

# ProAssurance Corporation

## And Insurance Subsidiaries Full Rating Report

### Ratings

Long-Term Issuer Default Rating A-  
Senior Debt BBB+

### Subsidiaries

Insurer Financial Strength A

Note: See additional subsidiaries in  
*Appendix*

### Rating Outlook

Stable

### Financial Data

#### ProAssurance Corporation

(\$ Mil.)	12/31/16	3/31/17
Net Income	151	41
Shareholders' Equity	1,799	1,826
Total Debt	450	450
ROAE (%)	8.0	9.2
Combined Ratio (%)	91.4	96.3

Source: SNL Financial.

### Related Research

[ProAssurance Corporation - Ratings Navigator \(June 2017\)](#)

[2017 Outlook: U.S. Property/Casualty Insurance \(Shift to Underwriting Loss Likely as Pricing Further Weakens\) \(November 2016\)](#)

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### Key Rating Drivers

**Very Strong Capital Position:** ProAssurance Corporation and its operating subsidiaries (collectively referred to as PRA) have a very strong capital position measured on both a risk-adjusted and nonrisk-adjusted basis. This very strong capital position helps protect the balance sheet as medical professional liability insurance (MPLI) reserves tend to have longer durations.

**Low Financial Leverage:** PRA's stated financial leverage is 22%, but when adjusted, it is 12%. Fitch Ratings adjusts financial leverage by removing the company's borrowings under its revolving credit agreement as Fitch considers this as operational. PRA uses the borrowings to invest in higher yielding assets. Fitch notes that PRA's current Issuer Default Rating (IDR) and debt ratings are narrowed by one notch due to PRA's low financial leverage and strong earnings-based interest coverage.

**Moderate Business Profile:** PRA's acquisitions expanded the product offerings such that approximately 35% of year-end 2016 premiums came from lines other than MPLI. While Fitch views the diversity of products as favorable, the agency also notes that PRA has limited scale in these markets.

**MPLI Industry Trends Negative:** The MPLI market is in the midst of a soft rate environment. Net premiums written (NPW) peaked in 2006 at just over \$8 billion and were down almost 27% in 2016 to just under of \$6 billion. Conversely, industry NPW grew approximately 18% over this time frame. Further, the MPLI market is comprised of many monoline mutual insurance companies with limited geographic diversity and high levels of capital.

**Favorable Reserve Development:** PRA reported \$144 million in favorable reserve development in 2016, or approximately 7% of the prior year's shareholders' equity balance. This development is related in part to management's prudence and a relatively benign claims environment. While Fitch believes PRA's reserves will continue to display prudence, this absolute level of favorable reserve development is likely to decline going forward.

### Rating Sensitivities

**Increased Financial Leverage:** Fitch would likely downgrade the debt and IDR of the holding company if financial leverage were to be sustained above 15% or if earnings-based interest coverage were less than 12.0x on a sustained basis.

**Change in Business Profile:** An increase in overall size of premiums to exceed \$1 billion where half or more comes from product lines outside of healthcare professional liability insurance while maintaining financial performance and financial leverage, could lead to an upgrade.

**Material Adverse Reserve Development:** Given the longer term duration of MPLI reserves, Fitch closely monitors reserve development and trends. If Fitch observed sustained periods of adverse reserve development, particularly in recent accident years, ratings could be lowered. Fitch notes that PRA's ratings benefit from exceptionally strong capital and any deterioration in that capital position could negatively affect ratings. In particular, an increase in operating leverage at or above 1.0x, or a deterioration in the Prism score below 'Strong', would be a credit negative.

**Sovereign- and Country-Related Constraints**

Fitch rates the sovereign obligations of the United States of America at 'AAA' with a Stable Outlook, and the Country Ceiling is similarly rated at 'AAA'.

The local currency sovereign rating expresses the maximum limit for local currency ratings of most, but not all, issuers in a given country. At current levels, the ratings of U.S. insurance organizations and other corporate issuers are not likely to be constrained by sovereign or macroeconomic risks.

