



**COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**  
**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF THE***  
**PROSELECT INSURANCE COMPANY**

**Boston, Massachusetts**

**As of December 31, 2013**

**NAIC GROUP CODE 1154**

**NAIC COMPANY CODE 10638**

**EMPLOYER ID NUMBER 04-1012400**

## ProSelect Insurance Company

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**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

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ACTING COMMISSIONER OF INSURANCE

March 1, 2015

Gary D. Anderson  
Acting Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

**PROSELECT INSURANCE COMPANY**

at its home office located at One Financial Center, Boston, MA 02111-2621. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

ProSelect Insurance Company ("Company" or "ProSelect") was last examined as of December 31, 2008 by the Massachusetts Division of Insurance (the "Division"). The current examination was also conducted by the Division and covers the five-year period from January 1, 2009 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, employees' benefits plans, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by PricewaterhouseCoopers, LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2009 through 2013. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. Representatives from the firm of KPMG LLP ("KPMG") were retained by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division's examination staff. The assistance included a review of accounting records, information systems, investments and actuarially determined loss and loss adjustment expense reserves.

This examination was performed in conjunction with and concurrent with the examination of its ultimate parent, Medical Professional Mutual Insurance Company ("ProMutual"), also a Massachusetts domestic insurance company.

ProSelect Insurance Company

**SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings identified during the examination.

**SUBSEQUENT EVENTS**

There were no material subsequent events identified during the examination.

**COMPANY HISTORY**

General

The Company was originally organized, and incorporated on May 30, 1856, under the laws of the Commonwealth of Massachusetts, as a mutual company titled "Abington Mutual Insurance Company". Thereafter, on January 1, 1996, ProMutual Group, Inc. purchased the former Abington Mutual Insurance Company as a clean shell (subsequent to conversion to a stock company) for \$2,500,000 (100,000 shares at \$25.00, par value per share) and changed the name to ProSelect Insurance Company (the Company primarily issued homeowners and auto policies in the New England area prior to entering into receivership and its subsequent sale to ProMutual Group, Inc.). As a licensed property and casualty insurer, the Company is subject to the provisions of Massachusetts General Laws ("M.G.L"), Chapter 175, Section 4 and other Massachusetts insurance laws.

As of December 31, 2013, the Company is a corporation in the stock form of organization that operates as a property and casualty insurance company. The Company is licensed to write various lines of insurance in the States of Arizona, Connecticut, Delaware, District of Columbia, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont and Virginia, and currently writes business, principally medical professional liability insurance, in all but New York and the newly licensed jurisdictions of Arizona, District of Columbia, Georgia and Utah. Subsequent to the balance sheet date and continuing through today, the company has obtained and continues to seek additional state licenses and is licensed in over 43 jurisdictions.

Capital Stock

ProSelect has 1,000,000 authorized shares of common stock at \$25.00 par value, with 100,000 shares issued and outstanding or \$2,500,000 as of December 31, 2013.

Dividends to Stockholders

The Company did not pay any dividends to its stockholder during the period of the examination and had no dividend payable at year-end.

## ProSelect Insurance Company

### CORPORATE RECORDS

#### Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors.

#### Articles of Incorporation and Bylaws

The Company's bylaws may be altered, amended or repealed at any annual or special meeting of the Directors, notice of which shall specify the subject matter of the proposed alteration, amendment or repeal of the sections to be affected thereby, by vote of a majority of the Directors then in office. Our review of the bylaws indicated that they were amended as of April 27, 2011; however, they did not contain significant changes.

#### Conflict of Interest Procedures

The Company has a policy pertaining to conflict of interest. In support of its answer to Question 14 of Part 1 Common Interrogatories of the annual statement, the Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties. Annually, each officer or director or responsible employee completes a questionnaire disclosing any material conflicts of interests. The completed questionnaires were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the Company's 2013 Annual Statement.

#### Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L., Chapter 175, Sections 180M-180Q.

## MANAGEMENT AND CONTROL

### Board of Directors

According to the Company's bylaws, the business of the Company shall be managed under the direction of the Board of Directors who may exercise all of the powers of the Company except such powers as are reserved for the stockholders by law, by the Company's Articles of Organization, or by the bylaws.

