NC DEPARTMENT of INSURANCE
MIKE CAUSEY, COMMISSIONER

COMPANY SERVICES GROUP
FINANCIAL EXAMINATION DIVISION
Tel 919.807.6602 Fax 919.807.6635

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused the Report on Examination of the Healthcare Professional Risk Retention Group, Inc. as of December 31, 2022 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 12th day of June, 2024.

Mike Causey
Commissioner of Insurance

Monique D. Smith, CPA, CFE, CIA
Deputy Commissioner
Financial Examination Division

1201 MAIL SERVICE CENTER | RALEIGH, NC 27699-1201 | WWW.NCDOI.GOV

Healthcare Professional Risk Retention Group, Inc.

Charlotte, NC

Report on Examination

As of December 31, 2022

Table of Contents

May 16, 2024

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section ("§") 58-2-131 pursuant to 58-10-430(d) of the General Statutes of North Carolina ("GS"), the North Carolina Department of Insurance ("Department") conducted an examination of the records, business affairs and financial condition of

Healthcare Professional Risk Retention Group, Inc.

(hereinafter referred to as the "Company"), acknowledging that its main administrative office is located at 1605 Main Street Suite 800, Sarasota, Florida 34236. The Company's statutory home office is located at 525 North Tryon Street, Suite 1600, Charlotte, North Carolina 28202. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from June 26, 2018, to December 31, 2022, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. This examination serves as the Department's first examination of the Company.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Capital & Surplus
Claims Handling and Reserving
Investments
Pricing and Underwriting
Reinsurance Ceding
Related Party

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with statutory accounting principles. This 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 from the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). RH CPAs, PLLC of Lexington, North Carolina, the Company's designated independent public accountant, issued unmodified opinions for the years ended December 31, 2021, and 2022. Shores, Tagman, Butler and Company, P.A. of Orlando, Florida, the Company's former designated independent public accountant, issued a disclaimer of opinion on the results of operations, changes in stockholders' equity and cash flows due to the inability to validate opening balances for the year ended December 31, 2019, and a qualified opinion for the year ended December 31, 2020, due to the inclusion of surplus notes in stockholders' equity. The Company was exempt from an independent certified public accountant's audit for the year ended December 31, 2018.

REPORT ACRONYMS

General Statutes of North Carolina	"GS"
North Carolina Department of Insurance	"Department"
National Association of Insurance Commissioners	"NAIC"
Financial Condition Examiners Handbook	"Handbook"
Board of Directors	"Board"
Healthcare Professional Risk Retention Group, Inc.	"Company"
Health Professional Program Manager	"HPPM"
Healthcare Professional Long-term Care Risk Retention Group, Inc.	"HPLTC RRG"
Seth J. Herbst, MD, P.A.	"Herbst MD"
Risk Services - Vermont, Inc.	"Risk Services"

SUMMARY OF SIGNIFICANT FINDINGS

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

a. The Company did not maintain adequate fidelity bond coverage for the years under examination. The NAIC's recommended minimum fidelity bond coverage is $150,000 according to the exposure index limit of the Company. The Company is directed to maintain fidelity bond coverage for no less than the minimum recommended by the NAIC.

b. The Company did not properly disclose its policies that contain high deductibles in Note 31 of its 2022 the Annual Statement. The Company is directed to comply with NAIC Property & Casualty Annual Statement Instructions and ensure accurate reporting of note disclosures in future filings with the Department, pursuant to GS § 58-2-165(c).

c. The Company informed the Department that the Chairman of the Board of Directors ("Board") was not available to attend the Department's opening meeting with the Company or participate in an interview when initially requested by the Department to obtain critical information normally required for conducting a statutory examination. This is a violation of GS § 58-2-131(i), which states, "Every person from whom information is sought, and its directors must provide to the Commissioner timely, convenient, and free access, at all reasonable hours at its offices, to all data relating to the property, assets, business, and affairs of the entity being examined." The Chairman of the Board made himself available to provide the requested information at the end of the Department's examination. The Company is directed to comply with GS § 58-2-131(i) and ensure timely responses to the Commissioner during an examination.

