



**Medical Mutual<sup>SM</sup>**

PROTECTING OUR PROFESSION

**2016 Annual Report**

# We help doctors focus on doing the work they love.

Our commitment to our members extends well beyond medical malpractice insurance. It's a promise to be there when we're needed most. To provide the most comprehensive support possible. To continually innovate and expand our platform of solutions to stay ahead of a rapidly changing industry. Our mission is simple: To help doctors focus on doing the work they love—taking care of their patients.

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# Message to Members



We have an innovative, growth-minded culture here at Medical Mutual—often more inclined to look to the road ahead than back at how far we’ve come. But when we pause to reflect on 2016, we’re delighted with what we see: a year of growth and transformation that we’re excited to continue into 2017 and beyond.

Consolidation, changes in reimbursement models, policy uncertainty, and new technologies have disrupted the practice of medicine—so Medical Mutual has disrupted our business as well. We’ve adapted to stay in lockstep with our ever-changing industry, ensuring we remain well-equipped to support our members as we have for more than 40 years.

We came into 2016 as a traditional provider of medical professional liability insurance—but by year’s end, we had evolved into a true “platform company,” built to support our members more holistically across their full range of needs. What has remained consistent, however, is our unwavering commitment to providing solutions that enable our members to do what they do best: care for their patients.

We hit the ground running with our acquisition of the policies formerly held by the Healthcare Providers Insurance Exchange (HPIX). This move expanded our geographic footprint by establishing a presence in Delaware, Maryland, New Jersey, and Pennsylvania. We also welcomed many talented new team members into the Medical Mutual family, and gained expertise with integrating businesses—a skill we hope to call on more in the future.

We also broadened our service offerings with the founding of SharpVue Capital, our wealth and asset management affiliate. SharpVue provides our members with the opportunity to invest their money with a firm whose interests align with their own, creating opportunities for members that are typically reserved for large businesses and organizations.

All of this expansion took place alongside continued outstanding performance in our core medical professional liability insurance business. We increased our gross written premium while holding one of the lowest combined expense and loss ratios in the industry. We maintained our A.M. Best “A” rating for the thirteenth year running and saw strong performance from our investment portfolio. And we continued our custom of returning approximately one-half of the company’s profits to our members through allocations to The Legacy Fund and policyholder dividends.

The year ahead promises more growth and continued evolution. We’ll be ramping up our infrastructure to support that growth, and we’ll continue to recruit top talent to help us achieve our goals. We will remain focused on giving our members a strong return on their investment in Medical Mutual and the tools they need to succeed. And even though our service offerings have grown and our reach has broadened, our promise to protect our member physicians will continue as strong as ever.

Our members’ primary goal is to practice medicine safely and effectively. We’re in business to help them do just that. Last year, next year, and in the years ahead—through any industry changes yet to come—we remain committed to one objective above all: caring for our members so that they can care for their patients.

