REPORT ON EXAMINATION AS TO THE CONDITION OF

PRINCETON INSURANCE COMPANY

PRINCETON, NEW JERSEY 08540

AS OF DECEMBER 31, 2018

N.A.I.C. GROUP CODE 0031

N.A.I.C. COMPANY CODE 42226

FILED

APRIL 24, 2020

COMMISSIONER

OF

BANKING & INSURANCE

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Commissioner

February 3, 2020

Honorable Marlene Caride
Commissioner of Banking and Insurance
State of New Jersey
Trenton, New Jersey 08625 Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

Princeton Insurance Company
PRINCETON, NEW JERSEY
N.A.I.C. GROUP CODE 0031
N.A.I.C. COMPANY CODE 42226

A domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the Princeton Insurance Company will be referred to in this report as the "Company", "Princeton" or “PIC”.

SCOPE OF EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as “NJDOBI”, has performed a full scope risk focused examination of Princeton Insurance Company. This risk focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.

The examination took place concurrently with the other affiliated companies of the MedPRO Group of property and casualty companies (“Group”) which was led by the Indiana Department of Insurance, being primary state of domicile of the Company’s ultimate parent company, MedPro Group, Inc. ((“MPG”) formally Medical Protective Corporation).

The examination was made as of December 31, 2018 and addressed the five-year period from December 31, 2013, the date of the last examination. During this five-year period under examination the Company’s assets i n creased from $628,491,820 to $699,105,099, Liabilities increased from $189,652,209 to $190,463,615 and surplus to policyholders increased from $438,839,611 to $508,641,484.

NJDOBI conducted the examination in accordance with the 2018 edition of the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires that NJDOBI plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, NJDOBI obtained information regarding the Company’s corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated its system of internal controls and procedures used to mitigate those risks identified. The examination also included 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.

According to the NAIC Handbook, “One of the increased benefits of the enhanced risk focused approach is to include consideration of other than financial risks that could impact the insurer’s future solvency. By utilizing the enhanced approach, the examiner reviewed the “financial” and “enterprise” risks that existed at the examination “as of” date and will be positioned to assess “financial” and “enterprise” risks that extend or commence during the time the examination was conducted and “prospective” risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer.”

In 2018 the Company’s CPA firm was Crowe Horwath LLP. Crowe Horwath provided an unqualified audit opinion on the fair presentation of the Company's year-end financial statements based on statutory accounting principles for 2018. Relevant work performed by the CPA firm during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers as deemed appropriate.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

Uncollected Premiums Receivable:

It is recommended the Company age all new policies and endorsements off of the effective date of the policy or endorsement in accordance with the requirements of SSAP 6:7a and SSAP 6:7b and ensure this will occur with the completion of the conversion to the Parent's OASIS System.

Company Response – The premiums are still anticipating being implemented into the OASIS System with an expected completion date in approximately two years. The Company anticipates that the aging of all new policies and endorsements, based upon the effective date of the policy or endorsement in accordance with SSAP 6:7a and 6:7b will be attained once the implementation to the Oasis System is completed. In the interim, the Company continues to utilize a stop gap measure in which a review is conducted of all receivable balances to determine if any adjustments are needed to its statutory over 90-day receivable amounts.

Examiner's Response – Although the Company has yet to fully automate its policy administration system, it has effectively manually accounted for the proper aging of new policies and endorsements. This is described more fully under the report caption "Accounts and Records".

HISTORY AND KIND OF BUSINESS

The Company filed for incorporation on December 3, 1981 under and pursuant to the provisions of Chapter 17 of the Revised Statutes of the State of New Jersey. The Certificate of Incorporation was approved by the Deputy Attorney General of New Jersey on January 12, 1982 and filed with the Department of Insurance on January 16, 1982. The Company was officially incorporated on January 16, 1982.

The Company was originally formed to write non-assessable medical malpractice coverage for physicians, dentists and other health care providers in an effort to combat the medical malpractice crisis in New Jersey.

The Company's former sole shareholder, Nassau Holding Company, approved an amended and restated Certificate of Incorporation on December 22, 1995. This approved amendment was filed and approved by the NJDOBI on March 18, 1996. The amendment revised the "Third", "Fourth", and "Fifth" Articles of the Company's original Certificate of Incorporation.

At the Company's inception, all of the issued and outstanding shares of common capital stock were owned by the Nassau Holding Company, a non-insurer downstream holding company. Nassau Holding Company was a wholly-owned subsidiary of the Health Care Insurance Company, Princeton's former ultimate parent.

The Health Care Insurance Company, originally known as the Health Care Insurance Exchange, was organized as a reciprocal inter-insurance exchange concurrent with the incorporation of its attorney-in-fact, NJHA Underwriters, Inc., a not-for-profit corporation on November 3, 1975. The Certificate of Incorporation was duly filed and recorded by the Secretary of State and the Mercer County Clerk on November 6, 1975. The Health Care Insurance Company would offer medical malpractice insurance to New Jersey hospitals and other health care institutions.

