

A photograph of two women walking in a hospital hallway. The woman on the left is wearing a grey blazer, white shirt, black pants, and high heels, carrying a folder. The woman on the right is wearing a white lab coat over blue scrubs and is holding a clipboard. The background is a blurred hospital corridor.

2019

ANNUAL  
REPORT





*Our*

# MISSION

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*Safeguard our policyholders from risk, guide them through the unexpected, and **protect** their practice of medicine.*

NORCAL Group includes NORCAL Mutual Insurance Company and its affiliated insurance companies. Visit [norcal-group.com/companies](http://norcal-group.com/companies) for more information.

*A message from the Chair & the CEO*

## SUPPORTING OUR POLICYHOLDERS THROUGH PARTNERSHIPS

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*S*ince 1975, NORCAL Group has existed for one reason: to protect and support our policyholders. While the landscape of our healthcare system continues to transform, bringing with it changes and challenges in medical professional liability (MPL) insurance, our core mission remains consistent. Today, we're proud to serve more than 35,000 physicians and other healthcare professionals in all 50 states, continually evolving to deliver value in a shifting marketplace.

But the strength of NORCAL Group goes beyond the numbers. We believe our success is also a result of the valuable partnerships and relationships we have fostered over the past four decades.

At NORCAL, we understand that the practice of medicine is more than just a business—it's your life's work. For this reason, our unparalleled customer support is the cornerstone of the enduring partnerships we build with our members.

We achieve our goal of putting policyholders first by providing guidance and recommendations personalized to your specific needs to help you reduce risk and enhance patient safety. Through the MyNORCAL mobile app, webinars, live presentations, and the award-winning monthly Claims RX publication, our team awarded more than 31,000 CME certificates in 2019.

As part of our policyholder commitment, NORCAL Group is partnering with Winning Focus to provide Litigation Stress Coaching. This professional wellness resource provides practical strategies for managing

stress and preventing burnout. We know that a lawsuit is a highly stressful experience and we strive to support our policyholders from start to finish. We've found that Litigation Stress Coaching enables our insureds to more effectively participate in their defense during litigation.

We also had the opportunity to dig deeper and better understand the non-clinical aspects of running a medical business, sharing what we learned at our first Practice Management symposium. This event, "Leadership ExchaNGe," brought together practice management leaders from across the country to discuss the latest information on cyber liability, working with challenging patients, and other risk management strategies. By investing in knowledge sharing, we put partnership into action.

At NORCAL Group, we also greatly value our partnerships with our agents and brokers. This past year we held our inaugural Agency Partnership symposium, CONNECT, which brought independent agents together to share information, foster relationships, and educate around key issues in



**SCOTT DIENER**  
*President & CEO*



**SANDRA L. BERETTA, MD**  
*Chair*

healthcare and MPL insurance. Our Elite Partner Experience was also a tremendous success, resulting in contributions benefiting four worthy charities.

We are especially proud of NORCAL Group’s philanthropic efforts and partnerships within the communities we serve through the NORCAL Group Foundation. The Foundation provides grants to charitable organizations and initiatives for the betterment of patient healthcare, safety and education, and physician wellness. The Foundation awarded 16 grants totaling roughly a quarter of a million dollars in 2019 and has supported 37 programs since its inception in 2017.

Our 2019 financial results were disappointing due to adverse loss development, and we are taking fundamental steps to correct that performance. These steps include the development and implementation of new operational protocols and the enhancement of our existing enterprise risk management and mitigation program. We maintain significant financial strength, shown by our growth in assets from \$1.5 billion to \$1.6 billion in 2019,

and are confident that our focus on operational excellence and management of the developing risk environment will enable us to achieve both short- and long-term objectives.

Our goal has always been and remains serving the best interests of you, our policyholders. That is why we were proud to announce on Feb. 20, 2020, that we have entered into a definitive agreement to combine with ProAssurance Corporation. We believe this combination will bring tremendous strategic value to NORCAL policyholders and is an important next step in the organization’s future. We are truly excited about embarking on this new partnership and the remarkable opportunity it offers to enhance and expand NORCAL’s ability to serve, protect, and support medicine.

