

2023 ANNUAL REPORT

Living Our Values

Putting Our Members First





Greetings, Colleagues.

In a time of unprecedented challenge and change within our medical community, I'm proud to serve as your board chair at Physicians Insurance, a mutual company that is constant and certain in its purpose: **to protect, defend, and support our Members.**

This strength of commitment sets Physicians Insurance apart. It is core to the values that this vibrant company and our people live every day. At no time is this commitment more apparent than when one of our Members faces a claim. While our industry, on average, allocates 65% of every dollar to claims spending, Physicians Insurance devotes 87% as we channel the best possible resources to our Members' defense! We bring to bear supremely skilled legal partners, highly qualified jury consultants, and the best national experts. We don't shy away from taking a case to trial, even knowing that this presents a greater financial risk to us. We are deeply committed to protecting our Members and defending good medicine, and we invest in that commitment.

Our track record demonstrates exceptional success: through 2023, Physicians Insurance won defense verdicts for our Members in 97.8% of cases taken to trial in the last 10 years. Plaintiffs' attorneys have learned that Physicians Insurance knows good care when we see it, and that we will fight vigorously to defend it.

As of 2023, Physicians Insurance has won defense verdicts for our Members in 97.8% of cases taken to trial in the last 10 years.

Just the accusation of negligent care can be extremely stressful, both personally and professionally. Physicians Insurance knows this well and ensures that Members who are facing a claim receive exceptionally focused expertise and empathetic care. With claims loads up to 50% lower than the industry average, our claims experts are liberated to provide the high-level, personalized service our Members deserve. Peer-to-peer support is also available.

Physicians Insurance prides itself on constantly evolving our services and support to meet the moment. The launch of our novel Criminal Defense Reimbursement Endorsement is a timely example; another is the expansion of our risk-

assessment tools, plus the ongoing introduction of additional risk management resources—many of them tailored by specialty.

In closing, I want to thank the people of Physicians Insurance, who go above and beyond for our Members every day. There is no one else I would want in my corner as we navigate these challenging times.



Shane E. Macaulay, MD

Radiologist, Board Chair of Physicians Insurance

¹ *Dowling and Partners Securities, LLC. "MPL Reserves Continue to Appear to Be in the Range of Adequate." IBNR Weekly, #17, Volume XXXI, 2024.*



Dear Member,

In 2023, we continued to navigate the headwinds of unprecedented challenges together. Ongoing cost pressures and staffing shortages. Shifting legalities around medical interventions. Changing consumer expectations and larger, private equity-owned healthcare organizations. Nuclear verdicts and social inflation are occurring with greater frequency, contributing to the growing cost of protecting our physicians, nurses, hospitals, and healthcare professionals.

Living Our Values

Amid these intense pressures, our commitment to protecting, defending, and supporting our Members never wavers. It never has and never will. Since our founding by physicians over 40 years ago, our singular focus has been our Members. As a boutique mutual company with robust financial strength, we have both the ways and the means to protect our Members in a manner others cannot or will not.

As a boutique mutual with robust financial strength, we have both the ways and the means to protect our Members in a manner others cannot or will not.

Relative to 33 of our peer companies, Physicians Insurance is in the top quartile for spending on claims.¹ We stake our reputation on protecting yours, mounting a top-tier defense to uphold good medicine. We prevail in nearly every case we take to trial for our Members, as demonstrated by our private-trial success rate over the past 10 years.

We are in the bottom quartile in this same cohort of peer companies for what we spend on ourselves.² This tight expense management is part of the fabric of Physicians Insurance, and it's fundamental to our mutual mindset. It allows us to spend more on you, our Member.

At Physicians Insurance, our calculus is not on underwriting profit. It is on keeping premiums as reasonable as possible while maintaining the financial strength necessary to be a strong, long-term partner. Our success rests not on delivering profits to shareholders, but on delivering the best possible protection to our Members.

We do this by providing expansive, smartly tailored insurance, outstanding risk-mitigation support, defense strategies that outpace evolving plaintiff tactics, and aggressive advocacy for reforms and legislation to advance your interests. Over the years, we have also returned more than \$105 million in dividends to our Members.