On January 1, 1991, the Health Care Insurance Exchange reorganized from a reciprocal inter-insurance exchange to a stock insurance company. A recapitalization plan was developed and implemented during 1999 and 2000 in an effort to simplify the capital structure of the Health Care Insurance Company. The recapitalization plan involved the formation of the Princeton Insurance Company Merger Corporation

(PICMC) and the Princeton Insurance Holdings, Inc., a new holding company. Princeton Insurance Holdings, Inc. was formed under the laws of the State of Delaware on December 10, 1999 and became the sole owner (shareholder) of PICMC. PICMC filed a Certificate of Incorporation with the New Jersey Commissioner of Banking and Insurance on December 29, 1999. The recapitalization plan was authorized by the Commissioner on January 21, 2000 and a Certificate of Authority was issued to PICMC to write the kinds of insurance authorized by paragraph "e" of N.J.S.A. 17:17-1. Ultimately, PICMC merged into the Health Care Insurance Company under an Agreement and Plan of Merger, and Princeton Insurance Holdings, Inc. became the ultimate parent. Per the Company's amended Certificate of Authority dated August 25, 1997, the Princeton Insurance Company is authorized to engage in the kinds of insurance as specified in paragraphs "a", "b", "e", "f", "g", "j", "k", "l", "o-1" and "o-3" of N.J.S.A. 17:17-1 et seq.

On February 15, 2000, in accordance with the provisions of N.J.S.A. 17:27A-2, the Medical Liability Mutual Insurance Company ("MLMIC") filed an application with the NJDOBI to acquire control of the Health Care and Princeton Insurance Companies. On September 12, 2000 the then New Jersey Commissioner of Banking and Insurance, Karen L. Suter, signed an Administrative Decision and Order approving the acquisition of Health Care and Princeton Insurance Companies by MLMIC. The acquisition was completed with the merger of the MLMIC Holding Company (a corporation established for the purposes of completing this merger transaction) and Princeton Holdings, Inc. Under the merger, Princeton Holdings, Inc. emerged as the surviving corporation, but was renamed MLMIC Holding Company, Inc. In accordance with the merger agreement, all Class A common stock of Princeton Holdings, Inc. was canceled, retired and terminated.

The Board of Directors and sole shareholders of the Princeton and Health Care Insurance Companies approved an Agreement of Merger ("Merger") on November 13, 2001 and on December 31, 2001 the Health Care Insurance Company ("HCIC") merged with and into Princeton. Princeton continued as the surviving corporation under the name Princeton Insurance Company and is governed by the laws of New Jersey. This Agreement of Merger was submitted to the NJDOBI for approval, and a certificate of approval was issued by Donald Bryan, then Acting Commissioner of Banking and Insurance, on November 8, 2001 and the merger was effectuated on December 31, 2001.

At the completion of the merger, the cancellation and conversion of securities shall be as follows: "The shares of common stock in Princeton issued to Nassau Holding Company, the shares of common stock in Nassau Holding Company issued to HCIC and the shares of common stock in HCIC issued to MLMIC Holding Company, Inc. shall all be cancelled. Each share of common stock of HCIC owned by MLMIC Holding Company, Inc. immediately prior to the merger shall be converted automatically upon the merger into four and two-tenths (4.2) fully paid and non-assessable shares of common stock in Princeton, which shares shall constitute all the issued and outstanding shares of the common stock of Princeton immediately following the merger, and thereafter."

As a result of the merger, the Company filed a Second Amended and Restated Certificate of Incorporation on November 13, 2001 with the NJDOBI. This amended Certificate of Incorporation was approved by the Attorney General of New Jersey on December 20, 2001 and filed with the NJDOBI on December 26, 2001. Under the revised Certificate of Incorporation, the Company's principal office is located at 746 Alexander Road, P.O. Box 5322, Princeton, New Jersey and the agent upon whom process may be served is Donald E. Smith. The Company has $4,200,000 of common capital stock, consisting of 42,000 shares at a par value of $100 per share.

On March 28, 2002 the NJDOBI approved and the Company received a cash infusion of $40,000,000 from its ultimate parent, MLMIC in the form of a surplus note pursuant to a Form D filing in accordance with N.J.S.A. 17:27A-4a(2). The note will mature on March 29, 2012 and will earn 6% interest annually. All interest payments are subject to approval by the NJDOBI.

The Company submitted an amendment to the Second Amended Certificate of Incorporation to the NJDOBI on February 24, 2006. Under the revised Certificate of Incorporation, the name of the agent upon whom process may be served was changed to William J. McDonough. The amendment was approved by the NJDOBI Deputy Attorney General on March 15, 2006 and filed with the NJDOBI on April 21, 2006.

