Florida Office of Insurance Regulation

2007 Annual Report – October 1, 2007

Medical Malpractice Financial Information
Closed Claim Database and Rate Filings

-- INDEX --

Executive Summary

Section 627.912(6)(b)&(c), Florida Statutes, requires the Office of Insurance Regulation (Office) to prepare an annual report on the medical malpractice insurance market in Florida. The report provides a review of the profitability and solvency characteristics of the medical malpractice insurers doing business in Florida, a review of rate filings received by the Office during the year, and a review of the characteristics of the medical malpractice closed claims required to be filed with the Office.

This report satisfies the statutory requirement and, in particular, provides information about the Florida market compared to other states, the financial performance of the 17 medical malpractice insurance writers that constituted 80% of the Florida market in 2006, a review of rate filings, and an analysis of the closed claims data.

One of the most notable findings is that the return on surplus for the leading writers was +19.67%. Although this was the highest result dating back to 2001, it is important to put this result into context.

Return on surplus is a national number taking into account profitability in states other than Florida. Moreover, for multi-line writers, this result also accounts for profitability in other lines of insurance. In fact the return on surplus for companies only writing medical malpractice in Florida was a modest +1.64% -- well below the national average.

Another interesting finding was that the average approved rate change for rate filings in the primary medical malpractice market (physicians and surgeons) was negative (-5.30%). This is potentially misleading as some carriers did not file a rate change. Including the zero rate impact of those carriers, the average affect on the primary market was still negative (-3.06%).

However, some specialized areas of medical malpractice did experience rate increases. Specialized areas affected 2006 rate changes include professional nurses (+39.9%), dentists (+5.4%), and podiatrists, optometrists, and chiropractors, and other specialized areas (+1.7%). In total, there were 32 medical malpractice rate filings in 2006, with 15 being approved for rate reductions.

Finally, it is important to understand return on surplus in the context of a larger timeframe. Although +19.67% is the highest return on surplus for the period from 2001 to 2006, the average return for this six year period was +6.83% -- on par with return on surplus for other areas of insurance.

Notwithstanding these caveats, the Office has vigilantly monitored the profitability of the medical malpractice insurance market in Florida. Prior to the 2003 legislative changes aimed at reducing costs associated with medical malpractice insurance, the market was experiencing double-digit rate increases, an availability crisis, and experienced one of the highest defense cost and containment expense ratios in the country.

The Office developed a "presumed factor of savings" of 7.8%, which estimated the savings on future costs based on the 2003 Legislative modifications, but indicated this factor should be revisited after the Office had historical data to analyze the impact of the new law. During the 2007 legislative session, the Office proposed amendments to House Bill 1547, Relating to Insurance/Medical Malpractice, and by Representative Greg Evers, and Senate Bill 1660, Relating to Insurance/Medical Malpractice by Senator Durrell Peaden, to fund such a study (See Appendix A). The proposed amendment would have allowed the Office to recalculate rates based on the presumed factor for medical malpractice rates on an annual basis.

Based on the trends found in this report, it would appear that the 2003 changes to the law have benefited policyholders, the industry, assisted with the solvency of medical malpractice carriers, and directly contributed to lowering the Defense Cost and Containment ratio in the State of Florida.

In particular, the report finds:

- When the Florida market is compared to other large states;
  - Florida is the third largest market as measured by direct premium written,
  - Florida ranks 4th among the six most populous states when measured by losses incurred to earned premium (40.28%).

- For the 17 firms comprising 80% of the market;
  - Medical Malpractice is not generally the only line of business written,
  - Florida is generally one of their top five markets,
  - Their loss and expense ratios in Florida are similar to what they experienced in their other major markets,
  - The premium weighted effective average return on surplus was 19.67% in 2006[1], up from 13.8% in 2005, 9.6% in 2004, (-12%) in 2003,
  - Solvency risk, as measured several ways, does not appear to be a critical issue with these sample firms, and these firms have shown favorable reserve development in 2006 for the second year in a row, reversing a previous trend of adverse reserve development.

- Reviewing the rate filings received in 2006;
  - 32 medical malpractice rate filings were processed with the Office during 2006,

[1] This number reflects an adjustment to the results for Pronational Insurance Company. Pronational showed a 129.5% return on surplus which was due to the sale of a subsidiary, MEMIC. The results used in this report reflect Pronational's return on surplus from insurance operations, which was 7.60%.

    - The approved rates ranged from a decrease of 16.4% to an increase, in one instance, of 70.8%, depending on the medical specialty, with an overall average rate increase of 8.01%.

- From the reported closed claims data files;
    - 3,811 claims were reported as closed during 2006, 1,962 for females, 1,849 for males,
    - Hospital inpatient facilities, as in previous reports, were the most commonly reported claims location.
    - Most claims were in the severe to moderate severity category, and
    - An estimated $602 million was paid in total; $374 million in economic damages, and the remainder in non-economic damages.

Purpose and Scope

Senate Bill 2-D, enacted in 2003, requires the Office to publish an annual report of the state of the medical malpractice insurance market in Florida. The legislation, codified in Section 627.912(6) (b) &(c), Florida Statutes, requires the Office to draw upon three data resources:
1) The National Association of Insurance Commissioners (NAIC) annual financial statement filings; 2) The closed claims database maintained by the Office; and 3) An analysis of rate filings filed with the Office during the previous year. Specifically:

(6)(b) The office shall prepare an annual report by October 1 of each year, beginning in 2004, which shall be available on the Internet, which summarizes and analyzes the closed claim reports for medical malpractice filed pursuant to this section and the annual financial reports filed by insurers writing medical malpractice insurance in this state. The report must include an analysis of closed claim reports of prior years, in order to show trends in the frequency and amount of claims payments, the itemization of economic and noneconomic damages, the nature of the errant conduct, and such other information as the office determines is illustrative of the trends in closed claims. The report must also analyze the state of the medical malpractice insurance market in Florida, including an analysis of the financial reports of those insurers with a combined market share of at least 80 percent of the net written premium in the state for medical malpractice for the prior calendar year, including a loss ratio analysis for medical malpractice written in

Florida and a profitability analysis of each such insurer. The report shall compare the ratios for medical malpractice in Florida compared to other states, based on financial reports filed with the National Association of Insurance Commissioners and such other information as the office deems relevant.

(c) The annual report shall also include a summary of the rate filings for medical malpractice which have been approved by the office for the prior calendar year, including an analysis of the trend of direct and incurred losses as compared to prior years.

A Comparative Overview of the Florida Medical Malpractice Insurance Market

Although this report, by statute, focuses on the characteristics of the companies comprising 80% of the Florida Medical Malpractice insurance marketplace, some national and state specific comparisons are useful in order to put the results in context. Nationally, 2006 was a good year for insurers writing medical malpractice insurance. In a May 2007 report, *Medical Malpractice Sector Mends, But Remains Vulnerable to Cycles*, A.M. Best provided a review of the 2006 medical malpractice insurance market in aggregate. Among their findings:

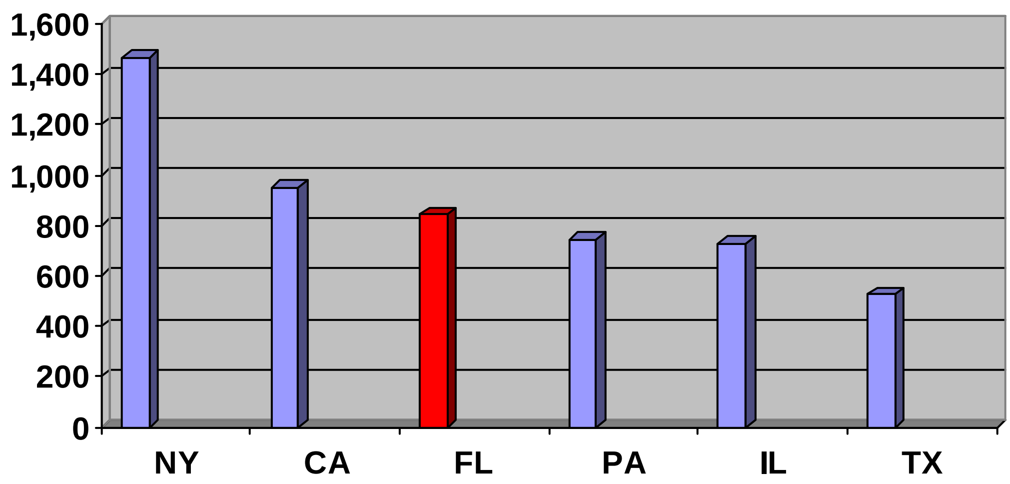
- Medical malpractice insurers had their best year since the mid-1990s, and earned an underwriting profit in 2006.
- Reserve development seems to have stabilized and the balance sheets are becoming healthier.
- The medical malpractice insurers have withstood rate pressures, increased competition from Risk Retention Groups and other alternatives, and have exhibited more rational competition than in the past.

- Tort reform in certain states, including Florida, seem to have reduced the frequency of claims, while the severity of claims continues to rise at about 5%.

Since Florida's population ranks fourth in the country, it would be expected that Florida would represent one of the largest medical malpractice insurance markets in the country. For purposes of comparison, the report compares Florida to the other five largest states: California, Texas, New York, Illinois and Pennsylvania.

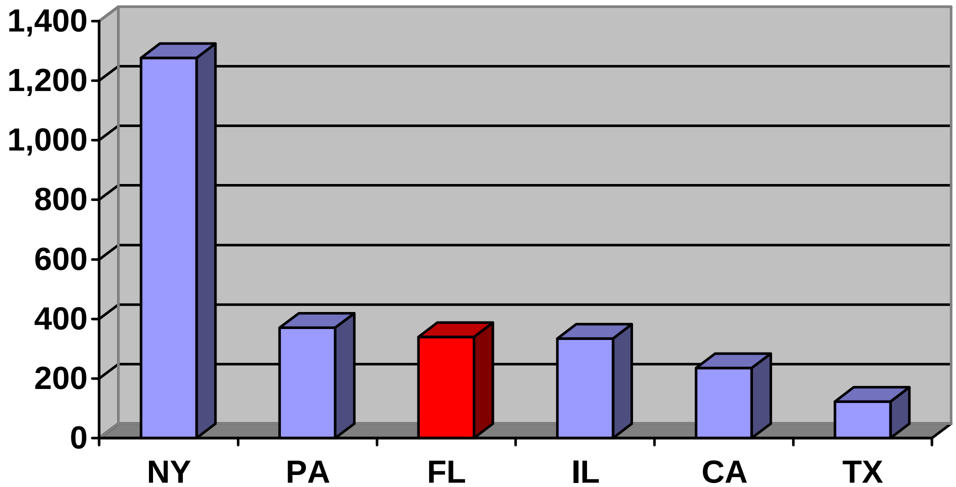
As the figure below shows, however, there is not a direct 1:1 correlation between state population and total medical malpractice earned premium in the private market. California, by far the most populous state, is a distant second to New York in the amount of medical malpractice premium earned. Meanwhile, Texas is the second most populous state, but ranks behind Florida, Illinois, and Pennsylvania.

Medical Malpractice Earned Premium
2006 (in $ millions)



As would be expected, and as is shown in the figure below, similar rankings persist when the amount of medical malpractice direct losses incurred are calculated:

Medical Malpractice Direct Losses Incurred
2006 (in $ millions)



Again, the most populous states would be expected to incur the most losses simply based on the number of people; however, there still seem to be some significant state specific differences. New York, for example, is not the most populous state (it is third), but has the largest amount of reported losses, more than double that of the next state, Pennsylvania. Interestingly, California now ranks fifth on this list, despite having the largest population and the most premium earned. Comparing the reported losses to the earned premium by state allows for the calculation of state loss ratios, which can then be ranked. The loss ratios of the six peer group states are shown below:

State	Losses / Earned Premium
New York	86.92%
Illinois	45.82%
Pennsylvania	49.80%
Florida	**40.28%**
California	24.87%
Texas	23.43%

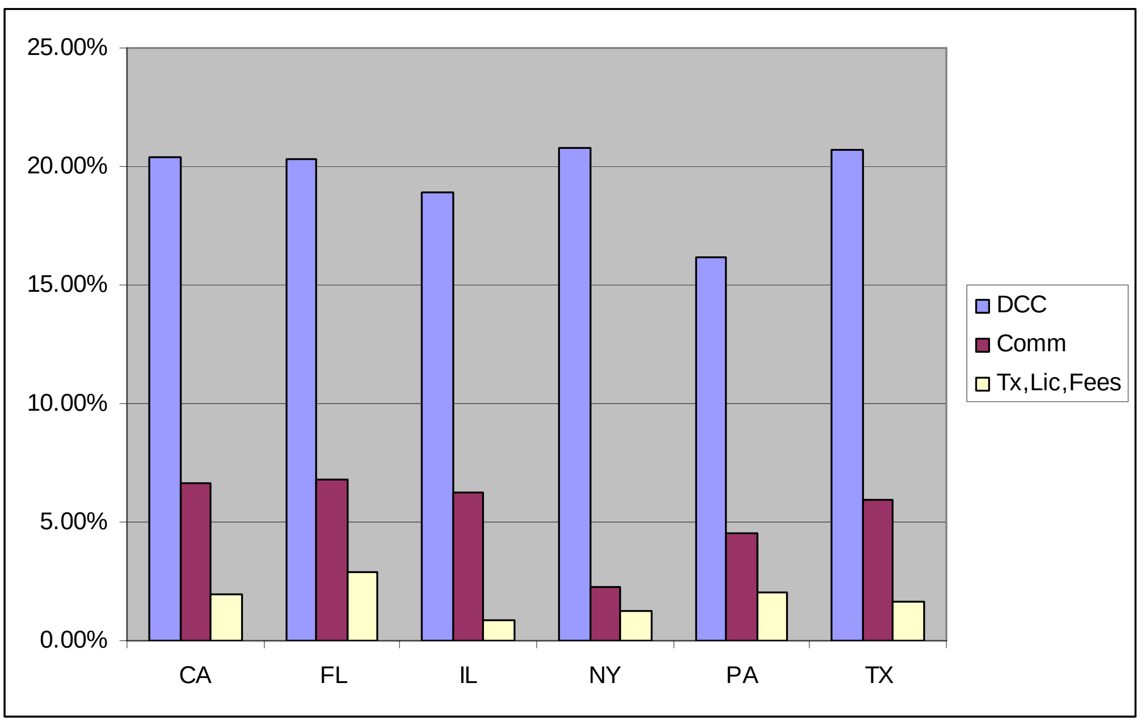
New York continues to lead this group followed by Illinois. The aggregate direct loss ratio for the Florida market remains, as in past years, near the lower end of this peer group. For comparative purposes, the average direct loss ratio for 2006 for all states is 36.5%. Four of the large states, including Florida, had reported loss ratios higher than this national average; California and Texas had reported direct loss ratios below the national average.

