

REPORT OF EXAMINATION

OF

PROASSURANCE SPECIALTY INSURANCE COMPANY, INC.

BIRMINGHAM, ALABAMA

AS OF

DECEMBER 31, 2015

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EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF JEFFERSON**

Rhonda B. Ball, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of ProAssurance Specialty Insurance Company, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of ProAssurance Specialty Insurance Company, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

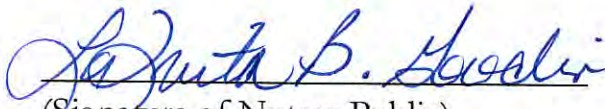
The affiant says nothing further.



Examiner-in-Charge

Subscribed and sworn before me by Rhonda B. Ball on this 28th day of April 2017.

(SEAL)



(Signature of Notary Public)

My commission expires 10/26/18



KAY IVEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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CHARLES M. ANGELL
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RAGAN INGRAM
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
SCOTT F. PILGREEN
GENERAL COUNSEL
REYN NORMAN

April 28, 2017

Honorable Jim L. Ridling, Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

PROASSURANCE SPECIALTY INSURANCE COMPANY, INC.

at its home office located at 100 Brookwood Place, Birmingham, Alabama 35209, as of December 31, 2015. The Report of Examination is submitted herewith. Where the description "Company" or "PRA Specialty" appears herein without qualification, it will be understood to indicate ProAssurance Specialty Insurance Company, Inc.

SCOPE OF EXAMINATION

We have performed our multi-state examination of ProAssurance Specialty Insurance Company, Inc. The last examination covered the period of January 1, 2007 through December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2015.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The examination was conducted as a coordinated examination with the following affiliated companies: ProAssurance Indemnity Company, Inc. (Indemnity) of Alabama, ProAssurance Casualty Company (Casualty) of Michigan, Podiatry Insurance Company of America (PICA) of Illinois, PACO Assurance Company, Inc. (PACO) of Illinois, Medmarc Casualty Insurance Company (Medmarc) of Vermont, Noetic Specialty Insurance Company (Noetic) of Vermont, and the Company. These companies are all subsidiaries of ProAssurance Corporation (PRA Corp.) and were coordinated with the Company's five-year examination with Alabama being the lead state. During planning, examiners from all four states interviewed the members of management and reviewed lines of business and systems utilized to determine what areas would be coordinated. The key activities to be coordinated fully with all four states were Investments and Related Parties. The other key activities determined to be examined were Reinsurance, Reserving/Claims Handling, and Premiums/Underwriting, which were coordinated between the Company, Indemnity and Casualty. In addition, the Specialty examination covered those issues identified during the planning deemed immaterial to the coordinated examination but were material to the Specialty examination. Where deemed appropriate, transactions, activities and similar items subsequent to 2015 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment was documented separately following the financial statements.

The Company's 2011 through 2015 annual statements were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examinations of Casualty and Indemnity, which utilize the same systems. All of the companies utilize the same system for investments. The IS examination included a review of management and organizational controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

Alabama performed a market conduct examination concurrently with the financial examination. The examination included reviews of the Company's territory and plan of operation, management and operations, claims, complaint handling, marketing and sales, policyholder services, producers' licensing, underwriting and rating, and privacy standards. See "MARKET CONDUCT ACTIVITIES" on page 16 for further discussion of the Company's market conduct examination.

PRA Corp. maintains an Internal Audit (IA) Department, which is charged with performing the internal audit function for all companies within the holding company system. The IA Department is subject to oversight by PRA Corp.'s Audit Committee which is comprised of all outside directors. Reports generated by the IA Department were made available to the examiners and were used in the examination as deemed appropriate. In addition, the IA Department is responsible for the testing and documentation of all processes, the risks for each, and all mitigating controls over those risks as required by Sarbanes-Oxley (SOX) 404. The examiners reviewed the processes tested and requested the workpapers for specific ones, which had been identified as significant to the key activities and sub-activities being examined. The workpapers were provided and were utilized where deemed appropriate.

Ernst & Young, LLP was the Company's certified public accountant (CPA) for all years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation for Specialty was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2015.

