

MEDICAL MUTUAL Expands Policyholder Web Offerings

www.WeInsureDocs.com

Have you visited the MEDICAL MUTUAL web site recently? If not, you are missing out on a variety of new offerings. A free, online educational program on Patient-Physician communications is new in the Risk Management Resources section, along with a comprehensive list of links to web sites with information on the new HIPAA regulations. A self-assessment form has also been added to help you highlight those areas within the non-clinical aspect of your office practice which have been identified as variables that can create problem practice patterns. Don't forget, you can also register online for a seminar and even pay for it on the secure server using a major credit card. Finally, you now have access to your current account status 24/7. From the comfort of your home or office you can check on the receipt of a payment, determine payment due dates and amounts, or review a current balance. Additional web services are under development and will be announced when available. If you have any questions concerning our web site, please use the *Contact Us* e-mail option on the web site or call our Customer Service Department.

Notes

MEDICAL MUTUAL
Liability Insurance Society of Maryland

FROM THE CHAIR OF THE BOARD

JUNE 27, 2003
ISSUE

- Rate Increase Announced for 2004 Renewals
- Malpractice Crisis Makes Inroads in Maryland
- Tort Reform: Update on Recent Legislative Session
- Web Site Expands Offerings for Policyholders

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Notes

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Liability Insurance Society of Maryland

FROM THE CHAIR OF THE BOARD

June 27, 2003

Dear MEDICAL MUTUAL Member:

The medical professional liability insurance crisis that has been hammering Physicians and insurers across the United States is now taking its toll in Maryland. The national trend toward ever-higher claim verdicts is a key factor in the dwindling number of malpractice carriers in Maryland. Locally, since the start of 2002, one company has been declared insolvent, one has pulled out of our market as part of a national withdrawal, one has gone into runoff, and a number have stopped taking new business. Stranded Physicians have had to scramble to find new coverage. The cause of the crisis is the existing "litigation lottery," which benefits plaintiff attorneys who receive millions in contingency fees from out-of-control jury awards, while thousands of patients lose access to reasonably-priced health care. Unfortunately, as verdict amounts rise, they push liability insurance premium levels higher as well.

Since our founding, MEDICAL MUTUAL has been firmly committed to taking rate increases only when absolutely necessary. However, to respond to this continued rise in claim severity, MEDICAL MUTUAL has filed with the Maryland Insurance Administration for an overall rate increase for 2004. Complete details are inside this newsletter.

We regret the impact this increase will have on your practice. Please know that we are doing everything we can to protect our policyholders and keep your insurance company strong and viable during these difficult times.

Sincerely,



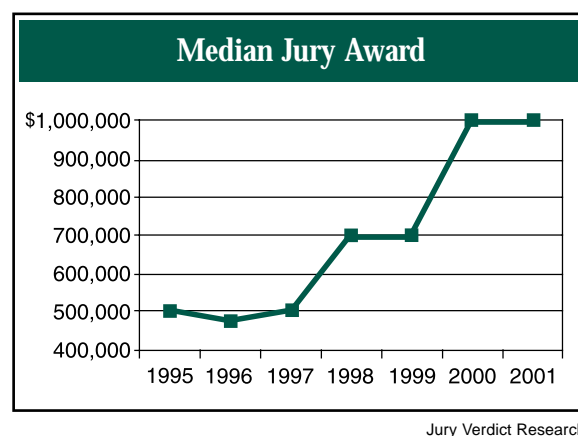
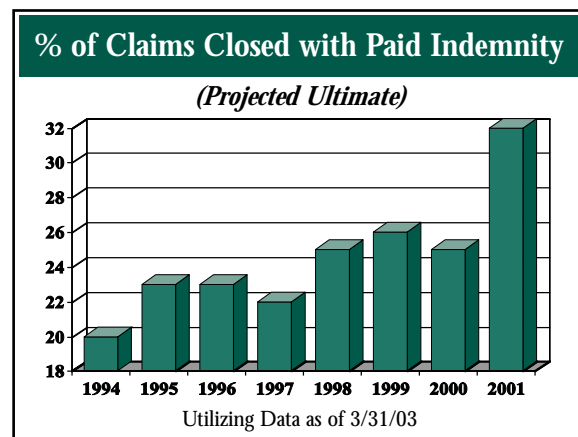
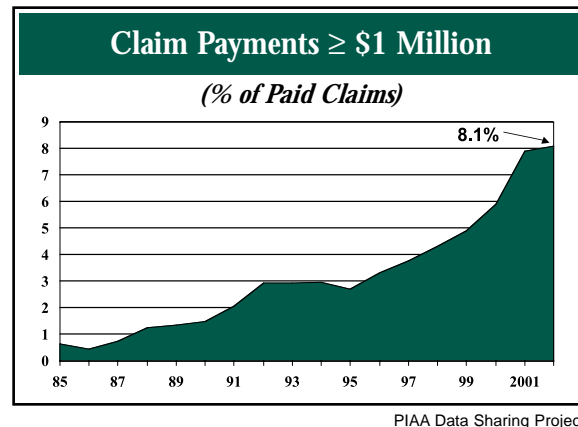
D. Ted Lewers, M.D.
Chair of the Board

