REPORT ON EXAMINATION AS TO THE CONDITION OF

MDADVANTAGE INSURANCE COMPANY OF NEW JERSEY

LAWRENCEVILLE, NEW JERSEY 08648

AT DECEMBER 31, 2019

NAIC COMPANY CODE 11498

NAIC GROUP CODE 0000

FILED

JUNE 10, 2021

COMMISSIONER

DEPARTMENT
OF
BANKING AND INSURANCE

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MARLENE CARIDE
Commissioner

May 28, 2021

Honorable Marlene Caride
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey (N.J.S.A.) a risk focused examination has been conducted of the business operations and other affairs of the:

MDAdvantage Insurance Company of NJ
100 Franklin Corner Road
Lawrenceville, New Jersey 08648
NAIC Company Code 11498

a domestic medical malpractice insurance company authorized to transact business in the State of New Jersey, and hereinafter referred to in this report as "MDAdvantage," "MDA," or "Company."

SCOPE OF EXAMINATION

This comprehensive financial condition examination was called by the Commissioner of the New Jersey Department of Banking and Insurance (hereafter "NJDOBI" or "the Department") pursuant to the authority granted by Section 17:23-22 of the New Jersey Annotated Revised Statutes.

The examination was conducted using a risk-focused examination approach and covered the five-year period from December 31, 2014, the date of the last examination, to December 31, 2019, including material transactions and/or significant events occurring subsequent to the examination date. The examination followed procedures formulated by the National Association of Insurance Commissioners ("NAIC") as permitted by the Department. During this five-year period under examination, the Company's assets increased $36,911,290 from $312,186,935 to $349,098,225; liabilities increased $282,659 from $183,789,781 to $184,072,440 and policyholder surplus increased $36,628,631 from $128,397,154 to $165,025,785.

The scope of this examination was framed around specific key risk areas as determined by a risk assessment analysis, which attempted to measure the impact of these risks upon the Company's financial condition and future viability. This entailed an evaluation of the Company's management, corporate governance, information systems, accounting methods, system of internal control, and the annual audit work performed by the Company's certified public accountants, encompassing the following overall objectives:

- Analysis of business risk activities deemed to have a great impact on the Company's overall operations, including deviations from statutory accounting practices that affect solvency assessment.
- Identification of significant deviations from New Jersey insurance laws, regulations and directives.
- Compliance with the guidelines outlined in the 2019 edition of the NAIC Financial Condition Examiners Handbook ("NAIC Handbook"), NAIC Annual Statement Instructions, NAIC accreditation/codification standards, Statements of Statutory Accounting Principles ("SSAP"), and NJDOBI policies and procedures.
- Identification and reporting of significant operational and internal control deficiencies and assessment of the Company's risk management processes.
- Assessment of the quality and reliability of corporate governance to identify and manage the risk environment facing the insurer in order to identify current and prospective risk areas.
- Assessment of the Company's surplus and that it is not materially misstated.
- Provision of a foundation for a profile of the Company's operations, risks and results to be utilized by regulatory authorities.

Only significant findings of fact, statutory deviations and general information about the Company and its financial condition are included in this examination report. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was incorporated on August 14, 2002 and was granted a Certificate of Authority in August 2002 as the "MIIX Advantage Insurance Company of New Jersey" to write medical professional liability coverage for New Jersey physicians. Effective August 1, 2004, the Company's name was changed to "MDAdvantage Insurance Company of New Jersey."

The Company is a wholly owned subsidiary of **MDAdvantage Holdings, Inc.** ("MDH") (f/k/a MIIX Advantage Holdings, Inc.), a privately held, physician owned, New Jersey corporation. At December 31, 2019 the authorized capital stock of the Company consisted of 200,000 shares of common stock having a par value of $5.00 per share, for a total value of $1,000,000 in accordance with N.J.S.A. 17:17-8, which requires that all authorized shares of stock of a stock company are to be issued. MDH generated initial capital through a subscription offering of stock limited to New Jersey physicians. Capital contribution requirements were allocated between common stock and Subordinated Insurance Contribution Notes. Each voting share is evidenced by $500 in capital contribution. Any excess contribution will be designated for Subordinated Insurance Contribution Notes.

Effective April 7, 2006, the Company eliminated the capital contribution requirement for physicians obtaining insurance coverage on traditional claims-made policy. Effective May 3, 2007, the Company eliminated the capital contribution requirement for physicians obtaining insurance coverage on a Permanent Protection Policy ("PPP"). These changes affect all new exposures (individual or group) including additions to existing groups. Any new physician obtaining coverage without making a capital contribution will be an insured physician but not an owner of MDH. This means that the physician will not receive a share of common stock or Subordinated Insurance Contribution Note. Consequently, the physician will have no voting privileges in MDH.

