

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

OF

PROFESSIONAL TRANSPORTATION RISK RETENTION GROUP, INC.
MONTGOMERY, ALABAMA

AS OF
JUNE 2, 2022

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA

COUNTY OF MONTGOMERY

Jennifer A. Haskell, being duly sworn, states as follows:

I have authority to represent Alabama in the examination of Professional Transportation Risk Retention Group, Inc.

The Alabama Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

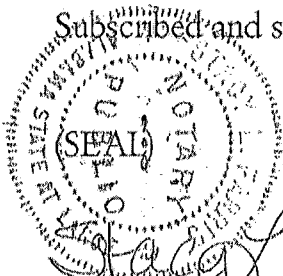
I have reviewed the examination workpapers and examination report, and the examination of Professional Transportation Risk Retention Group, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.


The affiant says nothing further.



Jennifer A. Haskell, CFE, CPM, PIR

Subscribed and sworn before me by Jennifer A. Haskell on this 1st day of July 2022.





(Signature of Notary Public)

My commission expires Nov 12 2025



KAY IVEY
GOVERNOR

MARK FOWLER
ACTING COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 502
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.gov

DEPUTY COMMISSIONER
JIMMY W. GUNN

CHIEF EXAMINER
SHEILA TRAVIS

STATE FIRE MARSHAL
SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

July 1, 2022

Honorable Mark Fowler, Acting Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner:

Pursuant to your authorization 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 organizational examination has been conducted of:

Professional Transportation Risk Retention Group, Inc.
Montgomery, Alabama

The examination was conducted remotely from the Alabama Department of Insurance office located in Montgomery, Alabama. The Company's executive office is located at 445 Dexter Avenue, Suite 9075, Montgomery, Alabama 36104. The Report of Examination is submitted herewith.

This Report of Examination does not contain any significant findings or solvency concerns; however, it does include recommendations related to minor compliance issues and compliance areas that may apply once the Company commences operations.

Where the description "Company" appears herein without qualification, it will be understood to indicate Professional Transportation Risk Retention Group, Inc.

SCOPE OF EXAMINATION

An organizational examination was conducted pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the *Alabama Insurance Code* and the regulations and bulletins of the State of Alabama Department of Insurance, in accordance with the applicable guidelines and procedures promulgated by the National Association of Insurance Commissioners (NAIC), and in accordance with generally accepted examination standards.

This examination is made from the period beginning May 17, 2022, when the original Certificate of Formation was filed and processed by the Alabama Secretary of State, through June 2, 2022, the date of the Financial Statements. Where deemed appropriate, records and documents subsequent to the as of date, were reviewed.

The examination was made in conjunction with the Company's application for a Certificate of Authority. The Company has not commenced business. The examination included an inspection of the Company's records, confirmation of the Company's assets, and obtaining a signed certificate of representation at the examination date.

ORGANIZATION AND HISTORY

Commissioner Jim L. Ridling issued a Certificate of General Good to the Alabama Secretary of State (SOS) for the proposed corporation, Professional Transportation Risk Retention Group, Inc., on May 13, 2022. The Company made the appropriate filing of its Certificate of Incorporation with the SOS on May 16, 2022. The Certificate was processed by the SOS's Office in Montgomery County under the laws of the state of Alabama, effectively forming the Company, on May 17, 2022.

Article V of the Certificate of Incorporation states:

This corporation is organized for the purpose of writing insurance and reinsurance as a captive insurance risk retention group pursuant to the federal Liability Risk Retention Act, 15 U.S.C. § 3901 et seq., and Title 27, Chapters 31A and 31B of the Alabama Insurance Code, the Alabama Risk Retention Act and the Alabama Captive Insurers Act, respectively. The corporation may conduct all activities necessary or incidental to the foregoing and may engage in any other lawful business or activity.

Article VI provides that the corporation is authorized to issue 5,000,000 shares of \$1 par value common stock. At the time of the exam, no stock had been issued. Pursuant to the Liability Risk Retention Act, the Company will be owned by its insureds. Therefore, no stock will be issued until such time as the Company has received a Certificate of Authority to engage in the business of insurance.

MANAGEMENT AND CONTROL

Shareholders

The Company was formed and seeks licensure as a risk retention group pursuant to the Liability Risk Retention Act of 1986 (15 USC 3901-3906 (1981, as amended 1986)) (LRRRA), which includes the following in the definition of a risk retention group: “which has as its owners only persons who comprise the membership of the risk retention group and who are provided insurance by such group. . . .” (§ 3901(a)(4)(E)(i)).