ORGANIZATION AND HISTORY

The Company (formerly known as Red Mountain Casualty Insurance, Inc. of Alabama, as ProNational Casualty Company and as PICOM Insurance Company of Illinois) was incorporated on December 5, 1994, under the provisions of the Illinois Insurance Code. On January 5, 1995, the Illinois Director of Insurance issued a Certificate of Authority to transact all lines of business enumerated in Class 2 except (k) and 3, Section 4 of the Illinois Insurance Code. Paid in capital of \$12,400,000 consisted of 1,000,000 shares of \$1 par value common stock and \$11,400,000 of contributed surplus. Authorized stock of the Company was as follows:

8,000,000 shares authorized – common stock
1,000,000 shares issued and outstanding common stock
2,000,000 shares authorized – preferred stock
0 shares issued and outstanding preferred stock

ProNational Casualty Company was a wholly-owned subsidiary of ProNational Insurance Company (ProNational) (formerly known as PICOM Insurance Company), Okemos, Michigan. ProNational was incorporated on June 27, 1980, under the laws of Michigan as Physicians Insurance Company of Michigan.

An Assumption Reinsurance Agreement, effective as of December 31, 1997, between ProNational and the Company was approved by the Director of the Illinois Insurance Department on November 4, 1997. All of the Company's liabilities and obligations arising under its policies were ceded to ProNational. From that time, the Company did not write any new business until October 1, 2002.

The Company redomesticated and reincorporated as an Alabama corporation on September 9, 2002, pursuant to the laws of the State of Alabama. On September 13, 2002, the Company changed its name to Red Mountain Casualty Insurance Company, Inc. (Red Mountain).

On August 10, 2006, the Company became a wholly-owned subsidiary of Professionals Group, Inc. (PGI) through a stock dividend paid by ProNational to its parent, PGI, a Michigan holding corporation.

On May 7, 2007, the Company's then immediate parent, PGI, was merged into PRA Professional Liability Group, Inc., another subsidiary of ProAssurance Corporation.

On December 1, 2008, PRA Casualty and PRA Specialty updated the Quota Share Reinsurance Agreement in order to add a provision which would allow for a reinsurance trust and to clarify the language contained in the agreement.

Effective December 15, 2008, Red Mountain changed its name to ProAssurance Specialty Insurance Company, Inc.

At December 31, 2015, the Company had 8,000,000 shares of \$1 par value common stock authorized of which 3,000,000 were issued and outstanding. The Company had no preferred stock authorized, issued or outstanding. The gross paid in and contributed surplus of the Company was \$12,466,528.

MANAGEMENT AND CONTROL

Shareholder

At December 31, 2015, the Company was a stock corporation with control vested in its stockholder. The Company was a wholly-owned subsidiary of PRA Professional Liability Group, Inc., which was 100% owned by ProAssurance Corporation (PRA Corp.), a Delaware stock corporation.

Board of Directors

Directors are elected for one year terms by the shareholder. Directors serving at December 31, 2015 were as follows:

Director/Residence

William Stancil Starnes
Birmingham, Alabama

Principal Occupation

Chairman, President, Chief Executive
Officer of ProAssurance Corporation

Howard Harley Friedman
Timonium, Maryland

President of Healthcare Professional
Liability and Chief Underwriting Officer of
ProAssurance Corporation

Edward Lewis Rand, Jr.
Birmingham, Alabama

Executive Vice President, Chief Financial
Officer and Treasurer of ProAssurance
Corporation

Darryl Keith Thomas
Hoover, Alabama

Chief Claims Officer for Healthcare
Professional Liability

Jeffrey Patton Lisenby
Birmingham, Alabama

Executive Vice President, General Counsel,
and Secretary of ProAssurance
Corporation

Committees

Executive Committee

Members of the Executive Committee at December 31, 2015 consisted of the following directors:

William Stancil Starnes
Howard Harley Friedman

Investment Committee

Members of the investment committee at December 31, 2015 consisted of the following members:

William Stancil Starnes
Howard Harley Friedman
Edward Lewis Rand, Jr.
Jeffrey Patton Lisenby (alternate)

Audit Committee

The Company's Board appointed the audit committee of ProAssurance Corporation to act on behalf of the Company. The following individuals served on the Audit Committee as of December 31, 2015:

Samuel Anthony Di Piazza, Jr.
Ann Frances Putallaz

Frank Anthony Spinosa, D.P.M.

Officers

Officers are elected annually by the Board of Directors. Principal officers elected and serving at December 31, 2015 were:

<u>Officer</u>	<u>Title</u>
William Stancil Starnes	Chairman
Howard Harley Friedman	President, CEO and Chief Underwriting Officer
Edward Lewis Rand, Jr.	Treasurer
Darryl Keith Thomas	Chief Claims Officer and Assistant Secretary
Hayes Vance Whiteside, M.D.	Senior Vice President
Kathryn Anne Neville	Secretary
Kelly Bounds Brewer	Vice President and Assistant Treasurer
Jeffrey Patton Lisenby	Assistant Secretary and Assistant Treasurer
Philip Rhett Plugge	Controller
Desmond Patrick O'Doherty	Vice President, Managing Director

Conflict of Interest Statements

The Conflict of Interest Statements filed for the five-year period covered by this examination were reviewed. All statements were signed as required.