Beginning in 2009, the Company requested permission from the NJDOBI to redeem capital contributions to qualified former shareholders. Participants (or those in trust to the participant) must wait at least two years after a qualifying event and are eligible based upon at least one of the following reasons:

1. Death
2. Disability
3. Retirement
4. Denied Coverage
5. Move out of state
   (and whereby more than 50% of their time was practiced within that state)

A list of shareholders eligible for capital redemptions is approved by the Board of Directors (hereafter "the Board") before the list is submitted to the NJDOBI for approval. Since the inception of the capital redemption program in 2009, $5,853,011 has been returned by MDH to shareholders.

In 2013, the Company moved their statutory home and main administrative office from 2 Princess Road, Suite 2, Lawrenceville, NJ 08648 to 100 Franklin Corner Road, Lawrenceville, NJ 08648. The Company owns this facility compared to renting the previous property.

On October 16, 2019, the Company executed an amendment to the Certificate of Incorporation changing the number of members required to serve in the Board to no less than five (5) and no more than fourteen (14) directors.

In 2012, the Company received an initial A.M. Best rating of A- (Excellent). The same rating was given to them in 2018 and 2019.

TERRITORY AND PLAN OF OPERATION

The Company is a New Jersey domestic property and casualty insurance company authorized to write the types of insurance specified in paragraph "e" of N.J.S.A. 17:17-1, i.e., medical malpractice and associated premises liability insurance. The Company provides modified claims-made (PPP), occurrence and traditional claims-made malpractice insurance to licensed physicians, surgeons, podiatrists and dentists who have at least 51% or more of their practice in participating states. The Company is licensed to write business in Connecticut, Delaware, the District of Columbia, Maryland, New Jersey, Ohio, Pennsylvania, Rhode Island, Virginia and West Virginia.

The Company's business strategy is to provide physicians, surgeons, podiatrists and dentists who meet specific underwriting criteria access to medical professional liability insurance at actuarially sound rates that support the Company's financial stability and continued growth. The Company does not assume any business. At year-end 2019, the Company produced a total of $40,478,376 in direct written premiums ("DWP") across the following product lines:

Line of Business	DWP
Medical Professional Liability - Occurrence	$27,955,387
Medical Professional Liability - Claims-Made	$11,621,748
Other Liability - Occurrence	$13,436
Other Liability - Claims-Made	$887,805

The following are the total direct written premiums produced for the other years of the examination period:

Year	Total DWP
2019	$40,478,376
2018	$38,416,300
2017	$38,533,321
2016	$44,970,881
2015	$47,331,797

The Company's main insurance product is the PPP, which provides claims-made coverage while the policy is still in effect, as well as automatic extended reporting period coverage for claims reported after the termination of the policy (for any reason). The Company also offers traditional claims-made coverage and an occurrence policy as well as a policy called "Supreme Advantage," which includes employment practices liability insurance ("EPLI"), privacy and data security, and medical practice administration coverage.

The Company's PPP is a claims-made form with a prefunded tail. There is no separate premium charge to the insured for their tail coverage, and the tail is activated immediately at termination of coverage. The Company also offers a claims-made policy wherein the tail coverage will be offered to the insured at the termination of coverage. With the exception of a Death, Disability or Retirement Extended Reporting Period ("DDR") endorsement, the tail must be purchased by the insured and paid in full before the inception of tail coverage. Under both policy types, the tail coverage is for an indefinite period of time. The Company also offers prior acts coverage for new insureds who previously maintained claims-made coverage with another insurer.

The Company also issues standard occurrence policies. MDAdvantage is among the top three writers of direct medical professional liability premium in New Jersey. Insureds are offered the opportunity to finance their premium over twelve months through a sister company, MDAdvantage Finance Company, Inc.

The Company has no career agents, but rather markets its product predominately through a network of approximately 40 independent brokers. Each broker who writes business for MDA operates under a specific broker agreement which outlines the relationship between the Company and the broker. All premiums are directly billed. Potential insureds can also receive a premium indication quote off the Company's online internet site.

The Company filed producer-controlled reports for each of the five years of the examination period in compliance with N.J.A.C. 11:2-37.4 where it was determined that it is not producer controlled. The Company utilizes the services of **Guy Carpenter** as its reinsurance intermediary for placing reinsurance contracts. Guy Carpenter is licensed as a reinsurance intermediary in compliance with N.J.S.A. 17:22E-2a and the intermediary contract was reviewed and verified without exception.

The Company's statutory home and main administration office is located at 100 Franklin Corner Road, Lawrenceville, New Jersey 08648. The Company replicates its information systems in off-site facilities in Edison, New Jersey and Miamisburg, Ohio. The registered agent upon whom process may be served is Catherine E. William, the Company's Corporate Secretary.