The Board of Directors shall be elected by a plurality of the votes cast at the annual meetings of the stockholders. At the annual meeting, the Board of Directors shall be divided into three classes (as nearly equal in numbers as possible) with the term of office of one class expiring each consecutive year. The successors of the class of Directors whose term expires at that meeting shall be elected by the stockholders for a three-year term. Each class of Director so elected shall hold office until the next annual meeting of stockholders and thereafter until a successor is duly elected and qualified or until they sooner resign, die, are removed or become disqualified. Any Director may resign at any time upon notice to the Chairman of the Board, if any, the President, the Secretary, or the Board of Directors. The bylaws specify that the Chairman of the Board shall be elected by and from the Board of Directors. At December 31, 2013, the Company's Board of Directors was composed of fourteen members, which are in compliance with the Company's bylaws, and the General Laws of the Commonwealth of Massachusetts.

At December 31, 2013, the Company's Board of Directors consisted of the following Company officers:

<u>Name of Director</u>	<u>Title</u>
Brenda E. Richardson, M.D.	Chair
Gregg L. Hanson	President & CEO
Bruce S. Auerbach, M.D., FACEP	Secretary/Clerk
Erwin A. Stuebner Jr., M.D.	Vice Chair
Donna M. Norris, M.D.	
Ronald W. Dunlap, M.D.	
Robert K. Sheridan	
Maryanne C. Bombaugh, M.D., MS, FACOG	
John H. Gillespie	
Theodore A. Calianos II, M.D., FACS	
Deanna P. Ricker, M.D.	
Michael B. Driscoll	
James J. Moran Jr., Esq., CPCU, ARe	
Paul A. Schnitman, D.D.S., MSD, FACD	

The Directors of the Company also serve simultaneously in similar capacities as Directors and Officers of ProMutual, the ultimate parent.

## ProSelect Insurance Company

### Committees of the Board of Directors

According to the Company's bylaws, the Board of Directors may, by the affirmative vote of a majority of the Directors then constituting a full Board, (provided that a quorum is present for such vote) elect from its membership an Executive Committee (to be chaired by the Chairman of the Board). The Board of Directors may establish such other committees as it may determine, comprised of such numbers of its members as it may from time to time determine, (but not less than three) and delegate to such committee some or all of its powers, except those which by law, the Articles of Organization or the Bylaws, are prohibited from being delegated. The Board of Directors shall have the power at any time to fill vacancies in, change the membership of, or discharge any such committee.

### Officers

The officers of the Company shall be the President, the Treasurer, the Secretary and such other officers as the Board of Directors may determine, including, but not limited to, a Chairman of the Board of Directors, a Vice-Chairman, a Chief Executive Officer, who may be the President, a Chief Financial Officer, who may be the Treasurer, a Chief Operating Officer, one or more Vice-Presidents, one or more Assistant Treasurers, one or more Assistant Secretaries, and a Secretary.

Officers of the Company at December 31, 2013, in addition to those directors above are as follows:

<u>Name of Officer</u>	<u>Title</u>
Richard G. Hayes	CFO & Treasurer (Secretary Pro Tem)
John J. Donehue	COO
Donna M. Miele-Cesario	CIO & Chief Claims Officer
Theodore G. Kelley	Senior Vice President
Michael R. Kubik	Senior Vice President