Our success rests not on shareholder profits, but on delivering the best possible protection to our Members.

Financial Results

Managing the large-scale allegations of liability that loom over our community is not for the faint of heart. It requires the unwavering dedication and risk-mitigation acumen that Physicians Insurance has demonstrated for decades. Seasoned in risk management, we are comfortable navigating the market volatility we've seen in recent years while advancing the endgame of long-term stability. By this measure, last year's financial results were a success.

In 2023, we increased our gross written premium over the year prior to \$172 million. That growth was tempered by \$104 million in incurred claims, resulting in a positive net income of \$2 million. Buoyed by investment income, our total assets rose to \$593 million, compared to \$569 million the year prior. Policyholder surplus is also up, at \$276 million. In September 2023, AM Best again reaffirmed our financial strength rating of A- (Excellent).





Positioned for Growth

Last year we modernized our company branding and made the strategic decision to bring MedChoice RRG, the risk retention group we created in 2015, under the Physicians Insurance umbrella. This RRG—renamed Physicians Insurance Risk Retention Group (PI RRG)—is a powerful engine of growth for Physicians Insurance, enabling policyholders beyond the Pacific Northwest and across the US to access our exceptional coverage and risk management, claims management, and legal defense services. As a non-admitted insurance solution, PI RRG also gives us greater flexibility in customizing coverage. By bringing our RRG under the Physicians Insurance brand foundation, we can now maximize synergies and capitalize most efficiently on expansion opportunities.

These are difficult days in healthcare. I want to conclude by emphasizing that Physicians Insurance stands with you in tackling the challenges, in advocating for positive change, and in bringing extraordinary resources to bear when you have a claim. We are in this together for the long term.

It is an honor to be of service to you.

William Cotter

President and CEO

Physicians Insurance A Mutual Company

¹ *Dowling and Partners Securities, LLC. "MPL Reserves Continue to Appear to Be in the Range of Adequate." IBNR Weekly, #17, Volume XXXI, 2024.*

² *Milliman's MPL Financial Insights: A Summary of Statutory Financial Results for MPL Specialty Companies. December 31, 2023.*

Financial Summary

Financial Strength Rating
A- (Excellent) AM Best Company



2023 Financial Highlights

Gross Written Premium	\$172 million
Claims Incurred	\$104 million
Net Income	\$2 million
Total Assets	\$593 million
Claims Reserves	\$251 million
Policyholders Surplus	\$276 million

0.49:1
Premium-to-Surplus Ratio

A measure of our financial strength; industry guidelines prescribe a ratio no greater than 3:1

0.91:1
Reserves-to-Surplus Ratio

A measure of financial stability

\$105 million+
Dividends Returned to Members

A long history of giving back to our members

Access our audited financial statements at phyins.com.

Statements of Income—Statutory Basis

Years ended December 31, 2023 and 2022

REVENUES	2023	2022
Premiums earned	\$160,069,785	\$149,271,964
Less: ceded reinsurance premiums earned	36,272,017	34,123,120
Net premiums earned	123,797,768	115,148,844
LOSSES AND EXPENSES		
Net losses incurred	76,780,682	53,919,163
Net loss adjustment expenses incurred	41,562,512	44,659,565
Other underwriting expenses incurred	24,704,245	23,222,220
Total underwriting deductions	143,047,439	121,800,948
Net underwriting loss	(19,249,671)	(6,652,104)
INVESTMENT INCOME		
Net investment income earned	14,122,109	11,394,712
Net realized capital gain (losses), less tax of \$1,606,695 and \$112,902 at December 31, 2023 and 2022, respectively	6,044,233	(17,392,605)
Net investment gain (loss)	20,166,342	(5,997,893)
OTHER INCOME (LOSS)		
Net loss from agents' or premium balances charged off	(5,935)	(6,163)
Finance and service charges not included in premiums	295,960	24,953
Other income, net	699,415	236,570
Total other income (net)	989,440	255,360
Income (loss) before federal income taxes	1,906,111	(12,394,637)
Federal income tax (benefit) expense	(133,367)	878,797
Net income (loss)	\$2,039,478	(\$13,273,434)

Access our audited financial statements at phyins.com.