CORPORATE RECORDS

The Articles of Incorporation and By-Laws were amended and restated in 2008 to reflect the change of the Company's name to ProAssurance Specialty Insurance Company, Inc. The documents were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the

Company is registered with the Alabama Department of Insurance as joint registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company as joint registrant. A review of the Company's filings during the period under review did not disclose any omissions in them.

Dividends to Stockholders

The Company paid no dividends to its stockholder during the period covered by this examination.

Management and Service Agreements

Consolidated Tax Allocation Agreement

The consolidated tax allocation agreement dated January 1, 2014 is by and between ProAssurance Corporation and its subsidiaries. This agreement succeeds the Consolidated Tax Allocation Agreement dated January 1, 2013, as amended December 15, 2013. The following subsidiaries (hereinafter referred to as "Member" or "Members") are the members of this agreement:

- ProAssurance Corporation
- PRA Professional Liability Group, Inc.
- PRA Group Holdings, Inc.
- IAO, Inc. (d/b/a ProAssurance Agency)
- ProAssurance Mid-Continent Underwriters, Inc.
- ProAssurance Group Services Corporation
- PRA Services Corporation
- ProAssurance Indemnity Company, Inc.
- ProAssurance Casualty Company
- ProAssurance Specialty Insurance Company, Inc.
- Podiatry Insurance Company of America
- PACO Assurance Company, Inc.
- PICA Management Resources, Inc.
- American Physicians Service Group, Inc.
- Medmarc Casualty Insurance Company
- Noetic Specialty Insurance Company
- Hamilton Resources Corporation
- Eastern Insurance Holdings, Inc.
- Eastern Services Corporation
- Global Alliance Holdings, Ltd.
- Eastern Advantage Assurance Company
- Eastern Alliance Insurance Company
- Allied Eastern Indemnity Company

- Employers Alliance, Inc.

Article two of the agreement discusses the method of allocation of the tax. PRA Corp. allocates the consolidated tax liability for each taxable year to the Members of the Group according to the percentage that each Member's positive separate company taxable income bears to the total positive separate company taxable income of all Members. The costs of preparing the tax return will be allocated to each member in a fair and reasonable method in accordance with customary insurance accounting practices. Each member must pay all amounts due to PRA Corp. within thirty days of notification. Any overpayment of the estimated tax liability shall be refunded to the relevant subsidiary. In lieu of actual payments, adjustments to intercompany payables and receivables will be made if such exist.

The third article of the agreement discusses compensating payments. If the consolidated tax liability is reduced due to a net operating loss, the Parent company will reimburse the Loss Member for the use of the tax benefit, even if the Loss Member would be unable to utilize the tax benefit in the current year on a separate company basis. The required calculation will be made by allocating to each Member with positive separate company taxable income an additional tax liability amount equal to 100% of the excess, if any, of (1) such Member's separate return tax liability for the taxable year, over (2) the tax liability allocated to such Member under article two. The reimbursement payment from the Parent Company shall be made within thirty days. If the consolidated Federal tax liability is adjusted for any taxable period, the liability of each Member shall be recomputed to give an effect to such adjustment(s); and in case of a refund, the Parent company shall make payment to each Member for its share of the refund within thirty days after the Parent received the refund. Conversely, losses of a Loss Member shall not be carried forward if not utilized by the Parent to reduce the consolidated Federal tax liability and for which Loss Member has not been reimbursed shall be retained by the Loss Member for the future use in calculating its tax liability on a separate company basis and reimbursement by the Parent. If the liability increased, then the Members shall make payment, including interest, their allocable share to the Parent after the Parent has made payment to the Service. The payment is due thirty days after receiving notice of the liability. Changes in the amount of a member's tax liability and the reimbursement payment will be considered an intercompany liability or receivable and not a dividend or surplus contribution.

This agreement contained standard provisions regarding indemnification, severability and the ability to amend the agreement.

This agreement is effective until terminated by the mutual agreement of all the members. In the event any member ceases to be affiliated with the group, this

agreement is automatically terminated as to that corporation.

The agreement was amended as a result of the following changes:

- American Insurance Management Corporation merged with PRA Professional Liability Group, Inc. on December 31, 2014;
- Index Managers, Inc. merged with PRA Professional Liability Group, Inc. on December 31, 2014; and,
- American Medical Insurance Exchange was liquidated on December 22, 2014.