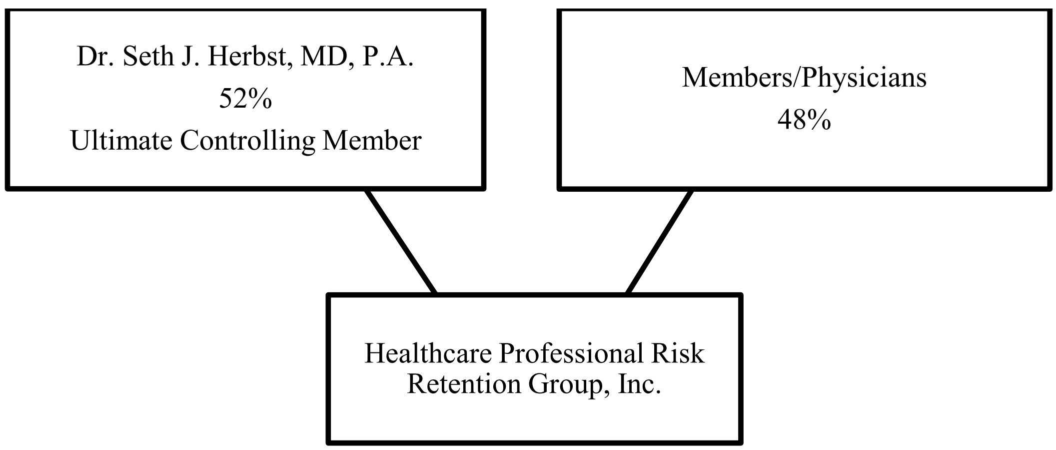
d. The Company did not properly disclose related parties in note 10 of its 2022 Annual Statement as required by the NAIC Property & Casualty Annual Statement Instructions which requires the Company to disclose information regarding its relationships, types of transactions, and amounts charged to related parties. The Company is directed to ensure accurate reporting to the Department in future filings pursuant to GS § 58-2-165(c).

ORGANIZATIONAL STRUCTURE

The Company is a risk retention group as defined in GS ("§") 58-10-340(37) formed to provide medical professional liability insurance coverage for physicians and other healthcare professionals. On December 31, 2022, Seth J. Herbst, MD, P.A. ("Herbst MD"), which is wholly owned by Dr. Seth J. Herbst, held a 52% ownership interest in the Company and member/physicians held the remaining 48% ownership interest. Dr. Seth J. Herbst also serves as the Company's Chairman of the Board.

ORGANIZATIONAL CHART

The following is an organizational chart as of December 31, 2022:



COMPANY HISTORY

The Company was incorporated as a stock insurer in North Carolina on May 3, 2018, with 2,000,000 shares of $1 par value common stock authorized. On June 26, 2018, the Company was initially capitalized with $1,000,000 in cash by issuing 250,000 shares of $1 par value common stock to J&J Healthcare Partners, LLC and a $750,000 surplus note to Healthcare Professional Program Manager, LLC ("HPPM"). (Refer to Surplus Note)

On November 16, 2021, J&J Healthcare Partners, LLC, a Florida limited liability company wholly owned by Dr. James Farrell, sold its ownership interest in the Company to Herbst MD and 250,000 shares of the Company's $1 par value common stock were transferred from J&J Healthcare Partners, LLC, to Herbst MD in exchange for $500,000. The Department approved the Company's acquisition on December 7, 2021, resulting in Dr. Seth J. Herbst becoming the Company's ultimate controlling member.

Capital Stock

As of December 31, 2022, the Company's capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	484,992
Total common capital stock	484,992
Par value per share	$1

At December 31, 2022, Dr. Seth J. Herbst owned 250,000 shares of the common stock issued and outstanding and the remaining 234,992 shares were owned by other members/physicians. The Company receives capital contributions equal to 15% of the annual premium on each policy for up to one calendar year, subject to cancellation. Shares issued to members in accordance with this arrangement are issued at $10 per share. The policy period may be extended beyond the original expiration date for additional premium, subject to underwriting approval. The Company issued 104,492 shares and 19,033 shares of its common stock to members/physicians in 2022 and 2021, respectively. In 2022 and 2021, the Company received additional capital contributions from its members/physicians totaling $940,430 and $456,283, respectively.

When a member/physician cancels their policy, the shares are retired, and the par value of the retired shares is converted to contributed surplus. The Company's total capital and surplus balance is not impacted as a result of this arrangement. In 2021, members cancelled policies resulting in the retirement of 28,499 shares of common stock. There were no common shares retired by the Company in 2022.

At December 31, 2022, the Company reported $2,399,919 in gross paid-in and contributed surplus and $645,947 in unassigned funds.

