

Notes

MEDICAL  MUTUAL
Liability Insurance Society of Maryland

HEADLINES

2006 Premium Rates To Remain Unchanged

2006 MEDICAL MUTUAL premium rates will remain unchanged from 2005 for Maryland Policyholders.

Premium Subsidy Status

The full subsidy for 2005 has been returned or credited to Policyholders. The amount of the 2006 subsidy has not yet been determined.

New Law Changes MedGuard Coverage

MedGuard no longer can be included with your liability policy. MEDICAL MUTUAL will offer this coverage as a stand-alone policy.

STAT-PAT Program To Be Introduced

Pilot program offers risk management tools to address patient's needs following an unexpected outcome.

FROM THE CHAIR OF THE BOARD

August 2005

Dear MEDICAL MUTUAL Member:

I am very glad to report to you that some degree of normalcy appears to be returning to our claims numbers, albeit at a new, higher level. Consequently, we will not be filing for any rate increase for 2006. Let me caution that we do not know if this recent claims pattern marks a return to stability, or just the eye of the storm passing, but we will enjoy the relief while we have it.

For now, at least, we can be satisfied with a number of positive developments. The state passed legislation providing some tort reform and, most importantly, a temporary premium subsidy for embattled Doctors. Juries currently appear more receptive to defense arguments. There is also speculation that some plaintiff attorneys may have been momentarily affected by procedural changes in the law, causing fewer cases to be filed against Physicians in the period immediately following the passage of the legislation. On an annual basis, MEDICAL MUTUAL's total claim payouts declined in 2004 for the first time since 2000, and that seems to be continuing in 2005.

In other significant news, A.M. Best, the nation's oldest and most authoritative source of insurance company financial ratings, has reaffirmed its "A-" (Excellent) rating for MEDICAL MUTUAL. But, citing concern over the strain on our surplus, the outlook that accompanies our rating was changed from "stable" to "negative." The outlook downgrade occurred despite our efforts to augment surplus with a \$20,000,000 surplus note. However, we are still very pleased with our "A-" rating and we intend to work diligently to retain this quality seal of financial strength.

This issue of *Notes* also includes timely information about changes to our MedGuard coverage, a new and innovative risk management program called STAT-PAT, the 2006 premium subsidy and more. Please be sure to take a few minutes to stay informed on these key topics.

MEDICAL MUTUAL appreciates your loyalty and trust. You can rest assured that we are committed to keeping your company strong and viable for your long-term defense, and to supporting efforts that make Maryland a stable place to practice medicine.

Sincerely,



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

2005 Premium Subsidy Received by Policyholders

Malpractice reform legislation enacted by the General Assembly set up the Maryland Health Care Provider Rate Stabilization Fund as the vehicle for delivering subsidies to eligible Maryland Doctors for the years 2005 through 2008. Thanks to the efforts of the Governor, legislative leaders and the Maryland Insurance Administration, the premium subsidy for 2005 is now in the hands of eligible Insureds. This subsidy was a vital component of the recently enacted legislation and its importance cannot be overstated. We worked diligently to get this subsidy to you at the earliest possible time. We appreciate your patience as we navigated through a complex and difficult process to iron out the many details needed to complete this transaction.

STAT-PAT Program Introduced to Serve Patients and Physicians

MED•LANTIC, a subsidiary of MEDICAL MUTUAL that supports risk management activities, in association with the STAT-PAT program, is introducing a new and innovative risk management opportunity. STAT-PAT, which stands for *STAT – Patient Assistance Team*, is a pilot program to enable Physicians to address a patient's needs in a supportive, non-adversarial manner in the event of an unexpected outcome. This program works in concert with the new "I'm Sorry" provision, requested by Maryland Doctors and subsequently included in recent legislation enacted by the State. Detailed information concerning STAT-PAT will be mailed in the coming weeks to Insureds whose practices meet the program's guidelines.

2006 Premium Rates Will Remain Unchanged

MEDICAL MUTUAL will not request a rate increase for 2006. At this time, we can report that some of the worst effects of escalating litigation costs appear to have subsided and that an additional rate increase is not needed to meet the current level of claims activity. Although claims payouts, including paid defense costs, spiraled from \$47 million in 2000 to more than \$93 million in 2003 (the worst year in company history), they have since declined somewhat and again seem to be stabilizing, though at a higher level. The total for 2004 was \$78.5 million, and, based on the current level of payouts, we may expend a similar amount this year. The exact reasons for the decline are not known, which illustrates why malpractice insurance is considered the most volatile of all property and casualty insurance markets. Juries currently appear more receptive to defense arguments. Some defense attorneys also believe procedural changes in the law caused by the enactment of this year's complex legislation may have temporarily slowed the introduction of new cases against Physicians. In any event, the situation can change rapidly, as recent events have clearly shown. We are glad, though, that recent trends allow us to seek no rate increase for 2006. We know this comes as good news to Maryland Doctors who in prior years absorbed repeated large rate increases due to the deteriorating claims environment and soaring litigation costs.



A.M. Best Reaffirms "A-" (Excellent) Rating

The A. M. Best Company, the nation's leading independent financial rating agency, has reaffirmed its "A-" (Excellent) rating for MEDICAL MUTUAL. This financial rating is given to companies that have an excellent ability to meet their ongoing obligations to Policyholders. However, the rating outlook for MEDICAL MUTUAL was lowered from "stable" to "negative." This change was made due to concern about the strain on our surplus. With the departure of other insurers from the Maryland market, MEDICAL MUTUAL has absorbed thousands of additional Doctors in need of coverage. Since our rating is partially calculated based on financial ratios related to surplus, the stress on our surplus caused by the added Insureds has had a negative impact on our rating. Anticipating this, MEDICAL MUTUAL arranged for a \$20,000,000 surplus note transaction in 2004 to augment our surplus. But it was not enough to deter the rating agency from downgrading our outlook. Overall, considering the challenges faced over the past year, we are very pleased that A.M. Best recognized the continued financial stability and performance of MEDICAL MUTUAL. We will continue to work to strengthen our financials.

Status of the 2006 Premium Subsidy

As noted above, the full subsidy for 2005 has already been returned or credited to our Insureds. At this point, we do not know the amount of the subsidy for 2006. The new law calls for the amount of subsidy for the next three years to be determined by the Insurance Commissioner following a prescribed calculation. The subsidy will then be provided to Physicians by MEDICAL MUTUAL upon receipt of funds from the state. MEDICAL MUTUAL is prepared to act on the 2006 subsidy as soon as we are provided the details from the Maryland Insurance Administration.

Legislation Requires Change in MedGuard Coverage

The new legislation passed in Annapolis also includes a significant insurance coverage change. MedGuard – which pays the legal expense of defending yourself against selected disciplinary proceedings – may no longer be included in your professional liability policy. However, we plan to continue to make this coverage available to you as a stand-alone product through the Professionals Advocate Insurance Company, a wholly-owned subsidiary of MEDICAL MUTUAL. We have filed for approval to offer this stand-alone coverage and once a decision is made by the Maryland Insurance Administration we will make the product available to you. The new policy will mirror your current MedGuard coverage, but the premium will be billed separately and the policy will have its own jacket and declaration page. Additional information concerning the purchase of MedGuard coverage will be sent to all MEDICAL MUTUAL Policyholders after we have received a response to our filing.



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August 2005
ISSUE

FROM THE CHAIR OF THE BOARD

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