

**STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
MONTGOMERY, ALABAMA**

**REPORT OF  
EXAMINATION**

**OF**

**PRACTICEPROTECTION INSURANCE COMPANY (a Risk Retention  
Group)**

**BIRMINGHAM, ALABAMA**

**AS OF DECEMBER 31, 2021**

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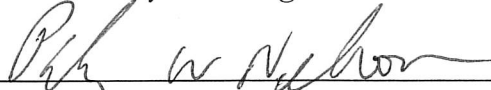
## EXAMINER'S AFFIDAVIT

### STATE OF ALABAMA COUNTY OF MONTGOMERY

Palmer W. Nelson, CFE, CIE, MCM being duly sworn, states as follows:

1. I have the authority to represent Alabama in the examination of PracticeProtection Insurance Company (a Risk Retention Group).
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 PracticeProtection Insurance Company (a Risk Retention Group) was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

  
Palmer W. Nelson, CFE, CIE, MCM

Subscribed and sworn before me by Palmer W. Nelson on the 25<sup>th</sup> day of April, 2023

(Seal)

  
(Signature of Notary Public)

My commission expires 5/13/25



KAY IVEY  
GOVERNOR

MARK FOWLER  
COMMISSIONER

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
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JIMMY W. GUNN  
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CHIEF EXAMINER  
SHEILA TRAVIS

STATE FIRE MARSHAL  
SCOTT F. PILGREEN

GENERAL COUNSEL  
REYN NORMAN

April 25, 2023

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

Dear Commissioner Fowler:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2021, has been made of

**PracticeProtection Insurance Company (a Risk Retention Group)  
Birmingham, Alabama**

and was conducted remotely with support from Company management located in Birmingham, Alabama. The Company's statutory home address is located at 2100 Southbridge Parkway, Suite 650, Birmingham, AL 35209. The report of examination is submitted herewith. Where the description "The Company" appears herein, without qualification, it will be understood to indicate PracticeProtection Insurance Company (a Risk Retention Group).

## **SCOPE OF EXAMINATION**

An examination has been performed of PracticeProtection Insurance Company (a Risk Retention Group), a multi-state company. The examination is the first examination of the Company. The examination period began June 14, 2017, the date that the Company was formed as a corporation, and ran through December 31, 2021.

The examination was conducted in accordance with applicable statutory requirements of the Code of Alabama, 1975, as amended, the Alabama Department of Insurance 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.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that the examiners 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.

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 is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Code of Alabama, 1975, as amended and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IT) was conducted concurrently with the financial examination. The IT examination included a review of management and organizational controls, logical and physical security

controls, changes in applications controls, system and program development controls, contingency planning controls, service provide controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

Jarrard, Nowell & Russell, CPAs were the certified public accountants that conducted the annual audits. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation 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, 2021.

## **ORGANIZATION AND HISTORY**

The Company was formed June 14, 2017, as a Risk Retention Group and received its initial Certificate of Authority from Vermont. The Company began writing medical professional liability insurance to dental professionals in 2018. The Company re-domesticated to Alabama and received its Certificate of Authority from Alabama November 3, 2021. The Company is licensed in Alabama and registered to write business in Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, North Carolina, Ohio, South Carolina, Tennessee, and Wisconsin. The Company wrote business in 2021 in eleven of the states but did not write any business in Alabama. As of December 31, 2021, the Company had capital and surplus of \$1,030,998, consisting of a Letter of Credit of \$750,000, a surplus note of \$500,000, and Unassigned funds of \$(219,002).

