



ANNUAL REPORT 09  
Loyalty. Partnership. Trust.



"None of us enjoys a visit from the Sheriff with a stern look and 'papers' in hand. Similarly, I doubt anyone enjoys receiving a letter with a return address of PO Box 20007, Raleigh, NC – home of the North Carolina Medical Board. As the registered agent of our 41 man group, I have received several of both.

"It is very reassuring that we are insured by Medical Mutual and that they have superb lawyers to advise us regarding subpoenas to produce documents, guide us through disruptive and demoralizing malpractice litigation, represent us in cases of inquiries from the NC Medical Board, and importantly — just to be available to talk to us in the event that we have questions about our practice.

"The staff at MMIC is experienced, helpful and compassionate. I have several of them on 'speed-dial' for a host of things including legislative questions, human resource issues, D & O coverage for our group's leadership, and unfortunately — updates on pending litigation. Although lawsuits are uncommon, everyone that has been involved in one recalls it as one of the most miserable experiences of their lives. It is comforting to know that there is someone that is experienced, compassionate and trustworthy just a phone call away.

"In summary, MMIC is not just a well-run, reliable, and cost-effective medical liability insurance company. They provide a host of other benefits that we do not necessarily associate with malpractice coverage. I would urge everyone to take a tour of the website and get to know the wonderful people behind the scenes at Medical Mutual!"

**James H. Montgomery, MD, F.A.C.R.**

*Asheville Radiology  
Asheville, NC*



# Annual letter to our policyholders

We are pleased to provide you with a comprehensive report on your Company's activities for 2009. Medical Mutual achieved strong operating results despite the challenging and complex business, legal and healthcare environment present during the year. Also noteworthy is the Company's ongoing effort to effectively expand the depth and quality of services available for physician members. Our goal is to be more than simply your professional liability insurer — it is to be a trusted and valued partner. It is our mission to provide you with an array of resources that meet your daily needs and make your job easier.

The Company's record of achieving new highs with respect to total assets and, more significantly, capital and surplus continued in 2009. Medical Mutual's capital and surplus topped \$195 million and total assets stood at just under \$474 million as of the end of the year. These records were achieved through a combination of strong earnings and a rebound in the value of the Company's equity portfolio. The strong performance of the Company's operating subsidiaries also contributed to the increase. As a result of our demonstrated financial strength, A.M. Best reaffirmed the "A" rating the Company has enjoyed for the sixth consecutive year. And, Medical Mutual is now one of the 20 largest writers of professional liability insurance in the country.

The Company continued to see a reduction in overall premium volume. During 2009, written premiums declined by approximately 6% from the level of writings experienced in 2008. The decrease is primarily attributable to the concerted effort by the Company to provide additional premium discounts to you, and the general softness in the insurance market. The recent trend of physicians migrating to employment models with hospitals and healthcare organizations continues to occur throughout the geographic area we serve. We have responded by developing thoughtful, innovative programs that allow us to continue to work with physicians who have entered employment arrangements, outside of private practice ownership. Regardless of the employment situation, physicians still require tailored liability solutions and other services to support their daily activities. We believe we are uniquely qualified to provide these services to all physicians.

After a sustained period of declining claims and suits, we experienced a 12% increase in the number of lawsuits filed against physicians during 2009. Whether this is a result of general economic conditions or other factors, we hope that this level of increase will not repeat itself in 2010. Claims severity, or the amount paid per claim during the year, was relatively consistent with that experienced in 2008. Our success rate in the courtroom topped 87% for 2009. We are committed to maintaining our aggressive philosophy regarding the defense of claims. Providing you with the very best defense lawyers, and the most seasoned claims adjusters in the business, sets us apart from many of our competitors.

While there was some recovery in the equity markets during 2009, the interest rate environment presented significant challenges for our fixed income investments. Interest rates remain at or near record lows, which depresses our investment income. The amount of money being spent in Washington concerns us, and we are wary of the prospects of inflation in the

*continued on page 2*

## Operating Highlights

A.M. Best reaffirmed Medical Mutual's "A" Excellent financial rating for the sixth consecutive year.

