:

Underwriting Income

Premiums earned		\$69,800,252
Deductions:		
Losses and loss adjustment expenses incurred	\$25,348,420	
Other underwriting expenses incurred	27,172,124	
Aggregate write-ins for underwriting deductions	<u>(171,111)</u>	
Total underwriting deductions		<u>52,349,433</u>
Net underwriting gain or (loss)		\$17,450,819

Investment Income

Net investment income earned	\$21,418,525	
Net realized capital gain	<u>689,706</u>	
Net investment gain or (loss)		22,108,231

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (4,193)	
Finance and service charges not included in premiums	668	
MMIP investment income/gain	1,105,611	
Aggregate write-ins for miscellaneous income	<u>574,358</u>	
Total other income		<u>1,676,444</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$41,235,494
Federal and foreign income taxes incurred		<u>12,929,931</u>
Net income		<u>\$28,305,563</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$6,139,085 during the four-year examination period January 1, 2015 through December 31, 2018, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2014			\$53,635,657
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$28,305,563		
Net unrealized capital gains or (losses)		\$ 976,645	
Change in net deferred income tax		1,016,545	
Change in nonadmitted assets	1,271,641		
Cumulative effect of changes in accounting Principles	1		
Dividends to stockholders		21,444,944	
Aggregate write-ins for gains and losses in surplus	<u>14</u>	<u>0</u>	
Total gains and losses	\$29,577,219	\$23,438,134	
Net increase (decrease) in surplus			<u>6,139,085</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2018			<u>\$59,774,742</u>

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.

D. Analysis of Changes to Surplus

Surplus as regards policyholders as of December 31, 2018, as reported by the Company	\$59,774,742
Examination change to loss and loss adjustment expense reserves	<u>(28,483,600)</u>
Surplus as regards policyholders as of December 31, 2018, per report on examination	<u>\$31,291,142</u>

E. Analysis of Changes to Income

Net income for the examination period, as reported by the Company	\$28,305,563
Examination change in loss and loss adjustment expense reserves	(28,483,600)
Reversal of prior examination change in loss and loss adjustment expense reserves	<u>10,535,971</u>
Net income (loss) for the examination period, per report on examination	<u>\$10,357,934</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for loss and loss adjustment expense reserves of \$133,622,524 is \$28,483,600 more than the \$105,138,924, reported by the Company in its filed annual statement as of December 31, 2018. The examination change reflects, on a discounted basis, the Company's unfavorable loss and loss adjustment development of \$32,107,000 noted in the Company's filed annual statement as of December 31, 2020. 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 and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 55.

Section 1303 of the New York Insurance Law states, in part:

"Every insurer shall . . . maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of the statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims."

Further, Paragraph 10 of SSAP No. 55 states, in part:

"The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience. . ."

By virtue of the Company's 24-month unfavorable loss and loss adjustment expenses development for accident years 2018 and prior, as reported by the Company in its filed December 31, 2020 annual statement, the Company has acknowledged a deficiency of \$28,483,600. Subsequently, the Company commuted a reinsurance treaty with MLMIC in the first quarter of 2021 (see additional details in the

Territory and Plan of Operations section of this report), which resulted in some positive impact to the runoff development.

As the Company's 24-month discounted unfavorable loss and loss adjustment expenses development is equal to our recommended reserve deficiency, no further changes to the financial statements are required from the Company.

5. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus ("COVID-19") pandemic. The COVID-19 pandemic has continued to develop throughout 2020 and 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. The Department will take necessary action if a solvency concern arises.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following recommendations (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Management</u> It was recommended that the Company fully comply with the provisions of its charter and by-laws at all times.</p> <p>The Company has complied with this recommendation.</p>	5
<p>B. <u>Holding Company</u> It was 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.</p> <p>The Company has complied with this recommendation.</p>	8
<p>C. <u>Risk Management and Internal Controls</u> It was 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.</p> <p>The Company has complied with this recommendation.</p>	9
<p>D. <u>Losses and Loss Adjustment Expenses</u> It was 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.</p> <p>The Company has complied with this recommendation.</p>	14

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Sabu Cherian
Senior Insurance Examiner

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

Sabu Cherian, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/_____
Sabu Cherian

Subscribed and sworn to before me

this _____ day of _____, 2021.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, 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:

Sabu Cherian

as a proper person to examine the affairs of the

Healthcare Professionals Insurance Company

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 25th day of June, 2019

LINDA A. LACEWELL
Superintendent of Financial Services



By:

Joan M. Riddell

Joan Riddell
Deputy Bureau Chief