The Company amended their Certificate of Incorporation to the Second Amended and Restated Certificate of Incorporation of Princeton Insurance Company. Per the amended and restated Certificate of Incorporation, the name of the agent upon whom process may be served is President and Chief Executive Officer, Charles W. Lefevre. The amendment was approved by the NJDOBI Deputy Attorney General on August 11, 2010 and filed with the NJDOBI on August 27, 2010.

On October 27, 2011, in accordance with the provisions of N.J.S.A. 17:27A-2, MPG filed a Form A filing with the NJDOBI to acquire control of Princeton Insurance Company (the Proposed Acquisition of Control). On December 20, 2011, the NJDOBI and the hearing panel recommended the approval for the Proposed Acquisition. Also, on December 20, 2011, the Commissioner of Banking and Insurance, Thomas B. Considine, signed Order No. A11-112, in the matter of the acquisition of control of Princeton Insurance Company by MPG.

As a result of the Acquisition of Control, on December 31, 2011, Princeton Insurance Company's stock certificate records that their 42,000 shares, with a par value of $100 per share, is owned 100% by MPG whose indirect ultimate parent company is Berkshire Hathaway, Inc., a Delaware Corporation. Warren E. Buffet is a 33.9% controlling shareholder of Berkshire Hathaway, Inc. ("BHI"). The Company's new N.A.I.C. Group Code is 0031.

The Company's main administrative office is located at 746 Alexander Road, Princeton, New Jersey 08540 and the registered agent upon whom process may be served shall be the President and Chief Executive Officer, Charles W. Lefevre.

TERRITORY AND PLAN OF OPERATION

The Company is predominately a medical malpractice writer with over 98% of the 2018 gross premium writings within that line of business as indicated below:

Medical Malpractice-Occurrence	$87,790,180
Medical Malpractice-Claims Made	42,211,262
Other Liability - Occurrence	1,540,313
All Other	545,156
Total	$132,086,911

The Company offers medical malpractice insurance to both hospitals and individual practitioners. The Company offers three type of medical malpractice policies; claims made, occurrence and occurrence plus. The claims made policy covers all claims occurring and reported within the policy period. Any new insured who had previous claims made coverage from another carrier is eligible to purchase prior acts coverage contingent upon underwriting approval. This coverage would provide protection for unreported medical incidents which occurred during prior claims made coverage periods. Occurrence coverage provides protection during the period the policy is in-force irrespective as to when a claim is reported. The occurrence plus policy form provides for claims made coverage while the policy is in-force and a pre-funded automatic extended reporting endorsement which is applied to the insured's final policy when the insured non-renews or cancels for any reason.

Currently the Company is licensed to transact business in 16 states and the District of Columbia. However, all of the Company's premiums have been written in the State of New Jersey.

As previously stated, due to the Company's exit of its small risk workers' compensation program, administration servicing on these claims are performed by Cologne Re. under its reinsurance agreements, some of which is outsourced to third parties. (See claims servicing agreements as indicated below).

On August 21, 2003 the Company ceased writing new business (allowing for exceptions those physicians who were joining an already existing Princeton group) based upon corrective action of its revised Company Action Level RBC plan dated June 12, 2003. The Company resumed writing new business on December 1, 2004 (with the exception of occurrence plus policies) in accordance with improvements derived from the implementation of the Company Action Level RBC plan. Effective January 1, 2007, the Company resumed writing new occurrence plus policies. The Company uses independent agents to market its business. The Company utilizes an agency contract for individual risks and a broker's contract for institutional risks.

The Company maintains various service agreements with vendors who are not affiliated with the Company. Among these agreements are the following:

<u>Third Party Claims Administration Agreement</u> with Crawford and Company – The Company has a third-party claims administration agreement with Crawford and Company effective May 12, 1999. This agreement relates to policies with inception dates between May 12, 1999 and May 11, 2000. Policy numbers and effective and expiration dates will vary by insured. Fees for these services are outlined in Exhibit B of the contract. Claims service fees for claims arising under the policies with occurrence dates on and after May 12, 2000 through May 11, 2001, shall be subject to negotiation.

<u>Claims Servicing Agreement</u> with Sedgwick Claims Management Services, Inc. (successor to the Agreement between Integrated Claim Strategies, Inc. ("ICS") and the Company) - Under this third-party administration agreement, Sedgwick Claims Management Services, Inc. agrees to perform all facets of workers compensation claims servicing and handling. The Agreement shall cover all workers' compensation claims as outlined in Addendum A of the Agreement which were reported during the 24-month period commencing March 1, 2002 and ending February 28, 2004 and shall automatically renew unless it is terminated by either party with 90 days written notice.

A new agreement between Sedgwick Claims Management Services, Inc. and Princeton Insurance Company was made effective the 1st day of October, 2015. This agreement is in connection with run-off claims with injury dates prior to October 1, 2015. Fees for these services are outlined in Exhibit B of the contract.

<u>Risk Management Analytical System</u> with the Risk Management Foundation of the Harvard Medical Institutions, Inc. ("RMFS") - Under the Agreement RMFS will provide the Company data and reports from its data warehouse which will be utilized in the implementation of risk management strategies.