The total number of physicians insured by the Company was virtually unchanged from the prior year at 8,798.

The Company's expense ratio of 10.2% continued to be among the lowest in the industry.

The Company's investment income was more than \$10.6 million.

Net income was \$25.1 million, allowing the Company to maintain the financial ratios necessary to support its strong industry and regulatory ratings, keep premium rates stable, and make a record allocation to *The Legacy Fund*.

Subsidiary operations of the Company contributed an aggregate of \$5.4 million to support the core insurance operations.

The Company repaid \$3.3 million of Guaranty Capital and allocated \$6.25 million to *The Legacy Fund* in 2009.

## Community Involvement

Medical Mutual's Community and Advisory Boards met twice a year in nine communities across North Carolina and Virginia in 2009. Input and counsel from our physician and administrator members continued to provide valuable benefits to the Company.

Michael Brohawn, practice administrator for Wake Emergency Physicians, PA in Raleigh, was named the North Carolina Medical Group Managers' Administrator of the Year, an award funded by Medical Mutual.

Medical Mutual and its employees donated over \$36,000 to the Triangle United Way in 2009.

Medical Mutual employees participated in community service projects for Meals On Wheels, Raleigh Rescue Mission, Special Olympics of Wake County, Urban Ministries of Wake County, and the Food Bank of North Carolina. Medical Mutual associates teamed up to provide over 719 hours of service to the community in 2009.

future. Accordingly, the majority of our investments are in securities with maturation dates of four to five years. General expenses exhibited only slight increases during the year. We strive to operate the Company using 10% or less of each premium dollar we collect. For 2009, that ratio is approximately 10.2%, which is less than 60% of the industry average expense ratio.

We believe it is important to share the financial success of the Company with you in tangible ways. In addition to premium discounts, we introduced The Legacy Fund for your benefit in 2009. This innovative program, which is available to the majority of our members, allows you to receive a check at the time you qualify for and receive a no-cost extended reporting endorsement policy. You are now eligible to receive a portion of the value of the Company that was created during the time you were insured. Currently, the aggregate balance in The Legacy Fund is in excess of \$21 million, and individual balances are as much as 25% of your annual premium. Hopefully, you have enrolled in the program and you are receiving quarterly statements. We are pleased with the overwhelming level of support for The Legacy Fund.

During 2009, we continued the development of our creative risk management services by delivering three new "toolkits" to you. In addition, we held numerous seminars covering a host of topical issues. More and more, we see physician practices facing increased compliance and regulatory burdens. New medical board requirements are being issued more frequently. As a result, we have made a concerted effort to keep abreast of developments in these areas. Watch for information concerning these important matters on our website and in our publications.

We encourage you to spend a few minutes reading the information provided in the pages of this report. You will see that there is much good and important work occurring at Medical Mutual. Many of you are actively engaged with the Company as members of advisory boards or focus groups. Please know that we sincerely appreciate the time and energy you devote to making Medical Mutual better. We also appreciate the many comments and ideas that were shared with us during the year, and we are pleased to provide a few of those for you in this report.

Practicing medicine today is exciting, challenging and complex. Unfortunately for many of you, the personal satisfaction you receive from taking care of patients is dampened by external business, regulatory, and compliance issues. We feel a strong obligation to help you with these burdensome issues. Please take advantage of the many new resources we have developed to help you with these matters, and never hesitate to contact us to seek assistance with any issue you may face.

We sincerely hope that you feel a sense of pride and satisfaction as an owner of Medical Mutual. This is your Company, and it is imperative that we maximize the value you receive from your annual investment in it. We appreciate the opportunity to serve you, and we thank you for your support and commitment to Medical Mutual.