Policy Forms and Underwriting Practices

The Company utilizes policy forms and corresponding attachments independently created by MDA, a sampling of which is listed below:

Professional Liability Insurance Claims-Made Form
PPP Professional Liability Insurance Modified Claims-Made Form
Professional Liability Insurance Occurrence Policy
Extended Reporting Period Endorsement
NJ Cancellation & Nonrenewal
Consent to Settle

The underwriting intent of the Company is to provide a secure and stable source of professional liability insurance to the medical community at rates that are both affordable to its members and adequate to ensure the long-term goals of the Company. The underwriters seek to qualify all eligible providers on terms of coverage that are fair and equitable, but also exercise its fiduciary responsibility to preserve the assets of the Company.

Critical elements in the underwriting process are a provider's past loss experience, procedures or treatment modalities that are clearly outside the scope of mainstream medicine or personal characteristics that create an unusual risk of loss. Coverage is available for licensed physicians, surgeons, podiatrists or dentists who practice 51% or more in states where the Company is licensed. Each new application for coverage is considered on a case by case basis taking all factors into consideration. No insured may be bound without underwriter approval. The underwriter will carefully review all questions on the application noting particularly the practitioner's medical training, a copy of current medical license, previous coverage acceptable to the Company, affirmative answers to the "representations" questions, and previous claims experience.

Policy form and rate changes were inspected and verified for the period under examination, with appropriate approval obtained from the NJDOBI.

Advertising and Sales Material

A review and sampling of advertisement materials submitted by the Company determined MDA to be in compliance with N.J.S.A. 17:18-10, which requires a company that is advertising its assets to also advertise liabilities in an equally conspicuous manner.

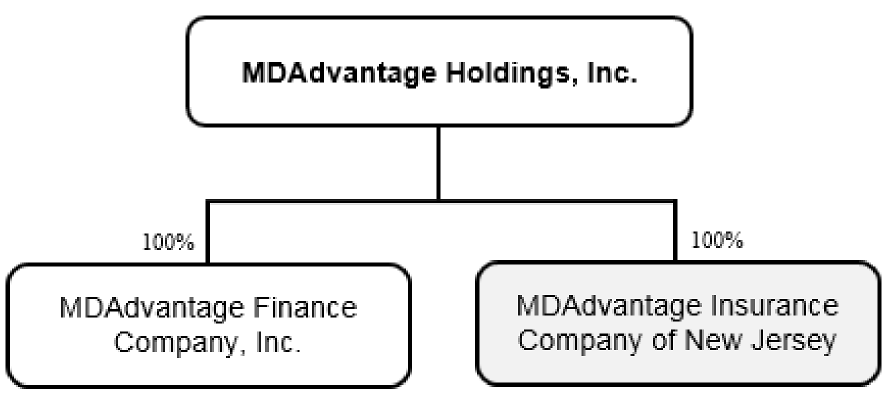
Statutory Deposit

As of December 31, 2019, the Company had on deposit with the State of New Jersey, its domiciliary state, cash and securities with a par value of $100,000, in compliance with N.J.S.A. 17:20-1c. This deposit is held for the benefit of all policyholders.

HOLDING COMPANY SYSTEM

Affiliated Parties

The Company's organizational structure makes it a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1, and as such it has filed a holding company registration statement with the Department in compliance with N.J.S.A. 17:27A-3. The following is an organizational chart illustrating the interrelationship of the companies within the holding company system as of December 31, 2019.



The Company provides premium payment financing for its insureds through its affiliated financing arm, **MDAdvantage Finance Company, Inc**. ("MDF"). Financing is provided through a third party, **First Insurance Funding, Inc.** ("FIF") of Chicago, Illinois. If the policy is financed through MDF, FIF gains the power of attorney and has the right to outright cancel the policy. Any premium financed through MDF is paid in full by FIF to the Company.

Inter-Company Agreements

Effective July 16, 2003, the Company entered into a tax allocation agreement with its parent, MDH. The agreement stipulates that each company's tax burden would be computed based on each company's proportionate share of tax liability on a "stand-alone basis." On December 4, 2007, the agreement was amended to include MDF as an additional party to the agreement. On October 1, 2009, the tax allocation agreement was again amended to restate the terms of the agreement. Its purpose was to determine the applicable amounts of federal and state income tax and their allocation to Group Members. Previously, MDH made tax payments and filings on behalf of the Group; however, under the new agreement, MDA would be making the payments on behalf of the Group.

MDH has a uniform policy whereby each company included in its consolidated federal income tax return is assessed the net amount of taxes, if any, which a company would pay if it filed its return on an individual basis. If a company's pro forma individual tax return shows a net loss, such company receives a cash distribution in the amount of the negative tax from the consolidating parent to the extent that company would have been able to recover taxes if it filed its return on an individual basis. The original agreement and subsequent amendments have been approved by the Department.