**Market Position and Size/Scale**

**Small, Narrow Focus**

- Predominant MPLI focus.
- Moderate business profile.
- Large market share within MPLI market.

**Predominant MPLI Focus**

PRA derives approximately two-thirds of written premiums from MPLI, which is one of the property/casualty (P/C) industry's most unpredictable lines of business given the long-tail duration of liabilities.

Fitch recognizes the diversification of risks with recent acquisitions, which represents almost 35% of premium, is favorable, but this is offset by new lines of business and the lack of scale in these lines of business. Fitch believes profitable growth in these other lines of business could be the catalyst for a ratings upgrade.

**Moderate Business Profile**

Fitch believes PRA's business profile relative to the P/C insurance industry is moderate (see figure below). This implies that companies with this profile typically have an Insurer Financial Strength (IFS) rating that falls between 'A' and 'BBB'.

**Large Market Share Within MPLI Market**

Within the MPLI market, PRA is one of the dominant writers with a national platform. This allows the company to compete on large multistate facilities and practices giving the company an advantage over MPLI specialists.

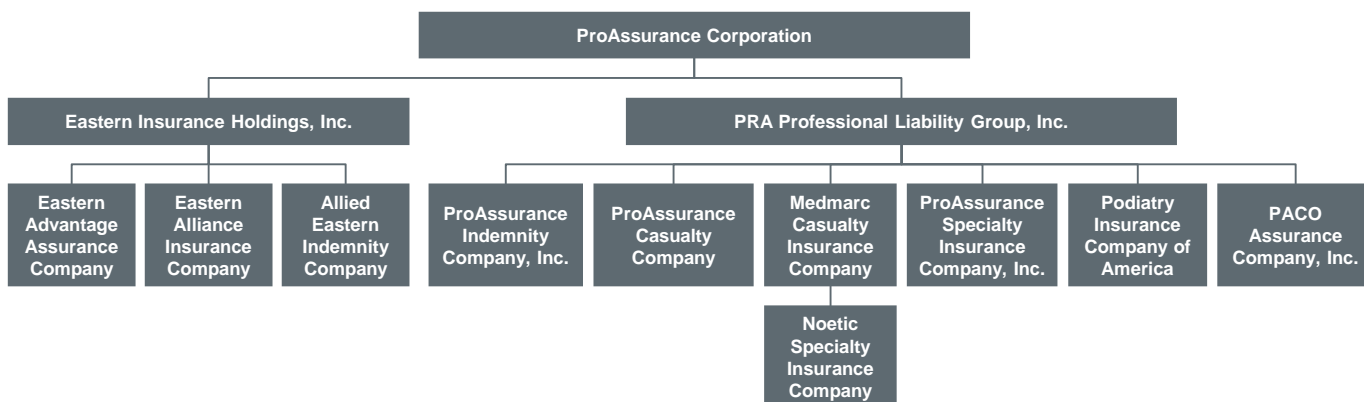
**Ratings Range Based on Business Profile**

IFS Rating Category	AAA	AA	A	BBB	<BBB
Very Strong Business Profile	←	█	→		
Strong Business Profile		←	█	→	
Moderate Business Profile			←	█	→
Weak Business Profile				←	█

**Related Criteria**

[Insurance](#) [Rating](#) [Methodology](#)  
(April 2017)

Organizational Chart



Source: ProAssurance Corp.

Ownership Is Neutral to Rating

ProAssurance Corp. is publicly traded on the New York Stock Exchange under the ticker PRA. Public ownership is neutral to the rating.

Corporate Governance

Corporate governance and management are adequate and neutral to the rating.

Industry Profile and Operating Environment

Non-Life Industry Sector Outlook Negative Due to Competitive Factors

Key U.S. non-life industry risk factors include cyclical pricing, intense market competition, pricing and reserving uncertainty, investment risk tied to fixed-income and equity holdings, catastrophe loss exposures and regulatory issues. Industry aggregate policyholders' surplus growth is relatively flat recently. In response to limited growth opportunities, the bulk of earnings are paid out as shareholder dividends.