## **MANAGEMENT AND CONTROL**

### **Stockholders**

All the Company's shares are wholly owned by PracticeProtection Association of America, Inc. (Association). Association is authorized to issue Class A, B, C, and D shares. All the Class A shares are owned by PracticeProtection Insurance Services, LLC (PPIS). Under the terms of the Subscription Agreement and the Shareholders Agreement, the Company's insureds are required to purchase one share of zero par value Class B shares of Association for \$10. The Class B shares are unmarketable and cannot be sold, exchanged, or assigned. When electing Directors, the Class A and Class B shareholders vote as separate voting groups. When voting on all other matters, the Class A and Class B shareholders vote as a single voting group. Class A and B shares may be paid dividends that are determined at the sole discretion of the Board of Directors. The Class B shares must be relinquished back to Association if

the insured owner is no longer an insured. The Class B shares, the capital contributions and any unpaid stock dividends are non-refundable to the holder upon termination, unless otherwise directed by the Board of Directors, in its sole and absolute discretion. Upon dissolution of the Company, Class A shares have rights to the Company's residual assets and Class B shares do not. PPIS is wholly owned by Practice Protection, Inc., (PP) a Nevada corporation. PP also wholly owns an Illinois insurer, Doctors Direct Insurance, Inc.

### **Board of Directors**

The following directors were serving on December 31, 2021.

<u>Director and Place of Residence</u>	<u>Principal Occupation and Employer</u>
Michael John Wallace Saint Johns, Florida	President/CEO, PracticeProtection, Inc.
Eric John Stetzel Fort Wayne, Indiana	Entrepreneur and Chief Strategic Officer, Practice Protection, Inc.
Cory Edward Brown Santa Rosa County, Florida	Independent Consultant, Greenbrier Regulatory Consulting, LLC
Michael Tudor Smith Indianapolis, Indiana	Dentist, Self Employed
Christina Kindstedt Burlington, Vermont	Managing Director, Advantage Insurance Management, LLC
Kevin Joseph Alexander Mountain Brook, Alabama	Dentist, Self Employed

### **Committees**

The Company's Board of Directors did not have any Committees other than the Audit Committee as of December 31, 2021. The Company's Board of Directors serve for all needs and requirements of an audit committee.

### **Officers**

Officers serving as of December 31, 2021 were as follows.

<u>Name</u>	<u>Title</u>
Michael John Wallace	President & Chief Executive Officer
Eric John Stetzel	Executive Vice President & Treasurer
William Saunders Bliss	Vice President & Secretary
Timothy R. Bone	Vice President

### **Conflicts of Interest**

The Company has a Code of Business Conduct and Ethics Policy that includes therein the Company's Conflicts of Interest Policy. The Company's Conflicts of Interest Policy requires that each officer and director annually file a statement disclosing any personal interest that potentially conflict with the Company's interest. The policy states "Directors and Officers are subject to the conflict of interest disclosure policy adopted by the Company's Board of Directors, and shall annually execute and submit conflict of interest disclosure forms disclosing any actual or potential conflicts of interest." There were not any conflicts reported by any of the Company's officers and directors. One former director failed to file the required disclosure in 2018.

### **CORPORATE RECORDS**

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

The documented minutes of the meetings of the Stockholder and Board of Directors were reviewed for the period under examination. The minutes were complete to evidence compliance with the requirements of the Company's By-laws and the Alabama Code.

### **HOLDING COMPANY AND AFFILIATE MATTERS**

As of December 31, 2021, the Company was subject to the Alabama Insurance Company Regulatory Act of 1973 as defined in ALA. CODE § 27-29-1(1975). The review of the holding company filings made during the examination period indicated that appropriate disclosures were made regarding the Company.

### **Dividends to Stockholders**

The Company has not paid any dividends to stockholders in its existence.

## **Administrative Service Agreements**

The following management and administrative service agreements were in effect during the examination period.

## **Affiliated Agreements**

### *Managing General Agency Agreement with PracticeProtection Insurance Services, LLC*

The Company entered into a Managing General Agency (MGA) Agreement with PracticeProtection Insurance Services, LLC effective July 17, 2017. The MGA Agreement was terminated and replaced with a successive MGA agreement that became effective November 3, 2021. The replacement of the existing agreement became necessary due to the Company's re-domestication to Alabama.

Under the terms of the agreement, the Company appointed PracticeProtection Insurance Services, LLC as its Managing General Agent (MGA) and authorized it to accept, bind, issue, and process endorsements, on forms approved by the Company for medical professional liability insurance covering dentists, dentist offices and miscellaneous dental professionals and support personnel in all states and territories of the United States. The policies issued are to comply with the underwriting and pricing standards established by the Company. Claims are to be handled in accordance with the Company's claims procedures. The maximum policy limits per the agreement are \$2 million per incident and a \$4 million annual aggregate for occurrence and claims made policies. In addition to the policy and claims administration duties, the MGA agreed to perform the Company's accounting and financial reporting duties.