Henry J. Carr, Jr. MD  
*Chairman*



A. Dale Jenkins  
*Chief Executive Officer*





"Medical Mutual has been the malpractice insurance provider for our practice for over 20 years. Every year I review our contract and relationship with Medical Mutual, often considering offers of malpractice insurance coverage from multiple insurance carriers who seek our business. We continue to choose Medical Mutual because they offer valuable benefits that protect and enhance our practice, in addition to reasonably priced malpractice insurance.

"One of those benefits is a comprehensive risk assessment of all aspects of our practice. After our recent assessment, we made several changes in how we track hospital rechecks, including missed appointments, lab results from within and outside our lab, and prescription medications. All of these changes will help us avoid potentially costly mistakes, especially as we continue to upgrade and expand the use of our electronic medical records. Another benefit we have utilized is the *HR|Experts* program, from which we have gained valuable information concerning our employees and their human resource issues.

"We consider Medical Mutual a trusted business partner, as well as our malpractice insurance carrier."

**John W. Rusher, MD**

Raleigh Pediatric Associates  
Raleigh, NC

"As the Executive Director for the Raleigh Orthopaedic Clinic, I have had the opportunity to be part of Medical Mutual's Triangle Advisory Board. These meetings provide a valuable forum for Medical Mutual executives to share timely information on legal and legislative matters at the state and national level, review performance measurements of the company, and solicit suggestions on how their services can be improved.

"In these rapidly changing times, physicians and managers know they can count on Medical Mutual's senior management team for guidance. Their willingness to step outside of the traditional role of an insurance company is truly a value-added service. David Sousa, general counsel for Medical Mutual, makes himself available to keep physicians and practices abreast of legal and legislative issues, and to speak to medical groups across North Carolina. He freely shares his knowledge on topics ranging from understanding changing concepts related to informed consents, to how to deal with medicolegal situations involving patients.

"Medical Mutual is a valued resource for practice managers across North Carolina. Their financial support of local and state medical group management associations is unparalleled. They often speak at these events on matters related to local and federal government activity, e.g. RAC audits, changes in NC Medical Board policies and, of course, matters related to professional liability insurance.

"Having worked as an executive of orthopaedic groups for over 25 years in three different states, I can honestly say the level of service and commitment shown daily by Medical Mutual's management and staff towards providers they insure is second to none."

### **Karl F. Stein**

Executive Director  
Raleigh Orthopaedic Clinic  
Raleigh, NC



# Balance Sheet

<b>Assets</b>	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Invested Assets	\$ 431,480,642	\$ 374,577,157
Accrued Investment Income	3,866,144	3,557,896
Premiums Receivable	31,673,180	34,359,705
Federal Income Tax Recoverable	257,890	2,656,352
Net Deferred Tax Assets	5,360,000	7,205,000
Other Assets	1,199,137	189,810
<b>Total Assets</b>	<b>\$ 473,836,993</b>	<b>\$ 422,545,920</b>
<b>Liabilities And Policyholders' Surplus</b>		
Liabilities		
Loss and LAE Reserves	\$ 180,000,000	\$ 170,000,000
Unearned Premium Reserves	39,008,392	40,405,769
Reinsurance Balances Payable	35,982,051	35,833,996
Other Liabilities	23,796,245	19,312,162
<b>Total Liabilities</b>	<b>\$ 278,786,688</b>	<b>\$ 265,551,927</b>
Policyholders' Surplus	\$ 195,050,305	\$ 156,993,993
<b>Total Liabilities and Policyholders' Surplus</b>	<b>\$ 473,836,993</b>	<b>\$ 422,545,920</b>

## Maintaining Financial Strength

Total assets of the Company grew 12% to \$474 million.

The Company's capital and surplus increased to \$195 million, growth of over 24% from 2008.

The Company again demonstrated its conservative and financially prudent reserving methodology by setting aside \$180 million to pay future claims — another record high.

The Company's net written premiums to surplus ratio decreased to 45.7%, in line with the industry benchmark for companies with an "A" rating from A.M. Best.