Balance Sheets—Statutory Basis

Years ended December 31, 2023 and 2022

ADMITTED ASSETS	2023	2022
Cash and investments:		
Bonds	\$366,013,909	\$387,963,011
Common stock	76,191,882	77,157,291
Cash and cash equivalents	64,183,260	16,047,953
Other invested assets	43,680,112	37,230,535
Total cash and investments	550,069,163	518,398,790
Uncollected premiums and agents' balances in the course of collection	37,017,592	35,636,570
Reinsurance recoverables on paid losses	254,372	4,466,773
Accrued interest and dividends	2,691,678	2,855,822
Receivable from affiliates	834,162	907,441
Net deferred tax asset	842,914	751,405
Federal income tax recoverable	357,805	430,884
EDP equipment and software	98,510	167,081
Other assets	728,150	337,646
Total admitted assets	\$592,894,346	\$563,952,412
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Liabilities		
Reserves for losses	\$179,582,501	\$171,319,593
Reserves for loss adjustment expenses	71,139,555	67,822,533
Reinsurance payable on paid losses and loss adjustment expenses	611,123	1,686,078
Unearned premiums	48,070,550	37,245,253
Advance premiums	8,380,650	5,923,054
Commissions payable	140,177	344,606
Other expenses	4,500,729	3,910,254
Retroactive reinsurance reserves assumed	-	698,400
Taxes, licenses, and fees payable	951	337,255
Provision for reinsurance	14,288	76,363
Ceded reinsurance premium payable to reinsurers	3,817,669	4,680,209
Payable for securities	448,638	-
Total liabilities	316,706,831	294,043,598
Policyholders' surplus	276,187,515	269,908,814
Total liabilities and capital and surplus	\$592,894,346	\$563,952,412

Access our audited financial statements at phyins.com.

2023: Deepening Our Commitment

To say that healthcare has continued to face unprecedented challenges in recent years may be stating the obvious. Less obvious is that Physicians Insurance is inextricably linked to the challenges our Members face—and is more than just along for the ride. We continue to apply our wide-ranging expertise in navigating the industry's ups and downs right alongside our Members.

At Physicians Insurance, we constantly track trends impacting our Members, and act—providing insurance, risk management services, legal defense, and legislative advocacy to protect, defend, and support our Members at every turn. The following provides an analysis of the trends we are seeing, and the expert solutions we deliver in answer to those trends.



In 2023, the liability environment continued to deteriorate. Last year, the U.S. saw 57 medical malpractice verdicts of \$10 million or more, the threshold dubbed “nuclear verdicts.” Of those, slightly more than half reached \$25 million or more. This is up from the year prior, 2022, when we saw 52 such verdicts, and only 34 in 2013, according to TransRe. Moreover, these verdicts are coming in venues once considered “safe” jurisdictions.


FACTORS AT PLAY

Social Inflation

The rise in nuclear verdicts is largely driven by social inflation, a term that captures the impact of demographic changes, evolving societal expectations, and new strategies that plaintiff attorneys deploy to capitalize on these changes.

Jury pools are tilting younger, and their views are shaped by personal economic pressures and the belief that someone must be held accountable when something goes wrong. Polling shows that jurors feel that physicians should test for all possible conditions or problems a patient may have, and that patients should be told of all possible risks for treatment, no matter how rare. Modern juries increasingly have the initial perception that all negative outcomes are the result of a mistake.

We also live in a polarizing time of heightened distrust of corporations and even facts. As a result, plaintiff attorneys now increasingly sue corporate defendants, strategizing that juries will be less sympathetic toward a corporate entity, even when the care of an individual physician is at issue. Corporate defendants, seeking to reduce their exposure, may settle the lawsuit early and then bring a contribution claim against the physician, even though the physician had no say in the decision to settle or the settlement amount.



“The support that the claims department provides to their Members is unmatched. From beginning to end, claims managers are in constant communication with the Member, providing information and resources. Because they attend critical meetings as well as the Member’s deposition, relationships are built and trust in the company is developed.”