The duties and responsibilities of the MGA broadly include all of the aspects of policy issuance and administration and claims administration, including establishing claims reserves. The Company agreed to fund a claims account administered by the MGA. The MGA has claims settlement authority up to \$2 million.

For the duties performed by the MGA, the Company agreed to pay the MGA a fee of 20% of "gross net written premium" described by the agreement to mean premiums written less cancellations, return premiums and premium charge-offs or waivers. With respect to claims management and administration, the Company shall pay an hourly fee of \$75 plus actual incurred expenses for specific claims investigation, adjusting, coordination of and engagement in the defense or settlement of claims. In addition to the MGA fee, the Company agreed to incentivize the MGA with a

Provisional MGA Fee. The Provisional MGA Fee is payable to the MGA if the accident year loss and loss adjustment expense ratio of gross written premium is 65% or less. The fee is a percentage of gross written premium per accident year. The fee is tiered, and the fee increases incrementally as the loss and loss adjustment expense ratio decreases. The maximum Provisional MGA fee is 10% of the gross written premium if the loss and loss adjustment expense ratio is 54% or lower.

The term of the agreement is five years from the November 3, 2021, date of commencement. Thereafter, it may be renewed for successive terms of up to five years subject to written agreement of each party. The agreement may be terminated by either party upon mutual written consent. There are provisions for the Company to terminate in the event of excessive complaints, default of the MGA, and insufficient or inaccurate data. Either party may terminate the agreement in the event of bankruptcy, misconduct, or a material breach of contract.

The accounting function that is the MGA's responsibility is outsourced to a CPA firm under the terms of a contract that the MGA has with the CPA firm.

The Company's affiliated Managing General Agent (MGA), PracticeProtection Insurance Services, LLC, a Vermont entity, was not licensed in Alabama as an MGA as required. ALA. CODE § 27-6A-3(b)(1975) states: "No person, firm, association, or corporation shall act in the capacity of a managing general agent representing an insurer domiciled in this state with respect to risks located outside this state unless then licensed in this state as a managing general agent of the insurer. Where applicable, the license may be a nonresident license pursuant to this chapter."

The Company's MGA has applied for an Alabama MGA license and the application is pending.

### **Unaffiliated Agreements**

#### *Management and Administrative Services Agreement with Advantage Insurance Management, LLC*

The Company entered into a Management and Administrative Services Agreement with Advantage Insurance Management, LLC (AIM) that became effective September 1, 2019. Under the terms of the agreement, AIM coordinates and liaises with the regulatory authority in the state of domicile for the Company. For the services provided, the Company pays an annual fee in quarterly installments. The annual fee is based on the gross written premiums. The annual fee when the gross written premium is less than \$1 million is \$12,000. In addition to the fixed fee, the Company

agreed to reimburse AIM for out-of-pocket costs in connection with providing the services.

