

Evidence of Insurance

RE: Evidence of Insurance

Dear Sir or Madam,

As part of your agreement with Banner Health, this certifies that the insurance coverage for Banner Health more than satisfies the minimum requirements. Further, we feel that it is also important to explain that Banner Health is part of a Master Insurance Program. The insurance program that Banner Health maintains includes coverage for 29 acute care facilities with more than 50,000 employees and 1,800 physicians serving communities in six states.

This robust insurance program uses a combination of self-insurance, insurance and reinsurance to cover all of our interests. As part of the self-insurance portion, Banner Health uses a captive insurance company, Banner Indemnity Liability, Ltd. ("BIL"), which has been in business since 1986. This company was established to provide insurance coverage to Banner Health's affiliates and affiliated physicians. BIL serves as our main insurance vehicle. Banner Health's program is much like all other large healthcare systems, 70% of systems which provides all medical malpractice and other insurance in this way.

Here are some other facts that might be helpful in understanding the overall Master Insurance program.

1. BIL is fully supported by its parent corporation Banner Health, which has a strong debt rating of AA- by the major rating agencies. The financial highlights for Banner Health are posted and available at <https://www.bannerhealth.com/about/glance/financials>. Banner's professional liability and general liability is self-insured through BIL on a claims-made basis, for \$15,000,000 of each professional liability claim and \$10,000,000 of each general liability claim. BIL also provides an excess liability policy above those limits which is fully reinsured by A.M. Best reinsurance carriers with a minimum rating of A-VII or better.
2. Independent actuaries, the firm of Willis Towers Watson, perform an intensive review of BIL's reserves throughout the year and issues a statement to BIL's Board of Directors confirming the adequacy of them. Further, this actuarially firm is also used to determine the appropriate premium level each year.
3. BIL has an independent financial audit performed each year with unqualified opinions rendered.
4. BIL is provided significant reinsurance support by the most highly rated reinsurers, which include domestic, Bermuda and London reinsurers. These reinsurers closely scrutinize all insurance operations to make sure they are comfortable with BIL's operations before they agree to reinsure BIL. It is also noteworthy that many of these companies have reinsured BIL for many years showing further commitment that they find BIL a strong insurance partner.
5. The December 2019 audited financial statements show that BIL had assets of \$165 million with approximately \$155 million in case reserves, IBNR ("incurred but not reported"), and Deposit Liability. There was approximately \$10 million of assets in excess of reserves. Please note that these financial statements become part of the Banner Health consolidated financial statements.

6. Banner Health is approved in the state of Arizona and Colorado as a qualified self-insurer for Workers Compensation and Auto Liability insurance.

In short, BIL is recognized throughout the insurance industry as a financially strong risk financing vehicle used to insure only the risks related to Banner Health and its affiliates. When we provide our overview about this standard type comprehensive insurance vehicle used by health care systems, entities we contract with that have specific insurance requirements recognize that BIL is as financially healthy, and in some cases, in better financial condition than some insurance carriers that are AM Best rated. Even with the full support of a strong health system such as Banner Health, BIL's insurance operations can stand alone due to its strong financial position.

With respect to Commercial General Liability, vendors, owners, lessors, landlords and their respective agents are automatically added as additional insured as required by signed contract, agreement or lease. Furthermore, an automatic waiver of subrogation applies to the coverage of Commercial General Liability where required by signed contract, agreement or lease.

Banner Health maintains a large deductible property insurance program. In cases where leased equipment replacement cost value is less than our deductible, this self insurance letter will serve in lieu of a certificate of insurance.

If you should have any other questions related to Banner Health's self-insurance as part of the larger master insurance program, I'd be happy to discuss them with you.

Sincerely,

Chris Frank

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