<u>CORPORATE RECORDS</u>

The Company's By-laws stipulate that the annual meeting of the shareholders of the corporation, for the election of Directors, shall be held on the second Tuesday of May or at such other date and time as shall be designated by the Board. The review of the Board minutes did not disclose any materially adverse findings. The examiners noted that the proceedings at each meeting were done in compliance with the Company's State Charter and By-Laws. The Board minutes also indicated that the Company's overall transactions and events were adequately supported and approved including the review and approval of the prior statutory final examination report as of December 31, 2018.

The Company's adherence to its Certificate of Incorporation and Bylaws was validated without exception. The registered agent upon whom process may be served is Charles W. Lefevre, the Chief Executive Officer.

The Company maintains both a formal audit committee and finance committee consisting of Board Members. Both of the Committees revealed adequate disclosure of relevant events and transactions to the Board of Directors.

MANAGEMENT AND CONTROL

The business, property and affairs of the Princeton Insurance Company shall be conducted and managed under the guidance of the Company's Board of Directors.

Directors

In accordance with the Company's corporate By-Laws each Director is elected by the Shareholders at its annual meeting. The By-laws also indicate the number of Directors of the Corporation shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the Board but shall be at least three (3).

A listing of the five Directors serving at December 31, 2018 with their principal occupation is presented below:

Name	Principal Occupation
Timothy J. Kenesey	President and CEO of MPG
Anthony Allen Bowser	Chief Financial Officer of MPG
Carl Truman Hook, MD	Former President and CEO of PLICO, Inc.
Charles W. Lefevre	President and CEO of PIC
Graham T. Billingham, MD	Chief Medical Officer of MPG

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d (3) which states, "not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity".

However, in accordance with N.J.S.A. 17:27A-4d (5), the provisions of paragraph (3) shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors that substantially meet the requirements of this paragraph. The Company is in compliance with N.J.S.A. 17:27A-4d(5), as the ultimate controlling entity, Berkshire Hathaway, Inc. ("BHI"), maintains a Board of Directors of which eight of the twelve members are considered outside directors.

Committees

As of December 31, 2018, the following affiliated individuals served on the Princeton Audit Committee:

Timothy John Kenesey
Anthony Allen Bowser
Charles Lefavre

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d (4) which states that, “the Board of Directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer’s financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers”.

However, in accordance with N.J.S.A. 17:27A-4d (5), the provisions of paragraph (4) shall not apply to a domestic insurer if the person controlling the insurer is an entity having one or more committees that substantially meet the requirements of this paragraph. The Company is in compliance with N.J.S.A. 17:27A-4d(5), as the ultimate controlling entity, BHI, maintains an Audit Committee and Corporate Governance Committee which perform the designated responsibilities and these committees are made up of outside directors.

In accordance with the Corporate By-laws, the Audit and Compensation Committee does maintain a Finance Committee as well. The Finance Committee meets at least quarterly and is involved in the Company’s investment of assets. The Company’s investment portfolio is managed by Warren Buffett, Marc Hamburg, and Mark Millard.

At all meetings of the Board including committee meetings a quorum of members must be met for any transaction of business. A majority of members of the Board or committee shall constitute a quorum.

Officers:

In accordance with the Corporate Bylaws, Officers of the Company shall perform the duties as prescribed within the Bylaws or as determined by the Board of Directors. Officers of the Company shall include a Chairman, a President, a Secretary, a Treasurer and other officers as may be determined by the Board of Directors. More than one person may hold an office of the same title, but the person serving as President may not serve simultaneously as secretary.

Officers serving the Company as of December 31, 2018 are as follows:

Name	Office
Charles W. Lefevre	President & CEO
Angela Marie Adams	Secretary
Anthony Allen Bowser	Vice Chairman, Treasurer and CFO
Tim J. Kenesey	Corporate Chairman
Beth Wachenfield	VP Claims
Tom Synder	VP Healthcare Risk Services
Lois Hogya	VP Underwriting & Marketing
Stephen Pennie	VP Finance
Kimberly Horan	VP Human Resources
Darby O’Neill	VP Information Technologies
Graham Billingham M.D.	Chief Medical Officer

REINSURANCE AND RETENTION

The Company limits its exposure on certain losses through the utilization of reinsurance. Reinsurance placements entered into since the prior examination are described as follows:

The Company entered into a loss portfolio transfer agreement with The Medical Protective Company ("TMPC") effective January 1, 2012 that will remain in effect until the obligations have been discharged. Under the amended agreement PIC shall pay and TMPC will assume 100% of PIC's workers compensation and 80% of its loss and loss adjustment expenses outstanding as of December 31, 2012. The aggregate limit on this Agreement is $1.45 billion or three times the amount of PIC's ceded payment.