Article I, Section 1.11 of the Company’s Bylaws states: “To be eligible to become a shareholder of the Corporation, an entity or individual must be eligible to be insured by the Corporation.” The same section provides the requirements to be an insured. An entity must: be engaged in an activity similar or related to the transportation industry; be exposed to liabilities like those of other insureds of the Company; qualify under the Company’s underwriting criteria; be approved by the Board’s designate; and meet conditions prescribed by the Board, not in conflict with the LRRRA.

As of the date of this report, the Company had not been issued its Certificate of Authority. Therefore, it had no insureds or shareholders. However, based on its Business Plan, it will be owned by its insureds. According to item 3 of its proposed Stock Subscription and Shareholder Agreement: “Common Stock shall be issued at \$10.00 per share. Shareholder shall make an annual capital contribution in the amount of 15% of each year’s annual premium at \$10.00 per share, for each year they are insured by the Company.”

Article IV, Section 4.01 of the Company’s Bylaws states:

The Board of Directors may authorize the issuance of shares of the Corporation with or without certificates. Within a reasonable time after the issuance or transfer of shares without certificates the Corporation shall send each Shareholder a written statement containing: the name of the issuing corporation

that it is organized under the laws of Alabama; the name of the person to who the shares are issued; the number and class of shares and the designation of series, if any; and any restriction on the transfer of shares. ...

By Unanimous Written Consent of the Board (UWC), dated May 19, 2022, the Board resolved to issue stock without certificates.

ALA. CODE § 27-31A-3.1(f)(1) (1975) requires a risk retention group's Board adopt a written policy requiring that the Board: "Assure that all owner/insureds of the risk retention group receive evidence of ownership interest." The Company's Bylaws and Governance Standards, both adopted by the Board on May 19, 2022, by UWC include the requirement to provide evidence of ownership in compliance with ALA. CODE § 27-31A-3.1(f)(1) (1975).

Article I, Section 1.01 of the Company's Bylaws states: "The annual, meeting of the shareholders of the Corporation shall be held each year at such time and on such date as the Board of Directors shall, in their discretion, fix. The business to be transacted at the annual meeting shall include the election of directors, if necessary...."

The Bylaws comply with the requirements of ALA. CODE § 10A-2A-7.01(a) (1975), which states: "... a corporation shall hold a meeting of stockholders annually at a time stated in or fixed in accordance with the certificate of incorporation or bylaws at which directors shall be elected."

Directors

Article II, Section 2.01 of the Company's Bylaws states: "The business and affairs of the Corporation shall be managed by its Board of Directors...." Section 2.02 states:

The number of individuals that shall constitute the Board of Directors shall be at least three (3) Directors and not more than nine (9) as shall be determined by the Board of Directors. Each director shall be elected by the holders of Common Stock entitled to vote at the annual meeting thereof and shall serve for a term of five years and until his or her successor is elected and qualifies or until his or her earlier resignation or removal. The holders of Common Stock shall elect at least one director that is a resident of the State of Alabama....

ALA. CODE § 27-27-23(b) (1975) states in pertinent part:

... Directors may be elected for terms of not more than five years each and until their successors are elected and have qualified, and if to be elected for terms of more than one year, the insurer's bylaws shall provide for a staggered-term system under which the terms of a proportionate part of the members of the board of directors will expire on the date of each annual meeting of stockholders or members.

The Company's Bylaws provide for a term greater than one year, but do not provide for staggered terms; therefore, the Bylaws should be amended. Prior to the issuance of this report, the Company amended its Bylaws. See *Subsequent Events*.

ALA. CODE § 27-31B-8(h) (1975) states: "In the case of a captive insurance company, at least one of the members of the board of directors, managing members, or equivalents as allowed by law, shall be a resident of this state." The Company's Bylaws require a minimum of one member of the Board of Directors to be a resident of Alabama and therefore comply with the requirement.

The initial Directors appointed by the sole incorporator of the Company, Davis Smith, via Action by Written consent on May 17, 2022, and serving at the date of this report were as follows:

<u>Name and Place of Residence</u>	<u>Principal Occupation</u>
Brian Alan Melendez+ St. Petersburg, Florida	HPLS Holdings, LLC Insurance Operations
Brian Troy Winch Sarasota, Florida	Risk Services, LLC Insurance Professional
Douglas Bentley Hughes* Vestavia Hills, Alabama	Douglas B. Hughes, Attorney at Law Attorney

* Alabama resident

+ A biographical affidavit dated March 21, 2022, was filed with the Company's application. It was within six months of the application as required. However, it did not include the affiliation with PT Program Manager, LLC, as it was not formed until May 23, 2022. See the subsection "Other" within the *Service Providers* section of this report.

Article II, Section 2.05 states: “Regular meeting of the Board of Directors shall be held at such dates, such times, and such places, either within or without the State of Alabama, as shall have been designated by the Board of Directors and publicized among all Directors, except that at least one meeting of the Board shall be held in the State of Alabama each year....”