Non-Loss Costs

Although direct losses from claims is the primary component in determining the costs, and ultimately the rates being charged for medical malpractice products, it is important to look at other “non-loss costs,” to determine their importance in the overall expenses. These non-loss costs include three broad categories: 1.) Agent commissions and brokerage fees; 2.) Taxes and licensing fees; and 3.) Defense cost containment, which is correlated to the amount of legal fees. The chart below highlights the relative magnitude of these costs for each of the six large states:

Non-Loss Costs as Percentage of Direct Written Premium

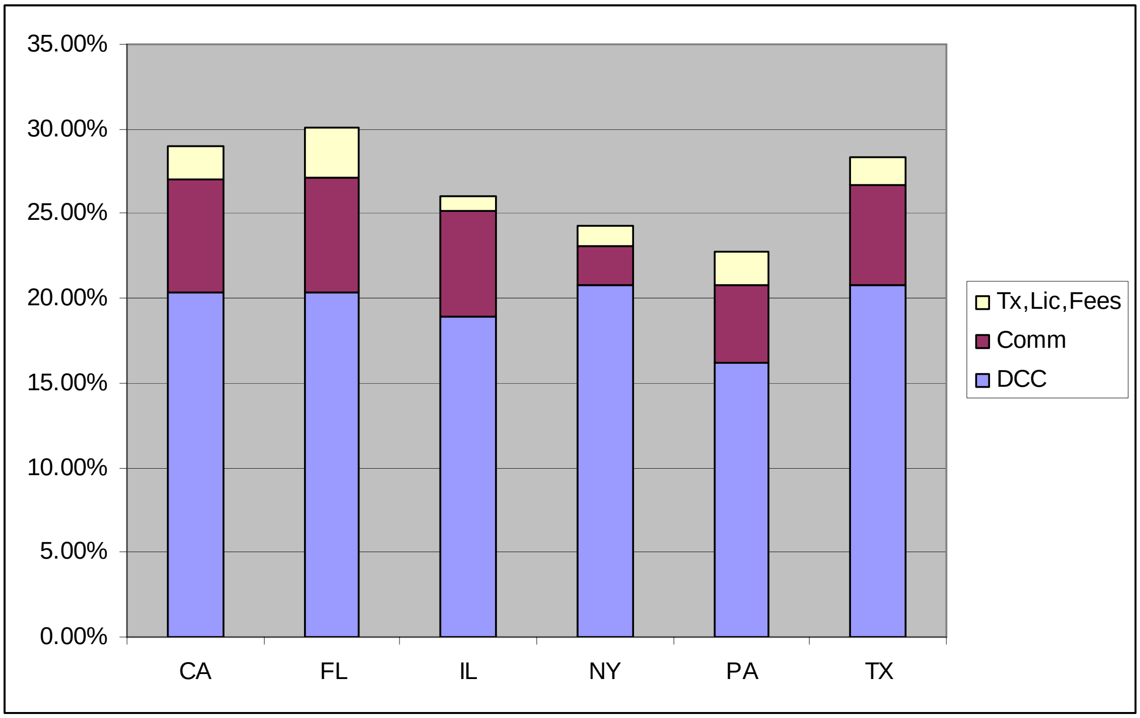
-- 2006 --



Clearly, for all six peer states, the main component of total non-loss cost is the defense cost and containment (DCC) expense. When compared to other large states, Florida ranks in the middle with the fourth lowest DCC component expense. Over twenty percent (20.31%) of the premium dollar is spent to defend or contain costs for medical malpractice suits in Florida; this percentage is lower than in New York (20.76%), Texas (20.74%), or California (20.40%). However, when other non-loss costs such as agent and broker commissions and licenses and taxes are included, the aggregate result is that Florida has a higher percentage of non-loss costs (30.08%) than the other peer group states:

Combined Non-Loss Costs as a Percentage of Premium

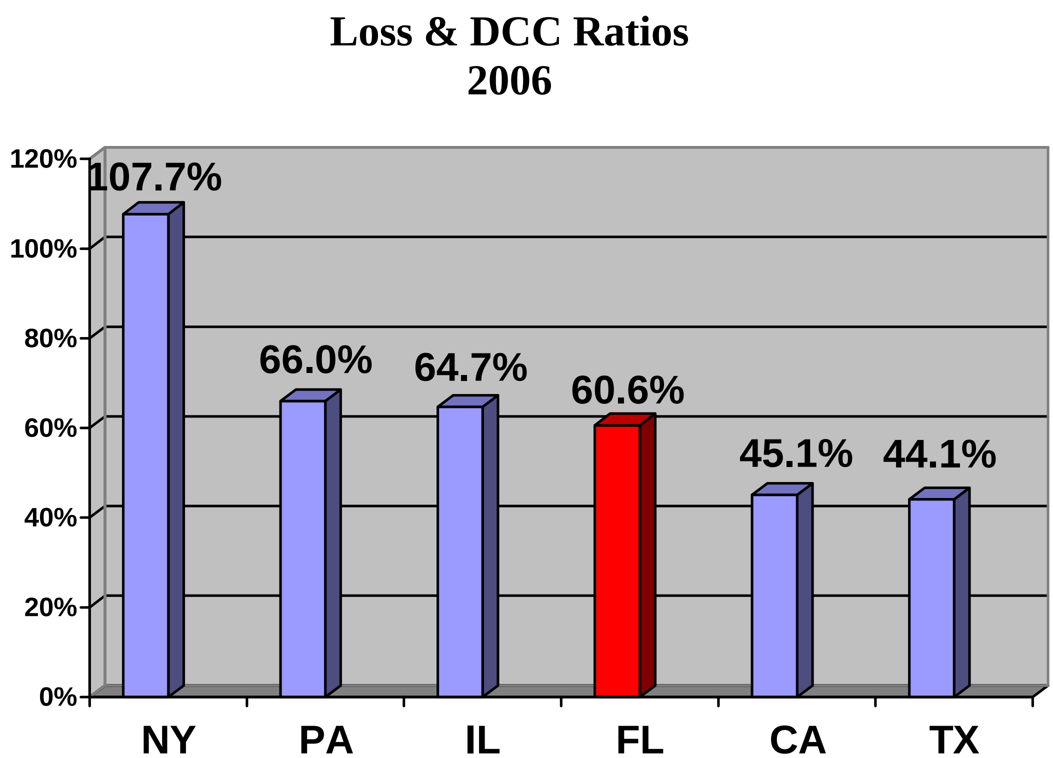
--2006--



As the chart above shows, while the Florida market does not have the highest DCC percentage it is among the highest; there is a higher commission percentage paid in Florida than Texas and New York, and the Tax/Fees percentage is comparable with other states. While total non-loss costs for New York (24.31%) and Pennsylvania (22.77%) are noticeably below the other states, the remaining states have non-loss costs as a percentage of written premium ratios that are very close ranging between 28-30%.

Overall Profitability (Loss + DCC Ratios)

Combining the loss ratio and the DCC ratio on a statewide basis provides an approximate, commonly used, measure of the general profitability of the medical malpractice insurance market in each state. The lower the ratio, the stronger is the indication of profitability.



As the chart shows, the Loss + DCC ratio for the Florida market compares favorably to the other large sample states, and in fact is the third lowest; this ratio measure shows the Florida market to be profitable.

Leading Writers of Medical Malpractice Insurance in Florida

Section (6)(b) of Section 627.912, Florida Statutes, requires that this report include a financial analysis of the companies that comprise 80% of the medical malpractice *net written premium* in Florida. Financial information is reported by insurers in their statutory annual statements on both an aggregate, nationwide basis, and as well on a by-state, by-line of business basis. Net written premiums are reported in the annual statements in Schedule P Part 1F Sections 1 & 2. However, these premiums are aggregated on a nationwide basis. As such, the Office cannot fulfill this statutory requirement.

State specific data is primarily limited to information on page 20 of the annual statement, commonly referred to as the "state page." Data reported on the Florida market, by line of business, include:

- Direct Premiums Written
- Direct Premiums Earned
- Dividends to Policyholders
- Direct Losses
- Direct Defense Cost and Containment (DCC)
- Commissions & Brokerage Expenses
- Taxes, Licenses and Fees

The 2004 Annual report, prepared by Deloitte, provided a financial analysis of insurers representing 80% of the market on a *direct written premium* basis as a surrogate for net written premium. The Office repeated this analysis for the 2005 and 2006 reports. In actuality, 80% of the medical malpractice on a direct written premium basis should be a reasonable approximation of 80% of the market measured on a net written premium basis, although the analysis in this report does include a few companies that cede significant portions of their premium to other companies.

Another distinction typically made in the insurance marketplace is between medical malpractice written for individuals (usually doctors), and those written for institutions (usually hospitals). The legislative intent for the reporting requirements appears to be aimed at medical malpractice availability and rates for individual doctors. However, the annual statement reporting requirements do not allow for a distinction of hospital insurance versus physician insurance on a state or countrywide basis. These two types of insurance are aggregated into the "Medical Malpractice Insurance" category regardless of who is insured. With those caveats, the companies that comprise 80% of the medical malpractice insurance market in Florida include the following:

Rank	Company Name	Abbrev	State of Domicile	Direct Premiums Written	Percent of Market	Cumulative Percentage
1	First Professionals Ins Co	FPIC	FL	$192,813,921	22.76%	22.76%
2	Health Care Ind Inc	HCII	CO	$111,723,889	13.19%	35.94%
3	MAG Mut Ins Co	MMIC	GA	$91,062,199	10.75%	46.69%
4	Pronational Ins Co	PIC	MI	$51,402,916	6.07%	52.76%
5	Lexington Ins Co	LIC	DE	$40,422,790	4.77%	57.53%
6	Doctors Co An Interins Exchn	DCIE	CA	$40,119,445	4.74%	62.26%
7	Continental Cas Co	COCC	IL	$28,181,745	3.33%	65.59%
8	Evanston Ins Co	EIC	IL	$20,577,305	2.43%	68.02%
9	Columbia Cas Co	CCC	IL	$15,812,419	1.87%	69.89%
10	Medical Protective Co	MPC	IN	$15,308,535	1.81%	71.69%
11	Anesthesiologists Pro Assur Co	APAC	FL	$15,045,110	1.78%	73.47%
12	Physicians Preferred Ins Reciprocal	PPIR	FL	$13,335,720	1.57%	75.04%
13	Hudson Specialty Ins Co	HSIC	NY	$11,752,735	1.39%	76.43%
14	Florida Healthcare Providers Ins Exc	FHCP	FL	$10,778,446	1.27%	77.70%
15	Physicians Ins Co	PIC(2)	FL	$9,521,238	1.12%	78.83%
16	Physicians Professional Liability RRG	PPL	VT	$9,470,434	1.12%	79.94%
17	Healthcare Underwriters Grp of FL	HUGF	FL	$9,361,318	1.10%	81.05%
	Top 80% total			**$686,690,165**		
	Total Florida market			**$847,262,005**		

In terms of organizational structure, nine of the sample companies are admitted Property & Casualty insurers, four are surplus lines companies (# 5 Lexington, # 8 Evanston, # 9 Columbia Casualty and # 13 Hudson Specialty) there were three reciprocal insurers (# 12 Physicians Preferred, # 14 Florida Healthcare Providers, # 17 Healthcare Underwriters of FL) and one Risk Retention Group (RRG) (#16 Physicians Professional Liability).

The list shows some differences in the market when compared to the sample firms in the 2006 Annual Report. This year, achieving the 80% market share requirement now required the inclusion of 17 insurers, while 15 insurers were required in the 2006 annual report, 12 in the 2005 annual report, and only 11 for the 2004 report. The highlighted rows above indicate insurers that are domiciled in Florida. 11 of the 17 companies are domiciled outside of Florida; 6 are Florida domiciled, an increase over previous years.

Four companies appear on the list this year that were not part of the 80% group in last year's report -- #7 Continental Casualty, #12 Physicians Preferred Insurance Reciprocal, #14 Florida Health Care Providers Insurance Exchange and #17 Healthcare Underwriters Group of Florida. Continental Casualty had appeared in previous years' samples.