Concurrent with the loss portfolio transfer agreement the Company entered into an amended quota share reinsurance agreement effective January 1, 2012 with TMPC. Under this agreement PIC will cede and TMPC will assume 80% of all PIC unearned premium in effect as of December 31, 2011 and 80% of all subsequent premiums written and earned by PIC. In return PIC will cede and Medical Protective Company will assume 80% of all loss and loss adjustment expenses incurred after December 31, 2011. The agreement shall remain in effect until either party agrees to terminate the contract with 365-day notice but not before December 31, 2015. There is an annual aggregate ceiling on the contract equal to three times the amount of earned premium on any applicable calendar accident year.

In addition to above the Company had a 100% quota share contract with Raritan Insurance Limited, a captive for the Raritan Bay Medical Center. Under the Agreement, PIC agreed to cede and Raritan agreed to assume 100% of the first $500,000 of losses and $1,000,000 in the aggregate on two participating policies. Any loss adjustment expenses attributed to these contracts shall be paid and allocated based upon any losses exceeding the reinsurer's limits. This contract was commuted and terminated effective September 30, 2018.

The Company cedes 100% of cyber, privacy and billing errors and omissions coverage for physicians under an agreement with AXIS Insurance Company (AXIS) effective October 1, 2016. The agreement covers physicians up to an aggregate limit of $10,000,000 for any one policy. The Company also has an administrative services agreement with AXIS with respect to the reinsurance of cyber liability coverages whereby AXIS will perform the following services: Underwriting, Marketing, Claims and Supplemental Benefits.

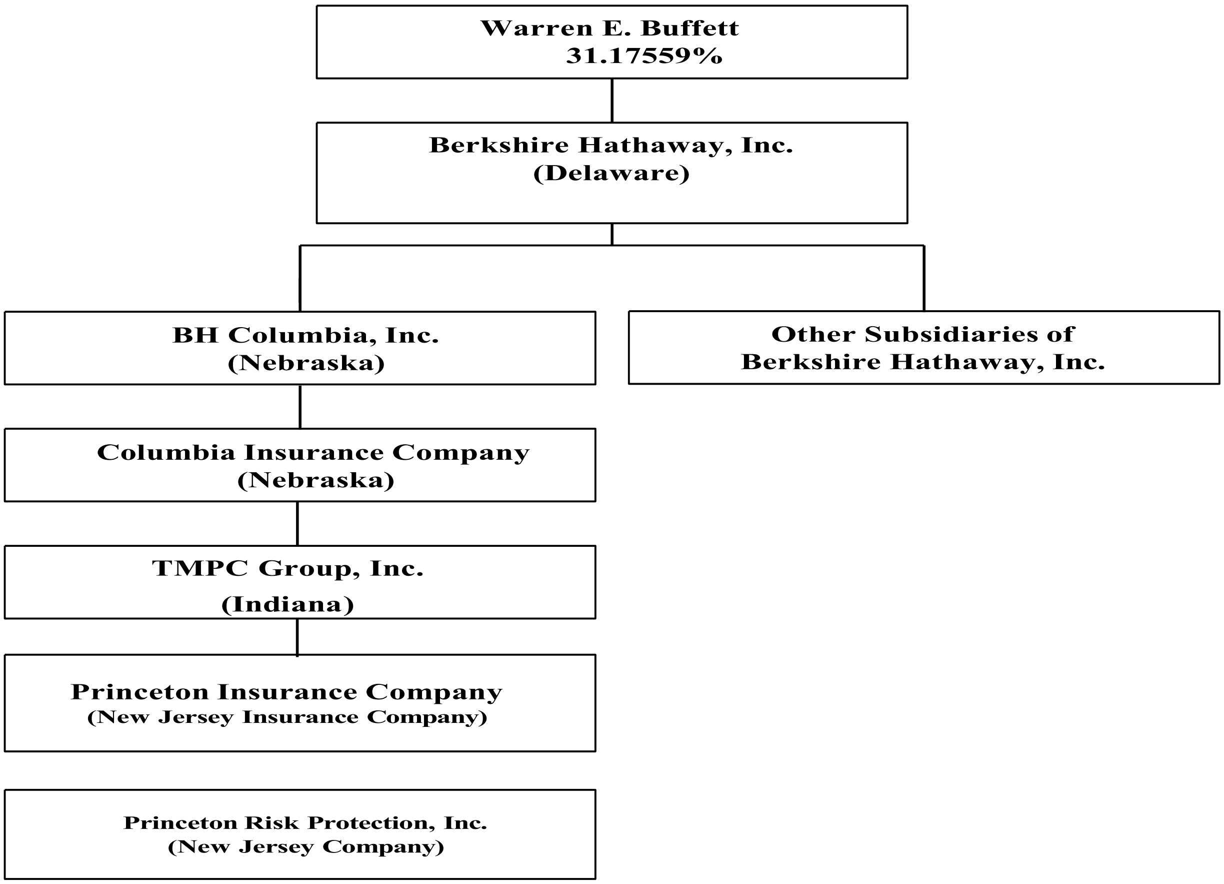
The Company participates and assumes reinsurance from mandatory and voluntary pools and associations specifically the National Workers' Compensation Reinsurance Pool and the New Jersey Commercial Auto Insurance Procedure (NJ CAIP) .