### Affiliated Companies

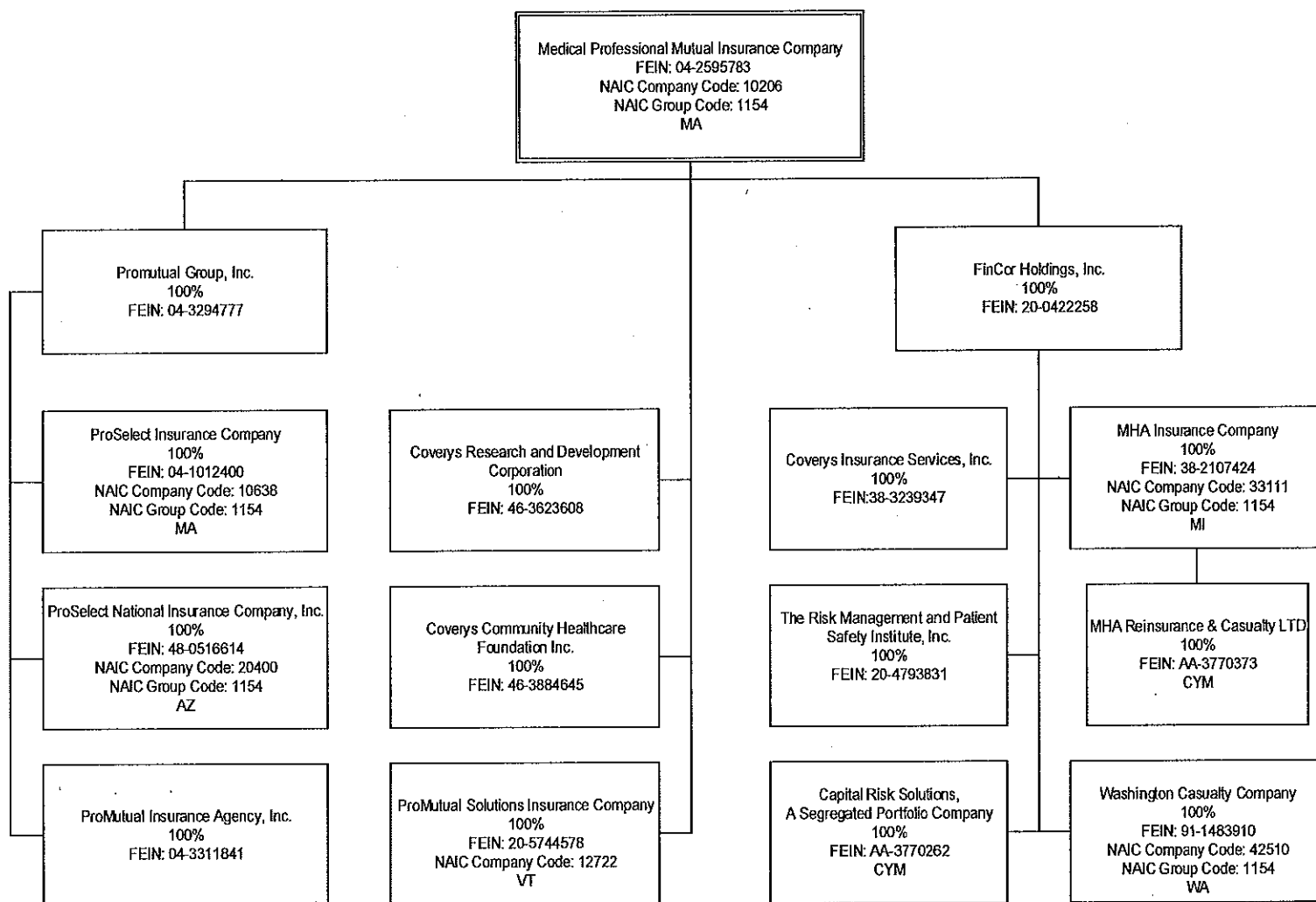
The Company is a member of an insurance holding company system as defined in Section 206 of M.G.L. Chapter 175 and is subject to the registration requirements thereof. During the examination period, the Company filed Form B with the Division pursuant to Regulation 211 CMR 7.00 and Section 206C of M.G.L. Chapter 175. Ultimate control of the holding company system is held by Medical Professional Mutual Insurance Company d/b/a ProMutual, a Massachusetts corporation.



# ProSelect Insurance Company

## Organization Chart

At December 31, 2013, the following companies were part of the following organizational structure:



## ProSelect Insurance Company

### Transactions and Agreements with Subsidiaries and Affiliates

#### *Administrative Services Agreements*

The Company has Administration and Management Services Agreements (the "Agreement") with ProMutual whereby ProMutual agrees to provide various services in connection with underwriting and management of the Company. These include underwriting, policy issuance, billing and premium collection, claims handling, policy administration, actuarial, risk management, investment advisory and all general administrative services relating to the business of the Company. ProMutual and the Company further agree that, subject to certain limitations set forth in the Agreement, ProMutual shall be the sole and exclusive provider of the services and that the Company shall not accept applications for insurance except through ProMutual.

#### *Reinsurance Agreements*

See the Reinsurance Section for a discussion of intercompany reinsurance agreements.

#### *Tax Sharing Agreement*

The Company files its Federal Income Tax Return on a consolidated basis with ProMutual and its other subsidiaries. The method of allocation between companies is subject to written agreement, approved by the Board of Directors.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L., Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts, and the policies were in force as of December 31, 2013.

### **TERRITORY AND PLAN OF OPERATION**

The Company is domiciled in Massachusetts and is licensed to write various lines of business in the States of Arizona, Connecticut, Delaware, District of Columbia, Georgia, Maine, Maryland, Massachusetts New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont and Virginia, and currently writes business, principally medical professional liability insurance, in all but New York and the newly licensed jurisdictions of Arizona, District of Columbia, Georgia and Utah.