Another interesting finding is that the total medical malpractice insurance premium for the state of Florida dropped in 2006 for the third consecutive year. The 2004 report illustrated total gross medical malpractice insurance premium in Florida of $860 million. The 2005 total was $850 million, and the 2006 total was $847 million.

Percentage of Business that is Medical Malpractice

Following the identification of the 80% market share sample as required, the analysis next turns to analyzing the degree of underwriting risk diversification observed in the sample firms. Economic theory suggests that companies that are diversified in the types of business (i.e. writing non-medical malpractice insurance), and with proper geographic distribution of business (i.e. writing in other states) may be better positioned to handle a downturn in a specific segment of the insurance marketplace. As the table below shows, the degree of diversification, based on their nationwide business, is varied among these seventeen companies:

Company	Medical Malpractice Occurrence	Medical Malpractice Claims Made	Workers Compensation	Total Direct Premium
Pronational Ins Co	$7,656,677	$164,907,435	$0	$182,245,437
Doctors Co An Interins Exchn	$31,532,873	$417,678,801	$0	$449,298,519
Evanston Ins Co	$0	$141,465,637	$0	$713,305,104
Columbia Cas Co	$75,000	$161,892,836	$0	$862,480,723
Continental Cas Co	$1,896,485	$248,722,812	$256,686,567	$4,940,740,430
Hudson Specialty Ins Co	$0	$143,727,473	$0	$248,974,359
Florida Healthcare Providers Ins Exc	$0	$10,778,446	$0	$10,778,446
Healthcare Underwriters Grp of FL	$231,925	$9,129,393	$0	$9,361,318
Medical Protective Co	$272,668,886	$401,892,953	$0	$677,701,255
MAG Mut Ins Co	$24,469,263	$318,380,002	$4,644,556	$351,910,377
First Professionals Ins Co	$8,501,278	$205,840,882	$0	$214,844,024
Physicians Preferred Ins Reciprocal	$565,108	$12,770,612	$0	$13,335,720
Anesthesiologists Pro Assur Co	$819,199	$22,301,059	-$36,453	$23,083,805
Physicians Ins Co	$168,198	$9,520,064	$0	$9,688,262
Lexington Ins Co	$15,612,320	$643,199,298	$3,122,895	$6,273,352,387
Health Care Ind Inc	$311,242,530	$0	$0	$311,265,630
Physicians Professional Liability RRG	$0	$9,623,247	$0	$9,623,247

As the table shows, five of the insurers write exclusively medical malpractice insurance. For the other insurers, the most common other type of insurance written is workers compensation insurance. Other than Health Care Ind Co and to a lesser extent Medical Protective, all of the leading writers in Florida overwhelmingly write “claims-made” types of medical malpractice insurance as opposed to “occurrence” type of medical malpractice coverage.

Geographic Distribution of Premium for Florida’s Top Medical Malpractice Writers

The distribution of all of the companies’ business (by direct written premium) is shown below. The table ranks the premium by state for each company. Therefore, “State 1” is the state for which the individual company wrote the most premium, and could be different for each company:

Direct Written Premium by State for Top Med Mal Companies

Company	State 1	State 2	State 3	State 4	State 5
Anesthesiologists Pro Assur Co	**FL** $15,045,110	TX $3,129,301	AZ $1,687,292	GA $1,599,785	AL $731,796
Columbia Cas Co	**FL** $15,812,419	CA $9,569,795	WA $8,740,646	GA $8,461,443	OH $8,330,736
Continental Cas Co	OR $37,490,615	CO $34,752,056	**FL** $28,181,745	IL $14,666,794	CT $14,249,133
Doctors Co An Interins Exchn	CA $151,233,161	**FL** $40,119,445	VA $37,867,751	OH $37,436,199	WA $33,620,918
Evanston Ins Co	**FL** $20,577,305	CA $14,596,272	TX $10,375,395	NY $7,098,216	PA $6,013,042
First Professionals Ins Co	**FL** $192,813,921	GA $11,814,596	AR $8,920,290	PA $674,918	OH $121,478
Florida Healthcare Providers Ins Exc	**FL** $10,778,446				
Health Care Ind Inc	**FL** $111,723,889	TX $82,905,814	GA $9,769,793	SC $9,656,506	NV $9,408,184
Healthcare Underwriters Grp of FL	**FL** $9,361,318				
Hudson Specialty Ins Co*	CA $22,256,588	GA $14,529,512	MS $14,016,740	IL $13,978,089	OH $12,171,304
Lexington Ins Co	CA $60,833,743	TN $55,779,322	NY $45,785,678	**FL** $40,422,790	AZ $34,336,974
MAG Mut Ins Co	GA $153,162,915	**FL** $91,062,199	NC $62,476,460	VA $14,449,445	SC $11,493,958
Medical Protective Co*	PA $96,481,344	OH $89,780,714	TX $73,744,096	KY $39,588,342	IN $38,638,959
Physicians Ins Co	**FL** $9,521,238	TX $167,024			
Physicians Preferred Ins Reciprocal	**FL** $13,335,720				
Physicians Professional Liability RRG	**FL** $9,470,434	IL $152,813			
Pronational Ins Co	**FL** $51,402,916	MI $39,753,684	IL $24,147,409	KY $21,324,451	DE $18,095,529

**Hudson Specialty's Florida amount was $11,752,735; Medical Protective's Florida amount was $15,308,535.*

As the table shows, Florida is the largest market for 11 of the insurers. For four of these eleven, Florida is either their only market, or in the case of Physicians Insurance company, nearly its only market, and medical malpractice remains their only line of business. The remainder show substantial geographic diversification across their medical malpractice book of business. For 2006, two of the largest Florida market writers, Hudson Specialty and Medical Protective, do not rely on Florida as one of their largest five markets.

Comparative Ratios: Florida vs. Other States

Loss ratios and defense cost containment ratios can be calculated on a state-by-state basis. These ratios are useful in that they allow for a comparison of the relative cost of operating in Florida, versus other states. This can also indirectly measure the adequacy of the premium given the specific books of business. The loss ratios for the top 17 medical malpractice writers in Florida and for their other top state markets are listed below:

Direct Loss Ratios 2006

Company	State 1	State 2	State 3	State 4	State 5
Anesthesiologists Pro Assur Co	**FL** -13.71%	TX 48.75%	AZ 48.75%	GA 48.75%	AL 48.75%
Columbia Cas Co	**FL**	CA	WA	GA	OH
	239.00%	8.49%	-43.79%	55.62%	55.55%
Continental Cas Co	OR 49.82%	CO 83.53%	**FL** 73.18%	IL -95.93%	CT 69.86%
Doctors Co An Interins Exchn	CA 28.89%	**FL** 32.21%	VA 22.45%	OH -23.81%	WA 63.90%
Evanston Ins Co	**FL** 21.97%	CA -5.79%	TX -7.60%	NY 17.32%	PA 11.52%
First Professionals Ins Co	**FL** 29.11%	GA 70.31%	AR 50.27%	PA 60.00%	OH 6.99%
Florida Healthcare Providers Ins Exc	**FL** 38.00%				
Health Care Ind Inc	**FL** 20.52%	TX 20.52%	GA 20.52%	SC 20.52%	NV 20.52%
Healthcare Underwriters Grp of FL	**FL** 33.91%				
Hudson Specialty Ins Co*	CA 35.19%	GA 44.35%	MS 21.76%	IL 32.92%	OH 15.91%

Lexington Ins Co	CA 19.43%	TN 91.19%	NY 39.28%	**FL** 11.54%	AZ 25.29%
MAG Mut Ins Co	GA 30.16%	**FL** 24.81%	NC 43.84%	VA 31.50%	SC 67.99%
Medical Protective Co*	PA 50.91%	OH 45.82%	TX 40.06%	KY 30.30%	IN 43.82%
Physicians Ins Co	**FL** 29.66%	TX 0.00%			
Physicians Preferred Ins Reciprocal	**FL** 46.82%				
Physicians Professional Liability RRG	**FL** 11.94%	IL 0.00%			
Pronational Ins Co	**FL** 9.72%	MI -9.40%	IL 38.46%	KY 58.80%	DE 51.58%

**Hudson's Florida percentage was 27.15%; Medical Protective's Florida percentage was 31.44%.*

Medical Malpractice Insurance Loss Ratios by State

The sample companies' operating experience in Florida for 2006 appears to be roughly in line with their experience in their other state markets. In the majority of cases, the Florida direct loss ratio was among the lower loss ratios experienced by these companies in their top five markets. A notable exception was Columbia Casualty, which reported a large direct loss ratio; again driven by the amount of premium they cede thus reducing their earned premium in any year.

Another useful measure is the Defense Cost Containment (DCC) expense ratio. In general terms these are the costs incurred by the insurance company associated with defending lawsuits. The DCC combined with the loss ratio is a commonly used general measure used to determine overall profitability.

The table below shows the combined loss and DCC ratio for the sample firms in their major markets. As the reported ratios show, the combined Loss + DCC ratio tends to be slightly higher than that generally observed in the other major market for these companies; although this is not universally true. Florida's Loss & DCC ratio is higher than in their other major markets for 3 for the 13 sample companies that write medical malpractice in more than one state; for 5 of the 13 it is the lowest.

Medical Malpractice Insurance Loss & DCC Ratios by State

Company	State 1	State 2	State 3	State 4	State 5
Anesthesiologists Pro Assur Co	**FL** 3.61%	TX 68.66%	AZ 49.46%	GA 77.42%	AL 1.11%
Columbia Cas Co	**FL** 309.63%	CA 11.95%	WA -41.92%	GA 56.74%	OH 58.83%
Continental Cas Co	OR 68.03%	CO 84.28%	**FL** 95.95%	IL -84.53%	CT -55.87%
Doctors Co An Interins Exchn	CA 46.58%	**FL** 49.54%	VA 32.02%	OH -16.32%	WA 77.09%
Evanston Ins Co	**FL** 23.56%	CA -4.95%	TX -7.47%	NY 18.10%	PA 12.19%
First Professionals Ins Co	**FL** 46.04%	GA 94.43%	AR 63.33%	PA 691.79%	OH 1756.44%
Florida Healthcare Providers Ins Exc	**FL** 41.97%				
Health Care Ind Inc	**FL** 46.29%	TX 47.72%	GA 61.46%	SC 50.48%	NV 63.13%
Healthcare Underwriters Grp of FL	**FL** 40.50%				
Hudson Specialty Ins Co*	CA 38.08%	GA 45.93%	MS 21.64%	IL 37.12%	OH 19.64%
Lexington Ins Co	CA 24.33%	TN 93.52%	NY 41.90%	**FL** 23.88%	AZ 33.84%
MAG Mut Ins Co	GA 52.01%	**FL** 39.07%	NC 60.49%	VA 42.24%	SC 67.99%
Medical Protective Co*	PA 61.95%	OH 56.68%	TX 57.83%	KY 46.49%	IN 61.28%
Physicians Ins Co	**FL** 40.23%	TX 0.00%			
Physicians Preferred Ins Reciprocal	**FL** 49.31%				
Physicians Professional Liability RRG	**FL** 24.57%	IL 5.76%			
Pronational Ins Co	**FL** 56.56%	MI 38.28%	IL 64.82%	KY 72.36%	DE 57.50%

** Hudson Specialty's DCC + Loss Ratio is 30.10%; Medical Protective's DCC + Loss Ratio is 82.00%.*

Balance Sheet Information

The following section pertains primarily to the "balance sheet" information for the top 17 writers of medical malpractice insurance in Florida. The charge of the Legislature is ultimately to determine the profitability of the insurers in the medical malpractice market in Florida. As mentioned at the outset, this charge is complicated by the nature of the annual statutory financial statements along with the recognition that:

- Written business is often ceded to other companies
- Companies are generally not mono-line writers
- Companies generally do not write exclusively in Florida

The combined impact is that it is ultimately difficult to assign profit by line, or by state. With these restrictions, this report presents the data and analysis for these 17 companies to determine overall profitability, and potential trends in the marketplace.

Ceding Business

More than in most other lines of insurance, companies writing medical malpractice insurance typically engage in a substantial amount of risk management that is reflected in a large amount of business being either assumed from or ceded to other entities as reflected in their reported premium flow. In the state-wide numbers, the report typically relies on the "earned" premium number to capture the potential for assumed and ceded risk that may be misrepresented by a "written" premium number.

Another difference in the premium is the type of medical malpractice insurance. Medical malpractice insurance can be written on an "occurrence" basis, or a "claims made" basis. Medical malpractice insurance in the 1970s, 1980s, and even into the 1990s often was sold on an "occurrence" basis, which covers a doctor or medical provider based on when the alleged malpractice occurred, not when it was noticed, and/or when a malpractice claim was filed. This is similar to other types of property & casualty insurance, which are usually based on “coverage periods,” and covers damage resulting during that period regardless of when it was noticed, or a claim was filed.

Although this worked well from the standpoint of the medical community, medical malpractice on an occurrence basis presented some problems to the insurance industry. Specifically, this makes medical malpractice a “long-tailed” insurance coverage, which makes accounting and reserving more difficult as a medically negligent procedure may not result in health problems for as many as 5 to 10 years in the future.

As a result, the recent trend in the insurance industry is to offer more medical malpractice insurance on a “claims made” basis – which covers the claim period regardless of when the actual alleged negligence occurred. This makes reserving requirements more certain as it gives a clear identifying scope to the insurance company as to what claims have been filed during what period. Due to litigation and the uncertainty of outcome, there are still reserving uncertainties and a “long-tail” element to medical malpractice insurance, but at least the insurance company should know the entire universe of claims that could ever be filed after the end of the coverage period.