This complies with the requirements of ALA. CODE § 27-31B-3(b)(2) (1975), which states: “Its board of directors or managers, or in the case of a reciprocal insurer, its subscribers’ advisory committee, must hold at least one meeting each year in this state.”

Officers

Article III, Section 3.01 of the Company’s Bylaws states: “The Corporation shall have a President, a Treasurer and a Secretary.... The Board of Directors may appoint such other officers as it may deem proper. A person may hold more than one office in the Corporation. A person need not be a shareholder in Corporation to serve as an officer.”

Section 3.08 states:

The Board of Directors shall elect the officers.... Each officer shall hold office until his or her successor is elected and qualified or until his or her earlier death, resignation or removal.... Any vacancy occurring in any office of the Corporation ... shall be filled by the Board of Directors in the same manner as the ordinary election of officers by directors, and an officer so chosen shall hold office until the next regular election for that office, or until earlier death, resignation or removal.

Terms for officers were not specified, however Article II, Section 2.11, subsection “e” of the Bylaws provides that the responsibilities of the Directors include:

Review and approve, at least annually:

- (i) the Corporation’s goals and objectives relevant to the compensation of officers and service providers;
- (ii) the officers’ and service providers’ performance in light of those goals and objectives; and
- (iii) the continued engagement of the officers and material service providers.

The initial Officers appointed by the sole incorporator of the Company, Davis Smith, via Action by Written Consent on May 17, 2022, and serving at the date of this report were as follows:

<u>Name</u>	<u>Title</u>
Brian Alan Melendez	President
Brian Troy Winch	Treasurer
Christopher Scott Teter	Secretary

CORPORATE RECORDS

The Certificate of Formation filed with the Alabama Secretary of State's Office (SOS) on May 17, 2022; the Action by Written Consent of of the Sole Incorporator, effective May 17, 2022; the Bylaws adopted by the Board on May 19, 2022; and the Unanimous Written Consent of the Board, effective May 19, 2022, were reviewed as part of this exam, and appear to provide for the operation of the Company in accordance with usual corporate practices and applicable requirements of the *Alabama Insurance Code* except as otherwise noted in the *Management and Control* section of this report. See also *Subsequent Events*.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

ALA. CODE § 27-29-1(6) (1975) states: "INSURANCE HOLDING COMPANY SYSTEM. A system which consists of two or more affiliated persons, one or more of which is an insurer."

The Company was formed on behalf of PT Program Manager, LLC (Program Manager). Program Manager provided the initial capitalization through its purchase of a surplus note from the Company. It will have no ownership interest in the Company, but Brian Melendez, organizer of Program Manager, has been appointed President and Director of the Company (see the subsections "Directors" and "Officers" in *Management and Control*). Program Manager has contracted with the Company to provide program management and claims administration services (see the subsection "Other" in *Service*

Providers). According to the Company's filed Business Plan, the Company will be owned by its shareholders, who will determine the Board. According to the Company's Certificate of Authority application, no shareholder is expected to have an ownership interest greater than ten percent. ALA. CODE § 27-29-1(3) (1975) defines control as:

... the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position with, or corporate office held by the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing five percent or more of the voting securities of any other person. This presumption may be rebutted by a showing made in the manner provided by subsection (k) of Section 27-29-4 that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making a specific finding of fact to support such determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

At this point, the Company has no shareholders, so it is unclear whether one or more individuals will hold, control, or have the power to vote by proxy five percent of voting shares of the Company. Should any person control five percent or more, then the Company will be subject to the Alabama Holding Company System filing requirements set forth in ALA. CODE § 27-29-1 et seq. (1975) and ALA. ADMIN. CODE 482-1-055 (2016), unless a disclaimer of affiliation is approved by the Commissioner.

FIDELITY BOND

The Company does not currently have any employees, nor does it intend to hire employees. Instead, it employs various service providers. The Company provided Accord forms showing fidelity bonds issued to its Captive Manager, Risk Services, LLC, and its Program Manager and Claims Administrator, PT Program Manager, LLC. The fidelity bonds were not provided; therefore, a determination could not be made regarding the adequacy of protection to the Company. The Company's Board should annually review fidelity bonds of its service providers to ensure adequate protection of the Company when the service providers perform work on its behalf. In addition, the

Company should obtain fidelity bond coverage to protect itself against any loss of money or other property sustained through fraudulent or dishonest act or acts committed by any of its Officers, Directors, and employees (should it have any in the future) including indirect employees, acting alone or in collusion with others. The amount of the bond should be determined using the exposure index provided in “Exhibit R” of the NAIC *Financial Condition Examiners Handbook*.