Sincerely,

A. Dale Jenkins  
Chief Executive Officer

Thomas H. McCoy, MD  
Chairman

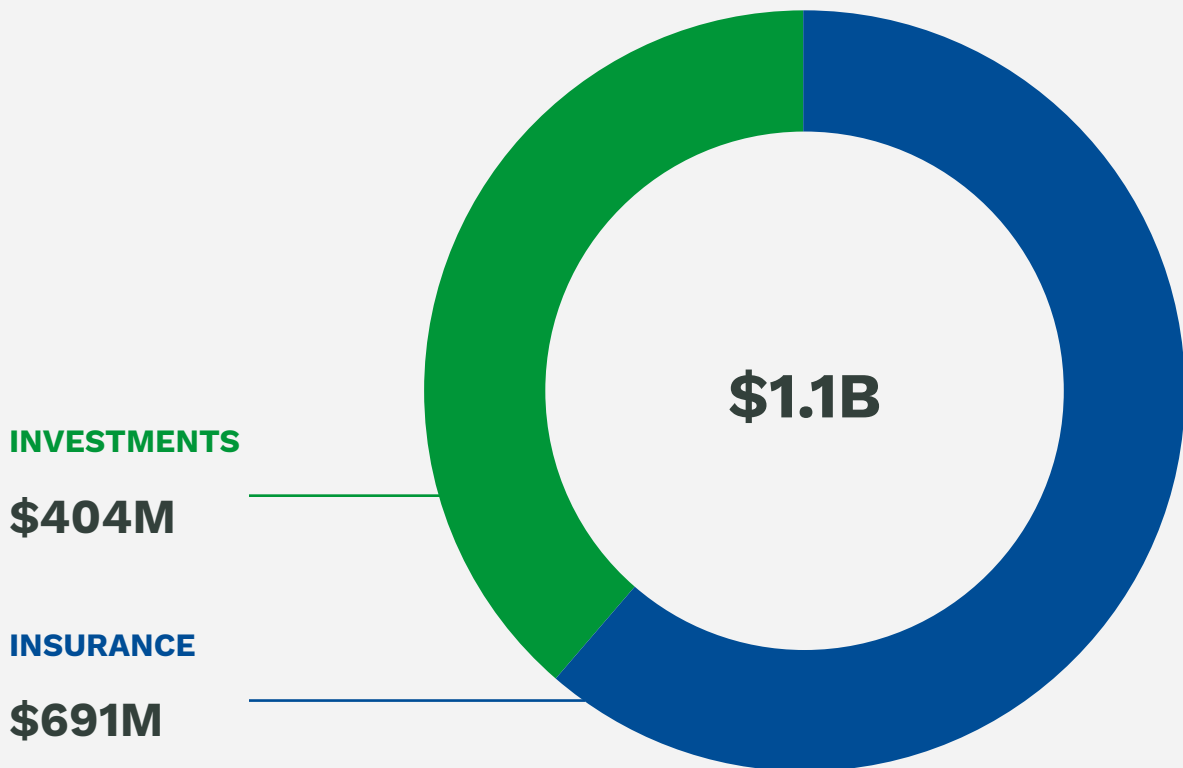
# Medical Mutual Holdings

## FINANCIALS

**We tactfully balance risk and reward to achieve financial growth.**

In both the core portfolio within our insurance operating segment and the surplus and strategic portfolios in our investment operating segment, we manage our accounts wisely, balancing risk and reward as we continue to grow. There has never been a better time to be a Medical Mutual member owner.

### TOTAL ASSETS UNDER CONTROL



## We manage our reserves conservatively to protect our members.

Medical Mutual manages its reserves conservatively, setting aside sufficient funds to handle claims and obligations to members, through programs such as The Legacy Fund. This strategy helps us guard against risk and protects member investments in the company.

### TOTAL LIABILITIES

**\$493,000,000**

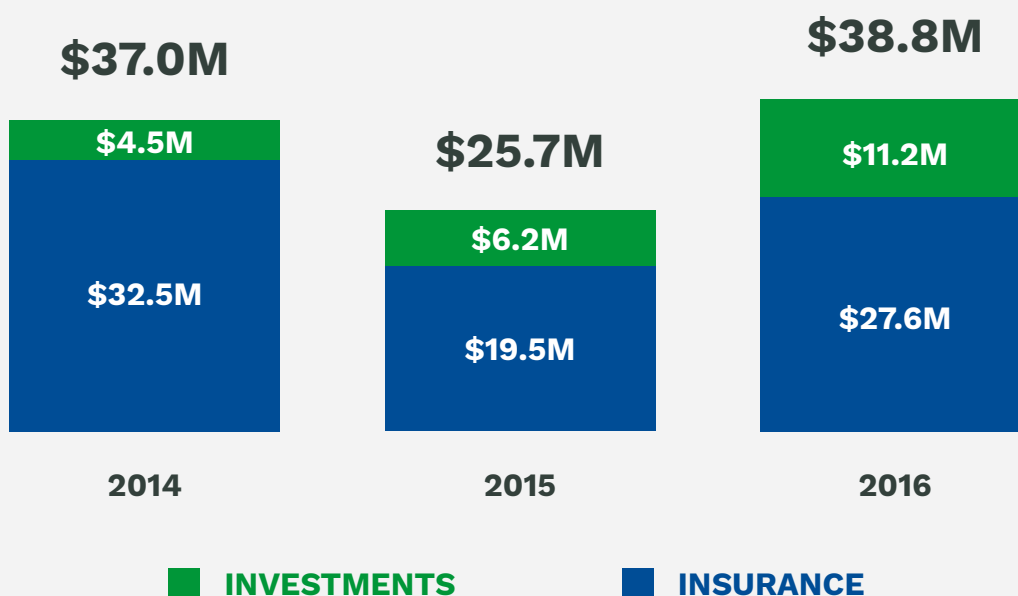
## We leverage our healthy surplus to innovate and diversify across the company.