Management Services Agreement

Effective January 1, 2015, this agreement was by and between ProAssurance Corporation and the following subsidiaries (hereinafter referred to as “company” or “companies”):

- ProAssurance Corporation
- PRA Professional Liability Group, Inc.
- PRA Group Holdings, Inc.
- IAO, Inc. (d/b/a ProAssurance Agency)
- ProAssurance Mid-Continent Underwriters, Inc.
- ProAssurance Group Services Corporation
- PRA Services Corporation
- ProAssurance Indemnity Company, Inc.
- ProAssurance Casualty Company
- ProAssurance Specialty Insurance Company, Inc.
- Podiatry Insurance Company of America
- PACO Assurance Company, Inc.
- PICA Management Resources, Inc.
- American Physicians Service Group, Inc.
- Medmarc Casualty Insurance Company
- Noetic Specialty Insurance Company
- Hamilton Resources Corporation
- Eastern Insurance Holdings, Inc.
- Eastern Services Corporation
- Global Alliance Holding, Ltd.
- Eastern Advantage Assurance Company
- Eastern Alliance Insurance Company
- Allied Eastern Indemnity Company
- Employers Alliance, Inc.
- Eastern Re Ltd., S.P.C.

For the purpose of the agreement, ProAssurance Group Services Corporation (“PRAGS”) is responsible for coordinating the delivery of Management Services and is referred to in the Agreement as “Manager.”

The Manager was responsible for providing the following Management Services to all parties involved:

- Accounting Services, Financial Statements, and Tax Returns
- Underwriting
- Reinsurance
- Sales and Service
- Claims Administration
- Information Systems
- Administrative and Other Services
- Human Resources Administration
- Risk Resources
- Delegation of Duties

Companies agree to share Management Services, and the Manager is to deploy the employees of the companies as required to provide the Management Services. The Board of Directors of each company will review and approve the Management Services provided for each company by the Manager. The Board of Directors of each company will meet annually and approve the scope of service to be provided by ProAssurance. Annually, ProAssurance would report the allocation of expenses to each company (as stated in the Expense Allocation Agreement) and that allocation would be subject to the review and approval of the Board of Directors for each company.

Expense Allocation Agreement

Effective February 15, 2014, this agreement was by and between ProAssurance Corporation and the following subsidiaries (hereinafter referred to as “company” or “companies”):

- ProAssurance Corporation
- PRA Professional Liability Group, Inc.
- PRA Group Holdings, Inc.
- LAO, Inc. (d/b/a ProAssurance Agency)
- ProAssurance Mid-Continent Underwriters, Inc.
- ProAssurance Group Services Corporation
- PRA Services Corporation
- ProAssurance Indemnity Company, Inc.

- ProAssurance Casualty Company
- ProAssurance Specialty Insurance Company, Inc.
- Podiatry Insurance Company of America
- PACO Assurance Company, Inc.
- PICA Management Resources, Inc.
- American Physicians Service Group, Inc.
- Medmarc Casualty Insurance Company
- Noetic Specialty Insurance Company
- Hamilton Resources Corporation
- Eastern Insurance Holdings, Inc.
- Eastern Services Corporation
- Global Alliance Holding, Ltd.
- Eastern Advantage Assurance Company
- Eastern Alliance Insurance Company
- Allied Eastern Indemnity Company
- Employers Alliance, Inc.
- Eastern Re Ltd., S.P.C.

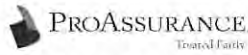
Direct expenses are allocated to the company incurring the expense, while indirect expenses are allocated during each accounting period based on an estimate. This estimate will be allocated in a fair and reasonable method in conformity with customary insurance accounting practices and applied consistently. Expenses for each calendar quarter will be settled within thirty days after the end of the calendar quarter.

The agreement was amended as a result of the following changes:

- American Insurance Management Corporation merged with PRA Professional Liability Group, Inc. on December 31, 2014;
- Index Managers, Inc. merged with PRA Professional Liability Group, Inc. on December 31, 2014, and,
- American Medical Insurance Exchange was liquidated on December 31, 2014.