P/C industry capital adequacy remains very strong based on traditional operating leverage measures, RBC ratios and Fitch's Prism capital model. Strong individual capital positions support Stable Outlooks for a large majority of P/C insurer ratings.

Following three consecutive years of underwriting profits from 2013 to 2015, the P/C industry shifted to a slight underwriting loss in 2016 that is likely to moderately increase in 2017. Key factors affecting underwriting results include weaker commercial lines pricing, falling prior-period loss reserve development and a shift in catastrophe-related losses towards historical norms. Net profits are also affected by a reduced investment contribution to earnings due to lower portfolio yields. The fundamental sector outlook shifted to negative in November 2016 due to these deteriorating profit fundamentals. The industry is at a point in the underwriting cycle in which results are likely to worsen further before any meaningful shift in premium rate trends emerges.

Ratings Range Based on Industry Profile/Operating Environment

IFS Rating Category	AAA	AA	A	BBB	<BBB
Senior Debt Rating Category	AA	A	BBB	BB	<BB
Non-Life	←—————→				

Peer Analysis

Peer Navigator Comparison

	Business Profile	Influence	Trend
ProAssurance Corp. and Affiliates	A-	High	Stable
Doctors Company Group	A-	High	Stable
Selective Insurance Group	A-	High	Stable
W.R. Berkley Corporation	A+	Moderate	Stable

Source: Fitch Ratings.

Very Strong Capital

PRA's capital metrics results compare very favorably with peer rating averages and even those of a category higher, which is similar to other MPLI insurers. While profitability declines in MPLI, the pace will be uneven for both PRA and The Doctors Company, an Interinsurance Exchange (TDC). Compared with specialty peer writers that are one category higher than PRA, size jumps out as a differentiating factor with PRA being smaller than both Selective Insurance Group and W. R. Berkley Corporation by multiples.

The table on the left shows a comparison of business profile scores for the peers as shown on the company's most recently published Ratings Navigators. Overall, the scores are relatively consistent. This highlights that PRA's and TDC's market position and product expertise helps them in this rating category compared with larger, more diversified, and slightly higher rated peers.

Peer Comparison

(As of Dec. 31, 2016)	IFS Rating	Net Premium Written (\$ Mil.)	CY Combined Ratio (%)	AY Combined Ratio (%)	Operating Ratio (%)	Operating Leverage (x)	Net Leverage (x)	NAIC RBC (%)	Reserve Development/Prior Year PHS <sup>a</sup> (%)
ProAssurance Corp. and Affiliates	A	591	84	107	70	0.4	1.9	418	(10)
Doctors Company Group	A	642	103	116	94	0.3	1.7	493	(5)
Selective Insurance Group	A+	2,237	92	95	86	1.4	4.6	269	(4)
W.R. Berkley Corporation	A+	5,711	94	97	82	1.0	3.4	211	(2)

<sup>a</sup>Negative indicates favorable. IFS – Insurer Financial Strength. CY – Calendar-year. AY – Accident-year. PHS – Policyholder surplus. Note: Statutory accounting principles.

Source: SNL Financial.

## Capitalization and Leverage

(Years Ended Dec. 31)	2012	2013	2014	2015	2016	Fitch's Expectation
Total Capital (\$ Mil.)	2,395	2,642	2,406	2,306	2,247	Fitch anticipates PRA's operating leverage will remain below 1.0x over the long term. In addition,
Financial Leverage Ratio <sup>a</sup> (FLR, %)	6	10	11	12	12	Fitch anticipates that the long-term average for
Net Premium Written/Common Equity (x)	0.2	0.2	0.3	0.4	0.4	financial leverage will be at or below 15%.
Net Leverage (x)	1.2	1.2	1.5	1.6	1.8	
Total Assets/Common Equity (x)	2.1	2.2	2.5	2.5	2.8	

<sup>a</sup>Years 2015 and 2016 are adjusted to account for operational debt nature of borrowings under the revolver. Including this debt, stated FLR is 15% in 2015 and 20% in 2016. Note: GAAP accounting principles.  
Source: SNL Financial.