EMPLOYEE AND AGENT WELFARE

As of June 2, 2022, the Company had no employees. All day-to-day operations of the Company were handled by employees of the Captive Manager or employees of one of the other service providers with whom the Company was contracted during the examination period. See the *Service Providers* section of this report.

Compliance with 18 U.S.C. § 1033

Section 1033 of Title 18 of the U. S. Code identifies those that have been convicted of a felony as prohibited from engaging in the business of insurance. The prohibition extends to contractors performing duties and responsibilities as well as employees.

ALA. ADMIN. CODE 482-1-146-.03(a) (2009) states:

Business of Insurance. For purposes of 18 U.S.C. § 1033, the business of insurance is either the writing of insurance, or the reinsuring of risks, by a Section § 1033 insurer (as defined in 482-1-146-.03(i)), including all acts necessary or incidental to such writing or reinsuring and the activities of persons who act as, or are, officers, directors, agents, or employees of insurers or who are other persons authorized to act on behalf of such persons.

ALA. ADMIN. CODE 482-1-146-.03(i) (2009) states: “SECTION 1033 INSURER. An entity engaged in the business of insurance whose activities affect interstate commerce as provided in 18 U.S.C. § 1033(f).”

ALA. ADMIN. CODE 482-1-146-.11(1) (2009) states:

A Section 1033 insurer subject to the Commissioner’s examination authority shall have and apply the following:

- (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to

contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

- (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.
- (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

ALA. ADMIN. CODE 482-1-146-.11 (2009) further states:

- (2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.
- (3) As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

The newly formed Company has not adopted formal procedures for compliance. It did produce Corporate Governance and Code of Conduct and Ethics documents as well as the related Code of Conduct and Ethics annual certification form and conflict of interest disclosure forms adopted by UWC on May 19, 2022. The documents and forms were reviewed, but not found to meet the requirements of ALA. ADMIN. CODE 482-1-146 (2009). The documents and forms did however meet the corporate governance requirements of ALA. CODE § 27-31A-3.1 (1975)

SPECIAL DEPOSITS

ALA. ADMIN. CODE 482-1-138-.08 (2022) states:

Whenever the commissioner deems that the financial condition of the company warrants additional security, the commissioner may require a company to deposit with the Treasurer of this state cash or securities approved by the commissioner or, alternatively, to furnish the commissioner a clean, irrevocable letter of credit

issued by a bank chartered by the State of Alabama or a member bank of the Federal Reserve System and approved by the commissioner....

As of the date of this report, the Commissioner has not found that the financial condition of the Company warrants the requirement of a special deposit with the Treasurer of Alabama.

MINIMUM CAPITAL AND SURPLUS REQUIREMENTS

Professional Transportation Risk Retention Group, Inc. was capitalized by issuing a surplus note in the amount of \$1,000,000 to PT Program Manager, LLC. The Company has contracts with PT Program Manager, LLC to act as the Company's Program Manager and Claims Administrator. The surplus note is subject to repayment of principal and interest pursuant to the terms of the note with prior approval of the Commissioner. Once the Company is issued a Certificate of Authority, each insured will be required to annually purchase common stock at \$10 per share for a capital contribution of 15 percent of each year's annual premium. See the subsection "Shareholders" within the *Management and Control* section of this report.

The initial capitalization of \$1,000,000 complied with ALA. CODE § 27-31B-6(a)(3) (1975), which stipulates the minimum capitalization requirements: "In the case of an association captive insurance company or risk retention group, not less than five hundred thousand dollars (\$500,000) or another amount determined by the commissioner and actuarially supported by a feasibility study."

The Company's Proposed retention per insured risk is \$250,000. Based on this retention, the minimum capital and surplus is \$2,500,000 per ALA. CODE § 27-5-11(a) (1975), which states: "No insurer shall retain any risk on any one subject of insurance, whether located or to be performed in this state or elsewhere, in an amount exceeding 10 percent of its surplus to policyholders." The Company filed a feasibility study prepared by Robert J Walling III, FCAS, MAAA, CERA, Pincipal & Consulting Actuary with Pinnacle Actuarial Resources, which supported the lower capital and surplus amount of \$1,000,000. The Department's Actuary, Charles Hale, found the feasibility study assumptions and projections reasonable. On May 23, 2022, the Commissioner approved a temporary permitted practice which allows the Company to deviate from the requirements of ALA. CODE 27-5-11(a) (1975); the Company may retain maximum

risk of \$250,000 with a minimum of \$1,000,000 in policyholder surplus. However, no dividends or surplus note payments will be permitted until surplus reaches a minimum of \$2,500,000.

SERVICE PROVIDERS

The Company's application and documentation submitted in the application process included engagement with various service providers. The proposed service providers appear to adequately provide for all aspects of the Company's business. The following Alabama approved service providers were appointed by the Company's Board on May 19, 2022, via unanimous written consent (UWC), and were found to be serving as of June 2, 2022.