The Crisis Continues...

- Princeton has announced it is exiting the medical malpractice business in Maryland. Previously, Princeton exited Pennsylvania.
- DIR, a major Virginia insurer, and Reciprocal of America, its parent company, have been placed in receivership.
- Citing rising loss reserves due to increasing claims costs and a decline in surplus, A.M. Best has downgraded MLMIC, the nation's largest medmal carrier, from A- to B (fair).
- Percent of closed claims with indemnity payment in excess of \$1 million climbed from under 1% in 1985 to more than 8% in 2002. (PIAA Data)
- Insurance Companies across the country have had to bolster reserves, costing them surplus and requiring large rate increases, in response to skyrocketing claims payouts.

Escalating Claim Severity Leads to Filing for Rate Increase of 28% in 2004

As you are well aware, a medical professional liability insurance crisis is facing Physicians across the country. The primary driver of this crisis is skyrocketing jury verdicts. Because of the increase in these huge verdicts, plaintiff lawyers are demanding more money to resolve claims, which in turn leads to increases in the costs of all claims. This crisis is having negative repercussions on policyholders, insurance companies and patients. Some liability insurance carriers have been declared insolvent. Others have chosen to withdraw from selected states to reduce their exposure, or to stop selling malpractice insurance altogether. Insurance companies remaining have been caught in a cycle of frequent rate increases in an attempt to compensate for these accelerating claims costs exacerbated by "jackpot jury awards."



Rate Hikes Across the Country

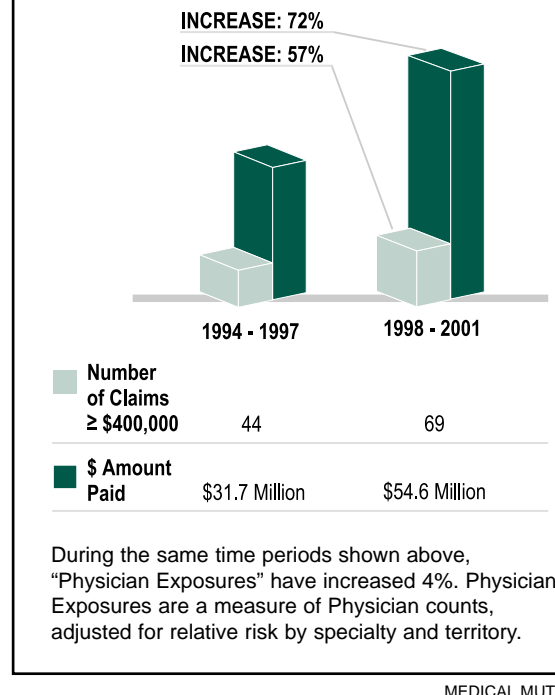
The Medical Society of New Jersey recently released a study that says rates in that state should be at least 47% higher than 2002 rates in order to be adequate, and may need to be as much as 99% higher. In nearby Pennsylvania, the *York Daily Record* reports that from "the beginning of 1997 through September 2001, major liability insurance carriers writing in Pennsylvania increased their overall rates between 80.7 percent and 147.8 percent." ISMIE, Illinois' largest medical malpractice insurance company, has just announced an "annual base rate increase of 35.2 percent for its 14,000-plus policyholders, effective with the July 1, 2003 policy year...In addition to the base rate increase, the market environment is forcing ISMIE to significantly reduce existing discounts afforded policyholders. This means some physicians will experience premium hikes well in excess of 35 percent." Combined with a 12.5% increase in 2001 and a 15% increase in 2002, this results in almost a 75% total increase in ISMIE rates since 2001. This situation, repeated across the United States, has caused insurance affordability and availability problems for medical professionals, with Physicians trying to cope by leaving high-risk specialties, leaving hard-hit states, or even choosing premature retirement.