### Capital Is Very Strong for Rating Category

- Operating capital levels are very strong.
- Minimal use of financial leverage.
- Revolver borrowings increase financial leverage.
- 'Extremely Strong' Prism score.

### Operating Capital Levels Are Very Strong

Fitch notes that PRA has very low levels of operating company leverage as measured by both operating and net leverage. The company also has very strong RBC ratios at 373% of the company action level on a consolidated basis at year-end 2016. Further, Fitch notes that these ratios persisted for several years showing management's discipline to maintaining balance sheet strength for several years.

Fitch does not anticipate a material change to these metrics in the near term, but notes that current levels are likely unsustainable due to competitive forces and, in part, pressures of being a publicly traded company.

### Minimal Use of Financial Leverage

PRA uses a modest amount of financial leverage and has done so for some time. PRA recently increased financial leverage by borrowing under its revolving credit agreement. Fitch notes that PRA's IDR and senior unsecured debt rating have a one-notch uplift due to narrow financial leverage. Fitch would likely downgrade the debt and IDR of the holding company if financial leverage were to be sustained above 15% or statutory dividend coverage were below 10x, noting that excess holding company cash could modestly reduce the 10x target.

### Revolver Borrowings Increase Financial Leverage

PRA increased financial leverage by borrowing under its revolving credit agreement. This debt carries a floating rate based on several factors, but is currently below a rate the company can receive from investing the proceeds. This debt is fully secured and can be repaid in 2017 and has a maturity of 2020. Fitch views this debt as operational more so than financial and calculates financial leverage both ways, but this is displayed above net of the revolving credit borrowings. To the extent this debt was used not to earn a spread for financial purposes, Fitch would reclassify this debt as financial instead of operational.

### 'Extremely Strong' Prism Score

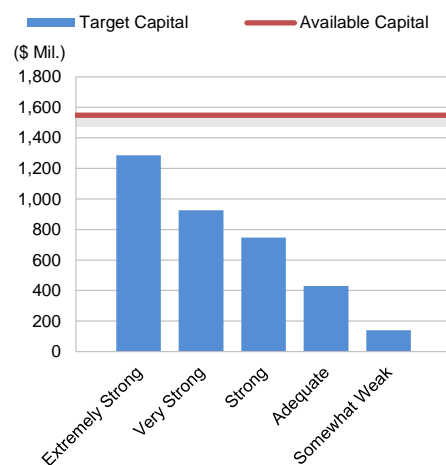
PRA scored 'Extremely Strong' on Fitch's capital model Prism based on year-end 2015 results. The Prism score is a ratio of available capital (AC) divided by target capital (TC) at various levels, with the Prism score itself being equal to the highest category where AC exceeds TC.

From a TC perspective, PRA's high reserve and underwriting volatility were big drivers for TC, though these were somewhat muted by low leverage, particularly on the underwriting side. Favorably, PRA does not have any natural catastrophe-related exposures or latent claims, such as asbestos, contributing to TC.

Fitch's AC measure is a range of four different measures that give various haircuts for unrealized gains and losses and affiliated investment values. If companies do not have significant positions in unrealized gains and losses and affiliated investments, the band of AC is relatively narrow.

Fitch's AC measure used to calculate the Prism score gives 100% credit for unrealized gains and losses and gives a modest haircut for investments in affiliates. However, Fitch believes there can be value in looking at the range of AC, as certain macroeconomic or industry trends may be better captured in an AC measure other than the base measure.

### 2015 Prism Score — ProAssurance Corporation



(\$ Bil.)	2014	2015
Prism Score	Extremely Strong	Extremely Strong
AC/TC at Prism Score (%)	119	121
AC/TC at Higher Prism Score (%)	N.A.	N.A.

Statutory Surplus	1.7	1.5
Affiliated Investments	0.0	0.0
Unrealized Bond Gains/(Losses)	0.1	0.1
Other Adjustments	(0.0)	(0.0)
Available Capital (AC Base)	1.8	1.5

#### Target Capital Contributors (%)

Underwriting	23	27
Reserves	30	21
Investments	19	22
Catastrophe	6	7
Other	21	23

AC – Available capital. TC – Target capital. N.A. – Not applicable. Note: Red line is available capital base; shaded area represents the high and low of AC due primarily to value of affiliated life subsidiary and unrealized bond gains/(losses). Source: Fitch Ratings, SNL Financial.