Captive Manager

The Company signed a contract for captive management services with Risk Services, LLC on May 20, 2022. Some of Risk Services, LLC's responsibilities under the contract include: providing Pre-Licensure Services to obtain a Certificate of Authority from the Alabama Department of Insurance; Regulatory Services; Home Office Services; Accounting Services including maintaining and overseeing the accounting systems of any service provider of the Company, providing accounting and financial reporting services related to compliance with Alabama law, preparation and filing of NAIC financial statements, preparation of proforma projections, preparation of premium tax returns, record maintenance and acting as liaison between regulators, auditors, and service providers as necessary.

Actuary

Actuarial services were provided Robert J Walling III, FCAS, MAAA, CERA of Pinnacle Actuarial Resources Inc. Mr. Walling prepared the Company's feasibility study pursuant to the engagement letter dated January 14, 2022. Pursuant to the Company's Certificate of Authority application and UWC, Mr. Walling will continue to act as the Company's actuary service provider.

Certified Public Accountant

According to the Company's Certificate of Authority application and UWC, CPA services will be provided by RH CPAs, PLLC. The Company provided an engagement letter from RH CPAs, PLLC dated January 20, 2022, which was subsequently accepted by the Company on June 23, 2022.

Other

In addition to the above, the Company had the following service providers, not subject to Department approval. They were also approved and appointed by the Company's Board on May 19, 2022, via UWC and named in the Company's Certificate of Authority application, and found to be serving as of June 2, 2022.

Program Manager

PT Program Manager, LLC will serve as the Program Manager pursuant to the agreement executed and effective May 20, 2022. PT Program Manager, LLC will be responsible for the policyholder and other program management services including: policyholder services, billing and collection of premiums, surplus contributions, assessments and dues; underwriting policies that meet the established Underwriting Guidelines, Rules, Rates and Limits of Liability approved by the Company and submitted through licensed insurance producers appointed by the Company; issuing policies bound and written in accordance with the Company's regulatory and compliance standards.

Claims Administrator

PT Program Manager, LLC will serve as the Claims Administrator pursuant to the agreement executed and effective May 20, 2022. With respect to the Claims Service Agreement, PT Program Manager, LLC will examine all claims and loss reports at the request of the Company; assign for and supervise investigation of claims; adjust and handle to conclusion any claims; perform reasonable administrative and clerical work; maintain an electronic file for each reported claim; promptly confirm in writing the creation of a claim file with the required information; review, analyze, make recommendations and provide follow-up; assist with establishing and re-evaluating

reserves on each claim; provide Company or its legal representative investigative materials on any claim; and provide quarterly loss reports.

Reinsurance Broker

In addition to acting as the Captive Manager, Risk Services, LLC, has contracted with the Company to act as its Reinsurance Broker, effective May 20, 2022.

Legal Counsel

According to the Certificate of Authority application and UWC, Davis H. Smith, an attorney with Bradley Arant Boult Cummings, LLP, will provide legal services to the Company and serve as the Company's resident agent for service of process.

MARKET CONDUCT ACTIVITIES

As previously mentioned, the Company is in the process of applying for a Certificate of Authority and as of the date of this report has not commenced operations. The following is a review of the Company's Plan of Operation, which is included in the Company's Business Plan and Feasibility Study filed with its application.

Plan of Operation

The Company is seeking licensure as a captive risk retention group. According to the applicant's Feasibility Study and Business Plan, it seeks approval to offer the following liability coverages with a maximum of \$1,000,000 per risk and \$3,000,000 in the aggregate.

- Commercial Auto Liability Limit \$1 million
- General Liability \$1 million / \$3 million
- Cargo Liability \$250,000
- Non-Trucking
- Bobtail Liability

Initially, the Company plans to only write Commercial Auto Liability and the other products will be added at some point in the future.

Commercial Auto Liability - \$1,000,000 (Combined Single Limit)

- Personal Injury Protection (per state requirements)
- Uninsured/Underinsured Motorists
- Medical Payments
- Hired Auto
- Non-owned Liability

The maximum deductible will be \$5,000. The Company's maximum retention on any one risk is \$250,000.

Any change in the Company's Plan of Operation, including its Business Plan and Feasibility Study, requires prior approval in accordance with ALA. ADMIN. CODE 482-1-138-.16 (2022), which states in pertinent part: "Any change in the nature of the captive business from that stated in the company's plan of operation filed with the commissioner upon application requires prior approval from the commissioner. ..."