The Company's combined ratio — the ratio of claims and expenses incurred compared to earned premiums — was 68%.

## Defending Claims

882 incidents, claims and suits were reported against Medical Mutual insureds in 2009 — an increase of 80 from the number reported in 2008.

We paid total claims and claim-related expenses of \$45.2 million — a decrease of over \$6 million from the amount paid in 2008.

Indemnity payments were made on 69 cases, with 4 payments of \$1 million or more.

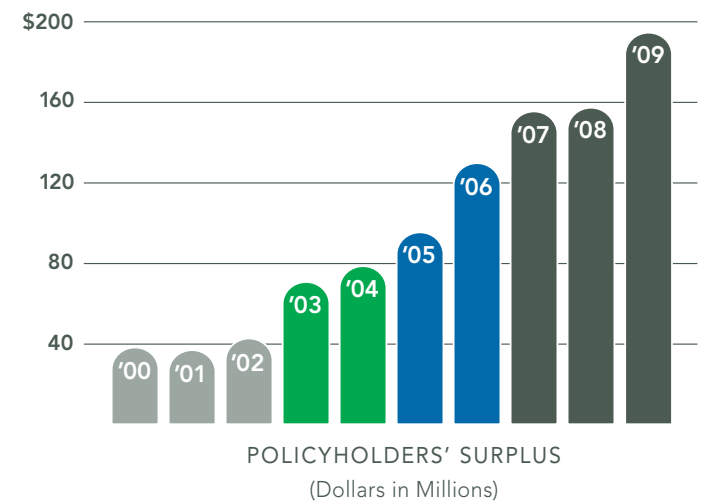
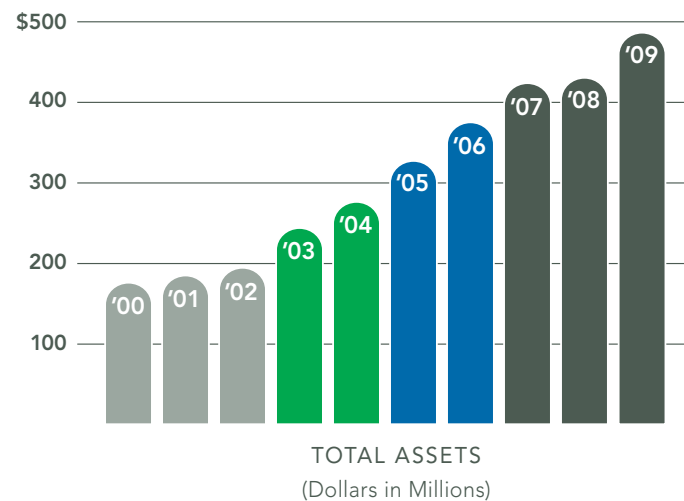
We tried a total of 30 cases in 2009, with only 4 resulting in plaintiff verdicts. The active pending lawsuit count is 448 — the lowest in over 10 years.

We continued our dedication to continuous education of our valued defense attorneys, sponsoring numerous clinical training programs to increase their medical knowledge.

We continue to use eJury as a tool for evaluation of jury outcomes in all matters which we try to a verdict.