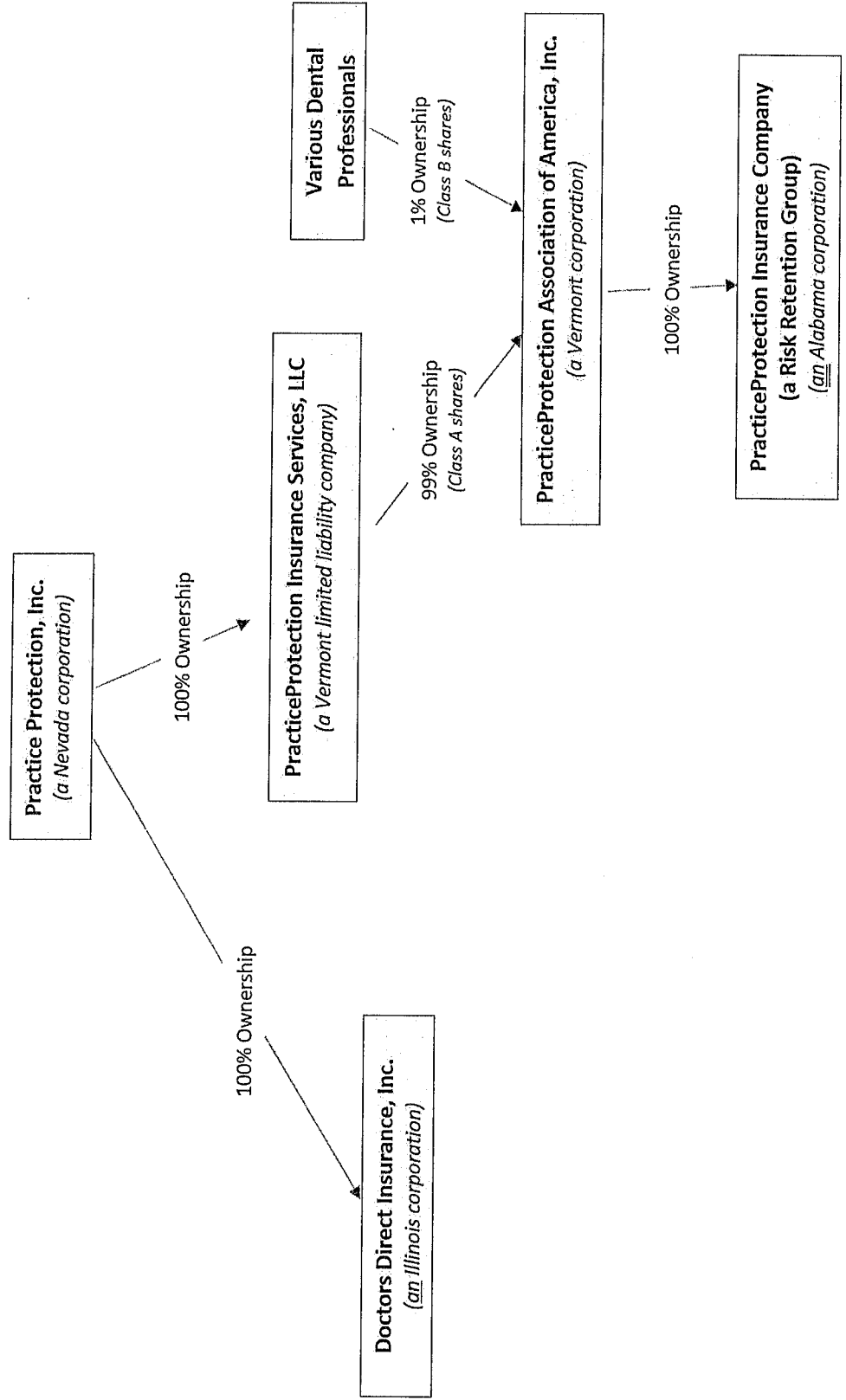
The term of the agreement was for five years, expiring September 1, 2024. Either party may terminate the agreement by giving the required 90 days' written notice of termination.

The Company was initially domiciled in Vermont and re-domesticated to Alabama November 3, 2021. Some of the provisions of the agreement still reflect that the Company is a Vermont domestic. It was determined that this outdated reference did not impact any of the duties and responsibilities of the parties to the agreement.

### **ORGANIZATIONAL CHART**

The chart on the following page presents the relationships of the Company and its affiliates as of December 31, 2021.

# Organizational Chart



## **FIDELITY BONDS AND OTHER INSURANCE**

The Company was a named insured by endorsement of a Directors and Officers and Errors and Omissions insurance policy issued to Practice Protection, Inc., the insurance holding company. In addition to coverage for errors and omissions, the policy provided coverage for wrongful acts of the officers and directors of the insureds. Wrongful acts of the officers and directors were defined by the policy as “any actual or alleged act, error, misstatement, misleading statement, neglect, breach of duty, or omission by a director or officer.” Under the exclusions in the policy, criminal, dishonest, intentional, malicious, or fraudulent acts were excluded. The Company did provide a dishonesty bond issued to PracticeProtection Insurance Services, LLC, the Company’s Managing General Agent and the sole owner of all of the Class A shares issued by the Company. The coverage limit of the dishonesty bond was adequate for the Company in the comparison of the insurance limit to the minimum loss limit suggested by the NAIC *Financial Condition Examiners Handbook for the Company*. However, the policy did not indicate the Company has a named insured under the policy. Therefore, the Company did not have fidelity insurance with an insurance limit that was equal to or exceeded the minimum coverage limit of the NAIC *Financial Condition Examiners Handbook*.

