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PROASSURANCE CORP
Form 10-K/A
April 05, 2002

WASHINGTON, D.C. 20549
FORM 10-K/A
Amendment No. 1

(Mark One)

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required] for the fiscal year ended December 31, 2001, or

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

Commission file number: 001-16533

ProAssurance Corporation*

(Exact name of registrant as specified in its charter)

Delaware

63-1261433

(State of incorporation or organization)

(I.R.S. Employer Identification No.)

100 Brookwood Place, Birmingham, AL 35209

(Address of principal executive offices) (Zip Code)

(205) 877-4400

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange On Which Registered |
|---------------------|--|
| ----- | ----- |

Common Stock, par value \$0.01 per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

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

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The aggregate market value of voting stock held by non-affiliates of the registrant at March 15, 2002 was \$435,428,483.

As of March 15, 2002, the registrant had outstanding approximately 25,841,453 shares of its common stock.

*On June 27, 2001 Medical Assurance, Inc. (Commission file number 001-19439) and Professionals Group, Inc. (Commission file number 001-21223) became wholly owned subsidiaries of ProAssurance as more fully described herein.

Page 1 of 6 pages

This amendment to the Annual Report on Form 10K of ProAssurance, Corp. (the "Registrant") for the year ended December 31, 2001 is filed to correct typographical errors in the table included under the caption "Analysis of Losses and Loss Adjustment Expense Reserve Development" in Item 1 of Part 1.

The "Cumulative net paid as of: Eight years later" amount for 1993 was reported as \$86,821; however, it should be \$76,821.

The "Re-estimated net liability as of: One year later" amount for 1995 was reported as \$352,212; however, it should be \$325,212.

The "Net re-estimated liability - latest" for 1997 was reported as \$313,202; however, it should be \$323,202.

The "Gross cumulative redundancy" for 1996 was reported as \$538,720; however, it should be \$238,720.

The "Gross cumulative redundancy" for 1999 was reported as \$38,064; however, it should be \$48,097.

The section in Part 1, Item 1 entitled "Loss Reserve Development Table" is restated in its entirety on the following pages.

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LOSS RESERVE DEVELOPMENT TABLE

The following table includes information regarding the development of the liability for unpaid losses and LAE of ProAssurance for the years ended December 31, 1991 through 2001. The table includes losses and LAE on both a direct and an assumed basis and is net of reinsurance recoverables:

- the line entitled "Losses and LAE Reserves, undiscounted and net of reinsurance recoverables" reflects the amount recorded as the reserve for liability for unpaid losses and LAE in the consolidated balance sheet at the end of each year (the "Balance Sheet Reserves");
- the section entitled "Cumulative net paid, as of" reflects the cumulative amounts paid as of the end of each succeeding year with respect to the previously recorded Balance Sheet Reserves;
- the section entitled "Re-estimated net liability as of" reflects the re-estimated amount of the liability previously recorded as Balance Sheet Reserves that includes the cumulative amounts paid and an estimate of additional liability based upon claims experience as of the end of each succeeding year (the "Net Re-estimated Liability");
- the line entitled "Net cumulative redundancy, (deficiency)" reflects

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the difference between the previously recorded Balance Sheet Reserve for each applicable year and the Net Re-estimated Liability relating thereto as of the end of the most recent fiscal year.

The gross liability for losses and LAE before reinsurance, as reflected on the balance sheet and re-estimated in each of the years since 1993, and the reconciliation of the gross liability to amounts net of reinsurance are reflected below the table.

Information presented in the following table is cumulative and, accordingly, each amount includes the effects of all changes in amounts for prior years. The table presents the development of ProAssurance's Balance Sheet Reserves; it does not present accident year or policy year development data. Conditions and trends that have affected the development of liabilities in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this table. The information relating to subsidiaries other than MA-Alabama is limited to the property and casualty reserves from their respective dates of acquisition. ProAssurance does not discount its reserves.

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ANALYSIS OF LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVE DEVELOPMENT
(IN THOUSANDS)

| | December 31, | | | | | | | |
|---|--------------|-----------|-----------|-----------|-----------|-----------|-----------|--------|
| | 1991 (a) | 1992 (a) | 1993 (a) | 1994 (a) | 1995 (a) | 1996 (a) | 1997 (a) | 1998 |
| Losses and LAE reserves, undiscounted and net of reinsurance recoverables | \$228,119 | \$252,739 | \$272,392 | \$295,541 | \$352,521 | \$440,040 | \$464,122 | \$480, |
| Cumulative net paid as of: | | | | | | | | |
| One year later | 19,560 | 19,752 | 21,296 | 24,102 | 27,532 | 48,390 | 67,383 | 89, |
| Two years later | 35,461 | 36,185 | 40,988 | 42,115 | 58,769 | 98,864 | 128,758 | 192, |
| Three years later | 46,417 | 52,550 | 53,186 | 58,793 | 80,061 | 136,992 | 194,139 | 257, |
| Four years later | 58,124 | 58,526 | 61,153 | 65,520 | 107,005 | 173,352 | 227,597 | |
| Five years later | 62,573 | 63,325 | 66,419 | 76,291 | 120,592 | 191,974 | | |
| Six years later | 65,090 | 68,021 | 73,308 | 81,722 | 129,043 | | | |
| Seven years later | 68,719 | 71,466 | 76,716 | 82,605 | | | | |
| Eight years later | 71,305 | 72,352 | 76,821 | | | | | |
| Nine years later | 71,802 | 79,788 | | | | | | |
| Ten years later | 71,994 | | | | | | | |