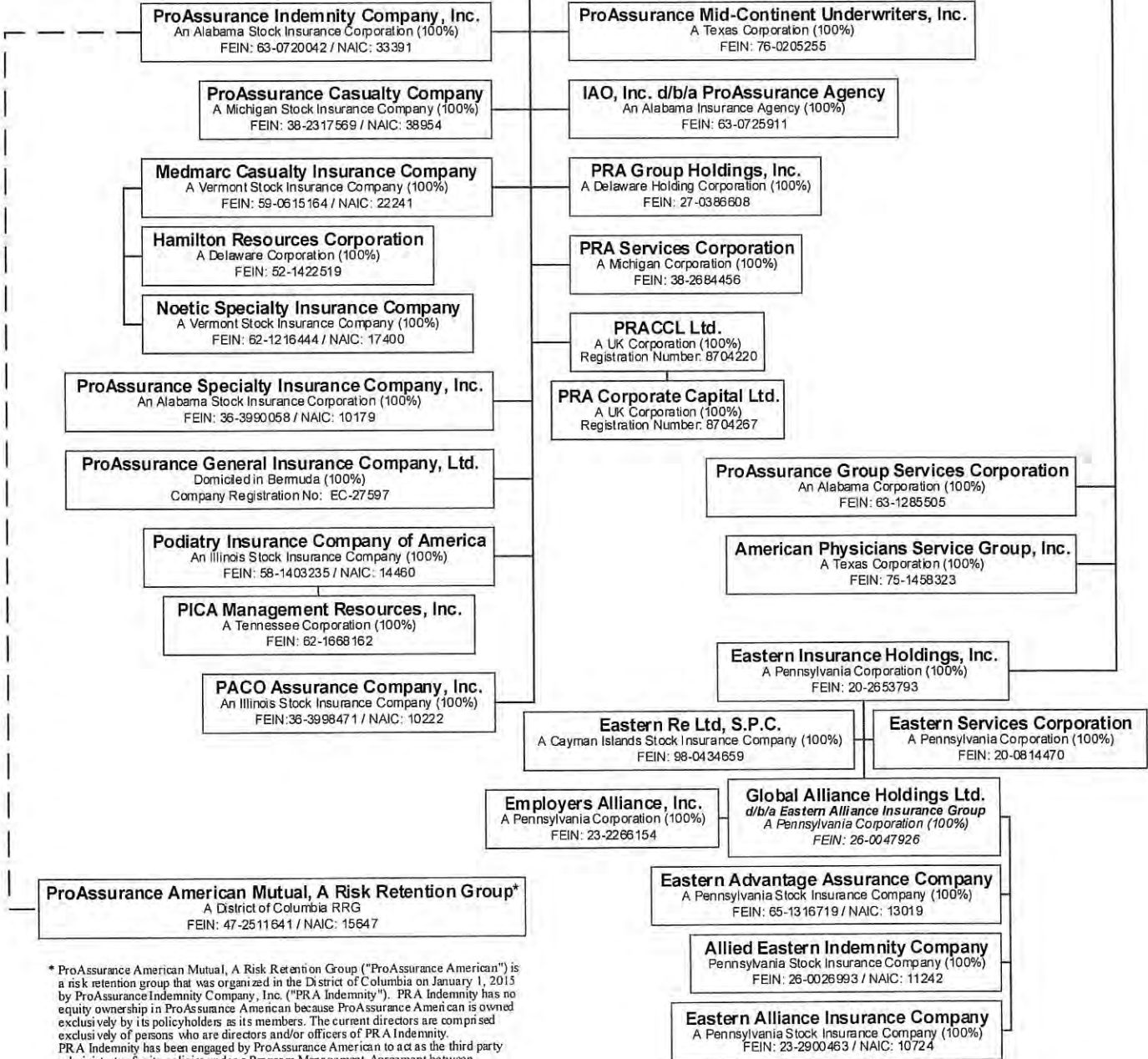
Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System as of December 31, 2015.



ProAssurance Corporation
A Delaware Holding Corporation / FEIN: 63-1261433

PRA Professional Liability Group, Inc.
A Delaware Holding Corporation (100%)
FEIN: 01-0874962



* ProAssurance American Mutual, A Risk Retention Group ("ProAssurance American") is a risk retention group that was organized in the District of Columbia on January 1, 2015 by ProAssurance Indemnity Company, Inc. ("PRA Indemnity"). PRA Indemnity has no equity ownership in ProAssurance American because ProAssurance American is owned exclusively by its policyholders as its members. The current directors are comprised exclusively of persons who are directors and/or officers of PRA Indemnity. PRA Indemnity has been engaged by ProAssurance American to act as the third party administrator for its policies under a Program Management Agreement between ProAssurance American and PRA Indemnity and PRA Indemnity will also serve as the captive manager pursuant to a Management Agreement. PRA Indemnity has provided the initial capital of ProAssurance American by advancing \$10 million in exchange for a surplus note issued by ProAssurance American to PRA Indemnity. The bylaws of ProAssurance American include certain covenants that will remain in effect so long as the surplus note is outstanding.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees of its own. The Company is part of a consolidated group of companies for which employees of ProAssurance Group Services Corporation (PRA Group Services), an affiliate, provide services. PRA Group Services sponsors a defined contribution plan for these employees and allocates amounts to the Company based on gross written premiums.