MANAGEMENT AND CONTROL

A meeting of shareholders shall be held each year for the election of Directors at such time and place as the Board shall determine. The holders of a majority of the stock issued and outstanding and entitled to vote, present, in person or represented by proxy, shall constitute a quorum at all meetings of the shareholders for the transaction of business.

Board of Directors

The Company's business is overseen by a Board consisting of nine (9) members. Board members are segregated into four classes of Directors, and the term of each class of Directors is staggered so that one class of Directors expires each year. Directors remain in office for a term of four years. A listing of board members serving the Company as of December 31, 2019 is as follows:

Director	Principal Occupation
Patricia Costante (Chairman)	Chief Executive Officer MDAdvantage
Christopher Bateman	NJ State Senator, Partner DiFrancesco, Bateman, Coley, Yospin, Kunzman, Davis, Lehrer & Flaum, P.C.
Nina Gowaty	Retired, Insurance Company Executive

Janet Henry, RSM	Vice President, Administrator Mission Ministry Sisters of Mercy
Paul Hirsch, MD	Orthopedic Physician, Retired
Vincent McInerney, MD	Orthopedic Physician New Jersey Orthopedic Institute
Eileen Moynihan, MD	Medical Director Noridian
Bessie Sullivan, MD	Rheumatologist, Retired
Jill Young, DO	Anesthesiologist

In accordance with N.J.S.A. 17:27A-4d(3), the Company is required to have a Board composition of no less than one-third outside directors. The Company was determined to be in compliance with the provisions of this statute, as all Board members are considered outside directors, with the exception of Patricia A. Costante, who is the senior officer of MDA.

Committees

At December 31, 2019, the Company had five committees in place consisting of the following members:

Audit Committee
Christopher S. Bateman, Chairman
Nina L. Gowaty
Janet M. Henry, RSM
Paul J. Hirsch, MD
Eileen M. Moynihan, MD

Nominating Committee
Paul J. Hirsch, MD, Chairman
Nina L. Gowaty
Vincent K. McInerney, MD
Bessie M. Sullivan, MD

Compensation Committee
Bessie M. Sullivan, MD, Chairman
Christopher S. Bateman
Nina L. Gowaty
Paul J. Hirsch, MD
Vincent K. McInerney, MD

Governance Committee
Eileen M. Moynihan, MD, Chairman
Patricia A. Costante
Janet M. Henry, RSM
Paul J. Hirsch, MD

Finance & Investment Committee
Paul J. Hirsch, MD, Chairman
Christopher S. Bateman
Patricia A. Costante
Bessie M. Sullivan, MD
Jill S. Young, DO

In accordance with N.J.S.A. 17:27A-4d(4), any committee selecting and reviewing the work performed by the Company's CPA firm, nominating candidates for director or evaluating the performance and determining the compensation of Company officers shall be comprised solely of outside directors. These functions are under the direction of the audit, nominating and compensation committees. All of these committees consist of independent, outside directors having no conflicting business relationships with the Company. The audit committee consists of five members which (1) monitor the financial reporting process, (2) review the Company's internal control system, (3) select, review and report on the external auditors and actuaries, and (4) review legal issues and ensure ethical and legal compliance.

The Governance Committee is responsible for (1) developing and recommending to the Board the Corporate Governance Guidelines and the Code of Business Conduct and Ethics applicable to the Company, (2) reviewing and overseeing the development of the Company's Director orientation and continuing education programs, and (3) assisting the Board in its annual review of the Board's performance. According to the finance and investment committee charter, this committee provides oversight of the Company's "business plan, including financial projections, expense budget, capital adequacy, investment policies, objectives and transactions, tax planning, and corporate insurance coverage."

A review of the minutes of the Board and committee meetings noted that they were well attended by the Company's directors, and that the proceedings of the meetings were done in compliance with the Company's state charter and by-laws. A review of the Board minutes indicated that the December 31, 2014 examination report was presented to the Board for review and comment.

The Board's location for all correspondence and meetings is the MDA home office located in Lawrenceville, NJ.

Officers

The Company's by-laws indicate that officers are to be chosen annually by the Board and shall consist of a Chairman of the Board, a Vice-Chairman, a Chief Executive Officer, a President, a Secretary and a Treasurer. Additionally, the Chairman may appoint one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers.

