

PROASSURANCE CORP
Form 10-K
February 20, 2014
Table of Contents

United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K
(Mark One)

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required]
for the fiscal year ended December 31, 2013,

or
 Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]
for the transition period from _____ to _____.

Commission file number: 001-16533

ProAssurance Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State of
incorporation or organization)

63-1261433
(I.R.S. Employer
Identification No.)

100 Brookwood Place,
Birmingham, AL
(Address of principal executive offices)
(205) 877-4400
(Registrant's Telephone Number, Including Area Code)

35209
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class
Common Stock, par value \$0.01 per share
Name of Each Exchange On Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2013 was \$3,178,444,502.

As of February 12, 2014, the registrant had outstanding approximately 60,486,816 shares of its common stock.

1

Table of Contents

TABLE OF CONTENTS

<u>PART I</u>		<u>7</u>
<u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>28</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>30</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>83</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>85</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>85</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>85</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>85</u>
<u>PART III</u>		
<u>Item 10.</u>	<u>Directors and Executive Officers of the Registrant</u>	<u>87</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>87</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>87</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions</u>	<u>87</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>87</u>
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>88</u>

Table of Contents

Documents incorporated by reference in this Form 10-K

- (i) The definitive proxy statement for the 2014 Annual Meeting of the Stockholders of ProAssurance Corporation (File No. 001-16533) is incorporated by reference into Part III of this report.

3

Table of Contents

General Information

Throughout this report, references to ProAssurance, “we”, “us”, “our” or “the Company” refer to ProAssurance Corporation and its consolidated subsidiaries. Also, as ProAssurance is an insurance holding company and certain terms and phrases common to the insurance industry are used in this report that carry special and specific meanings, we encourage you to read the Glossary of Selected Insurance and Related Financial Terms posted on the Supplemental Information page of our website (www.proassurance.com/InvestorRelations/supplemental.aspx).

Caution Regarding Forward-Looking Statements

Any statements in this Form 10K that are not historical facts are specifically identified as forward-looking statements. These statements are based upon our estimates and anticipation of future events and are subject to certain risks and uncertainties that could cause actual results to vary materially from the expected results described in the forward-looking statements. Forward-looking statements are identified by words such as, but not limited to, “anticipate”, “believe”, “estimate”, “expect”, “hope”, “hopeful”, “intend”, “likely”, “may”, “optimistic”, “possible”, “potential”, “preliminary”, “should”, “will” and other analogous expressions. There are numerous factors that could cause our actual results to differ materially from those in the forward-looking statements. Thus, sentences and phrases that we use to convey our view of future events and trends are expressly designated as forward-looking statements as are sections of this Form 10K that are identified as giving our outlook on future business.

Forward-looking statements relating to our business include among other things: statements concerning liquidity and capital requirements, investment valuation and performance, return on equity, financial ratios, net income, premiums, losses and loss reserves, premium rates and retention of current business, competition and market conditions, the expansion of product lines, the development or acquisition of business in new geographical areas, the availability of acceptable reinsurance, actions by regulators and rating agencies, court actions, legislative actions, payment or performance of obligations under indebtedness, payment of dividends, and other matters.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following factors that could affect the actual outcome of future events:

- changes in general economic conditions, including the impact of inflation or deflation and unemployment;
- our ability to maintain our dividend payments;
- regulatory, legislative and judicial actions or decisions that could affect our business plans or operations;
- the enactment or repeal of tort reforms;
- formation or dissolution of state-sponsored healthcare professional liability insurance entities that could remove or add sizable groups of physicians from or to the private insurance market;
- changes in the interest rate environment;
- changes in U.S. laws or government regulations regarding financial markets or market activity that may affect the U.S. economy and our business;
- changes in the ability of the U.S. government to meet its obligations that may affect the U.S. economy and our business;
- performance of financial markets affecting the fair value of our investments or making it difficult to determine the value of our investments;
- changes in requirements or accounting policies and practices that may be adopted by our regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board, or the New York Stock Exchange (NYSE) and that may affect our business;
- changes in laws or government regulations affecting the financial services industry, the property and casualty insurance industry or the particular insurance lines underwritten by our subsidiaries;
- the effects of changes in the healthcare delivery system, including but not limited to the Patient Protection and Affordable Care Act (the Healthcare Reform Act);
 - consolidation of healthcare providers resulting in entities that are more likely to self-insure a substantial portion of their healthcare professional liability risk;
- uncertainties inherent in the estimate of loss and loss adjustment expense reserves and reinsurance;
- changes in the availability, cost, quality or collectability of insurance/reinsurance;