## **EMPLOYEE AND AGENT WELFARE**

The Company used direct marketing to consumers to market its business. The Company does not have any employees, other than the officers of the Company. The Company’s activities were conducted by its affiliated Managing General Agent, PracticeProtection Insurance Services, LLC.

## **Compliance with 18 U.S.C § 1033**

The Company did not have any employees, and the Company’s functions were conducted by employees of an affiliated Managing General Agent. The Company did not have an internal procedure to determine whether the individuals that the insurer intended to engage to conduct activities in the business of insurance had a felony conviction for a 1033 offense. The Company did not provide evidence that criminal background checks were conducted before engaging individuals that were engaged in the business of insurance. The Company did not provide evidence that a periodic procedure was conducted after initial engagement of individuals to determine the existence of a felony conviction for a Section 1033 offense.

ALA. ADMIN. CODE 482-1-146.11(2009) states:

1. 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 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.
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.

Company management represented that it had revised its policies to ensure compliance going forward.

### **TERRITORY**

The Company re-domesticated to Alabama from Vermont on November 3, 2021. The Company did not write any business in Alabama during the examination period. In 2021, the Company was registered in 18 states and wrote business in eleven of the states in which it was registered. As of December 31, 2021, the Company was licensed or registered to write business in the following states:

Alabama	Michigan
Arkansas	Minnesota
Florida	Mississippi
Georgia	Missouri
Illinois	North Carolina
Indiana	Ohio
Iowa	South Carolina
Kansas	Tennessee
Kentucky	Wisconsin
Louisiana	

### **PLAN OF OPERATION**

The Company wrote dental professional liability insurance covering dentists, dental offices, and dental professionals. The Company began writing business in 2018. The Company has engaged an affiliated Managing General Agent that administers its business. The Company distributes its business to its consumers by way of both, independent agents and on a direct basis.

### **SPECIAL DEPOSITS**

As of December 31, 2021, the Company did not have any deposits pledged to statutory authorities.

### **FINANCIAL CONDITION AND GROWTH OF THE COMPANY**

The exhibit below exhibits the financial condition and growth of the Company and is based on the Company's filed financial statements.

	2021	2020	2019	2018	2017
Admitted Assets	\$1,250,209	\$1,199,388	\$1,192,026	\$1,211,241	\$1,250,100
Liabilities	\$219,211	\$149,644	\$146,807	\$88,863	\$35,725
Surplus Notes	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Letter of Credit	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
Unassigned Funds	\$(219,002)	\$(200,256)	\$(204,781)	\$(127,622)	\$(35,625)
Premiums Earned	\$113,490	\$85,111	\$17,621	\$3,408	\$0
Losses Incurred	\$14,016	\$24,427	\$4,566	\$1,157	\$0
Loss Adjustment Expenses Incurred	\$543	\$1,200	\$0	\$(666)	\$0
Net Income	\$(18,746)	\$4,525	\$(77,159)	\$(91,993)	\$(35,625)

## **REINSURANCE**

### **Reinsurance Assumed**

The Company has not engaged in any assumed reinsurance through December 31, 2021.

### **Reinsurance Ceded**

The Company renews its reinsurance each January 1 for an annual period. The following is a discussion of the reinsurance that was in effect as of the examination date.