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Re-estimated net liability as of:

| | | | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| End of Year | \$228,119 | \$252,739 | \$272,392 | \$295,541 | \$352,521 | \$440,040 | \$464,122 | \$480,000 |
| One year later | 217,558 | 241,655 | 251,445 | 268,154 | 325,212 | 393,363 | 416,814 | 427,000 |
| Two years later | 205,277 | 221,236 | 220,385 | 239,243 | 280,518 | 347,258 | 364,196 | 398,000 |
| Three years later | 185,349 | 190,744 | 194,213 | 200,311 | 237,280 | 294,675 | 333,530 | 400,000 |
| Four years later | 159,301 | 167,062 | 159,096 | 157,836 | 190,110 | 264,714 | 323,202 | |
| Five years later | 139,570 | 136,996 | 126,379 | 122,570 | 173,148 | 259,195 | | |
| Six years later | 114,407 | 108,862 | 106,403 | 105,779 | 168,828 | | | |
| Seven years later | 97,177 | 94,908 | 92,954 | 99,787 | | | | |
| Eight years later | 89,271 | 84,719 | 88,828 | | | | | |
| Nine years later | 79,734 | 79,788 | | | | | | |
| Ten years later | 76,042 | | | | | | | |
| Net cumulative redundancy (deficiency) | 152,077 | 172,951 | 183,564 | 195,754 | 183,693 | 180,845 | 140,920 | 80,000 |
| Original gross liability - end of year | | | 311,394 | 355,735 | 432,937 | 548,732 | 614,720 | 660,000 |
| Less: reinsurance recoverables | | | (39,002) | (60,194) | (80,416) | (108,692) | (150,598) | (179,000) |
| Original net liability - end of year | | | 272,392 | 295,541 | 352,521 | 440,040 | 464,122 | 480,000 |
| Gross re-estimated liability - latest | | | 98,152 | 130,718 | 197,555 | 310,012 | 424,519 | 542,000 |
| Re-estimated reinsurance recoverables | | | (9,324) | (30,931) | (28,727) | (50,817) | (101,317) | (142,000) |
| Net re-estimated liability - latest | | | 88,828 | 99,787 | 168,828 | 259,195 | 323,202 | 400,000 |
| Gross cumulative redundancy | | | 213,242 | 225,017 | 235,382 | 238,720 | 190,201 | 118,000 |

(a) Reflects reserves of Medical Assurance excluding Professionals Group reserves, which were acquired on June 27, 2001. Accordingly, the gross and net reserve development (reserves recorded at the end of the year, as originally estimated, less reserves re-estimated as of subsequent

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years) relates only to the operations of Medical Assurance and does not include Professionals Group.

- (b) Reflects combined reserves of Medical Assurance and Professionals Group as December 31, 2001.

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Medical professional liability loss experience is volatile and cyclical. Over the past twenty-five years, the industry has experienced several periods of increasing claim frequency and severity, followed by periods of relative stability. At other times, due to tort reform, favorable judicial decisions, favorable economic conditions or other unknown factors, claim frequency and/or severity have decreased. Malpractice claims generally require an extended period of time to resolve, and in many jurisdictions, the average life of a claim is five years or longer. The combination of changing conditions and the extended time required for claim resolution result in a loss cost estimation process that requires actuarial skill and good judgment, and such estimates require periodic revision. Management believes it is prudent to establish initial loss and loss expense reserves that are reasonable and are based on historical experience as well as on facts and circumstances known at the balance sheet date. To the extent that actual results deviate from expectations, reserve estimates are subsequently adjusted and ultimate paid losses and loss expenses are more or less than the original estimates.

ProAssurance's loss and loss expense reserves developed favorably in many prior years for several reasons. First, ProAssurance utilizes a rigorous and disciplined approach to investigating, managing and defending claims. This philosophy, especially in Alabama, has generally produced results that are better than industry averages in terms of loss payments and the proportion of claims closed without indemnity payment. Second, ProAssurance's volume of business, while substantial, is not of a sufficient size to fully support the projection process, thus ProAssurance's data is supplemented with industry-based data. Ultimately, actual payments on these reserves have often been less than originally projected, creating redundancies.

Third, reserves established in the late 1980's and early 1990's were strongly influenced by the dramatically increased frequency and severity experienced by ProAssurance, and the industry as a whole, during the mid-1980's. Some of these trends moderated, and in some cases, reversed, by the late 1980's or early 1990's. However, the ability to recognize the improved environment was delayed due to the extended time required for claims resolution. When these trends moderated, the reserves established during those periods proved to be redundant.

Finally, ProAssurance believed that its overall loss experience would be worse than that which was anticipated by many of its competitors. As a result, ProAssurance prudently established accident year reserves, resulting in accident year loss ratios in excess of 100% of earned premium. In some instances, these loss ratios proved to be accurate, while in other cases, experience has been better than expected and redundancies have developed.

The professional liability legal environment has deteriorated once again during the past several years. Beginning in 2000, ProAssurance recognized adverse trends in claim severity, causing increased estimates of certain loss liabilities. As a result, favorable development of prior year loss reserves slowed during 2000 and some amount of adverse development occurred during 2001. ProAssurance has addressed these trends through increased rates, stricter underwriting and modifications to claims-handling procedures.

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In each year, ProAssurance has utilized a consistent approach in establishing reserve levels. The actuarial methodologies utilized include incurred loss development, paid loss development and frequency-severity projections. These techniques are applied to the data and the resulting projections are evaluated by management to establish a best estimate of reserves.

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SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused Amendment No. 1 to this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this the 4th day of April 2002.

PROASSURANCE CORPORATION

By: /s/ James J. Morello

James J. Morello
Sr. Vice President and
Chief Accounting Officer

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