Michele C. Atkins | Counsel
Principal/Owner, FAVROS | LAW

OUR SOLUTION

Heading Off Contribution Actions

Physicians Insurance provides Members with broad coverage that includes claims and potential claims that may be brought against physicians. We encourage Members to come to us with issues that could lead to a potential claim, such as a lawsuit in which a physician is not named but their care could be at issue. This way we can begin immediately to get ahead of litigation, bringing in defense attorneys and expert witnesses if needed, and avoiding costly contribution claims that may be brought by co-defendants later.

Targeting Specialties

Plaintiffs target certain specialties more than others. As a recent survey conducted by the AMA noted, “General surgeons, other surgeons, OB/GYNs, orthopedic surgeons, radiologists, and emergency medicine physicians are the specialties whose physicians are significantly more likely to have been sued recently than general internists (the reference group).”

Specialty	Sued in Career to Date (%)
Obstetrics/Gynecology	62.4%
General Surgery	59.3%
Other Surgical Subspecialties	55.5%
Emergency Medicine	46.8%
Radiology	40.2%
General Internal Medicine	30.9%

(José R. Guardado, PhD, 2023.)

The nature of these specialties makes them appealing targets. Surgical specialties can lead to high-severity injuries, even absent any negligence on the part of the physician. Obstetrical cases have the added difficulty of a very sympathetic situation for both parents and baby. Emergency Medicine cases are often catastrophic, with common cases involving stroke, chest pain that becomes myocardial infarction, and infection. Plaintiff attorneys will dial back the treatment to when the patient was at the emergency room, using hindsight to argue that any presentation should have alerted the ER physician to make different decisions. Radiologists must balance high volumes of reads with the demand for quick results and the perception that extra time should be devoted to any abnormal finding. Hindsight bias—the perception that an outcome was readily obvious only after it has taken place—is high.

OUR SOLUTION

Responsive Risk Consulting

Physicians Insurance provides Members with customized risk management services and education that keep pace with current exposures. In 2023, we introduced specialty-specific risk assessment tools for urgent care, inpatient pediatrics, critical care, outpatient behavioral health, and employment practices to support our Members in proactively mitigating exposure in these high-risk areas. The risk management team also launched an array of tools for managing emerging risks, along with guidance documents on topics such as artificial intelligence, wearable device technology, nonoperating-room anesthesia, and chain of command in the outpatient setting.

Erosion of Liability Reform

Liability reform, including California's Medical Injury Compensation Reform Act (MICRA), which served as a national model for capping non-economic damages for nearly 50 years, continues to be weakened by legal challenges and legislative changes. Other looming issues in the healthcare liability system may create new causes of action, alter the standard of care, establish strict liability for providing or not providing care, and impose onerous or unnecessary duties on healthcare providers.