Any reinsurance agreements entered into subsequent to the last examination were reviewed to ensure the contracts had acceptable clauses and conditions. These contracts were also reviewed to ensure there was adequate risk transfer on those contracts.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

The Company is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. The Company is owned 100% by MPG, an Indiana Company, who acquired PIC as of December 31, 2011. It was determined by this examination that the Company did file the holding company registration statements in compliance with N.J.S.A. 17:27A-3.

The Company’s partial organizational chart as of December 31, 2018 is as follows:



INTER-COMPANY AGREEMENTS

At December 31, 2018 the Company participated in various inter-company related agreements. These Agreements included the following:

Tax-Sharing Agreement: Effective January 1, 2012 BHI and Princeton entered into a Tax Allocation Agreement in which the full amount of the income tax due and payable, any foreign, state, or local tax and related estimated tax payments upon consolidated return shall be filed and paid by BHI for each taxable period. In the case of refund BHI shall pay to PIC its share of the refund. In the case of an increase in tax liability PIC shall pay to BHI its allocable share of such increased tax liability.

Cost Sharing Agreement: As amended and restated effective January 1, 2012 MPG, TMPC, and PIC are parties to a Cost Sharing Agreement in which parent and its subsidiaries agree to share certain expenses related to management, administration, payroll, investments, taxes, data processing, personnel, and other shared expenses not specifically listed. Each party shall be responsible for and pay the charges, costs and expenses of each service that can be reasonably identified as been incurred for the sole benefit of that party.

Reinsurance Agreement: Effective January 1, 2012 TMPC entered into a Loss Portfolio Transfer Reinsurance Agreement with its affiliate Princeton. Under the Agreement TMPC assumes 80% of PIC’s aggregate ultimate net loss except for workers’ compensation, which is 100% under the Company’s policies.

POLICY ON CONFLICT OF INTEREST

The Company participates in BHI's Code of Business Conduct and Ethics which addresses all BHI directors, officers and employees, corporate opportunities, fair dealing, insider trading, confidentiality, protection and proper use of company assets, compliance with laws, rules and regulations, timely and truthful public disclosure, and significant accounting deficiencies. The policy stipulates the various conditions and actions that are and or may be deemed to be inappropriate, potential conflicts of interest and/or violations of said policy statement.

The examination reviewed all officers and directors executed Conflict of Interest statements for the period under examination, noting that there were no apparent or potential conflicts of interest.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company is a named insured on a financial institution bond which is underwritten by the Continental Insurance Company. The fidelity bond provides Princeton with fidelity coverage up to an aggregate limit of liability of $5,000,000 per the underwriters' single loss limit with respect to each insuring clause, for the bond period of June 30, 2018 through June 30, 2019. The amount of fidelity coverage carried on this policy meets the suggested minimum amount of fidelity coverage as measured on the Company using the NAIC's formula and exposure index.

The Company through MPG maintains other insurance coverage designed to protect its assets from losses emerging from the various risks of conducting business including the following:

Commercial Auto
Cyber Protection
Employment Practices Liability Solutions
Fiduciary Liability
Foreign Policy Coverage
Insurance Company Professional Liability Protection

POLICY FORMS AND UNDERWRITING PRACTICES

The Company primarily provides medical malpractice insurance to qualifying New Jersey health care providers and hospitals. Policies offered include a claims-made policy, an occurrence policy and an occurrence plus policy which includes pre-paid tail coverage. The Company principally insures New Jersey hospitals and physicians.

The Company maintains underwriting guidelines which identify the risks acceptable to the Company. The Company rates insured's in accordance with qualifying standards as outlined in the underwriting manual.

ACCOUNTS AND RECORDS

The Company's accounting books and records are maintained at their statutory home and administrative office located at 746 Alexander Road, Princeton, New Jersey 08540. Financial information needed in conjunction with the controls established for certain risks and the verification of assets and the determination of liabilities were made available in detail and summary form. The Company's general ledger was reviewed, tested, and reconciled to the 2018 annual statement.

Effective January 1, 2014, the Company completed a conversion from the Platinum software vendor package, to the Sun Guard System ("EAS") for its general ledger system. The accounts payable related functions were also converted to EAS during the first quarter of 2014. Billing is processed from the I Works System (Ebinizer) through the utilization of an A/S 400 platform. Policy Administration is processed from ECHOS utilizing an A/S 400 platform.

The Company continues to utilize ECHOS for its recording of its premiums. Since ECHOS does not age new policies or endorsements off of the effective date of the policy or endorsement the Company has manually made these adjustments. The Company initially was to convert its policy administration system to its Parent's premium system OASIS. Subsequently the Group announced it will be converting its policy administration system to MPGX-P along with all companies within the Group. It is recommended the Company automate its aging of new policies and endorsements with the conversion of its ECHOS System to MPGX-P.