The officers serving the Company as of December 31, 2019 were as follows:

Name	Office(s)
Patricia A. Costante	Chairman, CEO
Stephen B. Cohen	SVP, CFO, Treasurer
Edward M. Grab	SVP, Policyholder Services
Catherine E. Williams	SVP, Corporate Secretary
Michael P. Martin	SVP, General Counsel
Michael J. Skero	VP, Claims & Risk Management

Corporate Records

Minutes of meetings held by the Board revealed adequate approval of the Company's transactions and events including the review and approval of the prior statutory financial examination report. The Company's adherence to its Certificate of Incorporation and by-laws was validated without exception.

Policy on Conflicts of Interest

The Company maintains a conflict of interest policy, which was amended and approved at the Board meeting held in October 2018.

All directors, officers and employees are responsible for maintaining the highest standards of professional and ethical conduct in order to preserve the Company's integrity in the community. Each person has a fundamental duty to avoid placing him or herself in a position which creates, or which leads to or could lead to a conflict of interest or the appearance of a conflict of interest.

To ensure compliance all officers, directors and employees are required to annually complete a conflict of interest questionnaire. Completed questionnaires are presented to the Corporate Secretary and reviewed by the Audit Committee which prepares a report of its findings to the Board. The Audit Committee noted no conflicts in the examination period.

Conflict of interest questionnaires from all the directors, officers and employees were reported in the Audit Committee meeting of August 7, 2019. No conflicts were reported.

Fidelity Bond Coverage

At December 31, 2019, the Company possessed a financial institution bond underwritten by Travelers Casualty and Surety Company of America with an aggregate limit of liability of $3,000,000 and a single loss limit of liability of $1,500,000. The amount of fidelity coverage is in excess of the suggested amount of coverage as measured by the NAIC formula and exposure index.

Other management insurance coverages included the following:

D&O Liability
Professional Liability
Fiduciary Liability
Employment Practices Liability

REINSURANCE

The Company maintains two reinsurance contracts covering MDA's core medical malpractice business and one quota share reinsurance contract covering Supreme Advantage. At December 31, 2019, the Company ceded approximately $9,154,000 in premiums and was contingently liable for approximately $62,003,000 under these agreements. Below is a summary of the Company's reinsurance program.

Contract	Term	Coverage	Retention	Limit
Underlying XOL	1/1/19 to 12/31/19	Per Loss	$200,000	$800,000
Specific XOL	1/1/19 to 12/31/19	Per Loss	$1,000,000	$4,000,000
70% Quota Share	9/1/10 - indef.	-	30%	$1,000,000

The EOL treaties are entered into with seven reinsurers through a reinsurance intermediary with retention limits held in two layers – an underlying layer of $800,000 excess of $200,000 and an upper layer of $4,000,000 excess of $1,000,000. These contracts, which renew annually, cover claims on a policy-attaching basis as respect claims made and PPP or occurrence policies (medical incidents). PPP policies (a.k.a. modified claims-made policies) are treated as occurrence-type policies for purposes of the reinsurance. As long as the incident occurs during the coverage year, even if it is reported in a subsequent year, the claim will be covered under the current year. For claims-made policies, the incident would have to be reported during the current policy year to be covered.

Underlying Per Risk Excess of Loss Reinsurance

This treaty covers policies attaching between January 1, 2019 and December 31, 2019, inclusive, pertaining to the first $1,000,000 each loss of an underlying policy. The Company retains the first $200,000 plus 65.5% of the next $800,000 for a maximum of $724,000 with participating reinsurers assuming the remaining percentages as follows:

	UNDERLYING	
1	Renaissance Re	2.00%
2	Navigators	2.50%
3	Endurance	3.50%
4	NCMIC	4.50%
5	Axis Re	5.00%
6	Scor Re	6.00%
7	Transatlantic Re	11.00%
	Total Cession	**34.50%**
	MDA's Portion	**65.50%**

The reinsurers' maximum liability is restricted to 225% of the net reinsurance premium in the aggregate, regardless of the number of individual risks, occurrences, and/or claims ceded by the Company.

Effective September 30, 2018, the Company entered into a Commutation and Release Agreement with Aspen Bermuda Limited ("Aspen") to terminate Aspen's participation in the underlying treaty covering losses, on an excess of loss basis, for policies written with effective dates between January 1, 2006 and December 31, 2006. Under the terms of the agreement, the Company increased its net loss and LAE reserves by $460,665 and recorded ceded paid losses in the same amount.

Effective September 30, 2018, the Company entered into a second Commutation and Release Agreement with Aspen to terminate its participation in the underlying treaty covering losses for policies written with effective dates between January 1, 2007 and December 31, 2007, which increased the Company's net loss and LAE reserves by $394,144 and recorded ceded paid losses in the same amount.