Dividends to Stockholder

Dividends on common stock are paid as declared by the Board of the Company. Under the insurance regulations of North Carolina, the maximum amount of ordinary dividends which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Any amounts in excess of this are considered extraordinary. The Company paid no dividends during the examination period from June 26, 2018, to December 31, 2022.

Management and Control

Corporate Governance

Shareholders

The bylaws of the Company provide that an annual meeting of the shareholders be held at such time and place as the Board may appoint. Special meetings of the shareholders may be called at any time by the chairman of the Board, the president, or by any two members of the Board.

Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be at least three and not more than nine. Each director is elected by the shareholders entitled to vote at the annual meeting 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.

The following individuals served as directors as of December 31, 2022:

Name	Location	Principal Occupation
Andrew Cunningham	Wellington, FL	President of the Company
Rafael Castillo	Waynesville, NC	Chief Executive Officer, Castelo Insurance Group
Kevin Hicks	Wilmington, NC	Chief Operating Officer, Johnson Nursery Corporation
Sean Haber	Wellington, FL	Owner, Health Professional Program Manager
Dr. Seth J. Herbst, M.D.	Winston-Salem, NC	Medical doctor

The Board established an Audit Committee to act on behalf of the Company. Each member of the Board served on the Audit Committee as of December 31, 2022.

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a chairman of the board, president, secretary, treasurer, and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices may be held by the same person.

The following individuals served as officers of the Company as of December 31, 2022:

Name	Title
Andrew Cunningham	President
Dr. Seth J. Herbst, M.D.	Chairman of the Board
Kevin Hicks	Treasurer
B. Troy Winch	Assistant Treasurer
Sean Haber	Chief Executive Officer/Secretary

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company complied with its policy and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. On December 21, 2022, the Company amended its bylaws to add the Chairman of the Board as an officer position. The Department noted no changes to the Company's articles of incorporation during the period under examination.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company only maintains a statutory deposit in the state of North Carolina totaling $1,000,000 as reported on its 2022 Annual Statement Schedule E, Part 3.

FIDELITY BONDS

The Company did not have fidelity bond coverage during the period covered by this examination from June 26, 2018, to December 31, 2022. (Refer to the Summary of Significant Findings)

RELATED PARTIES

The Company has a Captive Administrative Service Agreement with Risk Services – Vermont, Inc. ("Risk Services"), effective June 26, 2018, whereby Risk Services serves as the Company's captive manager and provides pre-licensure services, regulatory services, home office services, and accounting services. The initial term of the agreement is three (3) years and automatically renews at each expiration for an additional three (3) year term. The Vice President of Risk Services is also the Assistant Treasurer of the Company. Under this agreement, the Company paid fees totaling $154,570 and $76,747 in 2022 and 2021, respectively.

The Company has a Program Management Services agreement with HPPM, effective June 26, 2018, whereby HPPM provides underwriting of the program including the development, preparation and dissemination of insurance policies, application forms, the development and implementation of insurance underwriting guidelines, the preparation of insurance policies consistent with the developed underwriting guidelines, endorsements, notices of cancellation, notices of non-renewal and the establishment of the rates as approved by the Company's Board. The agreement is effective for five years. The President of HPPM is the Chief Executive Officer and Director of the Company. The Vice President of HPPM is the President of the Company. The Company paid management fees totaling $594,946 and $314,311 in 2022 and 2021, respectively, under this agreement. Management fees are paid in arrears, and the management fee expense in 2022 amounted to $455,852.

HPPM is eligible to receive a 40% profit commission bonus under the Program Management Services agreement, based upon gross incurred loss ratio for each prospective year as defined in the agreement. According to the agreement, the first commission payments shall be made 24 months after the end of the respective program year and equal 50% of the total amount due; the second payment shall be made 36 months after the end of the respective program year and equal 50% of the remaining total amount due; and the final settlement shall be made the quarter ending after all open claims have been settled for the respective program year. The agreement requires all program year claims to be closed prior to the Company's final payment which can be withheld in the event of subsequent adverse claims development. In 2021, the Company paid $567,793 in profit commissions that were earned by HPPM in 2018 and 2019 in the amounts of $73,634 and $494,159, respectively. Amounts were paid in full as a result of the sale of the Company in 2021. In 2022, the Company paid no profit commissions; however, HPPM earned profit commissions totaling $27,013, $0, and $418,574, in 2020, 2021, and 2022, respectively. At December 31, 2022, the Company reported a liability totaling $445,586 for the outstanding profit commission payable to HPPM.