Our surplus is a core indicator of the health of the company. It's a capital cushion that provides protection against unforeseen financial shocks. It empowers us to innovate across our business as we seek to bring greater value to our membership and diversify our revenue streams.

### SURPLUS

**\$464,400,000**

### NET INCOME



## We draw on our positive operating cash flows to proactively invest in growth.

Medical Mutual's operating cash flows have been positive for several years, and contrary to prevailing industry trends, have continued to trend upward. This strong cash position allows us to be proactive in investing for growth, to the benefit of our members.

### OPERATING CASH FLOWS

**\$74,500,000**

## INVESTMENTS

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Medical Mutual's investment portfolio is divided into three separate categories. This distinction ensures that we meet our obligations to our members and regulators, while also diversifying our holdings and making smart, high-potential investments.

### CORE PORTFOLIO

We invest conservatively to ensure we always have the necessary funds available to cover policyholder obligations. Our core portfolio is built to operate within all applicable regulatory frameworks.

### SURPLUS CAPITAL

Beyond what's needed to meet regulatory requirements and keep funds available to cover claims, we invest a limited amount of our surplus capital more aggressively, helping us to generate higher returns and fund the expansion of our business.

### STRATEGIC INVESTMENTS

We allocate some of our funds for investments in promising operating companies. Our return on these investments is more than financial—we also reap the benefits of the innovation and insight that can come from working with other dynamic, change-oriented organizations.



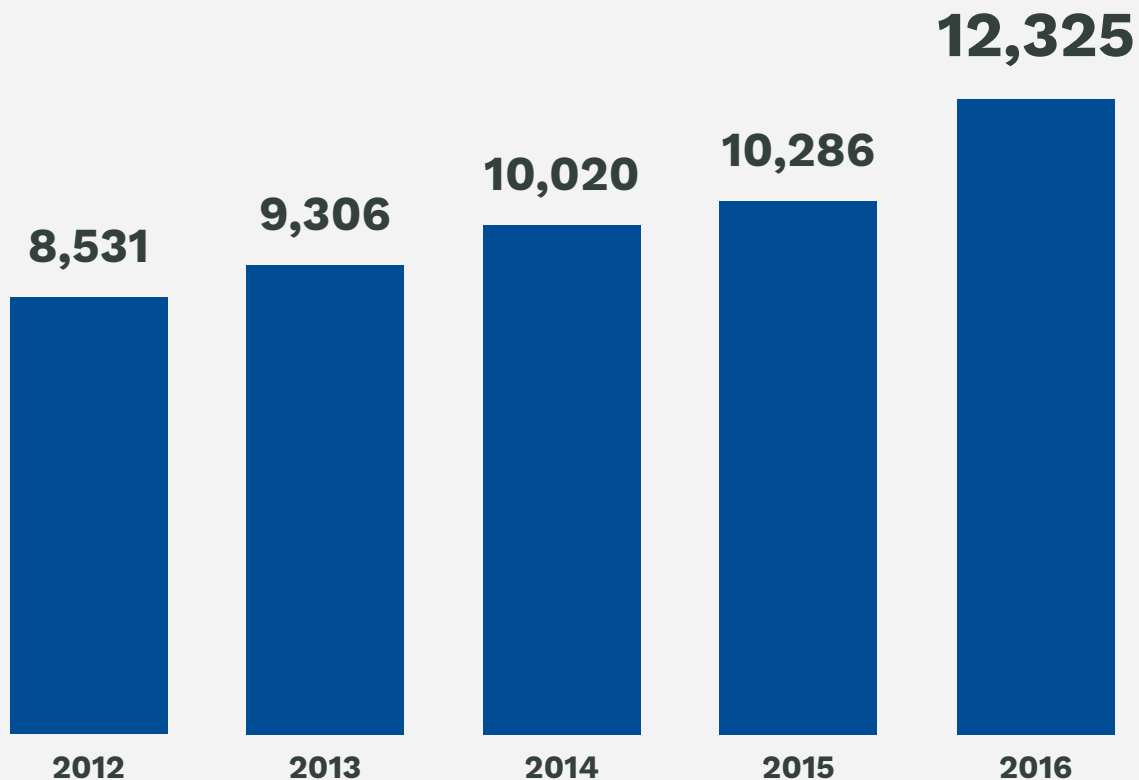
# Medical Mutual Insurance Company of North Carolina