**Thank you for the trust you have placed in us— and for the partnerships that we’ll continue to build together.**

## Partnerships in Action:

# OUR COMMUNITIES

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*We are especially proud of NORCAL Group's philanthropic efforts and partnerships within the communities we serve. Since its launch in 2017, NORCAL Group Foundation has awarded grants to 37 organizations working to improve patient care, patient safety, and physician wellness in the communities where our policyholders live and serve. The Foundation awarded 16 grants in 2019, based on the recipients' demonstrated alignment to the Foundation's mission. They were selected from an impressively diverse applicant pool, which was the largest in NORCAL Group Foundation history.*

## A LOOK AT TWO SUCCESS STORIES MADE POSSIBLE BY THE FOUNDATION:

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**Asian Pacific Health Care Venture (APHCV)** is using its grant funds to facilitate a series of diabetes and cardiovascular disease management workshops to provide culturally relevant diet, fitness, and medication management resources for Mandarin speakers in the Los Angeles, California, community. Between July and December 2019, APHCV provided one-on-one outreach to 263 community members for the Family Caregiver Support Group and 350 patients and community members for its Managing Diabetes and Cardiovascular Disease Workshop. They provided case management assistance, resource referrals, and assisted participants in accessing healthcare and transportation to medical appointments. APHCV also helped community members with finding resources for housing, food banks, and other senior programs.

**The Illumination Foundation** supports the expansion of a Recuperative Care Pilot Program, offering hospital discharge services to individuals who are experiencing homelessness in the Los Angeles, Orange County, and Inland Empire areas. Foundation funds helped with staff training on trauma-informed care, as well as wellness and relaxation activities for direct-care staff members. More than 80 staff members have had the opportunity to attend workshops on trauma-informed care, motivational interviewing, de-escalation techniques, interpersonal communication, and self-care. One of the most successful grant-funded activities was a morale-boosting event at Lincoln Park Recuperative Care Center. The event, "Love Lincoln Park," brought together clients, staff, and supporters to beautify the grounds of the 46-bed facility so that it could serve as a pleasant, stress-free respite during the day.



## ASIAN PACIFIC HEALTH CARE VENTURE (APHCV)

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**15,402**

*Patients Served*

**30%**

*Patients Without Health Insurance*

**54,176**

*Primary Medical Care Visits*

## ILLUMINATION FOUNDATION

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**46,378**

*Recipients of Housing Services*

**17,045**

*Recipients of Healthcare Service Connections*

**4,900**

*Recipients of Recuperative Care Services*



*Partnerships in Action:*

## ENHANCING PHYSICIAN WELLNESS & PRACTICE MANAGEMENT

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*Our objective to put policyholders first means providing guidance and recommendations to help reduce risk and enhance patient safety, as well as being there to help clinicians manage stress and prevent burnout.*

We heard from practice managers about the need for risk management strategies and solutions. As a result, NORCAL Group hosted practice management leaders from among our insureds at the 2019 Practice Management Leadership ExchaNGe. Designed to serve physicians and their practices through information-sharing, presentation topics included cyber liability, working with challenging patients, and new risk management initiatives.

Additionally, as part of our commitment to help physicians and practices going through the extraordinary stress of a litigated claim, NORCAL Group partnered with Winning Focus to provide Litigation Stress Coaching. The program promotes effective policyholder participation in their own defense by, for example, offering practical coping strategies that can also help insureds feel supported throughout the litigation process. We are proud to share that we have seen a positive impact for policyholders over this past year.



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*Without a doubt, I highly recommend working with a litigation stress coach ... I know I will be better able to handle the court stresses now [and] I am very thankful.*”

— Comment from NORCAL Policyholder

*Partnerships in Action:*

# INSPIRATION & IMPACT WITH OUR AGENCY PARTNERS

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*At NORCAL Group, we aim to educate and foster relationships through events and direct interactions with our agents and brokers.*

This past year, NORCAL Group's Elite Agency Partners joined members of our Business Development, Risk Management, Claims, Underwriting, and Research & Development teams in Park City, Utah, for the 2019 Elite Partner Experience. In addition to networking, knowledge sharing, and fellowship with our Elite Agency Partners, these two action-packed days delivered inspiration and a positive impact on the community, with charitable gifts benefiting four great organizations.

In fact, members of our NORCAL Group teams joined our agency partners to compete in a wheelchair-building contest, resulting in the donation of 22 wheelchairs to three local charities. Everyone involved in this great event left feeling inspired and grateful for the opportunity to give back.