To incorporate these considerations, the financial analysis that follows includes the amount of business assumed and ceded, as well as the type of medical malpractice insurance, claims-made or occurrence type insurance. The tables summarizing both types of insurance for Florida’s top 17 writers follow:

Net Written Premium and Ceded Percentage
2006 Nationwide Data
OCCURRENCE

Company	Direct	Assumed	Gross	Ceded	Net	Percent of Premium Ceded
Pronational Ins Co	$7,656,677	$260,912	$7,917,589	$36,245	$7,881,344	0.46%
Doctors Co An Interins Exchn	$31,532,873	$1,077,641	$32,610,514	$14,060,968	$18,549,546	43.12%
Evanston Ins Co	$0	$0	$0	$0	$0	NA
Columbia Cas Co	$75,000	$0	$75,000	$75,000	$0	100.00%
Continental Cas Co	$1,896,485	$123,404,035	$125,300,520	-$19,895	$125,320,415	-0.02%
Hudson Specialty Ins Co	$0	$0	$0	$0	$0	NA
Florida Healthcare Providers Ins Exc	$0	$0	$0	$0	$0	NA
Healthcare Underwriters Grp of FL	$231,925	$0	$231,925	$40,090	$191,835	17.29%
Medical Protective Co	$272,668,886	$179,331	$272,848,217	$135,510,947	$137,337,270	49.67%
MAG Mut Ins Co	$24,469,263	$0	$24,469,263	$4,794,265	$19,674,998	19.59%
First Professionals Ins Co	$8,501,278	$413,094	$8,914,372	$3,102,721	$5,811,651	34.81%
Physicians Preferred Ins Reciprocal	$565,108	$0	$565,108	$6,992	$558,116	1.24%
Anesthesiologists Pro Assur Co	$819,199	$697,010	$1,516,209	$819,198	$697,011	54.03%
Physicians Ins Co	$168,198	$0	$168,198	$103,936	$64,262	61.79%
Lexington Ins Co	$15,612,320	$7,465,728	$23,078,048	$10,386,778	$12,691,270	45.01%
Health Care Ind Inc	$311,242,530	$0	$311,242,530	$6,800,000	$304,442,530	2.18%
Physicians Professional Liability RRG	$0	$0	$0	$0	$0	NA

Net Written Premium and Ceded Percentage
2006 Nationwide Data
CLAIMS-MADE

Company	Direct	Assumed	Gross	Ceded	Net	Percent of Premium Ceded
Pronational Ins Co	$164,907,435	$9,321,236	$174,228,671	$5,088,342	$474,402,163	3.23%
Doctors Co An Interins Exchn	$417,678,801	$72,544,218	$490,223,019	$15,820,856	$117,572,383	23.21%
Evanston Ins Co	$141,465,637	$11,636,034	$153,101,671	$35,529,288	$0	100.00%
Columbia Cas Co	$161,892,836	$1,516,875	$163,409,711	$163,409,711	$323,653,284	31.20%
Continental Cas Co	$248,722,812	$221,730,751	$470,453,563	$146,800,279	$11,225,999	92.19%
Hudson Specialty Ins Co	$143,727,473	$0	$143,727,473	$132,501,474	$8,015,393	25.63%
Florida Healthcare Providers Ins Exc	$10,778,446	$0	$10,778,446	$2,763,053	$8,067,671	11.63%
Healthcare Underwriters Grp of FL	$9,129,393	$0	$9,129,393	$1,061,722	$197,880,348	50.78%
Medical Protective Co	$401,892,953	$165,766	$402,058,719	$204,178,371	$257,972,995	19.56%
MAG Mut Ins Co	$318,380,002	$2,333,484	$320,713,486	$62,740,491	$155,829,665	33.95%
First Professionals Ins Co	$205,840,882	$30,096,862	$235,937,744	$80,108,079	$12,612,604	1.24%
Physicians Preferred Ins Reciprocal	$12,770,612	$0	$12,770,612	$158,008	$18,689,158	54.41%
Anesthesiologists Pro Assur Co	$22,301,059	$18,689,158	$40,990,217	$22,301,059	$4,336,612	54.45%
Physicians Ins Co	$9,520,064	$0	$9,520,064	$5,183,452	$502,194,146	29.60%
Lexington Ins Co	$643,199,298	$70,107,088	$713,306,386	$211,112,240	$8,504,026	15.81%
Health Care Ind Inc	$0	$10,100,816	$10,100,816	$1,596,790	$10,654,578	-10.72%
Physicians Professional Liability RRG	$9,623,247	$0	$9,623,247	-$1,031,331	$10,654,578	-10.72%

Based on the data above, several features of the operations of the sample companies are evident. Initially, for most companies, a substantial portion of all business is ceded to other entities. This may be an indication of a healthy market, as it implies an availability of reinsurance and working relationships with other insurance entities to distribute risk. This may be especially important in the medical malpractice insurance marketplace due to the large differences in loss ratios, defense cost claims, and regulations based on the different states as illustrated in the state comparison section of this report. A better portrayal of the amount of ceded business is illustrated in the table below which combines both occurrence and claims-made insurance:

Company	Percent Ceded
Pronational Ins Co	2.81%
Doctors Co An Interins Exchn	5.72%
Evanston Ins Co	23.21%
Columbia Cas Co	100.00%
Continental Cas Co	24.64%
Hudson Specialty Ins Co	92.19%
Florida Healthcare Providers Ins Exc	25.63%
Healthcare Underwriters Grp of FL	11.77%
Medical Protective Co	50.33%
MAG Mut Ins Co	19.56%
First Professionals Ins Co	33.98%
Physicians Preferred Ins Reciprocal	1.24%
Anesthesiologists Pro Assur Co	54.39%
Physicians Ins Co	54.58%
Lexington Ins Co	30.08%
Health Care Ind Inc	2.61%
Physicians Professional Liability RRG	-10.72%

Columbia Casualty Company ceded all of their medical malpractice business to another company – albeit an affiliate company within the same management group. Hudson Specialty also ceded nearly all of its business, the majority to an affiliate company, but some to non-affiliates.

Another aspect of the market to note from the preceding two charts is that more companies write claims-made than occurrence insurance. Occurrence insurance is still necessary for doctors moving from one provider to another as this creates a need for a "tail" of coverage. The new provider would only want to be responsible for claims filed after employment with the new provider, and not want to be responsible for health care rendered prior to the new employment. However, it does appear that the majority of the leading medical malpractice insurance writers in Florida are moving away from occurrence type insurance toward claims-made type coverage for their direct writings:

Company	Occurrence	Claims Made
Pronational Ins Co	4.44%	95.56%
Doctors Co An Interins Exchn	7.02%	92.98%
Evanston Ins Co	0.00%	100.00%
Columbia Cas Co	0.05%	99.95%
Continental Cas Co	0.76%	99.24%
Hudson Specialty Ins Co	0.00%	100.00%
Florida Healthcare Providers Ins Exc	0.00%	100.00%
Healthcare Underwriters Grp of FL	2.48%	97.52%
Medical Protective Co	40.42%	59.58%
MAG Mut Ins Co	7.14%	92.86%
First Professionals Ins Co	3.97%	96.03%
Physicians Preferred Ins Reciprocal	4.24%	95.76%
Anesthesiologists Pro Assur Co	3.54%	96.46%
Physicians Ins Co	1.74%	98.26%
Lexington Ins Co	2.37%	97.63%
Health Care Ind Inc	100.00%	0.00%
Physicians Professional Liability RRG	0.00%	100.00%

Fifteen of the 17 leading writers in Florida write more than 90% of their direct medical malpractice insurance on a claims-made basis. In fact, four companies write exclusively claims-made medical malpractice insurance. Only Health Care Indemnity Inc. (HCII) writes exclusively occurrence type medical malpractice insurance in Florida.

Solvency

To assess the solvency of the medical malpractice companies, this report uses three ratios: 1) the net liability to surplus ratio; and 2) the net written premium to surplus ratio; and 3) gross written premium to surplus ratio. Although these ratios do not address liquidity issues, they do indirectly measure the company's ability to pay its claims in the short-run.

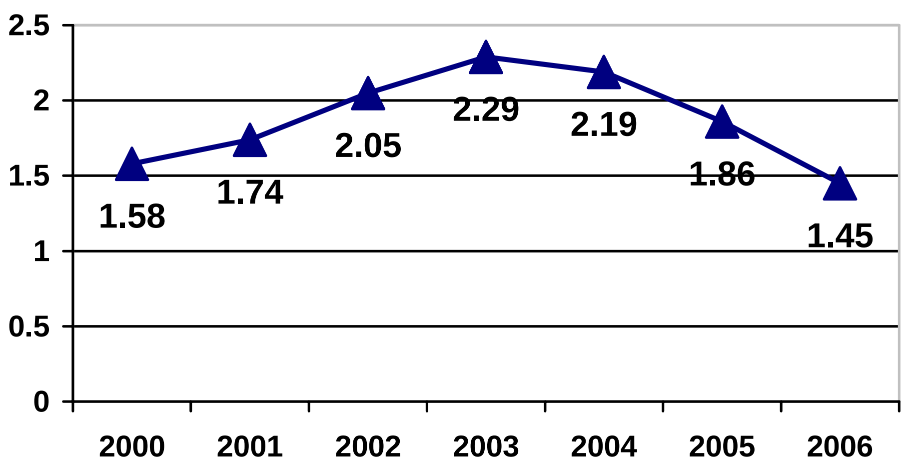
The first measure is the net liability to surplus ratio. "Net liability" is defined as the amount of losses plus loss adjustment expense for a given year. The data for the 17 sample companies are as follows:

Net Liability to Surplus Ratio
2006

Company	Net Liabilities to Surplus
Pronational Ins Co	2.03
Doctors Co An Interins Exchn	0.86
Evanston Ins Co	1.44
Continental Cas Co	2.21
Columbia Cas Co	0.00
Hudson Specialty Ins Co	0.26
Florida Healthcare Providers Ins Exc	0.48
Healthcare Underwriters Grp of FL	0.38
Medical Protective Co	0.80
MAG Mut Ins Co	1.59
Anesthesiologists Pro Assur Co	1.31
First Professionals Ins Co	1.27
Physicians Preferred Ins Reciprocal	0.62
Physicians Ins Co	0.58
Lexington Ins Co	1.50
Health Care Ind Inc	2.27
Physicians Professional Liability RRG	0.78

Ranges for these ratios are not mandated by statute, although these results do not present a concern from a solvency standpoint. A graph of the weighted data for the top 80% of the market over the past five years is shown below:

Net Liability to Surplus Ratio



Although the net liability to surplus ratio was increasing steadily in the last few years for the top Florida medical malpractice writers, the ratio has dropped for the third year in a row, implying a continued improvement, all else equal, in the balance sheet strength of these insurers.

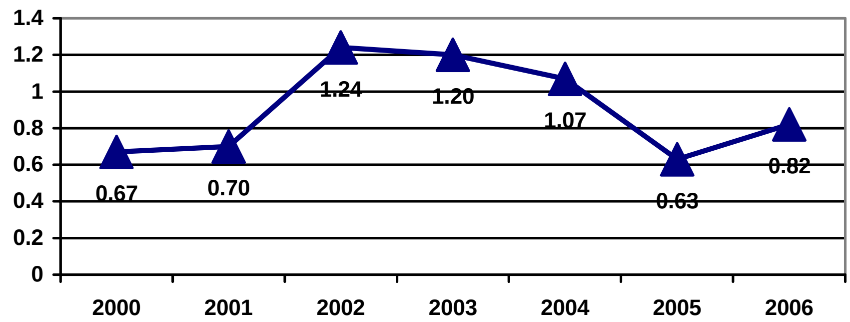
The second important solvency ratio examined is the net written premium to surplus ratio. Unlike the previous ratio, limits for this ratio are mandated by Section 624.4095, Florida Statutes. The ratio itself is not a straightforward calculation --- there are premium adjustments depending on the type of insurance per Section 624.4095(4), Florida Statutes. According to this section of the statute, property insurance premium should be multiplied by 0.90, while casualty insurance should be multiplied by 1.25. Medical malpractice is considered a “casualty” category, and would be subject to the 1.25 multiplier. Yet of the top 17 companies writing med-mal in Florida, very few are mono-line writers. Thus each company could have a different multiplier depending on their mix of business. By statute, the adjusted ratio cannot exceed 4:1. The table for the net written premium to surplus for the 17 sample companies is shown below:

Company Name	Net Written Premium to Surplus Ratio
Pronational Ins Co	0.80
Doctors Co An Interins Exchn	0.75
Evanston Ins Co	1.05
Continental Cas Co	0.86
Columbia Cas Co	0.00
Hudson Specialty Ins Co	0.27
Florida Healthcare Providers Ins Exc	0.87
Healthcare Underwriters Grp of FL	0.60
Medical Protective Co	0.52
MAG Mut Ins Co	1.13
Anesthesiologists Pro Assur Co	0.76
First Professionals Ins Co	0.81
Physicians Preferred Ins Reciprocal	1.44
Physicians Ins Co	0.77
Lexington Ins Co	1.18
Health Care Ind Inc	0.60
Physicians Professional Liability RRG	0.84

Consistent with the past reports, these numbers have not been adjusted by the premium modifiers specified in Section 624.4095(4), Florida Statutes. However, even if it is assuming these companies wrote 100% casualty insurance and had the maximum modifier of 1.25, none would come close to exceeding the 4:1 statutory ratio.