Territory

According to the Company's Plan of Operation, submitted with its Certificate of Authority Application, the Company intends to offer its products to independent owner-operators and small commercial trucking and commercial auto companies who operate long-haul routes, with their primary garaging location in the following states:

- California
- Florida
- Georgia
- Illinois
- Louisiana
- Michigan
- New Jersey
- North Carolina
- Ohio
- Pennsylvania

Prior to doing business in these states, the Company must register in these states as a foreign risk retention group. The registered states will have limited regulatory authority pursuant to 15 U.S.C. § 3902.

Marketing

Per the Company's filed Plan of Operation, it will wholly rely on independent agents and wholesalers for marketing and production. The Company will be owned by its insureds. It was formed by its Program Manager, PT Program Manager, LLC. The Program Manager agreement indicates that it will comply with the Company's Underwriting Guidelines, which were adopted by Unanimous Written Consent of the Board on May 19, 2022. The agreement also indicates that the Program Manager will only accept business submitted by producers licensed and appointed with the Company. ALA. CODE § 27-3-27(a) (1975) states:

No insurer shall, in this state, directly or indirectly, accept applications for insurance, negotiate for or issue any policy or contract of insurance or assume direct liability as to a subject of insurance resident, located, or to be performed in this state unless through insurance producers duly licensed under the provisions of this title.

Should the Company choose to write in Alabama, it must comply with the above. Business produced in other states must comply with the producer requirements of the respective states.

Reinsurance

According to the Company's Business Plan and Feasibility Study, it plans to obtain excess of loss reinsurance with an attachment point of \$250,000. The reinsurance will be placed with an insurer with a minimum Financial Strength Rating of "A" from A.M. Best. The Company did not indicate that it would assume business from other insurers.

At the time of this report, the Company had not yet completed its reinsurance negotiations. The Department requests that the Company file its executed reinsurance contract with the Department in accordance with ALA. ADMIN. CODE 482-1-138-.10(b) (2022), which states in pertinent part: "The commissioner in his discretion may require that complete copies of all reinsurance treaties and contracts be filed and/or approved by him. "

ACCOUNTS AND RECORDS

ALA. ADMIN. CODE 482-1-118-.05 (1999) states: "All financial books, records and accounts necessary for the annual statement of an Alabama domestic insurer must be kept in a central location in Alabama in accordance with Section 27-27-29, Code of Alabama 1975."

ALA. CODE § 27-27-29(a) (1975) states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Paragraph (e) of the same Code section states:

With the written permission of the commissioner, a domestic insurer may maintain its executive offices outside the State of Alabama and keep there complete records of its assets, transactions, and affairs in accordance with the methods and systems as are customary or suitable for the kind or kinds of insurance transacted. All records kept at the executive offices outside Alabama shall be made available to the commissioner of Alabama upon reasonable notice by the commissioner.

The Company's captive manager is located in Sarasota, Florida. At the time of this report, the Company had not requested Commissioner approval to maintain its records outside of the state. Therefore, its records are required to be maintained within the state of Alabama.

Any change in any information submitted in the Company's application for a Certificate of Authority must be filed with the Department in accordance with ALA. ADMIN. CODE 482-1-138-.16 (2022), which states, in pertinent part: "...Any change in any other information filed with the application must be filed with the commissioner but does not require prior approval."

Permitted Practices

As of the date of this report, the Company had requested and Commissioner Jim L. Ridling had approved permitted practices as follows:

- Permission to Account and Prepare Financial statements in accordance with Generally Accepted Accounting Practices pursuant to ALA. CODE § 27-31B-9(b) (1975) - granted May 23, 2022.
- Deviation from the Surplus Requirement of ALA. CODE § 27-5-11(a) (1975) Based on Net Retained Risk - granted May 23, 2022.
- Separate Audit Committee of the Board Waiver pursuant to ALA. CODE § 27-31A-3.1(i) (1975) - granted June 16, 2022. See *Subsequent Events*.

FINANCIAL STATEMENT INDEX

The Financial Statements included in this report were prepared in conformity with those accounting practices prescribed or permitted by the Commissioner of Insurance for the State of Alabama utilizing Company records and is intended to depict the statutory financial condition of the Company as of June 2, 2022. The information reported therein has been verified by the examiner to the extent deemed necessary. The notes immediately following the Financial Statements in this report are an integral part thereof.