Table of Contents

the results of litigation, including pre- or post-trial motions, trials and/or appeals we undertake;

allegation of bad faith which may arise from our handling of any particular claim, including failure to settle;

loss or consolidation of independent agents, agencies, brokers or brokerage firms;

changes in our organization, compensation and benefit plans;

changes in the business or competitive environment may limit the effectiveness of our business strategy and impact our revenues;

our ability to retain and recruit senior management;

the availability, integrity and security of our technology infrastructure;

the impact of a catastrophic event, as it relates to both our operations and our insured risks;

the impact of acts of terrorism and acts of war;

the effects of terrorism related insurance legislation and laws;

assessments from guaranty funds;

our ability to achieve continued growth through expansion into other states or through acquisitions or business combinations;

- changes to the ratings assigned by rating agencies to our insurance subsidiaries, individually or as a group;

provisions in our charter documents, Delaware law and state insurance law may impede attempts to replace or remove management or may impede a takeover;

state insurance restrictions may prohibit assets held by our insurance subsidiaries, including cash and investment securities, from being used for general corporate purposes;

taxing authorities can take exception to our tax positions and cause us to incur significant amounts of legal and accounting costs and, if our defense is not successful, additional tax costs, including interest and penalties; and expected benefits from completed and proposed acquisitions may not be achieved or may be delayed longer than expected due to business disruption; loss of customers, employees and key agents; increased operating costs or inability to achieve cost savings; and assumption of greater than expected liabilities, among other reasons.

Additional risks that could adversely affect the integration of Medmarc Mutual Insurance Company, now Medmarc Casualty Insurance Company (Medmarc), and Eastern Insurance Holdings, Inc. (Eastern) into ProAssurance, include but are not limited to the following:

the outcome of claims that may be asserted by either the policyholders or shareholders of any of these acquired entities relating to payments or other issues associated with the acquisition of the entities and subsequent mergers into ProAssurance;

the operations of ProAssurance and Medmarc or ProAssurance and Eastern may not be integrated successfully, or such integration may take longer to accomplish than expected;

cost savings from the transactions may not be fully realized or may take longer to realize than expected; and

operating costs, customer loss and business disruption following one or both transactions, including adverse effects on relationships with employees, may be greater than expected.

Additional risks that could arise from our membership in the Lloyd's of London market (Lloyd's) and our participation in Lloyd's Syndicate 1729 (Syndicate 1729) include but are not limited to the following:

members of Lloyd's are subject to levies by the Council of Lloyd's based on a percentage of the member's underwriting capacity, currently a maximum of 3%;

syndicate operating results can be affected by decisions made by the Council of Lloyd's over which the management of Syndicate 1729 has little ability to control, such as a decision to not approve our annual business plan, or a decision to increase the capital required to continued operations, and by our obligation to pay levies to Lloyd's;

Lloyd's insurance and reinsurance relationships and distributions channels could be disrupted or Lloyd's trading licenses could be revoked making it more difficult for Syndicate 1729 to distribute and market its products; and

- rating agencies could downgrade their ratings of Lloyd's as a whole.

Our results may differ materially from those we expect and discuss in any forward-looking statements. The principal risk factors that may cause these differences are described in "Item 1A, Risk Factors" in this report. We caution readers not to place

Table of Contents

undue reliance on any such forward-looking statements, which are based upon conditions existing only as of the date made, and advise readers that these factors could affect our financial performance and could cause actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. Except as required by law or regulations, we do not undertake and specifically decline any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

ProAssurance Corporation is a holding company for property and casualty insurance companies. For the year ended December 31, 2013, our net premiums written totaled \$525.2 million, and at December 31, 2013 we had total assets of \$5.2 billion and \$2.4 billion of shareholders' equity. We provide professional liability insurance for healthcare professionals and facilities, professional liability insurance for attorneys, liability insurance for medical technology and life sciences risks, and, effective January 1, 2014, workers' compensation insurance. During 2013, through a wholly owned subsidiary, we became a corporate member of Lloyd's of London and provided a majority of the capital for Syndicate 1729. Syndicate 1729 began writing a range of property and casualty insurance and reinsurance lines effective January 1, 2014.

Our executive offices are located at 100 Brookwood Place, Birmingham, Alabama 35209 and our telephone number is (205) 877-4400. Our stock trades on the NYSE under the symbol "PRA." Our website is www.ProAssurance.com and we maintain a dedicated Investor Relations section on that website (www.ProAssurance.com/InvestorRelations) to provide specialized resources for investors and others seeking to learn more about us.