The chart below provides a view of the trend of the average net written premium to surplus ratio for the majority of the Florida market over time:

Net Written Premium to Surplus Ratio



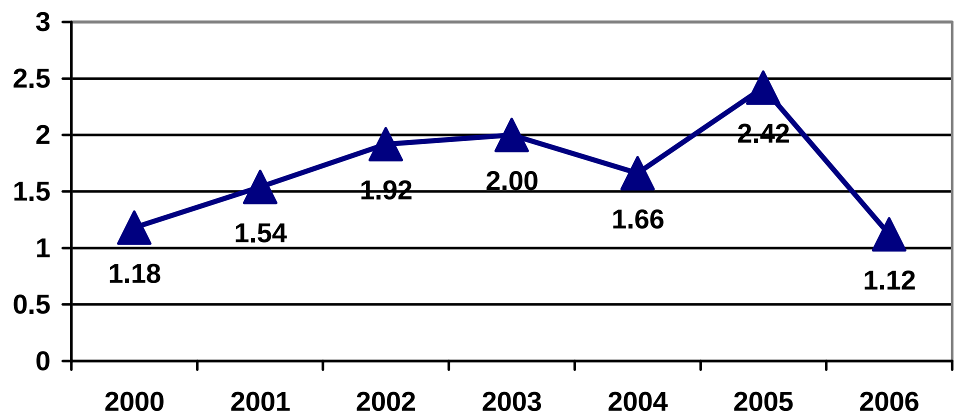
As the chart above shows, after a sharp increase in 2002, the net written premium to surplus ratio drifted downward in 2003, continued downward in 2004, and especially 2005, and has risen moderately in 2006 to 0.82. The ratio of 0.82 is comfortably in the acceptable range for solvency purposes, indicating a relatively large capital and surplus position to support the business written.

The third ratio is the gross written premium to surplus ratio. Gross written premium is defined as total direct written premium and assumed reinsurance premium. Section 624.4095 mandates that these ratios be within 10:1 for admitted carriers while retaining the same insurance multipliers from the previous ratio. Gross premium is the direct written premium plus the assumed premium. The data for the 17 companies are below:

Company	Gross Premium to Surplus Ratio
Pronational Ins Co	0.79
Doctors Co An Interins Exchn	0.68
Evanston Ins Co	1.10
Continental Cas Co	0.62
Columbia Cas Co	3.36
Hudson Specialty Ins Co	3.17
Florida Healthcare Providers Ins Exc	1.17
Healthcare Underwriters Grp of FL	0.68
Medical Protective Co	1.05
MAG Mut Ins Co	1.40
Anesthesiologists Pro Assur Co	0.90
First Professionals Ins Co	1.07
Physicians Preferred Ins Reciprocal	1.45
Physicians Ins Co	1.70
Lexington Ins Co	1.79
Health Care Ind Inc	0.60
Physicians Professional Liability RRG	0.76

For consistency, the data above have not been adjusted by the requisite premium multipliers. Although Section 624.4095, Florida Statutes, only pertains to admitted carriers, not surplus lines carriers, even the surplus lines carriers are within the statutory ratios. The chart below tracks the trend of this ratio rend over time for the top 80% of med-mal writers in Florida:

Gross Premium to Surplus Ratio



The weighted total ratio for the 17 sample companies is 1.12, a 54% decrease from 2005. This weighted ratio is driven largely by those companies noted above that cede a substantial portion of their business. As such, the gross premium to surplus ratio for them is high, and not truly reflective of the capital actually at risk. Overall, with the decrease observed in 2006, these ratios are well within the ranged of prudent solvency management, and do not indicate an industry solvency concern.

Profitability

Just like the issue of "solvency," profitability for the industry is not easily defined, especially when the data are aggregated nationally, and cannot be segregated into a state-by-state comparison. The analysis can only look at the financial performance of the 17 companies knowing that some of their profits/losses may come from other states, or other lines of business. One common measurement is the Loss & LAE (loss adjustment expense) ratio to earned premium. Below are the Loss and LAE ratio for the 17 companies:

Loss & LAE Ratios
2006

Company	Ratio
Pronational Ins Co	98.69%
Doctors Co An Interins Exchn	51.85%
Evanston Ins Co	40.46%
Continental Cas Co*	NA
Columbia Cas Co	80.90%
Hudson Specialty Ins Co	50.43%
Florida Healthcare Providers Ins Exc	60.00%
Healthcare Underwriters Grp of FL	73.02%
Medical Protective Co	74.47%
MAG Mut Ins Co	77.15%
Anesthesiologists Pro Assur Co	67.37%
First Professionals Ins Co	66.86%
Physicians Preferred Ins Reciprocal	64.65%
Physicians Ins Co	23.22%
Lexington Ins Co	62.93%
Health Care Ind Inc	52.55%
Physicians Professional Liability RRG	82.57%

** Continental Casualty cedes 100% of its business so this ratio is N/A.*

As the tables show, there is substantial variation among the companies, though they together show the increased underwriting rigor evidenced in the market nationally in recent years.

Another common measure of overall profitability is net income, and to make the number more meaningful, net income as a percentage of surplus. This ratio often is considered a surrogate variable for return on equity, a common measure of profitability in other industries. The return on surplus numbers from 2006 for the 17 sample companies:

Return on Surplus
2006

Company	Return on Surplus
Anesthesiologists Pro Assur Co	11.77%
Columbia Cas Co	2.00%
Continental Cas Co	6.47%
Doctors Co An Interins Exchn	20.98%
Evanston Ins Co	28.94%
First Professionals Ins Co	9.72%
Florida Healthcare Providers Ins Exc*	**1.69%**
Health Care Ind Inc	61.11%
Healthcare Underwriters Grp of FL*	**-2.20%**
Hudson Specialty Ins Co	13.80%
Lexington Ins Co	25.51%
MAG Mut Ins Co	12.86%
Medical Protective Co	9.41%
Physicians Ins Co*	**10.94%**
Physicians Preferred Ins Reciprocal*	**-1.05%**
Physicians Professional Liability RRG*	**-1.19%**
Pronational Ins Co	129.50%
Premium Weighted Average	28.79%
Premium Weighted Average ex Pronational	20.64%

** Bolded Companies write 100% of their medical malpractice business in Florida.*

As the data above show, 2006 was a profitable year for the top 17 companies in the Florida market, consistent with A.M. Best's remarks on the national market noted in the introduction to this report. It is extremely important, however, to put these return statistics in context when attempting to draw inference about the Florida medical malpractice insurance market. The return on surplus numbers above is based on the insurer's total book of business (all lines) across the entire country. Statutory reporting does not allow for any finer granularity of this statistic. That should not be interpreted to mean that the sample companies above earned that reported rate of return on their Florida malpractice insurance during 2006.

To address the Florida medical malpractice market more directly; the five companies identified in bold in the table above wrote only medical malpractice exclusively (or nearly exclusively) in the Florida market. Note that three had negative returns on surplus; and the remaining two companies earned 1.69% and 10.94%, well below the 20.64% reported average.

For those companies writing in multiple states, the loss ratio charts earlier do suggest that Florida was generally not the market creating substantial underwriting profits on medical malpractice insurance. Taken together, these data suggest that medical malpractice insurance in Florida is being written by relatively strong financial condition companies who are not earning the bulk of last year's substantial returns from the Florida market.

One number in the table above, though, does warrant further scrutiny. Pronational Insurance Company has a reported 129.5% Return on Statutory Surplus for 2006.

A closer review of the income statement (see Appendix B) reveals that Pronational had an unusually large percentage of investment income in 2006. The report analysis adjusts the final return on surplus number for Pronational Insurance Company. Pronational showed a 129.5% return on surplus which was due to the capital gain on the sale of a subsidiary, MEMIC. The results used in this report reflect Pronational's return on surplus from insurance operations which was 7.60%. To that extent, the premium weighted average Return on Statutory Surplus for this report will be calculated with Pronational's adjusted information.

As the table above shows, this yields an average return on surplus of 19.67% for 2006. Following a reported overall return on surplus of 13.2% in 2005; the rate trends infers continued profitability. It is important to note however, that over the last six years, the data following show that the return on surplus has been highly volatile; positive in 2002, 2004, 2005, and but providing negative returns in 2001 and 2003. It does appear, however that the trend causing significant industry concerns of the early 2000's has largely evaporated.

Year	2001	2002	2003	2004	2005	2006
Return on Surplus	**(- 7 %)**	**19%**	**(- 12%)**	**10%**	**13%**	**20%**

Finally, the analysis compares other commonly used financial ratios obtained from the 2006 income statements. These ratios include the combined ratio, as well as the operating ratio on a pre-tax and post-tax basis:

Financial Ratios
2006 Income Statement

Company	Combined Ratio	Operating Ratio (Pre-Tax)	Operating Ratio (post-tax)
Pronational Ins Co	114.80%	-56.74%	-56.69%
Doctors Co An Interins Exchn	76.69%	67.81%	64.40%
Evanston Ins Co	76.80%	65.91%	58.93%
Continental Cas Co	112.45%	86.71%	81.88%
Columbia Cas Co	NA	NA	NA
Hudson Specialty Ins Co	35.32%	6.78%	-29.40%
Florida Healthcare Providers Ins Exc	103.84%	94.65%	91.46%
Healthcare Underwriters Grp of FL	111.62%	99.16%	94.58%
Medical Protective Co	92.39%	70.49%	61.26%
MAG Mut Ins Co	94.46%	81.29%	73.97%
Anesthesiologists Pro Assur Co	89.97%	75.66%	66.48%
First Professionals Ins Co	91.40%	81.42%	74.63%
Physicians Preferred Ins Reciprocal	101.82%	96.92%	92.95%
Physicians Ins Co	83.15%	72.95%	61.24%
Lexington Ins Co	76.54%	64.50%	52.59%
Health Care Ind Inc	56.98%	30.90%	63.29%
Physicians Professional Liability RRG	123.08%	98.63%	95.66%

A more detailed presentation of the income statement elements is included in Appendix B.

Reserve Development

Another area that is important to examine, especially in medical malpractice insurance, is the reserve development experience. Since overall company solvency pertains more to the reserve development of the overall book of business, the development amounts shown below are for all lines of business. The reserve development data collected in the annual statutory financial statements are for both one-year development and two-year development. The two-year measurement is potentially a better measurement tool because it can smooth anomalous yearly data. The reserve development for the 17 sample companies is listed below:

Adverse / (Favorable) Reserve Development

Company	One Year Reserve Development	Two Year Reserve Development
Doctors Co An Interins Exchn	-$3,230	$7,092
Pronational Ins Co	$9,507	$21,152
Evanston Ins Co	-$2	$32
Hudson Specialty Ins Co	$0	$0
Columbia Cas Co	$0	$0
Continental Cas Co	$5,839	$25,196
Florida Healthcare Providers Ins Exc	$0	$0
Healthcare Underwriters Grp of FL	-$5	$9
Medical Protective Co	$38,079	-$167,556
MAG Mut Ins Co	$2,482	-$3,017
Anesthesiologists Pro Assur Co	$1,835	$2,990
Physicians Preferred Ins Reciprocal	$24	$0
First Professionals Ins Co	$11,690	$17,798
Physicians Ins Co	-$39	-$22
Lexington Ins Co	-$2,076	-$4,590
Health Care Ind Inc	-$267,957	-$353,765
Physicians Professional Liability RRG	$0	$0
Total	-$203,853	-$454,681

When measured as either a one-year or two-year reserve development, the overall results suggest the same result; in aggregate, 2006 showed favorable reserve development, following a similar finding in 2005. It appears that, in aggregate, the unfavorable reserve development trend in evidence in the Florida market since 2001 has been reversed. There is some reason to continue to monitor these trends though, as ten of the sample companies reported either no or favorable one year reserve development and 10 of the sample companies also reported favorable two year reserve development. The overall favorable reserve development experience, if continued, could ease rate pressures in the Florida medical malpractice market.

Medical Malpractice Rate Filings in 2006

The calendar year 2006 featured 32 rate filings. However, many of these rate filings were for specialized types of medical malpractice insurance including dentists, podiatrists, optometrists, chiropractors and other distinct field. The primary market for medical malpractice insurance is for physicians and surgeons. The results for these filing are below:

Company	Policy Count	Insurer Indicated Change	Approved Rate Change	Approval Date
Florida Doctors Ins. Co.	66	(-16.40%)	(-16.40%)	11/18/2006
Florida Healthcare Providers Ins. Exchange	678	(-27.80%)	(-16.00%)	12/8/2006
Anesthesiologists Professional Assurance Co.	610	(-14.50%)	(-14.50%)	7/13/2006
First Professional Ins. Co.	6,992	(-8.50%)	(-11.00%)	10/20/2006
Medical Protective Co.	638	(-10.60%)	(-10.00%)	4/24/2006
Insurance Services Offices (ISO)	0	(-8.00%)	(-8.00%)	11/13/2006
Healthcare Underwriters Group	519	(-6.70%)	(-6.70%)	1/30/2006
Physicians Ins. Co.	654	(-5.50%)	(-3.90%)	2/1/2006
Physicians Preferred	875	+2.10%	(-3.00%)	12/7/2006
Florida Doctors Ins. Co.	31	(-1.90%)	(-1.90%)	5/16/2006
Doctors Company	1,504	(-0.80%)	(-1.30%)	4/21/2006
Preferred Professional Ins. Co.	154	+16.30%	+6.00%	1/25/2006
MAG Mutual Ins. Co.	1,401	+9.20%	+9.20%	3/24/2006
National Fire Ins. Co.	193	+18.70%	+18.70%	6/22/2006
Average Rate Change for all Doctors		**(-4.20%)**	**(-5.30%)**	
Average Rate Change for Doctors in Florida		**(-2.42%)**	**(-3.06%)**	

The average rate increase for filings approved in 2006 was negative (-5.30%). This is potentially misleading as some medical malpractice carriers filed for no change. If these are added into the calculation, which assumes a zero change for these companies, the overall affect on the "average" physician and surgeon operating in the state of Florida is still negative (-3.06%). These results were weighted by earned premium to account for the fact that some filings encompass greater numbers of professionals.