Under the PRA Group Services defined contribution plan, eligible employees receive a base contribution of five percent of eligible wages. In addition, the Plan provides for matching contributions to the plan of up to five percent of eligible employees salary. The Company expense allocated under the Agreements for the defined contribution plan for the year ended December 31, 2015 was approximately \$200,137.

The Company is also a participant in the ProAssurance Corporation (PRA Corp.) stock ownership plan for full-time and part-time employees who have completed minimum service requirements. The plan allows eligible officers, directors, and employees of PRA Corp. and its subsidiaries to purchase shares of PRA Corp. common stock through cash deposits deducted from compensation. The Plan will provide matching shares equal to the employee's contribution, subject to an annual maximum of \$5,000 per employee. After service requirements are met, the matching shares are vested and transferred to the employee. The expense allocated to Specialty for the stock ownership plan for the year ended December 31, 2015 was \$23,041.

PRA Group Services also allocates expenses to the Company for various health insurance and other benefits offered to its employees. PRA Group Services provides group health and dental benefits for eligible full-time and part-time regular employees and their eligible dependents. In addition, PRA Group Services provides life and long-term disability insurance to its eligible full-time regular employees.

SCHEDULE OF SPECIAL DEPOSITS

The Company maintained the following deposits with the respective statutory authorities at December 31, 2015, as required or permitted by law.

<u>States, etc.</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Alabama	\$2,638,449	\$2,619,788
Michigan	99,605	100,312
New Mexico	110,385	110,722
TOTAL	\$2,848,439	\$2,830,822

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Premiums Earned</u>
2015	\$39,476,414	\$11,959,854	\$27,516,560	\$0
2014	38,204,437	8,994,229	29,210,208	0
2013	38,952,215	9,561,902	29,390,313	0
2012	38,435,424	9,981,097	28,454,327	0
2011	32,903,463	5,987,047	26,916,416	0

MARKET CONDUCT ACTIVITIES

Plan of Operation

On December 31, 2015, the Company was licensed in the State of Alabama as a property and casualty insurer, offering surplus lines for professional liability insurance in states other than Alabama. Besides the traditional professional liability coverage, the Company offered innovative coverage for the emerging liability areas of electronic data and e-discovery. This included electronic medical record systems and the attendant risks.

The Company marketed its products through surplus line brokers and wholesalers outside of the State of Alabama.

The Company entered into a 100% quota share agreement with ProAssurance Casualty Company, an affiliate.

Territory

As of December 31, 2015, the Company was licensed in Alabama on an admitted basis and was able to write in forty-seven states but wrote on an excess and surplus basis in forty-six states.

Policy Forms and Underwriting

The Company, a surplus lines insurer licensed in Alabama, did not write business within the state, so there were no form filings in Alabama for the period under review.

Marketing

As an excess and surplus lines writer licensed in Alabama, the Company did not write business in Alabama nor did it advertise for business within the state.

Claims Review

There were no claims incurred, paid or settled in the state of Alabama for the period under review.

Policyholder Complaints

During the examination period, the Company had no complaints registered with the Alabama Department of Insurance.

Producers' Licensing

The Company is a surplus lines carrier and did not write or issue any policies in the State of Alabama for the period under review. The Company had no licensed or appointed producers in the State of Alabama and utilized the services of brokers and wholesalers in all other states.

Privacy Standards

The examiners reviewed the Company's Privacy Procedures and determined the following:

1. The Company provides new employees with a copy of the Employee Handbook which contains the Code of Ethics. Also, included in the Code of Ethics is the Company's general policy on Confidential Information as well as its requirements under HIPAA. All employees are expected to comply with all federal and state laws and regulations applicable to the Company's businesses and policies. The employees are required to sign the Employee Handbook Acknowledgment Form.
2. The Company has safeguards in its data system to prevent unauthorized access to nonpublic and personal information.
3. The Company sends an initial privacy notice with every new policy and at renewal.
4. The Company does not disclose any nonpublic information, which includes personal health and financial information, on its policyholders unless required by law. For this reason, the Company does not need to provide opt-out statements to its policyholders.

