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Physicians Insuring Physicians



ANNUAL REPORT 2011

west virginia
mutual
Insurance Company

Physicians Insuring Physicians

MESSAGE FROM THE CHAIRMAN AND CEO



R. Austin Adlaca, MD

2011 was yet another excellent year for your Mutual, which recently achieved an A-(Excellent) rating with a “stable” outlook from the pre-eminent rating agency, the A. M. Best Company, on our first attempt. Since we, the insureds, are the owners of our company, this should give us justifiable pride in the success we have enjoyed. The strong leadership by our physician-led Board of Directors, coupled with excellent management, has resulted in a company that is very strong and viable, which has been, and continues to be, our overriding mission.

We continue to be the dominant medical liability insurance underwriter in West Virginia, and we also now have the capacity to cover physicians who have a practice presence in nearby counties in Virginia, Kentucky, and Ohio. This eliminates the need for physicians who have patients in more than one state to buy additional insurance from another insurance company.

2011 also marked another significant milestone for our company. David Rader, who was the first and only President and CEO since our formation in 2004, having done a superb job building the Mutual and assembling an excellent staff, retired as of December 31, 2011. He has kindly assented to stay on through 2012 on a part-time basis to continue to assist in an orderly transition to new leadership, which has occurred very smoothly indeed. I took on these additional positions on January 1 of this year, and the high functioning of our company has continued unabated, with our superb senior management remaining stable and unchanged otherwise. Physician leadership of a number of medical liability mutual insurance companies that, along with your Mutual, belong to the Physician Insurers Association of America, has worked out very well in the past. I, as a now part-time practicing physician with thirty years of previous medical practice

experience, we know the challenges facing us during this uncertain time of extensive healthcare reform, and I pledge to keep your interests at the forefront as our physician-led Board of Directors looks to the future.

Since our formation in 2004, our Mutual has very significantly increased both its assets and its surplus, which should be of great comfort to us as owners/policyholders. Indeed, in addition to making such a high A. M. Best rating possible, our Company's continued extraordinary performance has allowed your board to reduce our base premiums by five percent as of January 1, 2012, which adds to the twelve percent ongoing renewal credit and credits achieved by participation in our very robust risk management programs. Indeed, I strongly believe that our Risk Management Department offerings are second to none in our industry, and that they really do accomplish a reduction in risk while encouraging best practices for our policyholders. These programs, in concert with excellent underwriting by the Underwriting Department, have allowed thirty to fifty per cent reductions in premiums since 2004, depending on specialty. While some carriers have increased premiums for physicians recently, your Mutual continues to give you premium relief.

This past year, the West Virginia Supreme Court upheld our non-economic damage caps passed by the Legislature in 2004, which was a great relief for everyone involved in healthcare. It is quite interesting to note that the only medical liability insurance company to weigh in with an Amicus Brief in this very important case was your Mutual. Indeed, our company continues to stand strong representing the best interests of physicians, both with regard to judicial and legislative attacks on our civil justice reforms, the only such company so to do. We had significant success in staving off trial bar attacks on our tort reforms during the recently completed legislative session as well, and we continue to stay vigilant on your behalf.

It is obvious that our practice climate has dramatically improved since our company was formed in 2004. In the early years of the last decade, West Virginia was considered to be one of the worst states in which to practice, with physicians leaving the state in droves. However, by July 2009, *Medical Economics* magazine rated our state the ninth best state in which to be a physician. Your West Virginia Mutual Insurance Company is proud to have been a key factor in this dramatic turnaround, and we continue to be "Physicians Insuring Physicians."

R. Austin Wallace, M.D.
Chairman, President and CEO

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT AND COO



Tamara Lively-Huffman

It is a great honor and privilege to serve as the chief operating officer of the Mutual. Over the past seven years your Mutual has achieved many significant milestones with 2011 seeing yet another one of those milestones, the achievement of an A- (Excellent) A.M. Best rating.

In just seven years, your Mutual became the premier medical professional liability insurer in West Virginia, paid back the entire loan from the State of West Virginia that provided its initial policyholder surplus, more than doubled its assets, more than tripled its policyholder surplus, achieved an A- (Excellent) A.M. Best rating, and provided unprecedented premium relief – as much as a fifty percent reduction in premium for some specialties. This was all accomplished by West Virginia physicians without any capital infusion from outside investors.

These strong financial results serve as a solid foundation for your Mutual. West Virginia physicians do not have to worry about this Mutual exiting the State and leaving doctors without access to medical professional liability insurance, as was the case in the past. In addition, there is no money that flows back to investors. The Mutual's assets will only be used for the benefit of its West Virginia physician owners.

These great results are not accidental. Your Mutual is led by an outstanding physician-dominated Board of Directors and an experienced Executive Management team. Also, every Mutual staff member is committed to providing our physician owners with the absolute best service possible. From Underwriting, to Risk Management, to Claims, and all support staff, our primary purpose is to protect our physician insureds.