While a number of the companies that comprise 80% of the market are included above, note that the surplus lines companies are not included as they do not have to file rate increases with the Office.

Although the average rate approval for the primary market was negative, this results was not necessarily true for the secondary medical malpractice markets. The weighted average rate approval for dentists was +5.4%, the average for professional nurses was +39.9%, while the average rate approval for other healthcare professionals including podiatrists, optometrists, therapists, chiropractors and other specialties was +1.7%. The full results for the primary and secondary medical malpractice markets are included in Appendix C.

Public Hearing on Medical Malpractice Rates

Although this report focuses on the Florida malpractice market in 2006, an important event related to the market was held on January 30, 2007. At the behest of former Insurance Advocate Steve Burgess, the Office of Insurance Regulation conducted a hearing to review medical malpractice rates in Tallahassee. The office heard testimony from insurance companies, industry experts, the Florida Justice Association and the Consumer Advocate.

At issue was whether the rate decreases prompted by the 2003 legislation and the Office's published presumed factor had been adapted into the rates charged by insurers in the Florida market. After reviewing the evidence and testimony provided, the recommendation of the Office was that another study of the market, similar to that conducted by Deloitte Touche in 2003, be conducted to determine if the initial presumed factor savings of 7.8% has in fact been realized. The study should also determine if any additional savings should be passed back to consumers through rate reductions. And lastly, the study should review any subsequent legislative changes and their impact on the medical malpractice market.

New Companies Entering the Florida Medical Malpractice Market

Aside from the analysis of the 80% market share sample companies, another indication of the health and perceived profitability of the Florida medical malpractice insurance market would be the number of new entrants into the market. During 2006, seven "new" companies entered the Florida medical malpractice insurance market. "New" companies can either be a start-up company, a company operating in another state expanding to Florida, or an established company already writing in Florida that expanded its lines of business to include medical malpractice insurance.

During 2006, the following companies entered the medical malpractice insurance market in Florida:

Company	Authorization Date
CENTURION MEDICAL LIABILITY PROTECTIVE RISK RETENTION GROUP, INC.	25-Aug-06
CRUDEN BAY RISK RETENTION GROUP, INC.	18-Oct-06
GUARANTEE INSURANCE COMPANY	29-Sep-06
NATIONAL MEDICAL PROFESSIONAL RISK RETENTION GROUP, INC.	24-Aug-06
PHYSHIELD INSURANCE EXCHANGE, A RISK RETENTION GROUP	08-Jun-06
PHYSICIANS INDEMNITY RISK RETENTION GROUP, INC.	04-Oct-06
SAMARITAN RISK RETENTION GROUP, INC.	21-May-06

Note that the majority of the new entrants are risk retention groups. This is a trend observed nationally as well as in Florida.

Analysis of the Closed Claim Database

The Office of Insurance Regulation (Office) collects closed claim data reported by the insurers and self insured entities. For the purposes of the report, all claims closed during the period January 1, 2006 to December 31, 2006 were analyzed. The database contains other relevant dates including the occurrence date and the report date, when the insured made a claim. Although this section covers claims resolved in 2006, it is likely that the occurrence date and/or report date of a specific claim are from a previous year.

This is part of the nature of the medical malpractice insurance industry; there can be a considerable amount of time between when an accident occurs and when final payment is made. For the claims closed in 2006, the average difference between occurrence and when the claim was filed was 482 days, and the difference between when a claim was filed and when the claim was closed was 897 days.

This reported data is of limited use for evaluating the profitability, solvency, or the adequacy of rates of a specific company. The data does not include “open” claims or the entire universe of outstanding claims. As well, trend in either the amount of time to close a claim or in the amount of claim payments cannot be systematically evaluated.

To satisfy the statutory requirements of Section 627.912(6)(b)&(c), Florida Statutes, this portion of the report is divided into two sections: 1.) The statewide data; and, 2.) The data for the 17 companies that represent 80% of the Florida market. For every claim, insurers are asked to fill out 72 different fields of data --- some of these fields are required fields (i.e. claim number) while some are not (i.e. institution code). This report focuses on roughly 25 fields and is not intended to represent the entirety of information reported to the Office.

Medical Malpractice Insurance Claims in Florida

In 2006, the Florida medical malpractice insurance companies reported 3,811 distinct closed claims in Florida, a negligible increase from the 3,753 distinct claims reported closed in 2005. Of these 3,811 claims closed in 2006, 1,962 claims were filed by females and 1,849 claims were filed by males.

Injury Location

One of the data elements reported is the injury location, which has been divided into 10 different categories. The injury location for claims closed in 2006 includes the following:

Location	Frequency of Claims	Percentage of claims
Hospital Inpatient Facility	1,902	49.91%
Physician's Office	742	19.47%
Emergency Room	488	12.81%
Hospital Outpatient Facility	159	4.17%
Other Outpatient Facility	158	4.15%
Other Location	99	2.60%
Prison	95	2.49%
Patient's Home	84	2.20%
Other Hospital/Institution	48	1.26%
Nursing Home	36	0.94%
Total	3,811	

The data show that the largest number of claims came from hospital inpatient facilities, which together with physician's office and emergency room compromise over eighty percent of all claims closed in 2006.

Severity

The reporting data also contains a field to populate a "severity" field which ranks the types of injuries/medical problems into nine different categories ranging from "1" being the most minor physical ailments, to "9" indicating death of the insured. A brief summary of these categories are:

1 – Emotional Only: fright, no physical damage
2 – Temporary: slight lacerations

3 – Temporary: minor infections, missed fracture, fall in hospital
4 – Temporary: major burns, drug reaction
5 – Permanent: minor – loss of finger, damage to organs
6 – Permanent: significant – deafness, loss of limb, loss of eye
7 – Permanent: grave – paraplegia, blindness, loss of limbs
8 – Permanent: grave – quadriplegia, brain damage
9 – Permanent: death

The following chart tabulates the frequencies for the severity of claims resolved in Florida in 2006:

Severity code	Frequency of Claims
1	241
2	209
3	681
4	331
5	505
6	337
7	223
8	129
9	1,155

Category "9," meaning death, is the leading category for medical malpractice claims settled, and accounted for nearly 30% of all of the claims closed in 2006.

Geographic Distribution

Among the other data required to be filed are data that show the insured's residence including county, address and zip code. Not surprisingly, most closed claims come from areas that have the highest populations. The top 10 counties for closed medical malpractice claims in 2006 were:

Rank	County	Frequency of Claims
1	Dade	535
2	Broward	426
3	Palm Beach	332
4	Pinellas	241
5	Hillsborough	190
6	Orange	163
7	Duval	109
8	Pasco	109
9	Out of state	91
10	Volusia	73

There was at least one closed claim in 64 of Florida's 67 counties during 2006. For the first time since this report has been prepared, the category for out-of-state residents was in the top 10.

Insurance Companies with the Most Closed Claims

The table below lists the frequency of claims closed by insurance company in 2006 as reported to the closed claim database for those companies with the highest frequencies in the database. This does not represent a complete counting of all claims as a number of the claims settled during 2006 were against self insured entities, often hospital and provider networks.

The companies with the most reported closed claims in 2006 were:

Rank	Insurance Company	Frequency
1	**FIRST PROFESSIONALS INSURANCE COMPANY, INC**	715
2	**HEALTH CARE INDEMNITY, INC.**	424
3	**PRONATIONAL INSURANCE COMPANY**	275
4	**LEXINGTON INSURANCE COMPANY**	274
5	**MAG MUTUAL INSURANCE COMPANY**	181
6	**MEDICAL PROTECTIVE COMPANY (THE)**	159
7	**DOCTORS' COMPANY, AN INTERINSURANCE EXCHANGE (THE)**	121
8	TRUCK INSURANCE EXCHANGE	118
9	EVEREST INDEMNITY INSURANCE COMPANY	86
10	**CONTINENTAL CASUALTY COMPANY**	65
11	**ANESTHESIOLOGISTS PROFESSIONAL ASSURANCE COMPANY**	50
12	PODIATRY INSURANCE COMPANY OF AMERICA, A MUTUAL CO.	44
13	AMERICAN PHYSICIANS ASSURANCE CORPORATION	43
14	TIG INSURANCE COMPANY	41

15	**COLUMBIA CASUALTY COMPANY**	36
16	FORTRESS INSURANCE COMPANY	29
17	ST. PAUL FIRE & MARINE INSURANCE COMPANY	26
18	AMERICAN HEALTHCARE INDEMNITY CO.	25
Tie 19	**PHYSICIANS PROFESSIONAL LIABILITY RRG**	23
Tie 19	CLARENDON NATIONAL INSURANCE CO.	23
Tie 19	AMERICAN INTERNATIONAL SPECIALTY LINES INS. CO.	23

The companies in bold type are among the 17 companies comprising 80% of the direct written premium in Florida in 2006. As the data show, although these companies are in the top 17 of direct written premium calculations, they are not all necessarily the ones with the most closed claims in 2006. This could be in part due to the long-tailed nature of the business.

In many respects, the companies with the most closed-claims could well represent the leading writers from three or four years ago. However, the 17 companies selected for analysis in this report still represent a majority percentage of the total closed claims.

Financial Data:

Perhaps the most important information contained in the report is the financial data related to insurance company claims. The amount paid by the insured is divided into three categories: 1) The amount paid to the plaintiff; 2) The amount of loss adjustment expense; and 3) Other expenses. The data for all claims reported closed in 2006 were as follows:

Category	Amount
Amount Paid to Plaintiffs	$530,973,921
Loss Adjustment Expense to Defense Counsel	$166,031,692
Other LAE Expenses	$61,597,440

The total of these three categories, $758,603,053 represents the total amount paid by insurance companies, self-insurance companies, and surplus lines companies for claims settled in 2006. It is important to remember that in many instances, approximately 55%

of the time, the claims closed showed payments of $0 to the plaintiff. However, even in these instances, it is likely the insured still incurred loss adjustment expense, and sometimes other expenses. "Other expenses" are broadly defined and tend to deal with indirect expenses related to injury such as paying for someone to drive an injured/sick defendant's children to school.

Another area of financial data is the amount that the company paid for economic versus non-economic damages to plaintiffs. The data reported in the 2006 closed claims indicate the following:

Category	Amount
Economic:	
Insured's medical loss	$58,509,261
Insured's economic wage loss	$8,927,771
Insured's economic other loss	$3,056,993
Insured's estimated future medical loss	$143,352,500
Insured's estimated future wage loss	$41,285,871
Insured's estimated future other loss	$118,888,896
Total Economic damages	**$374,021,292**
Non-Economic	
Total Non-Economic damages	**$228,114,702**

There are some caveats to consider when reading this data. First, while conceptually the economic and non-economic damage total above should equal the total amount paid to the plaintiff presented previously, clearly the sums are different. The amounts in the table above sum to approximately $602 million. This total is approximately $72 million higher than the $530 million reported above. One possible reason for the discrepancy pertains to the forward looking estimates included in the economic damages above. Differences in methodologies for equating current dollar losses to future losses for reporting purposes can easily skew the results away from the conceptual equality of the two totals.

Apart from the time-value of money, and estimating future losses (and rate of inflation) there is some ambiguity in the estimate of the numbers themselves. Although claims can be closed for a variety of different reasons like a court ruling, or an outcome from an arbitration hearing, the majority of claims are settled out of court. Often these settlements stipulate a flat payment amount to the plaintiff, and do not distinguish what portion of the payment amount by the insurer is for economic versus non-economic damages. Therefore, companies are left to estimate these numbers to fill out the report. A few companies reported data with no estimates, leaving these fields blank.

Assuming the numbers are accurate within the noted limitations, $374 million of the amount paid to plaintiffs (or nearly 62%) are for "economic" damages, while $228 million of the amount paid to plaintiffs (or about 38%) are for non-economic damages.

Closed Claims for the 17 Largest Florida Writers

Throughout this report, the focus has been on the top 17 leading writers of medical malpractice in the state of Florida in 2006. This section provides an analysis of the timing sequence involved in reporting and closing a claim, as well as the paid amounts of closed claims to plaintiffs by these companies. Because not all the sample companies distinguished between economic versus non-economic claims, this data is not included. Legal settlements often state a specified amount, and do not apportion the final settlement amount based on economic versus non-economic damages.