## ProSelect Insurance Company

### Policy Forms and Underwriting Practices

The Company offers primarily medical malpractice coverage utilizing policy forms, riders and endorsements that are subject to the approval of the individual state insurance departments.

### Treatment of Policyholders

#### *Claim Settlement Practices*

During our claim test work, it was noted that the Company investigates and settles claims on a timely and fair basis.

#### *Dividends to Policyholders*

ProSelect is a stock company, and has not paid dividends to policyholders.

## GROWTH OF COMPANY

The growth of the Company for the years 2009 through 2013 is shown in the following schedule, which was prepared from the Company's annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Premiums Written</u>
2013	\$70,988,309	\$46,320,249	\$24,668,060	\$0
2012	76,674,260	52,014,661	24,659,599	0
2011	78,088,956	54,051,916	24,037,040	0
2010	75,621,482	52,106,753	23,514,729	0
2009	76,457,790	53,653,703	22,814,087	0

## REINSURANCE

### Ceded Reinsurance

The Company has a quota share reinsurance agreement with ProMutual. Under the agreement, ProMutual assumes 100% of the Company's net liabilities under all insurance business written. In return the Company pays ProMutual 100% of the premiums received on all direct business written by the Company after deducting return premiums payable, reinsurance, and 100% of the net underwriting and claims expense. The terms of the agreement are automatically extended for additional one-year terms. The agreement may be terminated at any time a) by the mutual written consent of the parties or, b) by either party upon 60 days' prior written notice.

## ProSelect Insurance Company

### Assumed Reinsurance

As of December 31, 2013 the Company has not assumed any significant reinsurance from non-affiliated companies other than its participation in the Massachusetts Medical Malpractice Reinsurance Plan.

### ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's Independent Certified Public Accountants. Testing of key underwriting and claim internal controls was performed. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network, Wide Area Network and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports as well as other reports common to the insurance industry. No material exceptions were noted.

The books and records of the Company are audited annually by PricewaterhouseCoopers LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00 and 211 CMR 26.00.

# ProSelect Insurance Company

## STATUTORY DEPOSITS

The Company's statutory deposits as of December 31, 2013 are as follows:

Jurisdiction	Description of Deposit	Par Value	Statement Value	Market Value
Georgia	US Treasury Note	\$ 85,000	\$ 85,274	\$ 85,644
Massachusetts	Comal TEX INDPT SCH	750,000	874,710	884,850
	FNMA Notes	500,000	486,555	483,656
	JEA FLA WTR & SWR SYS	250,000	289,508	292,608
	US Treasury Note	500,000	501,610	503,789
	Univ. Mass Bldg Auth Project	500,000	537,540	521,590
New Hampshire	Bank of America Funding	450,000	455,247	470,779
	CitiGroup Inc	700,000	713,195	748,030
	Federal Home Loan Bank	2,000,000	1,984,580	1,798,560
	Federal Home Loan Mtg. Corp	400,000	406,960	418,637
	HSBC BK PLC	600,000	607,882	625,396
	JP Morgan Chase	700,000	704,508	733,867
	NY ST LOC GOVT Asst	800,000	822,159	883,440
	Thermo Fisher	500,000	501,745	511,340
	U.S. Treasury Bond	200,000	239,204	278,234
	U.S. Treasury Bond	260,000	292,838	347,303
	U.S. Treasury Notes	300,000	301,578	326,883
	U.S. Treasury Notes	830,000	832,673	836,290
	U.S. Treasury Notes	1,950,000	1,949,006	2,032,723
New York	U.S. Treasury Notes	50,000	49,975	52,121
North Carolina	U.S. Treasury Notes	200,000	201,052	217,922
Rhode Island	Connecticut State	500,000	501,465	505,005
	Fed Home Loan Mtg Corp.	1,135,000	1,134,845	1,136,782
	New Jersey St Trans	500,000	496,232	502,460
	US Treasury Notes	800,000	802,472	818,656
	US Treasury Notes	1,200,000	1,200,756	1,231,874
	US Treasury Notes	1,500,000	1,504,650	1,551,563
	US Treasury Notes	1,300,000	1,285,595	1,272,679
	Utah State	650,000	661,928	697,320
	NIA Beach VA Dev Auth Pub	400,000	401,732	410,348
South Carolina	U.S. Treasury Notes	125,000	125,403	125,947
Virginia		300,000	322,524	312,954
		<u>\$20,935,000</u>	<u>\$21,275,401</u>	<u>\$21,619,250</u>