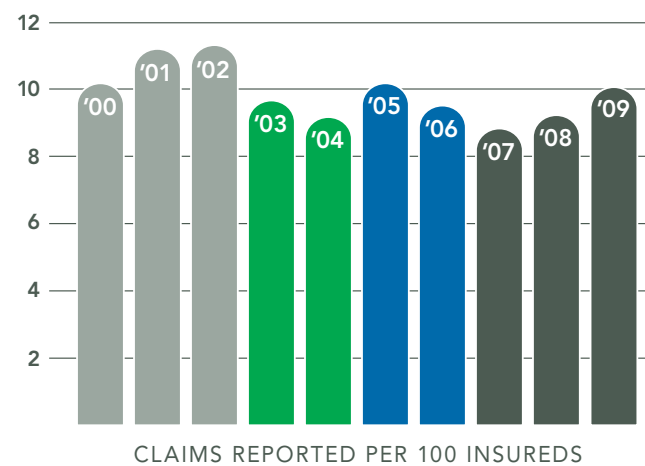
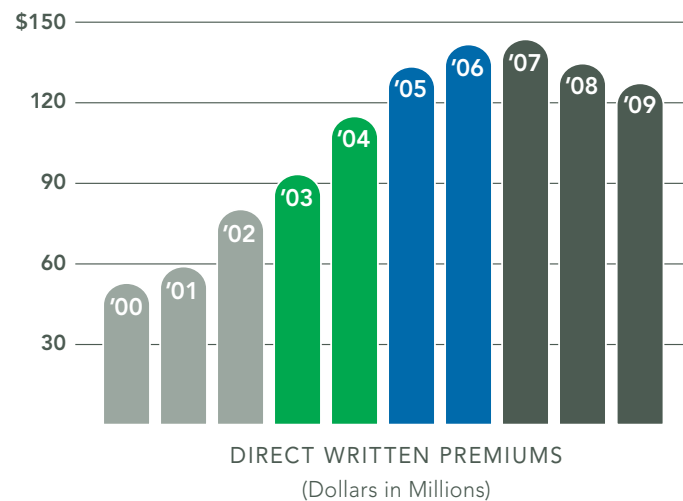
## Income Statement – Highlights

	December 31, 2009	December 31, 2008
Direct Written Premiums	\$ 125,183,583	\$ 133,409,855
Net Earned Premiums	90,446,952	92,154,926
Loss and Loss Adjustment Expenses Incurred	(52,210,908)	(49,673,375)
Other Underwriting Expenses	(6,924,891)	(7,278,368)
Net Investment Income	10,649,566	11,128,662
<b>Net Income</b>	<b>\$ 25,113,709</b>	<b>\$ 24,802,874</b>





December 31, 2007	December 31, 2006	December 31, 2005
\$ 140,631,147	\$ 138,569,959	\$ 132,233,994
95,405,894	91,204,553	80,268,000
(56,660,749)	(62,289,331)	(66,245,670)
(7,409,853)	(5,044,827)	(4,867,642)
10,937,685	9,582,517	6,899,646
<b>\$ 26,055,543</b>	<b>\$ 24,259,290</b>	<b>\$ 13,036,389</b>



"My experience with Medical Mutual can be expressed by two words; partnership and commitment. Their willingness to partner is evident in their effort to encourage feedback and input from their physician members. They listen and innovate with new products that evolve with the demands of a changing medical environment. As more physicians choose to job share, work part-time or involve themselves in activities outside the practice, Medical Mutual is there to evaluate these new and challenging situations and provide advice and appropriate, affordable coverage.

"The Advisory Boards are another example of this partnership. They represent unique opportunities to discuss common concerns with fellow physicians in a peer setting. Updates from the legal team allow us to be alert and current in case law and to be sure we have office protocols in place to protect us and keep us current with state and federal regulations. This is further reinforced with their follow-up meetings with our office managers and staff. Medical Mutual also provides an easily navigated website that offers educational material, forms and valuable tools.

"Medical Mutual's commitment can be seen in the quality of their representation when needed most. With Medical Mutual, I always feel my needs are addressed and never secondary to the company's interest. This relationship inevitably leads to trust, a key ingredient to any successful defense. I always know they are in my corner. Medical Mutual's Legacy Fund is another demonstration of their commitment. By sharing their success, Medical Mutual gives me the sense and confidence that they are in it for the long run.

"Partnership and commitment; these are the ingredients to their success and key factors to my continued satisfaction and support of Medical Mutual."