The Timing of the Claim

As noted earlier, there are two main time sequences important to the resolution of a claim: 1) The amount of time between the incident occurrence and the reporting of the claim to the insurance company; and 2) The amount of time between reporting the claim, and the final disposition of the claim. For these two elements, the 17 leading writers of medical malpractice insurance in Florida reported the following average times and the number of claims being averaged:

Company	Number of Claims	Days from Occurrence to Report	Days From Report to Disposition	Total Days
First Professionals Ins Co	715	522	999	1,520
Health Care Ind Inc	424	324	654	978
Pronational Ins Co	275	531	1,306	1,837
Lexington Ins Co	274	388	599	987
MAG Mut Ins Co	181	525	789	1,314
Medical Protective Co	159	529	1,134	1,662
Doctors Co An Interins Exchn	121	619	832	1,451
Continental Cas Co	65	511	807	1,318
Anesthesiologists Pro Assur Co	50	386	1,105	1,490
Columbia Cas Co	36	368	808	1,176
Physicians Professional Liability RRG	23	672	769	1,441
Healthcare Underwriters Grp of FL	14	455	374	829
Physicians Preferred Ins Reciprocal	13	849	264	1,113
Hudson Specialty Ins Co	6	659	483	1,142
Florida Healthcare Providers Ins Exc	5	365	427	792

This table reinforces the “long-tail” aspect of medical malpractice insurance as it may take up to five years between the occurrence of an accident and actual payment.

The Plaintiff Settlement

Simply because a claim is “closed” does not mean that the plaintiff received payment. Whether due to an outcome of the courts, arbitration, or a plaintiff discontinuing pursuit of a claim, some claims are closed without any payment settlement. The data does show differences among the companies in terms of the percentage of closed claims that were settled, or resulted in the payment to the plaintiff:

Company	Number of Closed Claims	Claims With Payment to Plaintiff	Percentage
First Professionals Ins Co	715	218	30.49%
Health Care Ind Inc	424	206	48.58%
Pronational Ins Co	275	19	6.91%
Lexington Ins Co	274	116	42.34%
MAG Mut Ins Co	181	74	40.88%
Medical Protective Co	159	89	55.97%
Doctors Co An Interins Exchn	121	44	36.36%

Continental Cas Co	65	38	58.46%
Anesthesiologists Pro Assur Co	50	13	26.00%
Columbia Cas Co	36	19	52.78%
Physicians Professional Liability RRG	23	14	60.87%
Healthcare Underwriters Grp of FL	14	2	14.29%
Physicians Preferred Ins Reciprocal	13	8	61.54%
Hudson Specialty Ins Co	6	5	83.33%
Florida Healthcare Providers Ins Exc	5	2	40.00%

Severity Codes

With respect to the claims closed by the sample companies in 2006, an analysis of the severity codes for each claim is provided below. The majority of the claims closed by the 17 sample companies in 2006 were in the severe (codes 7-9) or moderate (codes 4-6) as shown below:

Company Name	Low Severity (1-3)	Medium Severity (4-6)	High Severity (7-9)
First Professionals Ins Co	190	255	270
Health Care Ind Inc	156	132	136
Pronational Ins Co	51	104	120
Lexington Ins Co	134	49	91
MAG Mut Ins Co	20	76	85
Medical Protective Co	63	33	63
Doctors Co An Interins Exchn	37	20	64
Continental Cas Co	21	24	20
Anesthesiologists Pro Assur Co	11	14	25
Columbia Cas Co	10	12	14
Physicians Professional Liability RRG	2	6	15
Healthcare Underwriters Grp of FL	7	3	4
Physicians Preferred Ins Reciprocal	1	4	8
Hudson Specialty Ins Co	2	4	0
Florida Healthcare Providers Ins Exc	1	2	2

Payment Amounts

Companies are also required to report payment amounts. As noted previously, not all companies provided a segregation of payments between economic and non-economic loss, therefore, no summary of that distinction can be provided here. The claims reported closed by the sample companies in 2006 resulted in the following claim payments:

Company	Indemnity Paid	LAE to Defense Counsel	Other LAE Expenses
First Professionals Ins Co	$54,373,597	$21,050,025	$12,570,676
Health Care Ind Inc	$60,829,570	$13,464,534	$5,985,179
Pronational Ins Co	$21,601,846	$16,493,951	$9,998,101
Lexington Ins Co	$46,176,493	$7,227,456	$7,792,297
MAG Mut Ins Co	$17,243,365	$4,973,123	$2,269,706
Medical Protective Co	$14,503,204	$4,186,871	$1,885,524
Doctors Co An Interins Exchn	$8,800,824	$4,657,864	$152,424
Continental Cas Co	$9,081,411	$4,561,580	$3,534,086
Anesthesiologists Pro Assur Co	$2,840,503	$2,268,335	$1,201,201
Columbia Cas Co	$5,890,000	$1,609,502	$439,462
Physicians Professional Liability RRG	$1,710,000	$1,175,342	$0
Healthcare Underwriters Grp of FL	$150,000	$72,344	$19,050
Physicians Preferred Ins Reciprocal	$1,022,500	$102,808	$20,900
Hudson Specialty Ins Co	$1,496,000	$336,169	$1,718
Florida Healthcare Providers Ins Exc	$450,000	$71,523	$0

Summary

Senate Bill 2-D, enacted in 2003, requires the Office to publish an annual report of the state of the medical malpractice insurance market in Florida. The legislation, codified in Section 627.912(6)(b)&(c), Florida Statutes, requires the Office to draw upon three data resources:

1) The NAIC annual financial statement filings;
2) The closed claims database maintained by the Office; and
3) An analysis of rate filings filed with the Office during the previous year.

This report satisfies the requirements codified in Section 627.912(6)(b)&(c), Florida Statutes.

Appendix A

2007 Medical Malpractice Insurance Amendment

627.062 Rate standards.--

(8)(a)1. No later than 60 days after the effective date of medical malpractice legislation enacted during the 2003 Special Session D of the Florida Legislature, the office shall calculate a presumed factor that reflects the impact that the changes contained in such legislation will have on rates for medical malpractice insurance and shall issue a notice informing all insurers writing medical malpractice coverage of such presumed factor. The office may amend the presumed factor annually. In determining the presumed factor, the office shall use generally accepted actuarial techniques and standards provided in this section in determining the expected impact on losses, expenses, and investment income of the insurer. ~~To the extent that the operation of a provision of medical malpractice legislation enacted during the 2003 Special Session D of the Florida Legislature is stayed pending a constitutional challenge, the impact of that provision shall not be included in the calculation of a presumed factor under this subparagraph.~~

2. No later than 60 days after the office issues its notice of the presumed rate change factor under subparagraph 1. or any amended presumed factor, each insurer writing medical malpractice coverage in this state shall submit to the office a rate filing for medical malpractice insurance, which will take effect no later than six months following the date upon which the filing is made by the insurer. Except as authorized under paragraph (b), the filing shall reflect an overall rate reduction at least as great as the presumed factor determined under subparagraph 1. ~~With respect to policies issued on or after the effective date of such legislation and prior to the effective date of the rate filing required by this subsection, the office shall order the insurer to make a refund of the amount that was charged in excess of the rate that is approved.~~

(b) Any insurer or rating organization that contends that the rate provided for in paragraph (a) is excessive, inadequate, or unfairly discriminatory shall separately state in its filing the rate it contends is appropriate and shall state with specificity the factors or data that it contends should be considered in order to produce such appropriate rate. The insurer or rating organization shall be permitted to use all of the generally accepted actuarial techniques provided in this section in making any filing pursuant to this subsection. The office shall review each such exception and approve or disapprove it prior to use. It shall be the insurer's burden to actuarially justify any deviations from the rates required to be filed under paragraph (a). The insurer making a filing under this paragraph shall include in the filing the expected impact of medical malpractice legislation enacted during the 2003 Special Session D of the Florida Legislature on losses, expenses, and rates.

~~(c) If any provision of medical malpractice legislation enacted during the 2003 Special Session D of the Florida Legislature is held invalid by a court of competent jurisdiction, the office shall permit an adjustment of all medical malpractice rates filed under this section to reflect the impact of such holding on such rates so as to ensure that the rates are not excessive, inadequate, or unfairly discriminatory~~.

~~(d) Rates approved on or before July 1, 2003, for medical malpractice insurance shall remain in effect until the effective date of a new rate filing approved under this subsection.~~

(e) The calculation and notice by the office of the presumed factor pursuant to paragraph (a) is not an order or rule that is subject to chapter 120. If the office enters into a contract with an independent consultant to assist the office in calculating the presumed factor, such contract shall not be subject to the competitive solicitation requirements of s. 287.057.

(f) The sum of $250,000 in recurring funds is appropriated from the Insurance Regulatory Trust Fund in the Department of Financial Services to the Office of Insurance Regulation for the 2007-2008 fiscal year and thereafter for the purpose of implementing this section.

Appendix B

Detailed Financial Information for the 17 Companies That Comprised 80% of the Florida Medical Malpractice Market in 2006

Statement of Income, 2006 Statutory Annual Statements

	Pronational Ins Co	Doctors Co An Interins Exchn	Evanston Ins Co	Columbia Cas Co	Continental Cas Co	Hudson Specialty Ins Co	Florida Healthcare Providers Ins Exc	Healthcare Underwriters Grp of FL
Premiums earned	$191,398,699	$478,224,850	$691,349,990	$0	$6,079,395,711	$19,014,108	$7,244,246	$8,053,689
Losses incurred	$30,639,174	$129,448,782	$217,032,781	$0	$3,619,247,728	$7,393,118	$2,814,999	$2,695,314
Loss expenses incurred	$158,244,152	$118,521,036	$62,682,517	$0	$1,299,138,478	$2,194,972	$1,531,298	$3,185,355
Other underwriting expenses incurred	$30,843,871	$97,776,987	$251,268,783	$0	$1,958,690,805	-$2,872,926	$3,175,878	$3,108,999
Aggregate write-ins for underwriting deductions	$0	$0	$0	$0	-$53,272,871	$0	$0	$0
Total underwriting deductions	$219,727,197	$345,746,805	$530,984,081	$0	$6,823,804,140	$6,715,164	$7,522,175	$8,989,668
Net underwriting gain (loss)	-$28,328,498	$132,478,045	$160,365,909	$0	-$744,408,429	$12,298,944	-$277,929	-$935,979
Net investment income earned	$327,139,280	$44,970,862	$75,348,481	$5,242,986	$1,611,071,012	$5,196,638	$665,152	$1,003,335
Net realized capital gains (losses) less capital gains tax	$4,390,675	$21,588,083	$19,204,645	-$122,187	-$85,429,215	$10	-$2,842	-$710
Net investment gain (loss)	$331,529,955	$66,558,945	$94,553,126	$5,120,799	$1,525,641,797	$5,196,648	$662,310	$1,002,625
Net gain (loss) from agents' or premium balances charged off	$0	$0	$0	$0	-$102,598,702	$0	$0	$0
Finance and service charges not included in premiums	$0	$39,800	$0	$0	$4,374,382	$0	$0	$0
Aggregate write-ins for miscellaneous income	$1,179,855	-$2,546,742	$0	$0	$51,982,873	$229,380	$0	$0
Total other income	$1,179,855	-$2,506,942	$0	$0	-$46,241,447	$229,380	$0	$0
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$304,381,312	$196,530,048	$254,919,035	$5,120,799	$734,991,921	$17,724,972	$384,381	$66,646
Dividends to policyholders	$0	$21,000,000	$0	$0	$12,754,691	$0	$0	$0
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$304,381,312	$175,530,048	$254,919,035	$5,120,799	$722,237,230	$17,724,972	$384,381	$66,646
Federal and foreign income taxes incurred	$4,300,688	$37,891,142	$67,432,465	$0	$208,667,337	$6,880,193	$228,339	$368,541
Net income	$300,080,624	$137,638,906	$187,486,570	$5,120,799	$513,569,893	$10,844,779	$156,042	-$301,895
Surplus as regards policyholders; December 31 prior year	$320,159,722	$503,158,970	$527,761,192	$131,967,768	$6,733,484,606	$66,953,864	$9,370,875	$12,061,088
Net income	$300,080,624	$137,638,906	$187,486,570	$5,120,799	$513,569,893	$10,844,779	$156,042	-$301,895
Change in net unrealized capital gains or (losses) less capital gains tax	-$166,518,485	$14,105,161	$58,236,888	$78,331	$674,286,782	$520,890	$0	$0
Change in net unrealized foreign exchange capital gain (loss)	$0	$8,453	$0	$0	$11,281,562	$0	$0	$0
Change in net deferred income tax	$1,530,250	-$10,144,605	-$4,180,559	-$1,833,300	$4,576,725	$1,143,081	$97,588	$302,651
Change in nonadmitted assets	-$1,474,001	$12,090,489	$112,567	$984,579	$129,218,312	-$875,115	-$169,875	$247,950
Change in provision for reinsurance	-$1,787,000	-$897,874	-$2,478,830	$0	-$149,326,948	$0	$0	$0
Change in surplus notes	$0	$0	$0	$0	$0	$0	-$1,400,000	$0
Surplus (contributed to) withdrawn from protected cells	$0	$0	$0	$0	$0	$0	$0	$0
Capital changes paid in	$0	$0	$0	$0	$0	$0	$0	$0
Capital changes transferred from surplus (stock dividend)	$0	$0	$0	$0	$0	$0	$0	$0
Surplus adjustments paid in	$0	$0	$0	$120,000,000	$0	$0	$1,379,990	$1,413,828
Dividends to stockholders	-$220,276,817	$0	-$119,193,042	$0	-$93,428,998	$0	$0	$0
Aggregate write-ins for gains and losses in surplus	$0	$0	$0	-$233	$115,756,818	$0	-$203,049	$0
Change in surplus as regards policyholders for the year	-$88,445,429	$152,800,530	$119,983,594	$124,350,176	$1,205,934,147	$11,633,635	-$139,304	$1,662,534
Surplus as regards policyholders; December 31 current year	$231,714,293	$655,959,500	$647,744,786	$256,317,944	$7,939,418,752	$78,587,499	$9,231,571	$13,723,622
L+LAE ratio	98.69%	51.85%	40.46%	N/A	80.90%	50.43%	60.00%	73.02%
expense ratio	16.11%	20.45%	36.34%	N/A	31.34%	-15.11%	43.84%	38.60%
NII +OtherIncome Ratio	171.54%	8.88%	10.90%	N/A	25.74%	28.54%	9.18%	12.46%
Pre-Tax Operating Ratio	-56.74%	67.81%	65.91%	N/A	86.71%	6.78%	94.65%	99.16%
Tax and Cap Gains Ratio	-0.05%	3.41%	6.98%	N/A	4.84%	36.18%	3.19%	4.58%
Post-Tax Operating Ratio	-56.69%	64.40%	58.93%	N/A	81.88%	-29.40%	91.46%	94.58%