ProSelect Insurance Company

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2013. The financial statements are the responsibility of Company management. The accompanying comments on 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, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Statement of Capital and Surplus for the Year Ended December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2013

ProSelect Insurance Company  
Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2013

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 25,469,257	\$ 0	\$ 25,469,257
Cash & short term investments	6,625,317	-	6,625,317
Other invested assets	91,400	-	91,400
Securities lending	1,180,603	-	1,180,603
Subtotals, cash and invested assets	33,366,577	0	33,366,577
Investment income due and accrued	264,605	-	264,605
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,281,980	-	1,281,980
Deferred premiums, agents balances not yet due	26,263,375	-	26,263,375
Reinsurance:			
Amounts recoverable from reinsurers	7,261,659	-	7,261,659
Current federal and foreign income tax recoverable and interest thereon	361,028	-	361,028
Net deferred tax asset	146,839	-	146,839
Guaranty funds receivable or on deposit	42,306	-	42,306
Receivable from parent, subsidiaries and affiliates	859,586	-	859,586
Aggregate write-ins for other than invested assets	1,140,354	-	1,140,354
Total assets	\$ 70,988,309	\$ 0	\$ 70,988,309

ProSelect Insurance Company  
Statement of Assets, Liabilities, Surplus and Other Funds (continued)  
As of December 31, 2013

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 0	\$ 0	\$ 0	(1)
Reinsurance payable on paid losses and loss adjustment expenses	159,030	-	159,030	
Loss adjustment expenses	0	-	0	(1)
Commissions payable, contingent commissions and other similar charges	3,335,498	-	3,335,498	
Other expenses	153,760	-	153,760	
Taxes, licenses and fees	301,835	-	301,835	
Advance premium	4,681,393	-	4,681,393	
Ceded reinsurance premiums payable	35,403,970	-	35,403,970	
Amounts withheld or retained by company for the account of others	5,794	-	5,794	
Provision for reinsurance	8,660	-	8,660	
Payable to parent, subsidiaries and affiliates	94,438	-	94,438	
Payable for securities lending	1,179,650	-	1,179,650	
Aggregate write-ins for liabilities	996,221	-	996,221	
Total liabilities	<u>46,320,249</u>	<u>0</u>	<u>46,320,249</u>	
Common capital stock	2,500,000	-	2,500,000	
Gross paid in and contributed surplus	22,500,000	-	22,500,000	
Unassigned funds (surplus)	(331,940)	-	(331,940)	
Surplus as regards policyholders	<u>24,668,060</u>	<u>0</u>	<u>24,668,060</u>	
Total Liabilities, Surplus and Other Funds	<u>\$ 70,988,309</u>	<u>\$ 0</u>	<u>\$ 70,988,309</u>	



ProSelect Insurance Company  
Statement of Income  
For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 0	\$ 0	\$ 0
Deductions:			
Losses incurred	0	-	0
Loss adjustment expenses incurred	0	-	0
Other underwriting expenses incurred	0	-	0
Total underwriting deductions	0	0	0
Net underwriting gain (loss)	0	0	0
Net investment income earned	730,769	0	730,769
Net investment gain (loss) less capital gains tax of \$19,277	37,019	0	37,019
Net investment gain	767,788	-	767,788
Net gain (loss) from agents' or premium balances charged off	0	0	0
Finance and service charges not included in premiums	0	0	0
Aggregate write-ins for miscellaneous income	36,673	-	36,673
Total other income	36,673	-	36,673
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	804,460	0	804,460
Dividends to policyholders	0	-	0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	804,460	0	804,460
Federal and foreign income taxes incurred	318,993	0	318,993
Net income (loss)	\$ 485,467	\$ 0	\$ 485,467

ProSelect Insurance Company  
Statement of Capital and Surplus  
For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus as regards policyholders, December 31 prior year	\$ 24,659,599	\$ 0	\$ 24,659,599
Net income (loss)	485,467	-	485,467
Change in net unrealized capital gains or (losses)	(1,548)	-	(1,548)
Change in net deferred income tax	160,232	-	160,232
Change in non admitted assets	(631,278)	-	(631,278)
Aggregate write-ins for gains and losses in surplus:	-	-	-
Change in provision for reinsurance	(4,412)	-	(4,412)
Change in surplus as regards policyholders for the year	8,461	0	8,461
Surplus as regards policyholders, December 31 current year	<u>\$ 24,668,060</u>	<u>\$ 0</u>	<u>\$ 24,668,060</u>