Specific Per Risk Excess of Loss Reinsurance

This treaty covers policies attaching between January 1, 2019 and December 31, 2019, inclusive, pertaining to the layer $4,000,000 in excess of $1,000,000 of an underlying policy. The Company retains 18.0% of the next $4,000,000 for a maximum of $720,000, with participating reinsurers assuming the remainder as follows:

	SPECIFIC	
1	Axis Re	5.00%
2	Endurance	5.50%
3	NCMIC	9.50%
4	Navigators	10.00%
5	Renaissance Re	10.00%
6	Scor Re	17.00%
7	Transatlantic Re	25.00%
	Total Cession	**82.00%**
	MDA's Portion	**18.00%**

The reinsurers' maximum liability is restricted to the greater of $8,000,000 or 350% of net written premium paid, after deduction of ceding commissions.

Effective February 9, 2015, the Company entered into a Commutation and Release Agreement with Swiss Reinsurance America Corporation ("Swiss") to terminate Swiss' participation in the specific treaty covering losses for policies written with effective dates between September 1, 2002, and August 31, 2003. Under the terms of the agreement, the Company received $4,725,000 in cash, released $2,005,596 in ceded retroactive reinsurance reserves and recognized a retroactive reinsurance gain of $2,719,404. Additionally, the Company reclassified $4,994,404 in special surplus (retroactive reinsurance) to unassigned surplus.

Quota Share Reinsurance

This agreement is maintained with certain syndicates at Lloyd's of London for the insurance package labeled Supreme Advantage. This product is separate and distinct from medical malpractice liability, with the base Supreme Advantage product covering (a) Privacy and Data Security Insurance, (b) Medical Practice Administration Insurance, and (c) Employment Practices Liability Insurance. The base product has a combined single limit of $50,000 per year. All physicians are covered by the base Supreme Advantage product. The Company also offers increased limits of up to $1,000,000 for any of the three coverages, after being underwritten and for an extra premium charge. The quota share for Supreme Advantage is such that the Company retains 30% of premium and losses, while ceding the remaining 70%. The initial agreement was entered into on September 1, 2010 with a ceding percentage of 80% and amended to cede only 70% on September 1, 2012. The quota share is the same on both the base product and the increased limits.

ACCOUNTS AND RECORDS

The Company's book of accounts is maintained on the Great Plains general ledger software package. The Company's general ledger was reviewed and reconciled to the 2019 annual statement. The Company records accounts payable through the Great Plains accounts payable system which interfaces with the general ledger system. The Company utilizes the OASIS System for recording all claim information including reserves, payments and diaries. The establishment of claim reserves and the authority to make claim payments is specified to claim personnel based upon their reserving and payment authority.

Claims payments are paid weekly, and changes to reported case reserves are recorded as appropriate throughout the month. On a monthly basis, claim payments and case reserve changes are summarized, and a journal entry is automatically recorded for entry into the general ledger by the OASIS System. Any changes to IBNR are manually entered into the general ledger on a quarterly basis. IBNR accounts are generated by the Company's internal actuaries and reflect management's best estimate. The Actuarial Opinion was provided by Karen Barrett Daley, FCAS, MAAA of **Perr & Knight**.

Independent Audit

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed by the CPA firm **EisnerAmper LLP**, and a financial statutory audit report for fiscal years 2018 and 2019 was filed with the Commissioner of the NJDOBI. The report contains a synopsis of the major audit activities and results in the corporate area. The auditors concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company.

Continuity of Operations

The Company has a formal disaster recovery plan that includes backup procedures, failover precautions, emergency contacts, cybersecurity, anti-virus support and a dedicated offsite storage location in order to maintain the stability and continuity of the Company's operations in the event of a man-made or natural disaster. The NJDOBI IT Examiner reviewed the plan without exception and confirmed that the Company performs annual data restoration tests in compliance with NAIC standards, the last of which was conducted on September 2019 without incident. The Company has also made provisions for the succession of officers in its by-laws.

FINANCIAL STATEMENTS

Financial Exhibits have been prepared based on the annual statutory financial statements filed by the Company with the NJDOBI. These are summarized below and furnished fully in the next three pages.

Exhibit-A	Statement of Financial Position as of December 31, 2019
Exhibit-B	Statement of Operating Results for the Five-Year Period ended December 31, 2019
Exhibit-C	Capital and Surplus Account for the Five-Year Period ended December 31, 2019