## **Raymond L. McCue, MD**

Manassas OB/GYN  
Manassas, VA



## Board of Directors

Henry J. Carr, Jr., MD  
*Chairman & President*

Thomas H. McCoy, MD  
*Vice-Chairman &  
Chairman Elect*

H. David Bruton, MD  
*Secretary*

Mott P. Blair, IV, MD  
Charles C. Crowell, III, MD  
A. Dale Jenkins

Michael P. Moulton, MD  
Rachel H. Ross, MD  
Robert E. Schaaf, MD  
Chris M. Teigland, MD

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## Community Board Members

### Coastal:

Millard F. Banker, IV, MD  
Jessica Burkett, MD  
J. William Eakins, MD  
Brian Gilmore, MD  
James Hundley, MD  
Richard S. Moore, MD  
James Snyder, MD  
David Weatherford, MD  
Lewis Patrick Warren, Jr., MD

### Triangle:

Robert Bilbro, MD  
Paul Burroughs, III, MD  
Donald Detweiler, MD  
David B. Eddleman, MD  
Robert Frere, MD  
Joan T. Jordan, MD  
Jeff Kobs, MD  
Robert Littleton, MD  
Robert McConville, MD  
Damian McHugh, MD  
Jerome Parnell, MD

Nicholas Patrone, MD  
H. Cliff Patterson, MD  
Robert Peyton, MD  
John W. Rusher, MD  
Senthil Sundaram, MD  
Bruce Usher, Jr., MD  
William Way, MD

### Triad:

Jonathan Berry, MD  
Chuck Clark, MD  
Gregg Cregan, MD  
Ronald L. Davis, MD  
Greg Hayes, MD  
D. Scott Hill, MD  
Slade Howell, MD  
Haywood Ingram, MD  
John W. F. Mann, MD  
Robert Nudelman, MD  
Doug Shaw, MD  
Brian Sumner, MD  
Robert Wainer, MD

### Metrolina:

Hunter Dyer, MD  
Steven Folstad, MD  
Paul Galentine, MD  
Frederic Levy, MD  
Clifford Roemer, MD  
Paul Vadnais, MD  
Kristin Wagner, MD  
Steven Yates, MD  
W. Lee Young, III, MD

### Mountain:

Bradd G. Burkhart, MD  
Harry Burton, MD  
Steven A. Chamberlain, MD  
Leigh Dodson, MD  
Ted Humble, MD  
Harry Lipham, MD  
Peter G. Mangone, MD  
James Montgomery, MD  
Edward Plyler, MD  
John M. Silver, MD  
William Snoddy, MD

### Virginia:

Anthony Cetrone, MD  
Howard Faunce, III, DO  
John Kowalski, MD  
John McConnell, MD  
Ray McCue, MD  
Bradford S. Pontz, MD  
Jeffrey Powell, MD, DDS  
Barry Rothman, MD  
Vasken Tenekjian, MD  
Charles Umstott, MD  
Joseph Zocco, MD

## In Memoriam:

Kenneth E. Cosgrove, MD (1920-2009)

Dr. Cosgrove, an internal medicine physician and a founding Director of Medical Mutual, served on the Board of Directors from the Company's inception on October 3, 1975 until May 5, 1995. He dynamically shaped the local medical landscape and was actively involved with the North Carolina Medical Society. Dr. Cosgrove was devoted to his family and is survived by five sons: Kenneth C. Cosgrove and his wife Sarilla, of Greenville, S.C.; Timothy R. Cosgrove and his wife, Stephanie; Barry L. Cosgrove and his wife, Betsy; Jeffrey H. Cosgrove and his wife, Dena, all of Hendersonville; and Christopher C. Cosgrove and his wife, Billie, of Wilmington, N.C. and sixteen grandchildren.

## Managing Risk and Educating Our Members

Risk Management developed three new toolkits, *Preparing for the Unpredictable*, *Patient Satisfaction* and *Informed Consent*, distributing approximately 500 kits to physician practices and providing electronic access to members on the Medical Mutual website.

A Risk Management Discount Program was developed for North Carolina insureds. The program, effective with 2010 annual renewals, focuses on decreasing malpractice risk via the Patient Satisfaction and Informed Consent toolkits.