Year-end 2016 Prism data will be available in the near term, but at this time, Fitch does not anticipate any material changes to results. Fitch also notes that Prism is a reflection of risk based on U.S. statutory combined statements.

**Debt Service Capabilities and Financial Flexibility**

(\$ Mil., Years Ended Dec. 31)	2012	2013	2014	2015	2016	Fitch's Expectation
Holding Company Cash and Investments	294	406	333	323	578	Fitch expects that PRA's financial leverage will not be above 15% for a sustained period of time and that maximum dividend coverage will be above 10x.
Cash Flow from Operations	91	39	96	112	169	
Interest Expense	2	3	14	15	15	
Fixed-Charge Coverage (x)	169	12	19	14	12	
Maximum Dividend Coverage (x)	126	112	17	12	13	

Note: GAAP accounting principles.  
Source: SNL Financial.

**Holding Company Liquidity**

The holding company has access to a \$250 million revolving credit facility agreement that expires in June 2020 of which currently \$200 million of outstanding borrowings exist.

**Debt Maturities**

(\$ Mil., As of March 31, 2017)	
2017	0
2018	0
2019	0
2020	200
2021	0
2022 or Later	250

Note: GAAP financials.  
Source: PRA.

**Very Strong Financial Flexibility and Debt-Servicing Capabilities**

- Low financial leverage leads to higher fixed-charge coverage.
- Strong maximum dividend coverage.
- Strong holding company liquidity.

**Low Financial Leverage Leads to Higher Fixed-Charge Coverage**

Fitch adjusts PRA's financial leverage to exclude debt associated with the borrowings under the revolving credit facility and makes that adjustment for fixed-charge coverage, and those numbers are reported in the table on the top of the page. Fitch also calculates fixed-charge coverage on a stated basis and notes that for year-end 2016, 2015 and 2014, the ratio would be 10x, 13 and 19x, respectively.

Fitch would likely downgrade the debt and IDR of the holding company if financial leverage were to be sustained above 15% or statutory dividend coverage were below 10x, noting that excess holding company cash could modestly reduce the 10x target.

**Strong Maximum Dividend Coverage**

PRA could pay \$174 million up to the holding company in 2016 from the operating companies without seeking regulatory approval for extraordinary dividends. This compares favorably with the modest amount of annual interest expense. The company's strong earnings coupled with low financial leverage make traditional interest coverage ratios extremely high.

**Strong Holding Company Liquidity**

As of Dec. 31, 2016, PRA held \$385 million of cash and investments outside of the insurance company subsidiaries that was available for use without prior regulatory approval of which \$266 million was used to pay shareholder dividends in 2017. The amount of cash and investments at the holding company at year-end 2016 exceeds the \$250 million outstanding debt issuance that is due in 2023. The current borrowings under the revolving credit facility are fully secured.

**Financial Performance and Earnings**

(\$ Mil., Years Ended Dec. 31)	2012	2013	2014	2015	2016	Fitch's Expectation
Net Premiums Earned	551	528	700	694	733	Fitch's long-term expectations for PRA's underwriting results would be a GAAP calendar-year combined ratio that approximates 100%.
Realized Investment Gains/(Losses)	29	68	15	(42)	35	
Net Income	275	298	197	116	151	
Combined Ratio (%)	57.3	70.6	82.1	90.5	91.4	
Accident-Year Combined Ratio (%)	106.7	112.8	108.1	113.7	111.0	
Operating Ratio (%)	32.6	46.1	64.2	74.8	77.8	
Return on Equity (%)	13.2	13.3	8.9	5.8	8.0	

Note: GAAP accounting principles. Return on equity, excluding FAS 115.  
Source: SNL Financial.

**Very Strong Profitability**

- Calendar-year results differ from accident-year results.
- Evolution of MPLI product.
- Diversified revenue base.