#### **Quota Share Reinsurance Agreement**

The Company entered into a quota share reinsurance agreement effective January 1, 2021. The term of the agreement was for one year. Under the terms of the reinsurance agreement in Section A, which is all policies with limits up to \$1 million, the reinsurer assumed 80% quota share of up to \$1 million each claim or occurrence of the Company's net liability of the policies classed as dental professional liability. Under the terms of Section B, which is all policies with limits greater than \$1 million and up to \$2 million, the reinsurer assumed 90% quota share of up to \$2 million each claim or occurrence of the Company's net liability of the policies classed as dental professional liability. The Company was allowed a provisional ceding commission of 20%, and the provisional ceding commission is to be adjusted based on the loss ratio with the minimum ceding commission of 15% and the maximum ceding commission of 25%. Stonybrook Risk Managers was the reinsurance intermediary, and the lone participating reinsurer was Swiss Reinsurance America Corporation.

## ACCOUNTS AND RECORDS

The Company's principal accounting, premiums, and claims records were maintained in electronic format and stored by a third-party cloud service provider. Jarrard, Nowell & Russell, CPAs conducted the annual audits. The Company has received a small company exemption from the annual requirement each year to file a Statement of Actuarial Opinion.

The Company has obtained a permitted practice that allows it to report its financial statements using Generally Accepted Accounting Principles.

The Company did not obtain an awareness letter from its external auditor. ALA. ADMIN. CODE 482-1-141-.06(2)(2019) states:

The insurer shall obtain a letter from the accountant, and file a copy with the commissioner stating that the accountant is aware of the provisions of the insurance code and the regulations of the insurance department of the state of domicile that relate to accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as he or she may believe appropriate.

The Company did not respond to all information requests within ten business days or obtain an extension of time for responses that took more time to provide. ALA. ADMIN. CODE 482-1-118-.06(1999) states:

The insurer shall provide within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant employee or examiner of the commissioner. When the record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

The Company was asked to provide evidence that its claim or application forms included the required fraud warning language prescribed by ALA. CODE § 27-12A-20(1975). The Company provided its application form and application supplement. The application included a fraud warning. The fraud warning indicated that the penalty for misrepresentations could be the denial of indemnity benefits. The

language was not substantially similar to the prescribed language which indicates that misrepresentations are acts of fraud and subject to criminal prosecution. ALA. CODE § 27-12A-20 states:

Fraud warning. (a) A fraud warning shall be included on at least one of the following: Claim release forms, applications, reinstatements for insurance, participation agreements, declaration pages, and claim documents, regardless of the method or form of transmission and shall contain the following statement or a substantially similar statement: "Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or who knowingly presents false information in an application for insurance is guilty of a crime and may be subject to restitution, fines, or confinement in prison, or any combination thereof."

As a result of the notification of the examination finding, the Company did provide a sufficient fraud warning and indicated that the fraud warning would begin being included going forward.

## **FINANCIAL STATEMENT INDEX**

The financial statements included in this report were 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, 2021. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets	Page 17
Statement of Liabilities, Surplus, and Other Funds	Page 18
Summary of Operations	Page 19
Statement of Changes in Capital and Surplus	Page 20

**PRACTICEPROTECTION INSURANCE COMPANY (a Risk Retention  
Group)**

**STATEMENT OF ASSETS  
For the Year Ended December 31, 2021**

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
<b>ASSETS</b>			
Cash, cash equivalents & short-term investments	<u>\$373,219</u>		<u>\$373,219</u>
<b>Subtotals, cash, and invested assets</b>	<b><u>\$373,219</u></b>		<b><u>\$373,219</u></b>
Premiums and considerations:			
Deferred premiums, agents balances and installments booked but deferred and not yet due	457		457
Net deferred tax asset	48,763		48,763
Horizon Bank letter of credit	750,000		750,000
Deferred MGA fee	42,588		42,588
Commission receivable	29,879		29,879
Capital contributions receivable	3,070		3,070
Deferred premium acquisition cost	<u>2,233</u>		<u>2,233</u>
<b>TOTALS</b>	<b><u>\$1,250,209</u></b>		<b><u>\$1,250,209</u></b>

