

President's Report

MORE GOOD NEWS FROM MHP

Like most of us, you probably spend little time selecting an insurance company and hope never to need them. Occasionally, you are reminded that your insurance premium is due; money that is spent without expectation of return, save a promise to act if something unfortunate happens. No one welcomes unfortunate happenings! And who ever heard of getting money back from a “malpractice” insurance company?

Unlike homeowners or automobile insurers who deal in millions of exposures and can predict with relative accuracy losses that are likely to occur, medical professional insurers are generally small regional specialty companies focused on a limited customer base (hospitals, physicians, and surgeons). Because the exposures are far fewer in number and carry a greater risk of volatility, estimating the losses that are likely to occur is difficult. Medical professional liability insurers base their loss predictions on personal experience and if they have no such experience, they must draw from the experience of their competitors.

Missouri Hospital Plan (along with its predecessor company) has been insuring hospitals, including their employed healthcare providers, for over 30 years. It maintains a large historical loss database that our independent actuaries use to analyze future losses and develop rates. We try to apply our rating plans consistently, taking into consideration factors such as individual loss history, geographic (venue) disparities, and quality assessment. Even so, our ability to reliably predict losses in a given year is always uncertain. If current events such as better quality control, enhanced patient safety awareness, or tort reform interact to reduce losses, then we may be charging too much. The converse is also true.

But there is more to pricing than balancing premiums against losses. Every insurance company has overhead and expenses associated with handling-defending claims. Most have acquisition costs (sales commissions generally around 10%), a load for taxes, and a load for after-tax profit. These three components, alone, can make up 25% or more of your premium. MHP is a tax-exempt, non-for-profit association. Its rates are not loaded for acquisition costs, taxes, or after-tax profit. Moreover, in 2007 only 4.5% of its premium dollars were spent on overhead expenses versus an industry benchmark of over 16%.

MHP's unique structure allows us to correct overcharging or undercharging through dividends or assessments. Due to its conservative pricing strategy and substantial capital Surplus, MHP has paid many dividends over the years without a single assessment. The Financial Highlights chart shows that MHP produced an Underwriting Gain of nearly \$12.5 million in 2007.

Consequently, in accordance with our practice to return excess profits to our members, the MHP Board has approved a \$12.5 million dividend payable to members of record July 1, 2008.

MLA — NEW GROWTH IN STRENGTH, SECURITY, AND STABILITY

DOCTORS SHOULD CONSIDER MLA AS A LONG TERM PARTNER

In 2003, MHP made the decision to offer high quality, secure insurance protection to the physicians on staff at member hospitals. That commitment is backed by \$12.6 million that MHP has contributed to the Surplus of Medical Liability Alliance since 1996. The concept of hospitals helping doctors at a time when the

market for medical professional liability insurance was in crisis made so much sense that Missouri's largest healthcare organization contributed additional capital of \$2 million to secure MLA's ongoing financial strength. At about the same time, several new "383" companies were formed with no capital backing their operations.

After four years of steady growth, without sacrificing quality. MLA has increased its Surplus to over \$20 million. Today, MLA is the only Missouri domiciled, non-assessable, stock insurance company, with an A.M. Best rating of "A-" (Excellent). Based on an analysis dated September 30, 2007 by AON, MLA has the lowest Combined Ratio (Earned Premium divided by Incurred Losses and Expenses) of all companies insuring physicians and surgeons with an "A-" or better rating. By comparison, none of the entrants to the Missouri market since 2003 has a Surplus base of \$2 for each \$1 of premium written and two of the new entrants have been cited by the Missouri Department of Insurance, Financial Institutions and Professional Registration for failing to accumulate any Surplus to secure their operations.

By all indications, the medical professional liability insurance market is becoming or has already become, "soft". This simply means that prices have dropped as competition has heated up. Whether prices are adequate to sustain ongoing operations is indeterminable for many years and the tendency in a soft market is to pursue market share to pay current claims rather than to develop profitable long term business. Invariably, companies that offer bare bones pricing cannot withstand losses over the long haul and must either drastically increase prices, assess their members or go out of business, at which point the "cycle" has come full circle and another crisis looms.

MLA is dedicated to price sufficiency; even if that means that it cannot grow in the short run. Our clients benefit from the economies of scale arising out of HSG's management of both MHP and MLA and the efficiency of overlapping infrastructure. Revenues generated by our captive insurance agency/brokerage, ProCon, help to lower the cost of running MHP and MLA and excess profits are either returned to the policyholders or held in Surplus to increase capacity and secure future obligations.

In short, MLA policyholders understand that medical liability insurance is not driven by price, alone. They recognize that a strong, stable, and secure insurer, devoted to meeting its future obligations as opposed to seeking immediate profit for out-of-state stockholders, is best suited to protecting them now and in years to come.