**Calendar-Year Results Differ from Accident-Year Results**

Fitch notes that the strong calendar-year combined ratios for the past several years were helped by large, favorable, prior-period loss reserve development. Although favorable reserve development can be an indicator of reserve strength, it can also mask problems in underwriting results. Therefore, Fitch also examines accident-year results when assessing a company's profitability.

Accident-year underwriting results show a general deterioration in underwriting results. Further, reserve development, while still positive, is showing signs of slowing pressure on core accident-year loss ratios. Fitch expects this trend to continue in the near term with calendar-year combined ratios approximating 100% due to the competitive nature of the MPLI market place.

**Evolution of MPLI Product**

Solo doctors are increasingly consolidating into larger physician groups and physician practices, through purchases or affiliations, and are being combined into hospitals. Hospitals are even being aggregated into large networks.

Generally speaking, the large hospital and physician groups are price-sensitive and have complex insurance and financial needs. Only large, well-capitalized MPLI carriers that have geographical spread and financial strength will be able to take advantage of this growing market. Further, PRA's acquisition of Eastern Insurance Holdings Inc. allows PRA the ability to offer protected cell captives to this group as well.

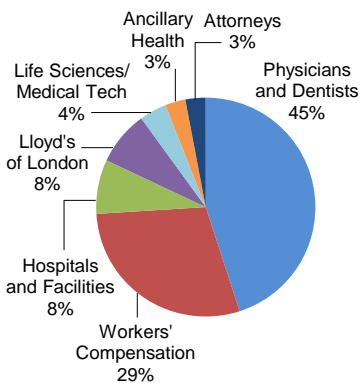
**Diversified Revenue Base**

Favorably, the company's geographic and specialty mix combined with a lack of dependence on specific markets allows for the flexibility to withdraw or pull back from overly competitive or difficult local markets and specialties.

Further, PRA's acquisitions expanded PRA's premium distribution to medical-related revenues, such as life sciences and nonmedical-related revenues (workers' compensation and attorney liability). The table on the next page gives a breakdown of premiums earned and the combined ratio by segment.

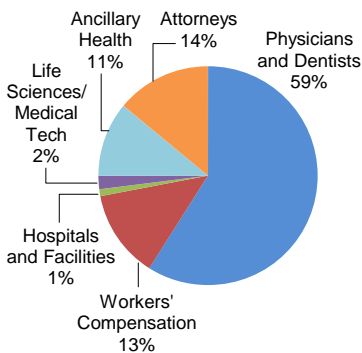
Overall, MPLI still accounts for the bulk of net premiums earned and the results are deteriorating as the market increases competitiveness and favorable reserve development

**2016 Gross Written Premiums**



Source: Company filings.

**2016 Policyholders**



Source: Company filings.



dwindles from older policy years. The Lloyd's of London market still lacks scale, but is anticipated to have an underwriting profit in the near term.

### Segment Underwriting Results

(\$000)	2014	2015	2016
<b>Specialty Property/Casualty Segment</b>			
<b>Gross Premium Earned</b>			
Healthcare Professional Liability	477,031	463,599	474,981
Legal Professional Liability	28,278	28,234	26,125
Medical Technology Liability	35,913	34,838	34,158
Other	1,830	1,447	667
Ceded Premium Earned	(50,319)	(84,805)	(78,115)
Segment Net Premium Earned	492,733	443,313	457,816
Segment Combined Ratio (%)	73.3	80.2	81.5
<b>Workers' Compensation Segment</b>			
<b>Gross Premium Earned</b>			
Traditional Business	160,717	172,115	170,492
Alternative Market Business	55,616	66,168	75,658
Ceded Premium Earned	(21,793)	(25,122)	(25,335)
Segment Net Premium Earned	194,540	213,161	220,815
Segment Combined Ratio (%)	96.0	95.9	95.5
<b>Lloyd's Syndicate Segment</b>			
<b>Gross Premium Earned</b>			
Property/Casualty	13,429	43,617	60,564
Ceded Premium Earned	(971)	(5,942)	(5,914)
Segment Net Premium Earned	12,458	37,675	54,650
Segment Combined Ratio (%)	144.2	116.0	104.2
Consolidated Net Premiums Earned	699,731	694,149	733,281
Consolidated Combined Ratio (%)	82.1	90.5	91.4

Note: GAAP data.