## Message from the CFO

# A STRONG FOUNDATION FOR THE FUTURE

*At NORCAL Group, our solid foundation combined with the robust partnerships we've built over time, ensure that we're well-positioned to serve our policyholders in an ever-changing healthcare environment.*

The correcting medical professional liability (MPL) market has become even more challenging, and we have responded in a fiscally appropriate manner. We recorded substantial reserve strengthening in the second half of 2019 reflecting significantly higher claim settlement trends. Although the reserve charges predominantly impacted accident years 2016 through 2018, they also caused us to increase our 2019 accident-year loss ratio. Despite these financial challenges, we are confident our implementation of operational improvements will bring us back in line with our broader financial goals.

Additionally, our definitive agreement to combine with ProAssurance Corporation will add significant strategic value to NORCAL Group in the best interests of our policyholders. From broader product accessibility to greater financial strength

to the ability to leverage deeper data insights, this combination has the potential to be transformative for the companies and the policyholders we serve.

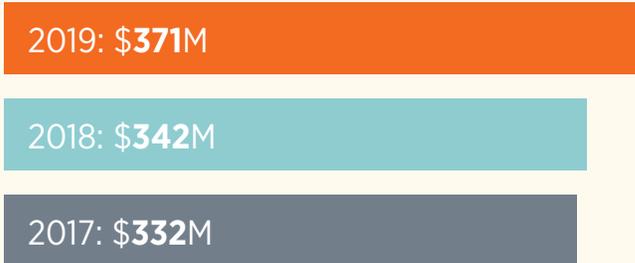
While this was clearly a year of challenge and change, NORCAL Group has the experience and expertise to successfully navigate through the unexpected — just as we do for our policyholders each and every day. Our ongoing presence in the market as a stable, financially sound provider of MPL coverage is central to our objectives and philosophy.

**MARK D. JOHNSON**

*Senior Vice President & Chief Financial Officer*

## Highlights AT-A-GLANCE

### DIRECT WRITTEN PREMIUM



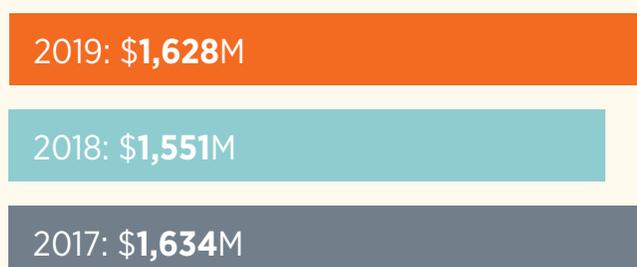
# NORCAL Group Consolidated

## FINANCIAL HIGHLIGHTS

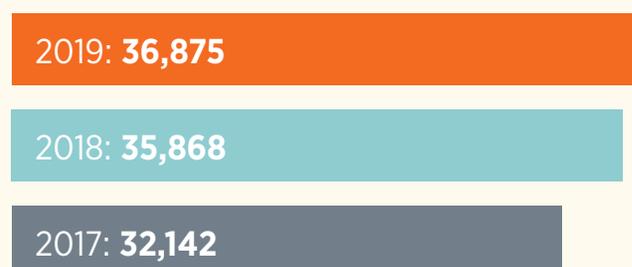
<i>Statutory Basis Balance Sheets</i>	<i>2019</i>	<i>2018</i>
Cash & invested assets	1,431,060	1,365,736
Other assets	197,255	184,766
<b>Total Admitted Assets</b>	<b>\$1,628,315</b>	<b>\$1,550,502</b>
Losses & loss adjustment expenses	786,394	585,201
Other liabilities	266,256	217,959
<b>Total Liabilities</b>	<b>\$1,052,650</b>	<b>\$803,160</b>
Policyholders' surplus	575,665	747,342
<b>Total Liabilities &amp; Policyholders' Surplus</b>	<b>\$1,628,315</b>	<b>\$1,550,502</b>
<i>Statutory Basis Income Statements</i>	<i>2019</i>	<i>2018</i>
Net premiums earned	342,093	326,345
Investment and other income (net of federal income taxes)	27,404	63,132
Losses, loss adjustment & underwriting expenses	(603,875)	(335,488)
Federal income tax benefit (expense)	(23,242)	4,001
<b>Net Income (Loss)</b>	<b>(\$211,136)</b>	<b>\$49,988</b>