## SCOPE

**We're helping more physicians every year.**

Our headcount of insured member physicians has grown steadily over the last several years. This year, we saw a significant boost in our membership with our acquisition of the policies formerly covered by HPIX in the Mid-Atlantic.

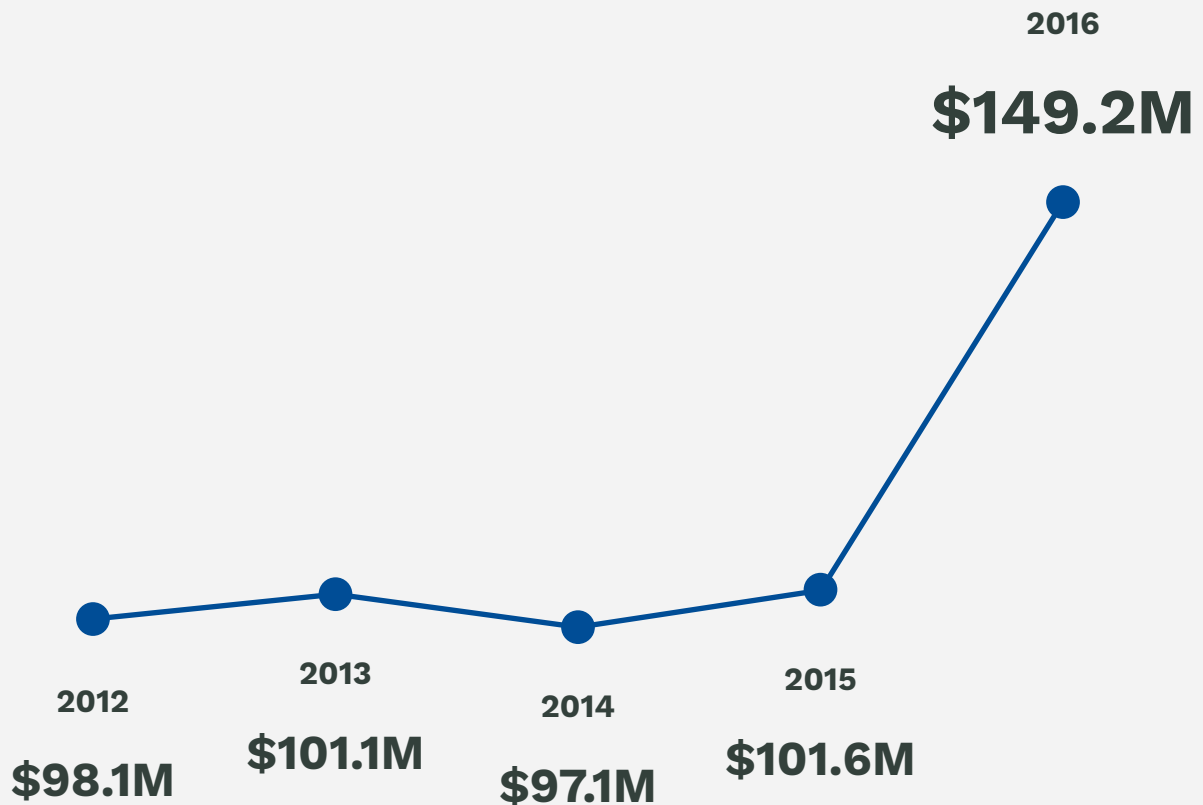
### INSURED PHYSICIANS



## We're building momentum and growing our presence within our industry.

After several years of modest but steady growth, our gross written premium (GWP) increased dramatically in 2016 with our acquisition of the former HPIX policies. We have grown GWP by insuring more members, not by charging more.