Source: Company financials.

**Investments and Liquidity**

(Years Ended Dec. 31)	2012	2013	2014	2015	2016	Fitch's Expectation
Cash and Invested Assets (\$ Mil.)	4,045	4,148	4,207	3,890	4,043	Fitch expects that PRA will maintain a conservative investment portfolio in the near term, possibly extending into traditional riskier asset classes such as common equity, but at a measured pace.
Cash and Invested Assets/Common Equity (x)	1.9	1.8	2.0	2.0	2.2	
Investment Yield (%)	3.3	3.2	3.0	2.7	2.5	
Risky Assets Ratio (%)	56	53	59	49	58	
Liquid Assets/Technical Reserves (x)	206	210	197	187	197	

Note: GAAP accounting principles. Common equity, excluding FAS 115.  
Source: SNL Financial.

**Conservative Investment Portfolio**

- High-quality, fixed-income portfolio.
- Modest exposure to energy sector.
- Stable risky asset ratio.

**High-Quality, Fixed-Income Portfolio**

PRA's fixed-income portfolio, which represents approximately two-thirds of invested assets, had an average credit quality of 'A+' at year-end 2016 with 93% of the portfolio invested in investment-grade securities. The duration of the portfolio was 3.4 years with an average tax-equivalent income yield of 3.8%.

**Modest Exposure to Energy Sector**

PRA's total energy-related exposure as of year-end 2016 was \$195 million, or approximately 5% of invested assets. As of Dec. 31, 2016, approximately 99% of energy-related debt was rated an average of 'BBB+'.

**Stable Risky Asset Ratio**

The risky asset ratio is the sum of non-investment-grade debt, common equity and other assets relative to equity. The majority of PRA's numerator comes from other assets that are mixture of limited partnerships and limited liability companies. These investments tend to be illiquid particularly in times of market stress. Overall, this ratio is in line with PRA's very strong investment profile.

**Reserve Adequacy**

(\$ Mil., Years Ended Dec. 31)	2012	2013	2014	2015	2016	Fitch's Expectation
Loss and LAE Reserves	2,055	2,073	1,820	1,756	1,720	Fitch's ratings anticipate that PRA's management will maintain the same prudent reserving process for setting future reserves. Additionally, Fitch recognizes that recent historical levels of favorable development are unsustainable, but Fitch does anticipate loss reserves to be a continued organizational strength.
PAY Reserve Development	(272)	(223)	(182)	(161)	(144)	
PAY Reserve Development/NPE	(49.4)	(42.4)	(26.0)	(23.2)	(19.6)	
PAY Reserve Development/BOY Common Equity	(13.4)	(10.5)	(7.8)	(7.7)	(7.3)	
Net Reserves/Common Equity	0.9	0.8	0.9	0.9	1.0	

PAY – Prior accident-year. NPE – Net premiums earned. BOY – Beginning of year. Note: GAAP accounting principles. Source: SNL Financial.

**Sufficient Reserve Adequacy**

- Reserves are sufficient and positive to the rating.
- Carried reserves within actuarial range.
- Volatile industry accident-year loss experience over time.
- Workers' compensation reserves develop favorably.

***Reserves Are Sufficient and Positive to the Rating***

Fitch believes that PRA's reserves are sufficient and positive to the rating. Fitch's analysis of PRA's reserves still indicates sufficiency, but overall redundancy diminished. The previous level of reserve development relative to earned premium was unsustainable and among the highest in Fitch's rated universe.

***Carried Reserves Within Actuarial Range***

As of year-end 2016, PRA carried net reserves of approximately \$1.7 billion. The company's 10-K filing indicates that at an 80% confidence interval reserve estimates ranges from \$1.5 billion on the low end to \$2.0 billion on the high end. Premiums for all states are reviewed at least annually and loss reserves are reviewed twice yearly.