*Dollars in thousands, as of December 31*

### TOTAL ADMITTED ASSETS



### INSURED PHYSICIANS



*Graphs represent NORCAL Group consolidated financials.*

# FINANCIAL STATEMENTS

<i>Statutory Basis Income Statements</i>		<i>2019</i>	<i>2018</i>
INCOME	Net premiums earned	342,093	326,345
	Net investment income	42,236	39,935
	Net realized gains (losses) on investments	(15,155)	19,127
	Other income	2,435	-
	<b>Total Income</b>	<b>\$371,609</b>	<b>\$385,407</b>
EXPENSES	Losses & loss adjustment expenses incurred	494,805	246,890
	Other underwriting expenses	59,092	57,708
	Acquisition costs, net	52,093	30,342
	Other expenses	-	343
	<b>Total Expenses</b>	<b>\$605,990</b>	<b>\$335,283</b>
	Income (loss) before federal income taxes	(234,381)	50,124
	Federal income tax (benefit) expense	(23,496)	3,462
	<b>Net Income (Loss)</b>	<b>(\$210,885)</b>	<b>\$46,662</b>

<i>Statutory Basis Balance Sheets</i>		<i>2019</i>	<i>2018</i>
ADMITTED ASSETS	Debt securities	1,028,923	945,069
	Equity securities	362,250	439,976
	Cash, cash equivalents & short-term investments	14,174	14,075
	Other invested assets	39,567	16,222
	<b>Total Cash &amp; Investments</b>	<b>\$1,444,914</b>	<b>\$1,415,342</b>
	Investment income receivable	8,644	9,174
	Premiums receivable	88,785	74,278
	Reinsurance recoverable	10,032	5,631
	Federal income tax recoverable	21,675	1,354
	Deferred tax assets	26,827	22,903
	Other admitted assets	8,871	5,319
	<b>Total Admitted Assets</b>	<b>\$1,609,748</b>	<b>\$1,534,001</b>

<i>Statutory Basis Balance Sheets (continued)</i>		<i>2019</i>	<i>2018</i>
LIABILITIES	Losses & loss adjustment expenses	776,053	574,719
	Unearned premiums	168,729	152,198
	Premiums collected for future renewals	25,272	19,274
	Reinsurance liabilities	1,803	1,116
	Other liabilities	67,225	44,352
	<b>Total Liabilities</b>	<b>\$1,039,082</b>	<b>\$791,659</b>
POLICYHOLDERS' SURPLUS	Unassigned funds (surplus)	570,666	742,342
	Total policyholders' surplus	570,666	742,342
	<b>Total Liabilities &amp; Policyholders' Surplus</b>	<b>\$1,609,748</b>	<b>\$1,534,001</b>

<i>Statutory Basis Cash Flows</i>		<i>2019</i>	<i>2018</i>
OPERATING ACTIVITIES	Premiums collected, net of reinsurance	350,462	333,623
	Loss related payments	(177,575)	(211,162)
	Commissions, expenses paid, and other reductions	(209,698)	(196,603)
	Net investment income received	45,847	44,845
	Other expenses paid, net	(432)	(168)
	Federal income taxes recovered (paid)	698	(913)
	<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$9,302</b>	<b>(\$30,378)</b>
INVESTING ACTIVITIES	Net cash (used in) provided by investing activities	(7,912)	41,766
FINANCING ACTIVITIES	Other cash used in financing activities	(1,291)	(16,155)
	<b>Total Increase (Decrease) in Cash, Cash Equivalents &amp; Short-Term Investments</b>	<b>\$99</b>	<b>(\$4,767)</b>
	Cash - beginning of year	14,075	18,842
	Cash - end of year	14,174	14,075

*Dollars in thousands, as of December 31*

I, Mark Johnson, hereby certify that the foregoing balance sheets, income statements, and statements of cash flow were prepared without audit from the books and records of NORCAL Mutual Insurance Company. For complete audited financial statements of NORCAL Group, please call us at 844.4NORCAL.



**MARK D. JOHNSON**

*Senior Vice President & Chief Financial Officer*

# BOARD OF DIRECTORS

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## SENIOR MANAGEMENT

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**NORCAL**  **GROUP**<sup>®</sup>

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