The Company has a Claims Service Agreement with HPPM, effective June 26, 2018, whereby HPPM provides claims management services on behalf of the Company in exchange for compensation of $2,500 per claim processed for the years ended December 31, 2018, through January 31, 2022. Effective February 1, 2022, the Company began paying HPPM 3% of gross written premiums in place of $2,500 per claim processed. The fee encompasses claims adjudication that is required to properly manage and close the claim/incident. The Company paid claims management fees totaling $133,326 and $32,500 in 2022 and 2021, respectively, under this agreement.

TERRITORY AND PLAN OF OPERATION

The Company became licensed on June 26, 2018, and writes medical professional liability coverage on claims-made basis. The Company's policy limits are dependent on market conditions in each respective state and range between policies with a minimum of $100,000 up to $300,000 in coverage and policies with a minimum of $1,000,000 up to $3,000,000 in coverage. Policies with defense coverage inside the limits as well as outside the limits are offered and are dependent on underwriting, respective state requirements, and market conditions. The Company utilizes independent agents to write its business through its agreement with HPPM.

At December 31, 2022, the Company was licensed in North Carolina and registered in the following states.

Alabama	Arizona	California	Florida	Illinois
Louisiana	Michigan	Missouri	Nevada	New Jersey
Pennsylvania	South Carolina	Texas	Washington	

TRENDS OF THE COMPANY

The following data, obtained from Annual Statements filed with the Department, illustrates the trends of the Company for the five-year period ended December 31, 2022:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2022	$11,398,386	$3,530,858	$6,680,931	$4,012,007	($4,348)
2021	$6,915,018	$2,490,282	$3,028,783	$2,826,425	$98,105
2020	$5,778,675	$2,066,862	$2,814,944	$2,384,290	$242,592
2019	$4,643,222	$1,892,551	$2,854,150	$2,305,204	$214,336
2018	$2,356,294	$1,251,024	$1,236,313	$293,003	$95,262

ACTUARIAL OPINION

Risk retention groups domiciled in the State of North Carolina shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-415(a), GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2022 were reviewed and certified by the Company's Appointed Actuary, Robert J. Walling III, FCAS, MAAA, CERA with pinnacle Actuarial Resources, Inc. The Company was exempt from the actuarial opinion requirement for the year ended December 31, 2018; however, actuarial opinions regarding the Company's reserves for claims unpaid and unpaid claims adjustment expenses were issued by an appointed actuary for all subsequent years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the losses and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserve on the losses and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid losses and loss expense obligations of the Company.

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

The Company has a quota share reinsurance contract with Houston Casualty Company effective July 15, 2018, which renews annually, to provide for cyber liability, multimedia liability and security, and privacy liability. Under the terms of the agreement, the Company cedes 100% of the premiums, losses, and loss adjustment expenses in connection with the original business endorsements. Losses covered by the contract are limited to $50,000 per individual physician and $250,000 per medical group. The reinsurers allow the Company to receive a 15% commission on all premiums ceded to the reinsurers. The Company ceded written premiums totaling $162,270 and $98,724 in 2022 and 2021, respectively, under this contract.

The Company has an excess of loss reinsurance contract with Lloyd's Syndicate effective July 1, 2018, to July 1, 2021, and renewed until July 1, 2024, for protection against losses more than the applicable retention on its medical professional liability policies. The terms of the contact indicate a $250,000 retention and a $750,000 per occurrence limit. The reinsurance contract has a swing rate feature with provisional rates carrying based upon the underlying policy limits and subject to minimum and maximum premiums such as the reinsurer's liability limited to 300% of reinsurance premium. The Company ceded written premiums totaling $874,332 and $150,178 in 2022 and 2021, respectively, under this contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2022. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2021, are unexamined and are presented for comparative purposes only.