***Volatile Industry Accident-Year Loss Experience over Time***

Over the past 30 years, MPLI industry loss ratios were as high as 163% and as low as 53%. This volatility, coupled with the longer duration MPLI reserves, is representative of the inherent underwriting risk of the MPLI product. Thus, it is important when analyzing reserves to look at various management estimates and see how loss experience develops over time.

***Workers' Compensation Reserves Develop Favorably***

Workers' compensation reserves are approximately 12% of gross consolidated reserves compared with 77% for healthcare professionals and 6% for medical technology liability business. Claims in workers' compensation historically closed at a faster rate than in healthcare professional liability or medical technology and life sciences. PRA recognized \$6.1 million in favorable reserve development related to workers' compensation reserves in 2016.

## Reinsurance, Risk Management and Catastrophe Risk

### **Minimal Use of Reinsurance**

- Reinsurance program.
- Low use of reinsurance.
- High credit quality of reinsurers.

### ***Reinsurance Program***

PRA generally reinsures professional liability risks under annual treaties whereby the company maintains 100% of the first \$1 million per claim and reinsurers the remainder up to \$25 million with a retention of 5%–12.5% based on layer. Large professional liability risks that are above basic reinsurance treaties are reinsured on a facultative basis.

Medical technology and life sciences product coverages are separately reinsured, generally with 100% retention on the first \$1 million of coverage and 10% of coverage exceeding those levels up to \$9 million.

The traditional workers' compensation book provides for 100% retention up to \$500,000 with coverage up to \$119.5 million per loss event with nothing retained.

### ***Low Use of Reinsurance***

Given PRA's growing capital base coupled with no property catastrophe risks, the company sparsely utilizes reinsurance, and Fitch expects this to continue going forward, but notes that as the company changes, more reinsurance is likely to be used.

### ***High Credit Quality of Reinsurers***

PRA uses a variety of reinsurers that have an 'A' rating or higher. As of Dec. 31, 2016, total reinsurance recoverables were \$274 million. Approximately \$49 million was collateralized by LOCs or funds withheld, and there are no amounts due from individual reinsurers exceeding 5% of shareholders' equity.

## Appendix: Other Ratings Considerations

Below is summary of additional ratings considerations of a “technical” nature that are also part of Fitch’s ratings criteria.

### Complete Ratings List

Allied Eastern Indemnity Company  
 Eastern Alliance Insurance Company  
 Eastern Advantage Assurance Company  
 PACO Assurance Company, Inc.  
 ProAssurance Indemnity Company, Inc.  
 ProAssurance Casualty Company  
 ProAssurance Specialty Insurance Company  
 Podiatry Insurance Company of America  
 Medmarc Casualty Insurance Company  
 Noetic Specialty Insurance Company

### Group IFS Rating Approach

Fitch considers the rated insurance entities listed in the left margin to be Core. As such, all were assigned the group rating. These entities share common management, resources and branding. Only normal regulatory barriers exist to dividend movement between entities and up to the parent. Fitch believes the entity has adequate financial strength to support its operating subsidiaries and management is willing to do so, although no formal support agreements are in place. All operating companies have an ‘A’ IFS rating based on a combined group assessment.

Fitch revised the strategic category to Core from Very Important for Allied Eastern Indemnity Company, Eastern Alliance Insurance Company and Eastern Advantage Assurance company as these companies have matured within the organization.

### Notching

For notching purposes, the regulatory environment of the U.S. is assessed by Fitch as being Effective and classified as following a Ring-fencing approach.

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### Notching Summary

#### IFS Ratings

A baseline recovery assumption of Good applies to the IFS ratings. Standard notching was used from the IFS “anchor” rating to the implied operating company IDR.

#### Holding Company IDR

Nonstandard notching was applied between the implied operating company and holding company IDRs. A one-notch, adjustment was made for favorable leverage, coverage and holding company liquidity.

#### Holding Company Debt

A baseline recovery assumption of Below Average for a holding company issuer was used, which is standard notching.

IDR – Issuer Default Ratings. IFS – Insurance Financial Strength.

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### Exceptions to Criteria/Ratings Limitations

None.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

The issuer did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

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