Statement of Income, 2006 Statutory Annual Statements

	Medical Protective Co	MAG Mut Ins Co	Anesthesiologists Pro Assur Co	First Professionals Ins Co	Physicians Preferred Ins Reciprocal	Physicians Ins Co	Lexington Ins Co	Health Care Ind Inc
Premiums earned	$299,621,579	$283,687,382	$19,826,742	$165,314,808	$10,876,572	$4,071,053	$3,797,608,969	$314,216,248
Losses incurred	$114,704,200	$147,376,302	$7,356,209	$62,840,189	$5,155,296	$294,237	$1,880,637,237	$61,163,326
Loss expenses incurred	$108,422,625	$71,483,570	$6,001,841	$47,683,151	$1,876,244	$651,142	$509,305,463	$103,957,069
Other underwriting expenses incurred	$53,679,435	$49,124,055	$4,479,084	$40,581,120	$4,042,690	$2,439,871	$516,753,547	$13,924,179
Aggregate write-ins for underwriting deductions	$0	$0	$0	$0	$0	$0	$0	$0
Total underwriting deductions	$276,806,260	$267,983,927	$17,837,134	$151,104,461	$11,074,230	$3,385,250	$2,906,696,247	$179,044,574
Net underwriting gain (loss)	$22,815,319	$15,703,455	$1,989,608	$14,210,347	-$197,658	$685,803	$890,912,722	$135,171,674
Net investment income earned	$56,193,970	$32,541,846	$2,780,174	$16,589,673	$532,666	$355,372	$451,987,735	$77,583,604
Net realized capital gains (losses) less capital gains tax	$190,645	$1,528,422	-$43,724	-$534,796	$0	$0	-$16,799,655	$155,257,100
Net investment gain (loss)	$56,384,615	$34,070,268	$2,736,450	$16,054,877	$532,666	$355,372	$435,188,080	$232,840,704
Net gain (loss) from agents' or premium balances charged off	$1,267,648	$0	-$19,773	-$287,545	$0	$0	$36,685,691	$0
Finance and service charges not included in premiums	$448,781	$3,998,003	$75,145	$197,534	$0	$59,945	$0	$0
Aggregate write-ins for miscellaneous income	$7,686,939	$831,603	$0	$0	$0	$0	-$31,342,068	$4,383,019
Total other income	$9,403,368	$4,829,606	$55,372	-$90,011	$0	$59,945	$5,343,623	$4,383,019
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$88,603,302	$54,603,329	$4,781,430	$30,175,214	$335,008	$1,101,120	$1,331,444,425	$372,395,397
Dividends to policyholders	$0	$0	$0	$0	$0	$0	$0	$0
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$88,603,302	$54,603,329	$4,781,430	$30,175,214	$335,008	$1,101,120	$1,331,444,425	$372,395,397
Federal and foreign income taxes incurred	$27,855,699	$22,303,520	$1,776,512	$10,687,522	$431,567	$476,888	$435,453,409	$53,459,312
Net income	$60,747,603	$32,299,809	$3,004,918	$19,487,692	-$96,559	$624,232	$895,991,016	$318,936,085
Surplus as regards policyholders; December 31 prior year	$571,330,518	$215,503,117	$20,730,854	$172,853,272	$5,483,944	$5,066,430	$2,564,849,924	$800,308,960
Net income	$60,747,603	$32,299,809	$3,004,918	$19,487,692	-$96,559	$624,232	$895,991,016	$318,936,085
Change in net unrealized capital gains or (losses) less capital gains tax	$9,610,119	$471,305	$106,677	$6,563,778	$0	$0	$132,992,737	-$100,352,991
Change in net unrealized foreign exchange capital gain (loss)	$0	$0	$0	$0	$0	$0	$0	$0
Change in net deferred income tax	$8,096,318	$7,683,780	$379,217	$2,285,904	$324,511	$116,134	$48,124,504	-$4,234,674
Change in nonadmitted assets	-$4,311,778	-$7,778,971	-$393,313	-$2,337,164	-$95,467	-$101,844	-$128,631,117	-$47,751,835
Change in provision for reinsurance	$412,209	$0	$1,710,251	$1,591,000	$0	$0	-$3,090,187	$21,000
Change in surplus notes	$0	$0	$0	$0	-$1,500,000	$0	$0	$0
Surplus (contributed to) withdrawn from protected cells	$0	$0	$0	$0	$0	$0	$0	$0
Capital changes paid in	$0	$0	$0	$0	$0	$0	$0	$0
Capital changes transferred from surplus (stock dividend)	$0	$0	$0	$0	$0	$0	$0	$0
Surplus adjustments paid in	$0	$0	$0	$0	$0	$0	$0	$0
Dividends to stockholders	$0	$0	$0	$0	$0	$0	$0	-$445,000,000
Aggregate write-ins for gains and losses in surplus	$0	$2,963,584	$0	$0	$5,049,540	$0	$1,408,345	$0
Change in surplus as regards policyholders for the year	$74,554,471	$35,639,507	$4,807,749	$27,591,210	$3,682,025	$638,522	$946,795,298	-$278,382,415
Surplus as regards policyholders; December 31 current year	$645,884,989	$251,142,624	$25,538,602	$200,444,482	$9,165,969	$5,704,952	$3,511,645,222	$521,926,545
L+LAE ratio	74.47%	77.15%	67.37%	66.86%	64.65%	23.22%	62.93%	52.55%
expense ratio	17.92%	17.32%	22.59%	24.55%	37.17%	59.93%	13.61%	4.43%
div ratio	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Combined Ratio	92.39%	94.46%	89.97%	91.40%	101.82%	83.15%	76.54%	56.98%
NII +OtherIncome Ratio	21.89%	13.17%	14.30%	9.98%	4.90%	10.20%	12.04%	26.09%
Pre-Tax Operating Ratio	70.49%	81.29%	75.66%	81.42%	96.92%	72.95%	64.50%	30.90%
Tax and Cap Gains Ratio	9.23%	7.32%	9.18%	6.79%	3.97%	11.71%	11.91%	-32.40%
Post-Tax Operating Ratio	61.26%	73.97%	66.48%	74.63%	92.95%	61.24%	52.59%	63.29%

Statement of Income, 2006 Statutory Annual Statements

	Physicians Professional Liabilty RRG
Premiums earned	$9,509,158
Losses incurred	$3,693,433
Loss expenses incurred	$4,158,024
Other underwriting expenses incurred	$1,590,168
Aggregate write-ins for underwriting deductions	$2,262,500
Total underwriting deductions	$11,704,125
Net underwriting gain (loss)	-$2,194,967
Net investment income earned	$966,344
Net realized capital gains (losses) less capital gains tax	$0
Net investment gain (loss)	$966,344
Net gain (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	$0
Aggregate write-ins for miscellaneous income	$1,359,185
Total other income	$1,359,185
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$130,562
Dividends to policyholders	$0
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$130,562
Federal and foreign income taxes incurred	$281,973
Net income	-$151,411
Surplus as regards policyholders; December 31 prior year	$12,017,764
Net income	-$151,411
Change in net unrealized capital gains or (losses) less capital gains tax	$306,710
Change in net unrealized foreign exchange capital gain (loss)	$0
Change in net deferred income tax	$114,451
Change in nonadmitted assets	$207,947
Change in provision for reinsurance	$0
Change in surplus notes	$0
Surplus (contributed to) withdrawn from protected cells	$0
Capital changes paid in	$37,430
Capital changes transferred from surplus (stock dividend)	$0
Surplus adjustments paid in	$0
Dividends to stockholders	$0
Aggregate write-ins for gains and losses in surplus	$164,710
Change in surplus as regards policyholders for the year	$679,837
Surplus as regards policyholders; December 31 current year	$12,697,601
L+LAE ratio	82.57%
expense ratio	40.52%
div ratio	0.00%
Combined Ratio	123.08%
NII +OtherIncome Ratio	24.46%
Pre-Tax Operating Ratio	98.63%
Tax and Cap Gains Ratio	2.97%
Post-Tax Operating Ratio	95.66%

Appendix C

Medical Malpractice Rate Filings in 2006 Including those in the Secondary Markets

Rate Impact on Primary - Physician - Market Segment

Company	Policy Count	Insurer Indicated Rate Change	Approved Statewide Rate Change	Approval Date
Florida Doctors Insurance Company	66	-16.40%	-16.40%	11/18/2006
Florida Healthcare Providers Insurance Exchange	678	-27.80%	-16.00%	12/8/2006
Anesthesiologists Professional Assurance Company	610	-14.50%	-14.50%	7/13/2006
First Professionals Insurance Company Inc	6992	-8.50%	-11.00%	10/20/2006
Medical Protective Company (The)	638	-10.60%	-10.00%	4/24/2006
Insurance Services Office Inc (ISO)	0	-8.00%	-8.00%	11/13/2006
Healthcare Underwriters Group of Florida	519	-6.70%	-6.70%	1/30/2006
Physicians Insurance Company	654	-5.50%	-3.90%	2/1/2006
Physicians Preferred Insurance Reciprocal	875	2.10%	-3.00%	12/7/2006
Florida Doctors Insurance Company	31	-1.90%	-1.90%	5/16/2006
Doctors Company An Interinsurance Exchange (The)	1504	-0.80%	-1.30%	4/21/2006
Preferred Professional Insurance Company	154	16.30%	6.00%	1/25/2006
MAG Mutual Insurance Company	1401	9.20%	9.20%	3/24/2006
National Fire Insurance Company of Hartford	193	18.70%	18.70%	6/22/2006

	Indicated	Approved
Average Rate Change for Doctors Insured by the Companies Listed Above (Weights = Earned Premium)	-4.20%	-5.30%

	Indicated	Approved
Average Rate Change for Doctors Insured by the Top 17 Companies- HCI (Average Market Impact)	-2.42%	-3.06%

Note: HCI excluded from average because it does not (as a captive of Hospital Corporation of America) file its rates with OIR.

Rate Impact on Secondary Minor Market Segment

Company	Sub Program	Policy Count	Insurer Indicated Rate	Approved Statewide Rate	Approval Date
National Union Fire Insurance Co. Of Pittsburg PA	Dentists	1418	11.9%	11.9%	7/20/2006
Continental Casualty Company	Dentists	0	9.6%	4.0%	11/13/2006
Medical Protective Company (The)	Dentists	393	-2.0%	-2.0%	11/17/2006
Insurance Services Office Inc (ISO)	Dentists	245	-8.0%	-8.0%	7/20/2006

Dentists

	Approved
Rate Change Weighted Average (Weights = Earned Premium)	5.4%

Company	Sub Program	Policy Count	Insurer Indicated Rate	Approved Statewide Rate	Approval Date
National Union Fire Insurance Co. Of Pittsburg PA	Healthcare Providers Services Organizations	41684	70.1%	70.1%	3/10/2006
Chicago Insurance Company	Nurse Anesthetist	482	383.4%	52.0%	4/28/2006
American Casualty Company of Reading Pennsylvania	Registered Nurses / Nurse Practictioners	4489	35.1%	34.6%	5/18/2006
American Casualty Company of Reading Pennsylvania	Certified Nurse Midwives Professional Liability	69	3.0%	3.0%	3/24/2006

Professional Nurses

	Approved
Rate Change Weighted Average (Weights = Earned Premium)	39.9%

Company	Sub Program	Policy Count	Insurer Indicated Rate	Approved Statewide Rate	Approval Date
Chicago Insurance Company	Podiatrists	13	380.2%	70.8%	5/16/2006
Ace American Insurance Company	Allied Health	0	0.0%	45.7%	12/21/2006
Chicago Insurance Company	Psychoanalysts	37	187.8%	36.3%	6/8/2006
Ace American Insurance Company	Optometrists	635	24.3%	20.0%	5/18/2006
Chicago Insurance Company	Therapists	1420	7.3%	7.0%	5/18/2006
American Home Assurance Company	Medical Technologists	628	4.0%	4.0%	5/18/2006
PACO Assurance Company	Chiropractors	94	5.7%	1.7%	1/19/2006
Continental Casualty Company	Chiropractors	968	1.9%	-5.5%	9/7/2006
Podiatry Insurance Company of America A Mutual Company	Podiatrists	865	-8.5%	-8.7%	7/6/2006

Other Healthcare Professionals

	Approved
Rate Change Weighted Average (Weights = Earned Premium)	1.7%