The Company converted its claim system from ECHOS to OASIS in October 2014. The OASIS claim system runs off of a WINTEL platform.

TREATMENT OF POLICYHOLDERS AND CLAIMANTS

The Company's complaint handling procedures as well as its complaint logs were reviewed for the period under examination. It was determined that the Company was in compliance with the provisions of N.J.S.A. 17:29B-4(10) which states: "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints, and the time it took to process each complaint."

CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company's daily operational data is retrievable.

The Company's comprehensive Business Continuity Plan ("Plan") was reviewed by the IT examination team on a Group basis. The review noted the Plan was tested at least annually and no other major concerns were noted.

FINANCIAL STATEMENTS AND EXHIBITS

Exhibit A - Balance Sheet as at December 31, 2018-Page 13

Exhibit B - Summary of Operations for the Five-Year Period Ending December 31, 2018-Page 14

Exhibit C - Capital and Surplus Account for the Five-Year Period Ending December 31, 2018-Page 15

EXHIBIT A

BALANCE SHEET AT DECEMBER 31, 2018

	Current Examination at 12/31/18	Balance Per company at 12/31/18	Exam Change	Note
Assets				
Bonds	$64,459,293	$64,459,293	$0	1
Common Stocks	144,357,860	144,357,860	0	1
Real Estate	3,520,862	3,520,862	0	
Cash on Hand and Short-Term Investments	441,464,487	441,464,487	0	
Investment Income Due and Accrued	689,398	689,398	0	
Premiums and Considerations:				
In Course of Collection	4,826,422	4,826,422	0	
Booked but Deferred and Not Yet Due	20,330,946	20,330,946	0	
Amounts Recoverable from Reinsurers	18,080,415	18,080,415	0	
Receivable from Parent, Subsidiaries and Affiliates	63,807	63,807	0	
Electronic Data Processing Equipment	34,353	34,353	0	
Other Receivables	1,277,256	1,277,256	0	
Total Admitted Assets	$699,105,099	$699,105,099	$0	
Liabilities				
Losses	$103,279,634	$103,279,634	$0	2
Loss Adjustment Expenses	29,897,797	29,897,797	0	2
Reinsurance Payable on paid losses and LAE	49,671	49,671	0	
Commissions Payable	1,435,177	1,435,177	0	
Other Expenses	5,874,340	5,874,340	0	
Taxes, Licenses and Fees	(25,060)	(25,060)	0	
Current Federal and Foreign Income Taxes	1,000,130	1,000,130	0	
Net Deferred Tax Liability	346,949	346,949	0	
Unearned Premiums	14,828,900	14,828,900	0	
Advance Premiums	4,459,432	4,459,432	0	
Ceded Reinsurance Premiums Payable	21,476,502	21,476,502	0	
Amounts Witheld or Retained for Account of Others	91,394	91,394	0	
Provision for Reinsurance	5,994,014	5,994,014	0	
Payable to Parent, Susidiaries and Affiliates	1,488,527	1,488,527	0	
Return Premiums Due to Insureds	266,207	266,207	0	
Total Liabilites	$190,463,615	$190,463,615	$0	
surplus and Other Funds				
Common Capital Stock	$4,200,000	$4,200,000	$0	
Gross Paid In and Contributed Surplus	6,250,708	6,250,708	0	
Unassigned Funds	498,190,776	498,190,776	0	
Surplus as Regards Policyholders	$508,641,484	$508,641,484	$0	
Liabilites, Surplus and Other Funds	$699,105,099	$699,105,099	$0	

EXHIBIT B

SUMMARY OF OPERATIONS FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2018

	2014	2015	2016	2017	2018
Underwriting Income					
Premiums Earned	$33,816,930	$31,737,473	$29,579,715	$28,900,702	$27,884,756
Deductions:					
Losses Incurred	17,751,732	17,112,329	13,438,964	13,623,744	9,592,601
Loss Adjustment Expenses Incurred	8,669,423	8,057,569	6,030,324	4,019,584	6,367,908
Other Underwriting Expenses Incurred	6,592,173	5,405,232	5,489,198	4,889,257	4,605,134
Total Underwriting Decuctions	$33,013,328	$30,575,130	$24,958,486	$22,532,585	$20,565,643
Net Underwriting Gain/Loss	803,602	1,162,343	4,621,229	6,368,117	7,319,113
Investment Income					
Net Investment Income Earned	18,538,006	18,506,432	14,242,128	12,661,498	15,837,267
Net Realized Captial Gains/Losses	271,579	9,729	5,083,260	34,638	691,240
Net Investment Gains/Losses	18,809,585	18,516,161	19,325,388	12,696,136	16,528,507
Other Income					
Net Gain/Loss from Agents' Balances Charged Off	(26,129)	(894)	(455)	(1,592)	(572)
Finance and Service Charges not included in Premiums	0	0	0	0	0
Miscellaneous Income	76,183	(2,194,305)	1,057,109	59,823	39,341
Total Other Income	$50,054	($2,195,199)	$1,056,654	$58,231	$38,769
Net Income/Loss Before Federal Income Taxes	19.663,241	17,483,305	25,003,271	19,122,484	23,886,389
Federal and Foreign Income Taxes	5,768,438	5,398,250	6,204,520	5,793,498	4,281,095
Net Income/Loss	$13,894,803	$12,085,055	$18,798,751	$13,328,986	$19,605,294