Overall, the examiners determined the Company was following its own privacy procedures and standards contained in ALA. ADMIN. CODE 482-1-122 (2001).

REINSURANCE

Reinsurance Assumed

As of December 31, 2015, the Company assumed premiums totaling \$118,000 from a reinsurance treaty with CLR Insurance Ltd.

Reinsurance Ceded

As of December 31, 2015, a 100% Quota Share treaty was in effect between the Company as Reinsured and PRA Casualty as Reinsurer. The treaty had an effective date of March 1, 2010 and no expiration date. The treaty covered all policies written or renewed by the Company with the exception of finite risk policies subject to deposit accounting and policies for which the Company arranged reinsurance on a specific basis. The Reinsurer assumed 100% of the gross liability on the risks covered. The gross liability assumed by the Reinsurer for a loss in Excess of Policy Limits or Extra Contractual Obligation shall be limited to \$1,000,000. The Company ceded \$26,121,000 in premiums and had recoverables totaling \$67,213,000.

In addition to the quota share treaty, the Company had a treaty with one other reinsurer, which at December 31, 2015, accounted for 0% of the ceded premiums and 0.08% of the recoverables. The treaty was as follows:

- Transatlantic Reinsurance Company - an excess of loss treaty for \$4 million excess of \$1 million for which the Company ceded \$0 in premiums and had recoverables totaling \$51,000.

The review of the Company's reinsurance treaties disclosed no unusual provisions.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained primarily on electronic data processing (EDP) equipment. The Company uses the Oasis system to maintain files on claims and underwriting, including premiums. This system interfaces with the Company's SunSystem general ledger as needed. The Company uses other systems for investments, reinsurance and processing legal firms' invoices.

FINANCIAL STATEMENTS INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on the financial statements reflect any examination adjustments to the amount reported in the annual statement and should be considered an integral part of the financial statements.

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Statement of Liabilities, Surplus and Other Funds.....	21
Statement of Income	22

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

ProAssurance Specialty Insurance Company, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2015

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 27,145,208	\$ -	\$ 27,145,208
Cash, cash equivalents and short-term investments	<u>4,451,018</u>	<u>-</u>	<u>4,451,018</u>
Subtotals, cash and invested assets	<u>\$ 31,596,226</u>	<u>\$ -</u>	<u>\$ 31,596,226</u>
Investment income due and accrued	282,165	-	282,165
Premiums and considerations:			
Uncollectible premiums and agents' balances in the course of collection	608,219	-	608,219
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,608,937	-	1,608,937
Reinsurance:			
Amounts recoverable from reinsurers.	3,416,423	-	3,416,423
Current federal and foreign income tax recoverable.	732,754	-	732,754
Net deferred tax asset	297,602	40,331	257,271
Receivable from parent, subsidiaries and affiliates	841,059	-	841,059
Aggregate write-ins for other than invested assets.	<u>141,865</u>	<u>8,505</u>	<u>133,360</u>
Total	<u>\$ 39,525,250</u>	<u>\$ 48,836</u>	<u>\$ 39,476,414</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN
INTEGRAL PART THEREOF.**

ProAssurance Specialty Insurance Company, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
For the Year Ended December 31, 2015

<u>Liabilities</u>	<u>2015</u>
Loss adjustment expenses	\$ 3,279,000
Commissions payable, contingent commissions and other similar charges	3,441
Other expenses	119,472
Ceded reinsurance premiums payable	5,863,220
Amounts withheld or retained by company for account of others	1,599
Payable to parent, subsidiaries and affiliates	2,104,548
Aggregate write-ins for liabilities	588,574
Total liabilities	<u>\$ 11,959,854</u>
<u>Capital and Surplus</u>	
Common capital stock	\$ 3,000,000
Gross paid in and contributed surplus	12,466,528
Unassigned funds (surplus)	<u>12,050,032</u>
Surplus as regards policyholders	<u>\$ 27,516,560</u>
Totals Liabilities, Capital and Surplus	<u>\$ 39,476,414</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN
INTEGRAL PART THEREOF.**

ProAssurance Specialty Insurance Company, Inc
Statement of Income
For the Years Ended December 31, 2015, 2014, 2013, 2012, 2011