Risk Management presented Revenue Integrity educational sessions in conjunction with Smith Moore Leatherwood, LLP and the consulting firms of Dixon Hughes, PLLC and Health Management Resources, Inc. Nearly 500 physicians and staff attended and rated the sessions highly.

Approximately 2,000 medical practice staff attended Risk Management educational programs; an additional 600 CME credit hours were awarded to physicians.

Over 100 participants joined Risk Management for audioconferences on the topics of “Non-Nursing Personnel in the Medical Practice” and “Informed Consent.”

A new online CME program, sponsored by Challenger Corporation and The Sullivan Group, was launched offering price reduction on courses. Over 400 individuals explored this opportunity.

Risk Management performed on-site Risk Assessments for 825 providers and their practices using the newest version of our STARS application. The assessment data can now be compared among providers and practices to include specialty specific analyses. Additionally, Risk Management completed a “crosswalk” showing a detailed comparison between the Risk Assessment criteria and the Joint Commission standards.

Two hundred practice managers participated in Risk Management’s focus groups in order to gather information and feedback regarding the feasibility of a *Self* Risk Assessment Program.



Risk Management developed three new toolkits.





"Twenty-one years ago I moved to Wilmington, North Carolina to join a new cardiothoracic surgery group. Medical Mutual Insurance Company was our choice for malpractice insurance and, without a doubt, that was one of the better choices for me and for my whole group. To choose Medical Mutual as our malpractice insurance carrier was relatively easy because of the many success stories in our medical community. We were looking for a company that was financially stable and kept insurance premiums low.

"Unfortunately, I was involved in two malpractice suits during these years. It would be difficult to describe, in the context of this profile, the outstanding job Medical Mutual and its lawyers performed on my behalf. They worked diligently to learn about my case, researched thoroughly the medical condition, were available for consultation at anytime, and prepared me for trial in an outstanding manner. At all times during the preparation for trial and at the trial itself, a representative of Medical Mutual was present with kind and encouraging words.

"We celebrated twice — one of the cases was dismissed and in the second, we prevailed. Malpractice suits are extremely difficult on physicians. I took both cases very personally; however, I had no doubt that the best company and its lawyers were in my corner.

"We are very fortunate to have a company of this caliber available to us. All I can say is: Thank you to Jerry, Bob, Donna, and the rest of the Medical Mutual staff for the outstanding jobs you do for us as physicians and our practices."

**Ivan David, MD**

Coastal Thoracic Surgical Associates  
Wilmington, NC

## Henry J. Carr, Jr. MD

At the April 2010 Annual Meeting, Henry J. Carr, Jr. MD will officially retire from the Company's Board of Directors and will assume the title of Director Emeritus.



## *Medical Mutual is grateful for the exceptional contributions that Dr. Carr has made to the Company over the past 35 years.*

Dr. Carr was a founding member of the Medical Mutual Board of Directors in 1975. He has served in various leadership roles on the Board including Board Chairman since 1999, and he has never missed a single meeting.

Dr. Carr has been a key leader in state and national organized medicine for over 40 years. He is a past president of the North Carolina Medical Society and he chaired the North Carolina delegation to the American Medical Association for many years. He has been a tireless champion of physicians and the important role they play in the lives of their patients, and he has given unselfishly of his time and talents to support and promote programs and activities that positively impact physicians every day. In 2008, North Carolina Governor Mike Easley awarded Dr. Carr the Order of the Long Leaf Pine in recognition of his record of outstanding service.

Medical Mutual is grateful for the exceptional contributions that Dr. Carr has made to the Company over the past 35 years. His keen insights and wise counsel have continuously made the Company better, and we will greatly miss his leadership. We wish Dr. Carr and his wife, Barbara, much good health and happiness in the years ahead.



A. Dale Jenkins  
*On behalf of all of us at Medical Mutual*





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[www.medicalmutualgroup.com](http://www.medicalmutualgroup.com)