Exhibit C

Capital and Surplus for the Five-Year Period Ending December 31, 2018

Net Income	$13,894,803	$12,085,055	$18,798,751	$13,328,986	$19,605,294
Other Surplus Gains/Losses:					
Change in Net Unrealized Capital Gains/Losses	8,518,270	(8,622,402)	1,038,744	23,084,346	(20,788,401)
Change in Net Deferred Income Tax	(640,741)	(231,110)	(346,257)	(3,724,155)	(283,427)
Change in Non-Admitted Assets	72,351	13,206	(38,820)	(4,136)	7,093
Change in Provision for Reinsurance	0	(75,117)	(7,419,199)	720,618	808,120
Surplus Notes	0	0	0	0	0
Change in Surplus	21,844,683	3,169,632	12,033,219	33,405,659	(651,321)
Surplus as Regards Policyholders December 31, Previous Year	$438,839,611	$460,684,294	$463,853,926	$475,887,145	$509,292,804
Surplus as Regards Policyholders December 31, Current Year	$460,684,294	$463,853,926	$475,887,145	$509,292,804	$508,641,484

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Bonds, Stocks, Cash And Short-Term Investments

The following securities were held on special deposit by states on behalf of the Company as at December 31, 2018:

State	Statement Value	Fair Value
Delaware	$ 180,104	$ 180,104
Georgia	124,671	122,939
New Jersey	2,819,616	2,784,969
Virginia	573,487	565,518
North Carolina	299,211	295,053

NOTE 2 - Loss And Loss Adjustment Expenses

The Company reported loss and loss adjustment expenses of $103,279,634 and $29,897,797 respectively which are accepted for examination report purposes.

A review of the risks for reserves for losses and loss adjustment expenses was completed by Merlinos & Associates, Inc., actuarial consultants engaged by Indiana to perform the actuarial analysis. The analysis also included a review of the DD&R (death, disability and retirement).

REPORT RECOMMENDATIONS

Accounts and Records-Page 12

Although the Company has yet to fully automate its policy administration system it has effectively manually accounted for the proper aging of new policies and endorsements. It is recommended the Company completely automate its policy administration system with the conversion of its ECHOS system to MPGX-P.

SUBSEQUENT EVENTS

Effective January 1, 2020 the Company amended its loss portfolio transfer agreement with TMPC. Under the Agreement PIC will cede and TMPC will assume 98% of all loss and loss adjustment expenses (100% q workers compensation losses) paid by PIC after December 31, 2019 on loss occurrences prior to January 1, 2012. PIC will also cede and TMPC will assume 18% of loss and loss adjustment expenses paid by PIC on loss occurrences occurring from January 1, 2012 until December 31, 2019. PIC will pay a loss transfer payment (net of loss transfer payments previously paid) to TMPC equal to 80% of the net loss and loss adjustment expenses (100% workers compensation) outstanding as of December 31, 2011 and 18% of outstanding loss and loss adjustment expenses reported (excluding workers compensation) as of December 31, 2019.

Concurrent with the loss portfolio transfer, PIC amended its quota share agreement with TMPC effective January 1, 2020. Under the amended Agreement PIC will cede and TMPC will continue to assume 80% of the outstanding loss and loss adjustment expenses for occurrences occurring between January 1, 2012 and December 31, 2019 and PIC will cede and TMPC will assume 98% of the losses and loss adjustment expenses occurring after January 1, 2020. Per the amended Agreement PIC will pay TMPC 18% of the net unearned premium as of December 31, 2019 and 98% of the net written premium thereafter.

CONCLUSION

The examination of the Princeton Insurance Company was conducted by the undersigned at the Company's main administrative office located at 746 Alexander Road, Princeton, New Jersey. The courteous cooperation extended to the examination staff by the officers and employees of the Company is acknowledged and appreciated.

Respectfully submitted,

Daniel J. Fialkowski

Daniel J. Fialkowski
Supervising Insurance Examiner

PRINCETON INSURANCE COMPANY

I, Daniel J. Fialkowski, do solemnly swear that the foregoing report of examination hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2018 to the best of my information, knowledge and belie

Respectfully Submitted,

Daniel J. Fialkowski

Daniel J. Fialkowski
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me,
on this 6th day of April 2020.

Sheila M. Thaus
Notary Public of New Jersey

My commission expires: July 2025