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Underwriting income</u>					
Premiums earned	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<u>Deductions</u>					
Loss adjustment expenses incurred	3,407,043	1,962,394	1,289,435	2,547,995	1,128,729
Other underwriting expenses incurred	<u>-1,086,900</u>	<u>- 459,592</u>	<u>-1,512,296</u>	<u>-3,134,448</u>	<u>-1,391,486</u>
Total underwriting deductions	<u>\$ 2,320,143</u>	<u>\$ 1,502,802</u>	<u>\$ -222,861</u>	<u>\$ -586,453</u>	<u>\$ -262,757</u>
Net underwriting gain (loss)	<u>\$ -2,320,143</u>	<u>\$ - 1,502,802</u>	<u>\$ 222,861</u>	<u>\$ 586,453</u>	<u>\$ 262,757</u>
<u>Investment Income</u>					
Net investment income earned	\$ 605,124	\$ 697,293	\$ 762,681	792,538	749,672
Net realized capital gains (losses)	<u>24,864</u>	<u>8,445</u>	<u>18,471</u>	<u>25,949</u>	<u>0</u>
Net investment gain (loss)	<u>\$ 629,988</u>	<u>\$ 705,738</u>	<u>\$ 781,152</u>	<u>\$ 818,487</u>	<u>\$ 749,672</u>
<u>Other income</u>					
Net gain (loss) from agents' or premium balances charged off	\$ 180	\$ - 17	\$ -22	\$ -2	\$ -3
Aggregate write-ins for miscellaneous income	<u>\$ -1,000,930</u>	<u>\$ 351,450</u>	<u>\$ 316,283</u>	<u>\$ 274,249</u>	<u>\$ 288,750</u>
Total other income	<u>-1,000,750</u>	<u>351,433</u>	<u>316,261</u>	<u>274,247</u>	<u>288,747</u>
Net income before dividends to policyholders	\$ - 2,690,905	\$ -445,631	\$ 1,320,274	\$ 1,679,187	\$ 1,301,176
Federal and foreign income taxes incurred	<u>- 942,029</u>	<u>-255,316</u>	<u>294,194</u>	<u>669,610</u>	<u>445,181</u>
Net income	<u>\$ - 1,748,876</u>	<u>\$ - 190,315</u>	<u>\$ 1,026,080</u>	<u>\$ 1,009,577</u>	<u>\$ 855,995</u>
 <u>Capital and surplus</u>					
Surplus as regards policyholders;					
December 31 prior year	\$ 29,210,208	\$ 29,390,313	\$ 28,454,327	\$ 26,916,416	\$25,913,041
Net income	-1,748,876	-190,315	1,026,080	1,009,577	855,995
Change in net deferred income tax	71,758	6,238	-60,945	160,663	18,709
Change in nonadmitted assets	- 16,530	3,972	-29,149	-6,424	80,671
Change in provision for reinsurance	-	-	-	351,000	48,000
Cumulative effect of changes in accounting principles	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,095</u>	<u>-</u>
Change in surplus as regards policyholders	<u>\$ -1,693,648</u>	<u>\$ -180,105</u>	<u>\$ 935,986</u>	<u>\$ 1,537,911</u>	<u>\$ 1,003,375</u>
Surplus as regards policyholders;					
December 31 current year	<u>\$ 27,516,560</u>	<u>\$ 29,210,208</u>	<u>\$ 29,390,313</u>	<u>\$28,454,327</u>	<u>\$26,916,416</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Analysis of Changes to Surplus

No adjustment was made to surplus as a result of the examination.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by management to the Company's independent certified public accountants regarding the Company and its affiliates, a review of the report on litigation and claims made by the Company's management, and a general review of the Company's records and files conducted during the course of the examination. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

SUBSEQUENT EVENTS

A review of events subsequent to December 31, 2015 did not result in anything material or noteworthy in nature.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

There were no recommendations made in the prior examination report.

IMPORTANT POINTS, COMMENTS AND RECOMMENDATIONS

There were no important points, comments or recommendations reported.

CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, the following examiners, representing the respective Departments of Insurance, participated in certain phases of this examination:

Alabama Department of Insurance (Lead State):

Agnes Denise Riggins	William Smith
Theo Goodin, MCM	Charles Turner, CISA
Mora Perkins-Taylor, MCM	

Michigan Department of Insurance and Financial Services:

Steven D. Honsowetz, CFE
Jennifer Romano

Illinois Department of Insurance:

David Martinez, CFE, CRISC, CGEIT, AIE, CFE (Fraud)

Merlinos & Associates, Inc. was contracted to perform the actuarial portions of this examination. The actuaries were as follows:

Meg Glenn, FCAS, MAAA	Kristin Taylor
Greg Fanoie, FCAS, MAAA	

Respectfully submitted,



Rhonda Ball, CFE

Examiner-in-Charge

State of Alabama

Department of Insurance