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

**PRACTICEPROTECTION INSURANCE COMPANY (a Risk Retention  
Group)  
SUMMARY OF OPERATIONS**

**For the Years Ended December 31, 2021, 2020, 2019, 2018, and 2017**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>UNDERWRITING INCOME</b>					
Premiums earned	\$113,490	\$85,111	\$17,621	\$3,408	
<b>DEDUCTIONS</b>					
Losses incurred	14,016	24,427	4,566	1,157	
Loss adjustment expenses incurred	543	1,200		(666)	
Other underwriting expense incurred	124,227	57,292	117,190	127,131	35,625
Total underwriting deductions	<u>\$138,786</u>	<u>\$82,919</u>	<u>\$121,756</u>	<u>\$127,622</u>	<u>\$35,625</u>
Net underwriting gain (loss)	<u>\$(25,296)</u>	<u>\$2,192</u>	<u>\$(104,135)</u>	<u>\$(124,214)</u>	<u>\$(35,625)</u>
<b>INVESTMENT INCOME</b>					
Net investment income earned	\$1,461	\$3,513	\$6,554	\$4,747	\$ 0
Net investment gain	<u>\$1,461</u>	<u>\$3,513</u>	<u>\$6,554</u>	<u>\$4,747</u>	<u>\$ 0</u>
<b>OTHER INCOME</b>					
Write-in for other income				<u>\$3,044</u>	
Total other income	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$3,044</u>	<u>\$ 0</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>\$(23,835)</u>	<u>\$5,705</u>	<u>\$(97,581)</u>	<u>\$(116,423)</u>	<u>\$(35,625)</u>
Federal and foreign income taxes incurred	<u>(5,089)</u>	<u>1,180</u>	<u>(20,422)</u>	<u>(24,430)</u>	<u>_____</u>
Net income	<u>\$(18,746)</u>	<u>\$4,525</u>	<u>\$(77,159)</u>	<u>\$(91,993)</u>	<u>\$(35,625)</u>

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

**PRACTICEPROTECTION INSURANCE COMPANY (a Risk Retention  
Group)**

**STATEMENT OF CHANGES IN CAPITAL AND SURPLUS  
For the Years Ended December 31, 2021, 2020, 2019, 2018, and 2017**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Capital and surplus, December 31, prior year</b>	<u>\$1,049,744</u>	<u>\$1,045,219</u>	<u>\$1,122,378</u>	<u>\$1,214,375</u>	<u>\$ 0</u>
Net income	(18,746)	4,525	(77,159)	(91,993)	(35,625)
Change in surplus notes					500,000
Surplus (contributed to) withdrawn from Protected Cells					750,000
Net change in capital and surplus for the year	<u>\$(18,746)</u>	<u>\$4,525</u>	<u>\$(77,159)</u>	<u>\$(91,993)</u>	<u>\$1,214,375</u>
<b>Capital and surplus, December 31, current year</b>	<u><b>\$1,030,998</b></u>	<u><b>\$1,049,744</b></u>	<u><b>\$1,045,219</b></u>	<u><b>\$1,122,382</b></u>	<u><b>\$1,214,375</b></u>

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

## **NOTES TO FINANCIAL STATEMENTS**

### **Analysis of Changes to Surplus**

No adjustments were made to surplus as a result of the examination.

## **COMMENTS AND RECOMMENDATIONS**

### **Conflicts of Interest – Page 5**

**It is recommended** that the Company require each officer and director to annually file a conflict of interest disclosure statement in accordance with the Company's Conflict of Interest Policy which states: "Directors and Officers are subject to the conflict of interest disclosure policy adopted by the Company's Board of Directors, and shall annually execute and submit conflict of interest disclosure forms disclosing any actual or potential conflicts of interest."

### **Administrative Service Agreements – Page 6**

**It is recommended** that the Company ensure that its MGA is properly licensed in Alabama as required by ALA. CODE § 27-6A-3(b)(1975) which states: "No person, firm, association, or corporation shall act in the capacity of a managing general agent representing an insurer domiciled in this state with respect to risks located outside this state unless then licensed in this state as a managing general agent of the insurer. Where applicable, the license may be a nonresident license pursuant to this chapter."

### **Fidelity Bonds and Other Insurance – Page 10**

**It is recommended** that the Company obtain fidelity coverage for dishonest acts of its officers and directors with limits that equal or exceed the minimum amount of fidelity coverage suggested by the NAIC *Financial Condition Examiners Handbook* Exhibit R.