EXHIBIT-A: Statement of Financial Position

As of December 31, 2019

	Balance Per Examination 12/31/19	Balance Per Company 12/31/19	Examination Change	Note
Assets				
Bonds	$ 311,513,049	$ 311,513,049	$ -	
Common Stocks	197,300	197,300		
Properties Occupied by the Company	5,896,038	5,896,038		
Cash and Short Term Investments	11,994,597	11,994,597		
Derivatives	18,469	18,469		
Receivables for Securities	7,287,266	7,287,266		
Investment Income Due and Accrued	2,056,885	2,056,885		
Uncollected Premiums	2,314,855	2,314,855		
Deferred Premiums	2,240,831	2,240,831		
Amounts Recoverable from Reinsurers	2,488,635	2,488,635		
Other Amounts Receivable from Reinsurers	50,401	50,401		
Current Federal Income Tax Recoverable	438,968	438,968		
Net Deferred Tax Asset	1,947,755	1,947,755		
Guarantee Funds Receivable or on Deposit	262,498	262,498		
Electronic Data Processing Equipment	81,819	81,819		
Aggregate Write-Ins	308,859	308,859		
Total Net Admitted Assets	**$ 349,098,225**	**$ 349,098,225**	**$ -**	
Liabilities				
Losses	$ 115,834,754	$ 115,834,754	$ -	1
Loss Adjustment Expense	26,013,905	26,013,905		1
Commissions Payable	4,741,780	4,741,780		
Other Expenses	1,638,479	1,638,479		
Taxes, Licenses and Fees	245,537	245,537		
Unearned Premiums	18,490,116	18,490,116		
Advance Premium	2,057,105	2,057,105		
Ceded Reinsurance Premiums Payable	422,429	422,429		
Remittances and Items Not Allocated	4,800	4,800		
Derivatives	12,863	12,863		
Payable for Securities	14,605,750	14,605,750		
Aggregate Write-Ins	4,922	4,922		
Total Liabilities	**$ 184,072,440**	**$ 184,072,440**	**$ -**	
Surplus and Other Funds				
Common Capital Stock	$ 1,000,000	$ 1,000,000	$ -	
Gross Paid-in and Contributed Surplus	41,053,550	41,053,550		
Unassigned Funds (Surplus)	122,972,235	122,972,235		
Total Capital and Surplus	**$ 165,025,785**	**$ 165,025,785**	**$ -**	2
Total Liabilities, Capital and Surplus	**$ 349,098,225**	**$ 349,098,225**	**$ -**	

EXHIBIT-B: Statement of Operating Results

For the Five-Year Period Ended December 31, 2019

	2019	2018	2017	2016	2015
Underwriting Income					
Premiums Earned	$ 30,555,575	$ 29,687,036	$ 33,954,506	$ 35,304,678	$ 37,331,204
Deductions					
Losses Incurred	12,532,338	12,842,546	14,861,508	14,026,465	16,995,533
Loss Adjustment Expenses Incurred	6,019,378	4,775,607	5,880,113	5,868,614	7,193,674
Other Underwriting Expenses Incurred	11,891,313	11,134,143	11,083,172	12,222,285	12,405,778
Total Deductions	30,443,029	28,752,296	31,824,793	32,117,364	36,594,985
Net Underwriting Gain	**$ 112,546**	**$ 934,740**	**$ 2,129,713**	**$ 3,187,314**	**$ 736,219**
Investment Income					
Net Investment Income Earned	8,778,399	8,592,121	7,706,443	7,272,061	7,001,936
Net Realized Capital Gains/(Losses)	151,113	(414,645)	309,515	762,474	574,713
Net Investment Gain	8,929,512	8,177,476	8,015,958	8,034,535	7,576,649
Other Income					
Net Loss from Premium Balances Charged Off	(12,668)	(7,015)	(12,497)	(23,039)	(36,171)
Finances and Service Charges	35,776	47,591	44,234	65,825	76,023
Aggregate Write-ins for Miscellaneous Income	20,490	998	22,420	3,320	2,693,561
Total Other Income Gain	43,598	41,574	54,157	46,106	2,733,413
Net Income Before Fed Income Taxes	**$ 9,085,656**	**$ 9,153,790**	**$ 10,199,828**	**$ 11,267,955**	**$ 11,046,281**
Federal and Foreign Income Taxes Incurred	1,821,454	1,962,403	2,661,480	3,140,976	3,042,654
Net Income	**$ 7,264,202**	**$ 7,191,387**	**$ 7,538,348**	**$ 8,126,979**	**$ 8,003,627**