Statement of Assets, Liabilities, Surplus and Other Funds.....	20
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PROFESSIONAL TRANSPORTATION RISK RETENTION GROUP, INC.
Statement of Assets, Liabilities, Surplus and Other Funds
For the Period Ended June 2, 2022

<u>ASSETS</u>	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>
Cash	\$1,000,000	\$0	\$1,000,000
Subtotals, cash and invested assets	<u>\$1,000,000</u>	<u>\$0</u>	<u>\$1,000,000</u>
 TOTAL ASSETS	 <u>\$1,000,000</u>	 <u>\$0</u>	 <u>\$1,000,000</u>

CAPITAL AND SURPLUS

Common capital stock, 5,000,000 shares of \$1 par value authorized	\$0
Gross Paid In and Contributed Surplus	0
Surplus Note	<u>\$1,000,000</u>
Total Capital and Surplus	\$1,000,000
 TOTAL LIABILITIES, CAPITAL AND SURPLUS	 <u>\$1,000,000</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Cash, cash equivalents, and short-term investments **\$1,000,000**

The above captioned amount was confirmed as of June 2, 2022; it was determined to be held unencumbered by The Bank of Tampa. The funds were obtained pursuant to a surplus note issued by the Company to PT Program Manager, LLC. The surplus note was approved by the Commissioner on May 23, 2022, in accordance with ALA. ADMIN. CODE 482-1-094-.07(1) (2021), which states: “All surplus notes issued by an insurer are subject to the prior approval of the Commissioner, regardless of amount, and shall be filed at least 30 days prior to the proposed date of the loan.”

The funds maintained, satisfy the minimum capital and surplus requirements of ALA. CODE § 27-31B-6(a)(3) (1975). See the *Minimum Capital and Surplus* section of this report.

ALA. CODE § 27-41-6(a) (1975) states:

An insurer shall not have at any one time any single investment or combination of investments in or loans upon the security of the obligations, property, or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer’s assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of Section 27-3-26 of the Alabama Insurance Code, less the minimum capital and surplus required of said insurer for authority to transact insurance....

The Company is reminded that the above applies to total cash held at a single financial institution.

The Company’s Board should adopt investment policies and procedures to guide its investment decisions. Investment decisions should be approved in accordance with ALA. CODE § 27-41-5 (1975), which states:

An insurer shall not make any investment or loan exceeding 10 percent of the admitted assets of the insurer, other than loans on policies or annuity contracts, unless authorized, approved, or ratified by the board of directors of the insurer or by the committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee, or other persons so

authorized shall be recorded and regular reports thereof shall be submitted to the board of directors.

As the Company's cash increases beyond the amount necessary to meet its immediate liquidity needs, the Company should consider more productive uses of its invested assets. Should the Company make investments held outside of an FDIC member bank, it should be mindful of the requirement for a written custodial agreement approved by the Commissioner in accordance with ALA. ADMIN. CODE 482-1-077-.04 (2003).

CONTINGENT LIABILITIES

The corporate and accounting records including those filed for initial incorporation and organization were reviewed. There were no contingent liabilities identified. There were no other records to review as the Company has not commenced business.

SUBSEQUENT EVENTS

The review of events subsequent to June 2, 2022, and up to the date of this report included a general review of the meeting minutes and inquiring of management regarding any significant subsequent events. There were no significant subsequent events identified.

Bylaws

The Company amended its Bylaws by Unanimous Written Consent of the Board on July 1, 2022. Article II, Section 2.02, now states, in pertinent part: "Each director shall be elected by the holders of Common Stock entitled to vote at the annual meeting thereof and shall serve for a term of one year and until his or her successor is elected and qualifies, or until his or her earlier resignation or removal." See the subsection "Directors" within the *Management and Control* section of this report.

Audit Committee

ALA. CODE § 27-31-3.1(i) (1975) states: "The domestic regulator may waive the requirement to establish an audit committee composed of independent board members if the risk retention group is able to demonstrate to the domestic regulator that it is impracticable to do so and the risk retention group's board of directors itself

is otherwise able to accomplish the purposes of an audit committee, as described in subsection (h).” A waiver was granted by the Department on June 16, 2022. See “Permitted Practices” in the *Accounts and Records* section of this report.

COMMENTS AND RECOMMENDATIONS

No significant findings or solvency concerns were identified during this exam. The following recommendations are related to minor compliance issues or compliance areas that may apply once the Company commences operations but are not findings of violations.

Directors – Page 4

It is recommended that the Company amend its Bylaws to comply with ALA. CODE § 27-27-23(b) (1975), which states in pertinent part:

... Directors may be elected for terms of not more than five years each and until their successors are elected and have qualified, and if to be elected for terms of more than one year, the insurer’s bylaws shall provide for a staggered-term system under which the terms of a proportionate part of the members of the board of directors will expire on the date of each annual meeting of stockholders or members.

See the subsection “Bylaws” in *Subsequent Events where compliance has been noted*.

Holding Company Registration – Page 7

It is recommended that if control of five percent or more be vested with one “person” that the Company comply with the Alabama Holding Company System filing requirements set forth in ALA. CODE § 27-29-1 et seq. (1975) and ALA. ADMIN. CODE 482-1-055 (2016), unless a disclaimer of affiliation is approved by the Commissioner in accordance with the same.