Your Mutual also takes the lead as a strong advocate for physicians and their patients. As your Chairman, Dr. Wallace, stated, when a serious challenge was made to our tort reforms in 2011, your Mutual was the only Medical Professional Liability insurer that submitted an Amicus Brief to the Supreme Court in support of those reforms being upheld. In addition, we are constantly vigilant as other legislative and judicial attacks are made against the interests of healthcare in West Virginia.

West Virginia physicians should be very proud of the accomplishments of this Mutual. You have achieved what no commercial insurance company has ever achieved in our State. You have a successful, financially sound insurance company that puts the interests of physicians and their patients above all other interests. Your Mutual will be here to protect West Virginia physicians for many years to come.

Tamara Lively-Huffman, CPCU
Executive Vice President, COO

FINANCIAL HIGHLIGHTS

Assets	2011	2010
Cash and Investments	\$174,041,000	\$175,682,000
Other Assets	9,050,000	6,555,000
	<u>\$183,091,000</u>	<u>\$182,237,000</u>

Liabilities		
Loss & Loss Expense	\$56,275,000	\$71,895,000
Unearned Premiums	24,066,000	24,959,000
Other Liabilities	11,172,000	5,650,000
	<u>91,513,000</u>	<u>102,504,000</u>

Policyholders' Surplus		
Paid in and Contributed	7,651,000	7,651,000
Other	83,927,000	72,082,000
	<u>91,578,000</u>	<u>79,733,000</u>
	<u>\$183,091,000</u>	<u>\$182,237,000</u>

Written Premium	\$32,770,000	\$35,500,000
Earned Premium	27,423,000	35,077,000
Loss & Loss Expense Incurred	8,314,000	14,604,000
Underwriting Expenses	8,517,000	8,616,000
Net Investment Income	5,478,000	5,112,000
Statutory Income before Income taxes	16,070,000	16,969,000
Federal Income Taxes	4,153,000	4,634,000

Net Income (loss)	<u>\$11,917,000</u>	<u>\$12,335,000</u>
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OPERATING HIGHLIGHTS

Strong Market Presence

The West Virginia Mutual Insurance Company remains the premier medical professional liability insurer in West Virginia. With approximately 1,450 insured West Virginia physicians, the Mutual provides the stability and predictability that no commercial insurance company has ever been able to provide in the past. Any profits generated by the insurance operations of this Mutual are returned to West Virginia physicians in the form of lower premiums, excellent policyholder services and ownership in a financially sound, successful insurance company. The profits are not passed on to out-of-state investors. This has assisted in the recruitment and retention of new physicians to West Virginia. Physicians are relocating to our State from other areas and many of our West Virginia trained and educated medical school graduates are choosing to remain here. Physicians are establishing their practices in West Virginia rather than elsewhere. Having a successful insurance company owned by West Virginia physicians has assured that our citizens will continue to have access to quality healthcare in the future.

Financial Strength

Since our formation in July 2004, the Mutual has more than doubled its assets and tripled its policyholder surplus, the capital that secures the financial integrity of the Company. This has been accomplished by a strong, physician-led Board of Directors with physician involvement in underwriting, claims and risk management, as well as by an experienced and knowledgeable executive management team averaging more than 40 years of medical professional liability insurance expertise. This strong Board governance and Executive Management has resulted in the foremost insurance company rating organization, A.M. Best, assigning an A- (Excellent) rating to the Mutual. This is an incredible achievement, and West Virginia physicians accomplished this milestone themselves. No other entity provided any capital infusion into the Mutual. In addition, this was achieved despite a global economic downturn. Your Mutual is financially sound and prepared to meet future challenges.

Premium Relief

Your Mutual has consistently provided premium relief. Once again, your physician-dominated Board of Directors lowered premiums by five percent in 2012. This base premium reduction is in addition to the renewal credit of twelve percent granted in each of the past two years. Over time, base premiums have been reduced from thirty to forty percent depending on physician specialties. These decreases coupled with the renewal credit have resulted in premiums for certain specialties being reduced by more than fifty percent since 2004. This unprecedented premium reduction has been accomplished by effective underwriting, risk management and claims administration. Your Mutual is extremely pleased to offer this much needed premium relief to our physician owners.

Market Expansion

Your Mutual has expanded into adjoining states to enable physicians who practice in West Virginia and in a border state to be insured by the Mutual for their entire medical practice. It is very important that your Mutual has the ability to provide our valuable insurance protection, outstanding Risk Management and superior Claims services to these physicians. We are now licensed in Kentucky, Ohio and Virginia so we can accommodate the medical professional liability needs of West Virginia physicians.

Risk Management

Our innovative Risk Management programs continue to expand. Physicians can earn premium credits by participating in various programs including free on-line CME courses, electronic health technology, on-site visits, loss control seminars and our flagship program, C.A.R.E.®. These cutting-edge programs enable you to control your exposure to potential claims while enhancing your physician-patient relationships and earning both CME and premium credits.

Legislative Advocacy

Your Mutual remains a strong advocate for West Virginia physicians in both the legislative and executive branches of government. The Mutual Board and Executive Management continue to meet regularly with legislative leaders and individuals in key executive and regulatory positions within State government. It is critical that we monitor issues that can have an impact on healthcare and insurance in West Virginia. We continue our vigilance as matters arise that affect both physicians and their patients.