Healthcare Professional Risk Retention Group, Inc.
Statutory Statement of Admitted Assets
December 31, 2022

	2022	**2021** *(unexamined)*
Cash and short-term investments	$8,252,919	$5,740,994
Other Invested Assets	500,000	500,000
Total cash and invested assets	**8,752,919**	**6,240,994**
Investment income due and accrued	79,739	36,498
Premiums and agents' balances in course of collection	1,374,946	176,881
Federal income tax recoverable	34,470	71,809
Net deferred tax asset	58,981	21,095
Deductible receivable	13,238	-
Deferred policy acquisition costs	802,525	328,625
Claims Escrow	85,683	-
Prepaid and deferred expenses	195,885	39,116
Total Admitted Assets	**$11,398,386**	**$6,915,018**

Healthcare Professional Risk Retention Group, Inc.
Statutory Statement of Liabilities, Capital, and Surplus
December 31, 2022

	2022	**2021** *(unexamined)*
Losses	$ 2,508,986	$ 1,906,594
Loss adjustment expenses	1,026,510	931,448
Other expenses	744,109	210,895
Taxes, licenses, and fees	163,634	52,379
Unearned premiums	2,979,323	1,347,001
Advance premium	4,984	23,767
Ceded reinsurance premiums payable	379,432	(100,671)
Funds held by company under reinsurance treaties	47,478	47,478
Deductible receivable	-	(1,289)
Deferred ceding commission	13,072	7,134
Total Liabilities	**7,867,528**	**4,424,736**
Common capital stock	484,992	380,500
Gross paid in and contributed surplus	2,399,919	1,459,489
Unassigned funds	645,947	650,293
Total capital and surplus	3,530,858	2,490,282
Total Liabilities, Capital, and Surplus	**$11,398,386**	**$6,915,018**

Healthcare Professional Risk Retention Group, Inc.
Statutory Statement of Operations
December 31, 2022

	2022	**2021** *(unexamined)*
Underwriting Income		
Premiums Earned	$ 4,012,007	$ 2,826,425
Deductions		
Losses incurred	1,825,018	1,128,453
Loss adjustment expenses incurred	595,983	572,051
Other underwriting expenses incurred	1,650,325	1,043,850
Total underwriting deductions	4,071,326	2,744,354
Net underwriting gain (loss)	(59,319)	82,071
Investment Income		
Net investment income earned	53,815	42,169
Net investment gain	53,815	42,169
Other Income		
Total other income (loss)	(5,504)	124,240
Federal income taxes incurred	(1,156)	26,135
Net Income (Loss)	**($4,348)**	**$ 98,105**

Healthcare Professional Risk Retention Group, Inc.
Statutory Statement of Capital and Surplus
December 31, 2022

	2022	**2021** *(unexamined)*
Capital and surplus, beginning of year	**$2,490,282**	**$ 2,066,862**
Capital and surplus increases (decreases):		
Net Income (Loss)	(4,348)	98,105
Change in surplus notes	-	(150,000)
Change in paid-in capital	104,494	19,032
Surplus adjustments to paid-in capital	940,430	456,283
Change in capital and surplus as regards policyholders for the year	1,040,576	423,420
Capital and surplus, end of year	**$ 3,530,858**	**$ 2,490,282**

Healthcare Professional Risk Retention Group, Inc.
Statutory Statement of Cash Flow
December 31, 2022

	2022	2021 *(unexamined)*
Cash From (Used By) Operations		
Premiums collected net of reinsurance	$4,914,811	$ 2,816,182
Net investment income	10,574	5,676
Total	4,925,385	2,821,858
Benefit and loss related payments	1,222,626	442,415
Commissions, expenses paid and aggregate write-ins	2,236,365	1,621,012
Federal and foreign income taxes paid	(609)	84,000
Total	3,458,382	2,147,427
Net cash from operations	**1,467,003**	**674,431**
Cash From (Used By) Investments		
Other invested assets	-	500,000
Net cash (used by) investments	-	**(500,000)**
Cash From Financing and Miscellaneous Sources surplus notes		
Surplus notes, capital notes	-	(150,000)
Cash from capital and paid-in surplus	1,044,922	475,316
Other cash (applied)provided	-	47,478
Net cash from financing and miscellaneous sources	**1,044,922**	**372,794**
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	2,511,925	547,225
Cash and short-term investments, beginning of year	5,740,994	5,193,769
Cash and short-term investments, end of year	**$ 8,252,919**	**$ 5,740,994**

COMMENTS ON FINANCIAL STATEMENTS

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Deferred Policy acquisition costs: Commissions and other costs of acquiring business are deferred and amortized over the term of the related policies.