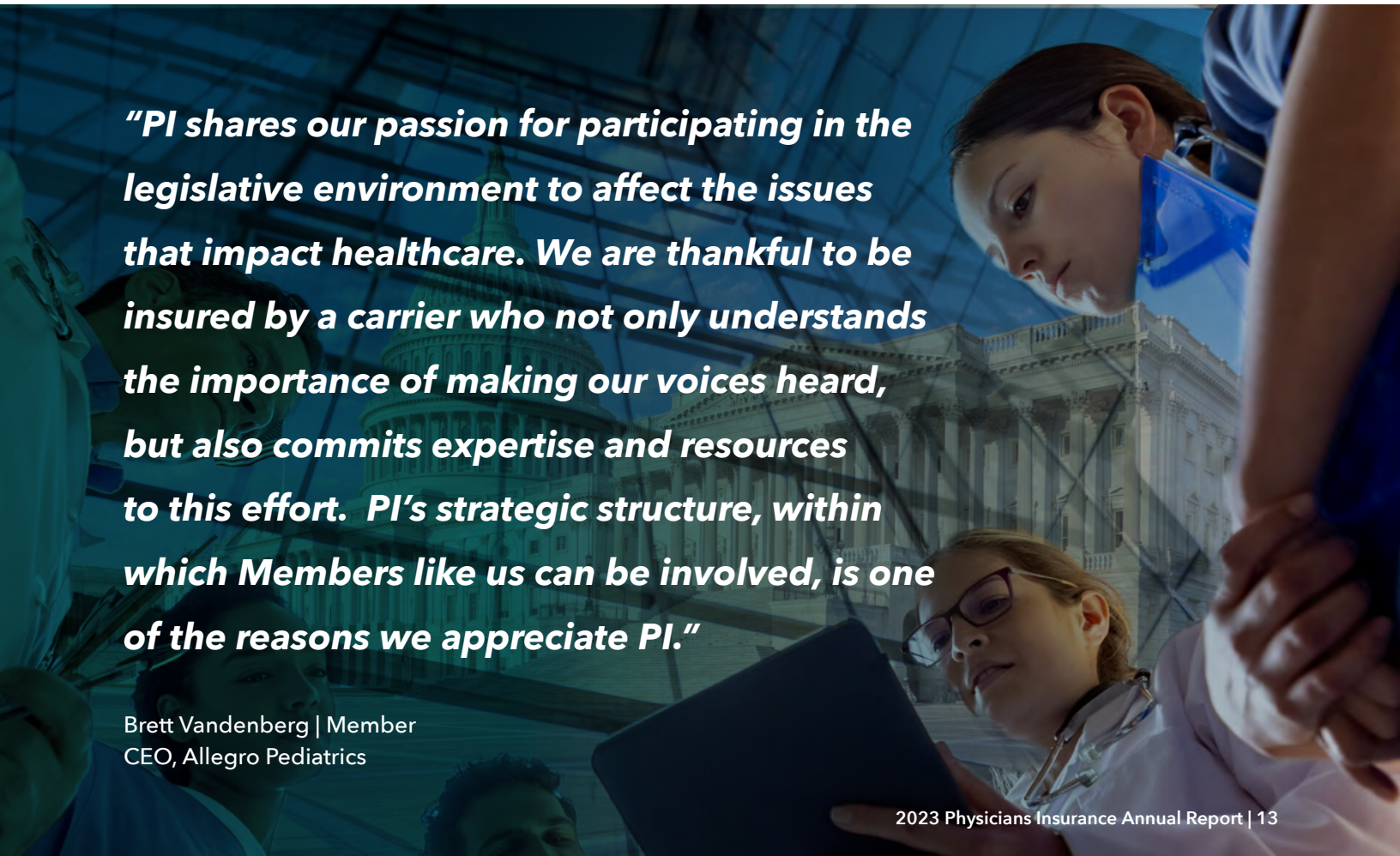
OUR SOLUTION

Ongoing Advocacy

In 2023, Physicians Insurance continued to be a leading advocate for our Members in the legislative, regulatory, and judiciary realms. Last year we made notable progress at the state level, defeating many harmful legislative proposals that would have

negatively impacted healthcare providers and their patients. Physicians Insurance worked to protect caps on non-economic damages that could be recoverable in personal injury and wrongful death actions, and defeated further erosion of other reasonable medical liability reforms in states where we do business.

At the national level, Physicians Insurance worked to promote bipartisan support of the Crisis Standard of Care and the Good Samaritan Health Professional Act to provide protections for healthcare professionals and facilities that provide uncompensated care to victims of federally declared disasters. Progress was made in promoting legislative proposals that address telemedicine liability, and that provide reasonable cybersecurity and data privacy protections relating to HIPAA, as those services continue to expand. PI participates in the legislative, regulatory, and judicial environment to honor our commitment to protect, support, and defend our Members.



"PI shares our passion for participating in the legislative environment to affect the issues that impact healthcare. We are thankful to be insured by a carrier who not only understands the importance of making our voices heard, but also commits expertise and resources to this effort. PI's strategic structure, within which Members like us can be involved, is one of the reasons we appreciate PI."

Brett Vandenberg | Member
CEO, Allegro Pediatrics

Shifting Legalities

In 2023, in various states, the legality of medical interventions continued to shift, compounding uncertainty and potential criminal exposure arising from the U.S. Supreme Court's *Dobbs* decision.

OUR SOLUTION

Novel Protection

Our industry-first Criminal Defense Reimbursement Coverage fills an important gap in this environment, expanding our medical professional liability policies to reimburse the defense costs of defendants up to \$250,000 (outside policy limits) when criminal actions arise from direct patient care, until the defendant is convicted or pleads guilty.