Fidelity Bond – Page 8

It is recommended that the Company obtain a fidelity bond to protect itself against loss of money or other property sustained through fraudulent or dishonest act or acts

committed by any of its Officers, Directors, and employees (should it have any in the future) including indirect employees, acting alone or in collusion with others in an amount determined using the exposure index provided in “Exhibit R” of the NAIC *Financial Condition Examiners Handbook*.

It is further recommended that the Company’s Board conduct an annual review of its fidelity bond, as well as those of its service providers to ensure adequate protection of the Company when the service providers perform work on behalf of the Company.

Compliance with 18 U.S.C. § 1033 – Page 9

It is recommended that the Company develop and adopt internal procedures for determining whether its employees (should it hire direct employees), officers, directors, managers, contractors, etc. engaged in the business of insurance on its behalf have not been convicted of a Section 1033 offense, including periodic review and the maintenance of auditable evidence of compliance in accordance with ALA. ADMIN. CODE 482-1-146-.11(2) (2009)

Plan of Operation – Page 14

It is recommended that should the Company decide to change its Plan of Operation, including its Business Plan or Feasibility Study, it should obtain prior approval in accordance with ALA. ADMIN. CODE 482-1-138-.16 (2022), which states in pertinent part: “Any change in the nature of the captive business from that stated in the company’s plan of operation filed with the commissioner upon application requires prior approval from the commissioner. ...”

Territory – Page 15

It is recommended that the Company make the appropriate registration filings in jurisdictions where it seeks to expand in accordance with 15 U.S.C. § 3902.

Marketing – Page 16

It is recommended that the Company (should it choose to write in Alabama) prior to soliciting business, comply with ALA. CODE § 27-3-27(a) (1975), which states: “No insurer shall, in this state, directly or indirectly, accept applications for insurance, negotiate for or issue any policy or contract of insurance or assume direct liability as to

a subject of insurance resident, located, or to be performed in this state unless through insurance producers duly licensed under the provisions of this title.”

It is further recommended that the Company comply with producer licensing and appointment requirements of its registration states.

Reinsurance – Page 16

It is recommended that upon completion of reinsurance negotiations, the Company file an executed copy of the contract with the Department in accordance with ALA. ADMIN. CODE 482-1-138-.10(b) (2022), which states in pertinent part: “The commissioner in his discretion may require that complete copies of all reinsurance treaties and contracts be filed and/or approved by him.”

Accounts and Records – Page 17

It is recommended that the Company comply with the record requirements of ALA. ADMIN. CODE 482-1-118-.05 (1999), which states: “All financial books, records and accounts necessary for the annual statement of an Alabama domestic insurer must be kept in a central location in Alabama in accordance with Section 27-27-29, Code of Alabama 1975.”

It is also recommended that unless written permission is granted in accordance with ALA. CODE § 27-27-29(c) (1975), that the Company comply with ALA. CODE § 27-27-29(a) (1975), which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep in this state complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

It is recommended that should any information submitted to the Department in conjunction with its Certificate of Authority application change, that it be filed in accordance with ALA. ADMIN. CODE 482-1-138-.16 (2022), which states, in pertinent part: “...Any change in any other information filed with the application must be filed with the commissioner but does not require prior approval.”

Cash, cash equivalents, and short-term investments - Page 21

It is recommended that the Company comply with the investment limitation of ALA. CODE § 27-41-6(a) (1975), which states:

An insurer shall not have at any one time any single investment or combination of investments in or loans upon the security of the obligations, property, or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of Section 27-3-26 of the Alabama Insurance Code, less the minimum capital and surplus required of said insurer for authority to transact insurance...

It is recommended that the Company's Board adopt investment policies and procedures.

It is recommended that the Company approve investment decisions in accordance with ALA. CODE § 27-41-5 (1975), which states:

An insurer shall not make any investment or loan exceeding 10 percent of the admitted assets of the insurer, other than loans on policies or annuity contracts, unless authorized, approved, or ratified by the board of directors of the insurer or by the committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee, or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors.

It is recommended that if the Company holds investments outside of an FDIC member bank, it comply with the requirements for a written custodial agreement approved by the Commissioner in accordance with ALA. ADMIN. CODE 482-1-077-.04 (2003). (Please be advised there is a hearing scheduled for July 7, 2022, regarding proposed revisions to this Regulation; if adopted, it will be effective July 17, 2022).


CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the captive manager, Risk Services, LLC, and its employees during the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, 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, Charles Hale, ACAS, MBA, Property and Casualty Actuary, representing the Alabama Department of Insurance, participated in the exam.

Respectfully submitted,



Jennifer A. Haskell, MBA, CFE, PIR
Examiner-in-Charge
State of Alabama
Department of Insurance