Unpaid loss & loss adjustment expense: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

Other Invested Assets:

On February 1, 2021, the Company entered into a formal agreement with Healthcare Professional Long Term Care Risk Retention Group, Inc. (“HPLTC RRG”) whereby HPLTC RRG issued a $500,000 certificate of contribution to the Company at 8% interest per annum in exchange for cash and HPLTC RRG became licensed as a risk retention group in North Carolina effective on the same date. Payments of principal and interest may be made only with prior approval from the Department and only to the extent that HPLTC RRG has sufficient policyholders’ surplus to make the payment. The Company’s $500,000 certificate of contribution to HPLTC RRG was reported as other invested assets on its 2022 Annual Statement Schedule BA Part 1 and the Company reported interest due and accrued from HPLTC RRG totaling $76,493 at December 31, 2022. (Refer to Subsequent Events)

Reinsurance Activity:

The Company has reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes Risk Services as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and ceded premiums written and earned are as follows:

	2022	**2021**
Direct written	$ 6,680,931	$3,028,783
Ceded written	1,036,602	248,902
Net written	**5,644,329**	**2,779,881**
Direct earned	4,552,207	3,065,557
Ceded earned	540,200	239,132
Net earned	**$4,012,007**	**$2,826,425**

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview.

Summary of Reserves:

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2022	2021
Reserve for losses and loss adjustment expenses, beginning of year	$2,838,042	$1,819,267
Add:		
Provision for losses and loss adjustment expenses, current year	2,326,990	2,231,769
Change in estimated losses and loss adjustment expenses, prior years	39,225	563,764
Total incurred	2,287,765	1,668,005
Deduct:		
Losses and loss adjustment expenses paid, current year	12,529	466,689
Losses and loss adjustment expenses paid, prior year	1,577,782	182,541
Total paid	1,590,311	649,230
Reserve for losses and loss adjustment expenses, end of year	$3,535,496	$2,838,042
Increase in reserve for losses and loss adjustment expenses	$697,454	$1,018,775

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2022 and 2021, the liability for losses and loss adjustment expenses was reduced by $109,086 and $89,127, respectively, for amounts to be recovered from reinsurers.

Capital and Surplus:

The following, in conjunction with the Statutory Statement of Capital and Surplus, represents the changes in the Company's capital and surplus since the Company's inception:

	2020	2019	2018
Capital and surplus, beginning of year	$1,892,551	$1,251,024	$-
Capital and surplus increases (decreases):			
Net income	242,592	214,336	95,262
Change in surplus notes	(500,000)	(100,000)	750,000
Capital changes to paid-in capital	43,171	52,719	265,576
Surplus adjustments to paid-in capital	388,548	474,472	140,186
Change in surplus as regards policyholders for the year	174,311	641,527	1,251,024
Capital and surplus, end of year	$2,066,862	$1,892,551	$1,251,024

SURPLUS NOTE

On June 26, 2018, the Company issued a $750,000 surplus note at 8% interest per annum, not compounded, to HPPM, the Company's program manager. Payments of principal and interest may be made only with prior approval from the Department and only to the extent that the Company has sufficient policyholders' surplus to make the payment.

With the Department's approval, the Company made partial repayments of principal totaling $100,000, $500,000 and $150,000 to HPPM in 2019, 2020 and 2021, respectively, and paid interest to HPPM totaling $111,496 over the life of the surplus note.

SUBSEQUENT EVENTS

On July 10, 2023, the Company received $250,000 from HPLTC RRG, as approved by the Department, for the partial repayment of principal on a $500,000 certificate of contribution issued in 2021. (Refer to Other Invested Assets)

On August 14, 2023, the Department approved the Company's request to pay an extraordinary cash dividend totaling $500,000 to its shareholders. The Company paid extraordinary dividends to its shareholders totaling $260,506 and $239,494, on December 31, 2023, and January 31, 2024, respectively.

On March 21, 2024, the Company received payments of $250,000 in principal and $111,945 in interest from HPLTC RRG, as approved by the Department, and retired a $500,000 certificate of contribution issued in 2021. (Refer to Other Invested Assets)

Healthcare Professional Risk Retention Group, Inc.
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2022

Andrew Cunningham, President
1605 Main Street, Suite 800
Sarasota, Florida 34236

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-10-370 for the kinds of insurance that the Company has been authorized to write, which is $1,000,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,

Monique D. Smith, CPA, CFE, CIA
Deputy Commissioner
North Carolina Department of Insurance

May 16, 2024

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Keith Greene, Insurance Company Manager, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Keith Greene Date: 5/16/2024

Sworn and subscribed before me this 16 day of May, 2024.

Notary Public Signature: Jessica N Vaughan Notary Public Seal:

JESSICA N VAUGHAN
Notary Public, North Carolina
Wake County
My Commission Expires
December 08, 2026