As part of our disclosure through the Investor Relations section of our website, we publish our annual report on Form 10K, our quarterly reports on Form 10Q, and our current reports on Form 8K and all other public SEC filings as soon as reasonably practical after filing with the SEC on its EDGAR system. These SEC filings can be found on our website at www.proassurance.com/InvestorRelations/reports_filings.aspx. This section also includes information regarding stock trading by corporate insiders by providing access to SEC Forms 3, 4 and 5 when they are filed with the SEC. In addition to federal filings on our website, we make available other documents that provide important additional information about our financial condition and operations. Documents available on our website include the financial statements we file with state regulators (compiled under Statutory Accounting Principles as required by regulation), news releases that we issue, a listing of our investment holdings, and certain investor presentations. The Governance section of our website provides copies of the charters for our governing committees and many of our governing policies. Printed copies of these documents may be obtained from Frank O'Neil, Senior Vice President, ProAssurance Corporation, either by mail at P.O. Box 590009, Birmingham, Alabama 35259-0009, or by telephone at (205) 877-4400 or (800) 282-6242.

Our History

We were incorporated in Delaware in 2001 as the successor to Medical Assurance, Inc. in conjunction with its merger with Professionals Group, Inc. ProAssurance has a history of growth through acquisitions. Significant acquisitions completed in the most recent five years include:

• Podiatry Insurance Company of America and subsidiaries, (PICA), acquired April 1, 2009,

• American Physicians Service Group, Inc. and subsidiaries, (APS), acquired November 30, 2010,

• Independent Nevada Doctors Insurance Exchange, (IND), acquired November 30, 2012,

• Medmarc Mutual Insurance Company and subsidiaries, (Medmarc), acquired January 1, 2013, and

• Eastern Insurance Holdings, Inc., (Eastern), which was completed January 1, 2014.

Our Strategy

Our business objectives are to generate attractive returns on equity and book value per share growth for our shareholders. We believe we achieve these objectives by executing the following strategies:

Pursue profitable underwriting opportunities. We pursue a strategy that emphasizes profitability, not market share.

Key elements of this strategy are prudent risk selection, appropriate pricing and adjusting our business mix as appropriate to effectively utilize capital and achieve market synergies. We seek to help customers confront uncertainty through innovative loss transfer and loss mitigation solutions for liability risks, with an emphasis on healthcare. Our healthcare focus considers the risk management needs of a broad spectrum of the healthcare provider market. Often, we utilize mergers or acquisitions to expand the products we offer or the types of customers we serve.

Exercise underwriting and risk management discipline. We believe we exercise underwriting and risk management discipline by adhering to underwriting guidelines across our business lines and fostering a culture that focuses on

enterprise risk management and strong internal controls.

• Assist insureds in reducing risk. We offer training to our insureds to assist them in the use of risk reduction tools and techniques.

7

Table of Contents

Manage claims effectively. Our experienced claims teams have industry and insurance expertise that, with our extensive local knowledge, allows us to resolve claims in the most effective manner possible, considering the circumstances of each claim. When practical, we utilize formalized claims management processes and protocols as a means of reducing claim costs.

Provide superior customer service. Our mission statement, We Exist to Protect Others, goes hand-in-hand with our corporate motto, "Treated Fairly." Both statements speak to our desire to be a strong and trusted partner that helps customers confront uncertainty through innovative loss transfer and loss mitigation solutions for liability risks, with an emphasis on healthcare. Our employees are committed to core values of integrity, respect, involvement of our insureds, collaboration, communication and enthusiasm every day.

Maintain a conservative investment strategy. We believe that we follow a conservative investment strategy designed to emphasize the preservation of our capital and provide adequate liquidity for the prompt payment of claims. Our investment portfolio consists primarily of investment-grade, fixed-maturity securities of short-to medium-term duration.

Maintain financial stability. We are committed to maintaining claims paying ratings of "A" or better.

Organization and Segment Information

We operate through multiple insurance organizations with four areas of focus: professional liability insurance, medical technology and life sciences products liability insurance, and beginning January 1, 2014, workers' compensation insurance and international property and casualty insurance and reinsurance. We operated as a single segment in 2013, 2012 and 2011. In 2014 we expect to report our results in four segments: specialty property and casualty, workers' compensation, Lloyd's syndicate and corporate. Our corporate segment includes our investing operations managed at the corporate level, non-premium revenues generated outside of our insurance entities, and corporate expenses.

Gross Premiums Written

Gross premiums written for the years ending December 31, 2013, 2012 and 2011 is provided below.

(\$ in thousands)	Year Ended December 31								
	2013			2012			2011		
Gross Premiums Written									
Professional liability:									
Physicians (1)	\$414,167	73	%	\$416,510	78	%	\$451,181	80	%
Other healthcare professionals and facilities	69,327	12	%	71,751	13	%	73,729	13	%
Legal professionals	27,060	5	%	17,146	3	%	16,474	3	%
All other (2)	22,803	4	%	31,024	6	%	24,511	4	%
Medical technology and life sciences products liability	34,190	6	%	—	—	%	—	—	%
Total	\$567,547								