Maryland Experiencing Effects

Until last year, Maryland had avoided the worst consequences of the liability insurance crisis. Recently, however, the significant increase in claim severity (i.e. average per paid claim) has become obvious. Some hard numbers describe the situation. In years 1998-2001, our average payment per closed paid claim was 37% higher than the average payment per closed paid claim for 1994-1997. In 2002, the average payment per closed paid claim jumped another 35% over the '98-'01 average. In addition, as shown by the second chart on this page, the percentage of claims closed with payment has increased significantly. Based on our 2003 payments already this year, we expect another increase in the 2003 average over the 2002 number.

(continued on next page)

Closed Claims of \$400,000 or More



MEDICAL MUTUAL Rate Increase Filed

The continuing pressure brought by these escalating claims payouts has forced MEDICAL MUTUAL to file a request for an overall 28% rate increase with the Maryland Insurance Administration. This increase will be effective with your 1/1/04 to 1/1/05 renewal policy. A hearing may be requested with respect to our rate increase filing pursuant to §11-208(e) of Subtitle 2 of the Insurance Article of Maryland. An order, hearing or refusal of a hearing by the Commissioner may be appealed under Subtitle 5 of Title 11 of the Insurance Article of Maryland.

Although we regret the impact this rate increase will have on our policyholders, we are sure of its necessity. MEDICAL MUTUAL has been a strong and dependable insurer of Maryland Physicians since 1975. We have been firmly committed over all these years to take rate increases only when absolutely necessary. At this time, however, for the long term protection of your career, we must take this step to maintain the financial strength and integrity of the company. The alternative would be unacceptable. As has been seen recently in this state and across the country, insurers who fail to take appropriate and timely responses to changing conditions fall into financial impairment or even insolvency. This can leave their insureds without the protection they paid for, and vulnerable at the very time they need it most.

A Long Term Commitment to Your Defense

Any increase is painful and so we appreciate your understanding and your loyalty. In return, MEDICAL MUTUAL will continue to mount a proactive and aggressive defense against unmeritorious claims and seek to limit undeserved claims payments. We will remain a strong advocate for you in the state legislature, and will fight against efforts to dismantle the hard-earned tort reforms in Maryland. Finally, we will always remember that MEDICAL MUTUAL is your insurance company and will take the responsibility to keep your company strong. MEDICAL MUTUAL will be here when you need us.

Tort Reform Update

With much attention focused on the budget deficit and the slots issue, the recent 2003 Maryland legislative session was relatively quiet in the tort reform area. Two medical liability reform proposals sponsored by the Maryland Liability Reform Coalition were considered. House Bill 832 allowing for the periodic payment of economic damages in excess of \$100,000 was defeated in the House Judiciary Committee. House Bill 676, changing the statute of limitations for minors under the age of 18 in filing medical negligence claims, passed the House and was defeated in the Senate's Judicial Proceedings Committee. MedChi and MEDICAL MUTUAL are planning to take a proactive position in the 2004 legislative session not only to maintain what is left of Maryland's hard-earned, positive environment for resolving claims, but also to advocate for additional necessary tort reform measures. Your involvement will be critical as we work together over the coming year for needed change.