Protecting, Defending, and Supporting

Physicians Insurance knows how to protect our Members and defend good medicine: a 10-year average of 97.8% defense verdicts in jury trials is testimony to that fact. While liability challenges grow, Physicians Insurance remains steadfast, delivering strong coverage, targeted services, legislative advocacy, and powerful legal defense for our Members—always backed by our financial strength.

**Whatever the future brings,
Physicians Insurance is alongside you.**

¹ Guardado JR. "Policy Research Perspectives: Medical Liability Claim Frequency Among U.S. Physicians." American Medical Association. (2023.) Accessed at: [chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.ama-assn.org/files/policy-research-perspective-medical-liability-claim-frequency.pdf](https://www.ama-assn.org/files/policy-research-perspective-medical-liability-claim-frequency.pdf)



"The risk assessment we received has been an amazing tool for us; everything we need to focus on is noted right there. And our PI Risk Consultant has been phenomenal at helping me after a rough day. It's great to have a mentor to talk to outside the organization about this work."

Candace Zanelli | Member
Risk Manager, Bingham Healthcare

About Physicians Insurance

Our Purpose

To protect, defend, and support our Members.

Our Values

People-First

We treat everyone with respect and empathy.

Expertise

We strive to be the best at what we do.

Commitment

As a mutual company, we are accountable and dedicated to our Members and to each other.



“Throughout the process, it was clear that my claims rep cared about me and about helping me find the outcome that was best. They were supportive, and their professional feedback really helped me with my decision-making.”

Blake VanMeter, MD | Member
Anesthesia

What This Means to Our Members

Protecting your healthcare organization. Your business. Your reputation and life's work. At Physicians Insurance, we are dedicated to protecting, defending, and supporting our Members.

As a national boutique insurance company, we passionately serve all our Members and partners, because we understand what's at stake. We proactively seek solutions to new challenges and act with the urgency you deserve. We provide strategic underwriting approaches and risk management and claims expertise, and we offer solutions for stop-loss, cyber, and management liability in addition to our suite of medical professional liability offerings—all supported by exceptional, personalized service.

In Physicians Insurance, you have a steady partner with the strong financial resources to deliver proactive protection for you now, and for whatever the future may hold.

Unwavering Protection

We fiercely protect, defend, and support our Members in the delivery of patient care. We are a mutual company that partners with leading defense experts to ensure that Member interests are protected.

Empathetic Expertise

Our Members deserve an insurer who listens, and who understands what's at stake. Our business is about helping Members overcome their obstacles as quickly as possible so they can stay focused on caring for patients.

Insightful Guidance

We constantly look for novel solutions to new challenges, and act with the urgency Members need and deserve while we professionally guide them through the underwriting, risk management, and claims processes.

Strong Financials

Peace of mind is paramount. We have the financial resources to ensure that our Members are protected by the best coverage and services possible.

By the Numbers

Driving success with personalized attention and outstanding claims support

97.8%


Public trial win rate over the last 10 years

87%

of every dollar of premium spent on claims compared to the industry average of 65%

50%

Lower case load per claims manager, compared to our peers



“My claims rep provided guidance months before the lawsuit was filed and showed up with the expertise that I needed, every step of the way. I am extremely grateful for all the work that the entire team at Physicians Insurance dedicated to my case.”

2023 Board of Directors

Shane Macaulay, MD
Board Chair
Diagnostic Radiology

David Carlson, DO
Family Medicine

Bill Cotter
President and CEO
Physicians Insurance

Joseph Deng, MD
Critical Care
Anesthesiology

Jordana Gaumont, MD
General Surgery

Gary Goin, MD
Family Medicine

Jennifer Hanscom
CEO, Washington State
Medical Association

Skip Li, JD
Attorney

Ursula Luckert
Clinic CEO

John Pasqualetto
President, Chairman,
and CEO
Seabright Holdings
(retired)

Walter Skowronski
President, Boeing Capital
Corporation (retired)

Thank You

As they conclude their term on the board in 2024, we would like to thank **Dr. Gary Goin, Walt Skowronski, and Skip Li** for their ongoing commitment and contributions to our success.