ProSelect Insurance Company  
Reconciliation of Capital and Surplus  
For Each Year in the Five-Year Period Ended December 31, 2013

	2013	2012	2011	2010	2009
Capital and surplus, December 31 prior year	\$ 24,659,599	\$ 24,037,040	\$ 23,514,729	\$ 22,814,087	\$ 21,364,520
Net income (loss)	485,467	463,903	502,262	596,786	430,568
Change in net unrealized capital gains or (losses)	(1,548)	2,373	(205)	-	-
Change in net deferred income tax	160,232	(79,914)	(332)	(131,728)	(1,098,550)
Change in non admitted assets	(631,278)	226,465	34,566	235,584	770,661
Change in provision for reinsurance	(4,412)	9,732	(13,390)	-	2,505
Cumulative effect of changes in accounting principles	-	-	-	-	1,344,383
Change in capital and surplus for the year	8,461	622,559	522,311	700,642	1,449,567
Capital and surplus, December 31 current year	<u>\$ 24,668,060</u>	<u>\$ 24,659,599</u>	<u>\$ 24,037,040</u>	<u>\$ 23,514,729</u>	<u>\$ 22,814,087</u>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

## Note 1 – Summary of Loss and Loss Adjustment Expense Reserves (“Loss and LAE Reserves”)

The Board of Directors of Medical Professional Mutual Insurance Company (“MPMIC” or “the Company”) appointed an actuary from Towers Watson, an independent actuarial consulting firm, to render a Statement of Actuarial Opinion as of December 31, 2013, on the Company’s loss and loss adjustment expense (LAE) reserves. Among the items in the Opinion for the Company and in the similar Opinion for ProSelect Insurance Company (“ProSelect”), the appointed actuary specifically listed the following amounts for each respective insurer separately:

<b>Reserve Category</b>	<b>MPMIC (Including Assumed from ProSelect)</b>	<b>ProSelect</b>
<i><u>Net of Reinsurance</u></i>		
Reserve for Unpaid Losses	\$946,345,789	\$0
Reserve for Unpaid Loss Adjustment Expenses	<u>306,095,083</u>	0
Aggregate Total—Net Basis	1,252,440,872	0
<i><u>Gross of Reinsurance</u></i>		
Reserve for Unpaid Losses	960,721,000	470,264,000
Reserve for Unpaid Loss Adjustment Expenses	310,244,000	139,317,000
Aggregate Total—Direct and Assumed	1,270,965,000	609,581,000

After reviewing the above reserves and other items, the Company’s appointed actuary concluded that, in his opinion, the amounts identified above:

- Meet the requirements of the insurance laws of the Commonwealth of Massachusetts;
- Are stated consistent with amounts computed in accordance with the Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and relevant standards or practice promulgated by the Actuarial Standards Board; and,
- Make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

# ProSelect Insurance Company

As part of the examination, the Division engaged KPMG LLP to provide independent estimates for the Company's loss and LAE liabilities as of December 31, 2013.

The following table summarizes the KPMG reserve ranges, our actuarial central reserve estimates, the carried loss and loss adjustment expense reserves as of December 31, 2013 for both Companies.

## Loss & Loss Adjustment Expense Reserves as of December 31, 2013 (000's)

Reserve Category	KPMG Indicated			Company Carried
	Low	Central	High	
<u>MPMIC</u>				
Gross of Reinsurance	1,057,997	1,218,789	1,345,590	1,271,000
Net of Reinsurance	1,042,107	1,201,134	1,326,169	1,252,440
<u>ProSelect</u>				
Gross of Reinsurance	485,065	594,376	653,918	609,600
Net of Reinsurance	0	0	0	0

In our opinion, the gross and net loss and loss adjustment expense reserves carried by MPMIC and ProSelect as of December 31, 2013 make a reasonable provision for the unpaid loss and loss adjustment expense obligations of each Company as of that date.

**SUMMARY OF RECOMMENDATIONS**

There are no material recommendations included in this examination report.

ProSelect Insurance Company

**ACKNOWLEDGEMENT**

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by KPMG LLP and the following Division examiner who participated in this examination is hereby acknowledged.

Steve Tsimitsos, CFE, Financial Examiner II

A handwritten signature in black ink, appearing to read 'Robert Dynan', is written over a horizontal line.

Robert Dynan, CFE  
Supervising Examiner and  
Examiner-in-Charge  
Commonwealth of Massachusetts  
Division of Insurance