### **Compliance with 18 U.S.C § 1033 – Page 10**

**It is recommended** that the Company establish an internal procedure to determine whether individuals that the Company intends to engage have a felony conviction for a 1033 offense. It is further recommended that the Company conduct background checks of individuals that the Company intends to engage in the activities of insurance to make certain that none have a felony conviction for a 1033 offense. It is further recommended that the Company conduct a procedure on a periodic basis after initial

engagement of individuals to ensure that there has not been a conviction of a felony for a 1033 offense. Each recommendation is required by ALA. ADMIN. CODE 482-1-146.11(2009), which states:

1. 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 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.
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.

#### **Accounts and Records – Page 14**

**It is recommended** that the Company obtain an awareness letter from its external auditor in accordance with ALA. ADMIN. CODE 482-1-141-.06(2)(2019) which states:

The insurer shall obtain a letter from the accountant, and file a copy with the commissioner stating that the accountant is aware of the provisions of the insurance code and the regulations of the insurance department of the state of domicile that relate to accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as he or she may believe appropriate.

**It is recommended** that the Company provide responses to examination requests within ten working days or obtain a written extension of time to provide the

information for any requests that an extension is warranted in accordance with ALA. ADMIN. CODE 482-1-118-.06(1999) which states:

The insurer shall provide within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant employee or examiner of the commissioner. When the record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

**It is recommended** that the Company include the required fraud warning on one of its policy forms in accordance with ALA. CODE § 27-12A-20(1975) which states:

Fraud warning. (a) A fraud warning shall be included on at least one of the following: Claim release forms, applications, reinstatements for insurance, participation agreements, declaration pages, and claim documents, regardless of the method or form of transmission and shall contain the following statement or a substantially similar statement: "Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or who knowingly presents false information in an application for insurance is guilty of a crime and may be subject to restitution, fines, or confinement in prison, or any combination thereof."

### **COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

The examination being reported on in this report is the first examination of the Company. It was not necessary to perform a review related to previous examination recommendations.

## **CONTINGENT LIABILITIES AND PENDING LITIGATION**

The review of contingent liabilities and pending litigation included an inspection of representations made by the Company's managers, a review of the Company's records and files for the period under examination, and a review of the records subsequent to the examination date. The reviews performed did not identify any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

## **SUBSEQUENT EVENTS**

The general ledger and cash transactions occurring subsequent to the examination date were reviewed. Additionally, the examiners inquired of management regarding any significant subsequent events. Significant events subsequent to the December 31, 2021, examination date were noted as follows.

The Company's holding company increased its commitment under the Letter of Credit from \$750,000 to \$850,000 in 2022, thereby increasing the Company's capital and surplus by \$100,000 attributable to the increased commitment.

Cory Brown, a Director, was appointed as the Company's Chief Financial Officer in the fourth quarter of 2022.

The Company's Managing General Agent (MGA) has filed an application in the fourth quarter of 2022, and the application remains pending at the date of this report.

The COVID-19 pandemic has continued to develop throughout 2020 through 2023, with significant uncertainty remaining regarding the full effects of COVID-19 on the U.S. and Global insurance and reinsurance industry. However, COVID-19 has seen a significant decrease in reported cases during 2022 and 2023. At the time of releasing this report, the examination's review of the Company noted that there has not been a significant impact on the Company. The Alabama Department of Insurance has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Alabama Department of Insurance continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

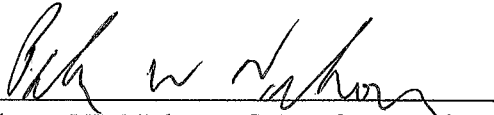
## CONCLUSION

Acknowledgement 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, Mike Starke, FCAS, ACAS, MAAA of Taylor Walker & Associates represented the Alabama Department of Insurance and participated in the examination of the Company.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Palmer W. Nelson", is written over a horizontal line.

Palmer W. Nelson, CFE, CIE, MCM  
Examiner-in-Charge  
Alabama Department of Insurance