EXHIBIT-C: Capital and Surplus Account

For the Five-Year Period Ended December 31, 2019

	2019	2018	2017	2016	2015
Surplus as Regards Policyholders December 31, Previous Year	**$ 158,186,338**	**$ 150,889,858**	**$ 144,830,930**	**$ 136,104,794**	**$ 128,397,154**
Net Income	7,264,202	7,191,387	7,538,348	8,126,979	8,003,627
Other Surplus Gains/(Losses)					
Change in Net Unrealized Cap Gains/(Losses)	171,804	(137,876)	6,200	198,819	166,741
Change in Net Unreal. Frgn Exch Cap Gain/(Loss)	17,487	(38,748)	43,856	652,572	(507,956)
Change in Net Deferred Income Tax	(99,544)	35,370	(2,483,470)	(460,479)	(711,987)
Change in Nonadmitted Assets	(14,502)	246,347	953,994	208,245	757,215
Surplus Adjustments: Paid-in	(500,000)	-	-	-	-
Total Other Surplus Gains/(Losses)	**$ (424,755)**	**$ 105,093**	**$ (1,479,420)**	**$ 599,157**	**$ (295,987)**
Change in Surplus as Regards Policyholders for the Year	6,839,447	7,296,480	6,058,928	8,726,136	7,707,640
Surplus as Regards Policyholders December 31, Current Year	**$ 165,025,785**	**$ 158,186,338**	**$ 150,889,858**	**$ 144,830,930**	**$ 136,104,794**

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Losses and Loss Adjustment Expenses

The Company reported reserves for loss and loss adjustment expenses of $115,834,754 and $26,013,905, respectively. A review by the NJDOBI Actuarial Unit indicated the reserves established by the Company were reasonably stated. Data supplied to the actuaries were tested for completeness and accuracy and reconciled to the Company's 2019 annual statement without material exception. Samples of case reserves and loss payments were selected and verified to source documents.

Note 2 - Capital and Surplus

Common Capital Stock

The outstanding stock of the Company at December 31, 2019 amounted to 200,000 shares of common stock with a par value of $5.00 per share for a total capital of $1,000,000, which has remained the same since the last examination.

Gross Paid-in and Contributed Surplus

On June 20, 2019, the Company returned contributions of capital in the amount of $500,000 to MDH, which reduced this line item by the same amount to $41,053,550.

Unassigned Funds

Total Unassigned Funds, as per the current examination review, amounted to $122,972,235, which is $32,134,227 more than the amount reported in the last examination, reflecting a 35.38% increase.

Surplus as Regards Policyholders

The cumulative changes in surplus and other funds during the five-year examination period is reflected and summarized below:

Policyholder Surplus, December 31, 2014		$ 128,397,154
Net Cumulative Income		38,124,543
Change in Net Unrealized Cap Gains	405,688	
Change in Net Unrealized Foreign Exchange Cap Gains	167,211	
Change in Net Deferred Income Tax	(3,720,110)	
Change in Nonadmitted Assets	2,151,299	
Paid-in Capital	(500,000)	
Surplus Adjustments: Examination Change	-0-	
Net Adjustments During Five-Year Period		(1,495,912)
Policyholder Surplus, December 31, 2019		$ 165,025,785

In compliance with N.J.S.A. 17:17-6, the Company meets the statutorily required minimum capital and surplus benchmark of $2,000,000, an excess of $163,025,785 remaining in surplus.

SUBSEQUENT EVENTS

Reinsurance Contracts

Effective January 1, 2020, the Company terminated its quota share reinsurance treaty maintained with certain syndicates at Lloyd's for the insurance package labeled "Supreme Advantage."

Effective January 1, 2020, the Company entered into two reinsurance agreements with Transatlantic Reinsurance Company, Axis Reinsurance Company, Renaissance Reinsurance US Inc., Navigators Insurance Company, Scor Reinsurance Company, Endurance Assurance Corporation and NCMIC Insurance Company. The first agreement will provide specific excess of loss coverage ($800,000 excess of $200,000) for policies with effective dates from January 1, 2020 to December 31, 2020. The Company will retain 65.5% of this agreement. The second agreement will provide specific excess of loss coverage ($4,000,000 excess of $1,000,000) for policies with effective dates from January 1, 2020 to December 31, 2020. The Company will retain 23% of this agreement.

COVID-19 Economic Impact

On March 11, 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. On March 13, 2020, the U.S. President declared the coronavirus pandemic a national emergency in the United States. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Department will continue to monitor how the pandemic might impact the Company.

CONCLUSION

The statutory condition examination was conducted remotely by the undersigned with the assistance of the NJDOBI field and office staff.

The courteous cooperation and assistance extended during the course of this examination by the Officers of the Company and members of the office staff are hereby acknowledged.

Respectfully submitted,

Juan P. Collado
Examiner-In-Charge

Under the supervision of:

Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examiner

MDADVANTAGE INSURANCE COMPANY OF NEW JERSEY
NOTARIZATION

I, Juan P. Collado, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2019, to the best of my information, knowledge and belief.

Respectfully submitted,

Juan Collado

Juan P. Collado
Insurance Examiner I
NJ Department of Banking and Insurance

Under the supervision of:

Nancy Lee Chice

Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examiner
NJ Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila M. Tkacs
on this 28th day of May, 2021.

Sheila M. Tkacs

Notary Public of the State of New Jersey
My commission expires: July 2025