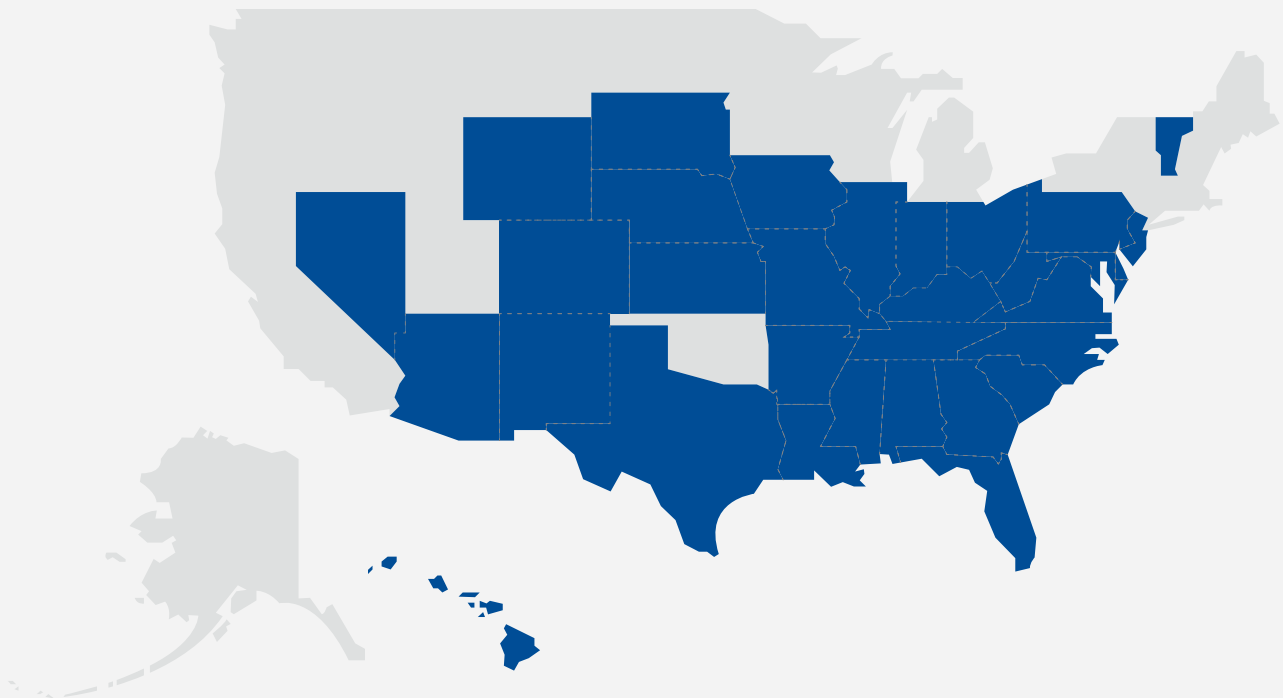
### GROSS WRITTEN PREMIUM





## We're expanding our geographic footprint.

Medical Mutual is now authorized to do business in **32 states and the District of Columbia**. Where sound opportunities for new business exist, we search, identify, and follow.



Alabama  
Arizona  
Arkansas  
Colorado  
Delaware  
Florida  
Georgia  
Hawaii  
Illinois

Indiana  
Iowa  
Kansas  
Kentucky  
Louisiana  
Maryland  
Mississippi  
Missouri  
Nebraska

Nevada  
New Jersey  
New Mexico  
North Carolina  
Ohio  
Pennsylvania  
South Carolina  
South Dakota  
Tennessee

Texas  
Vermont  
Virginia  
West Virginia  
Washington DC  
Wyoming

## FINANCIALS

### Our expense ratio is half that of the industry average.

We're proud of how we manage our financial resources at Medical Mutual. Our 2016 expense ratio—the percentage of premium we collect that is used to run our company—was the third-lowest among medical professional liability insurers, and almost half the industry average. Due to a variety of factors—including our employees' high level of talent and our use of technology—we've consistently maintained one of the lowest expense ratios in the industry.<sup>1</sup>

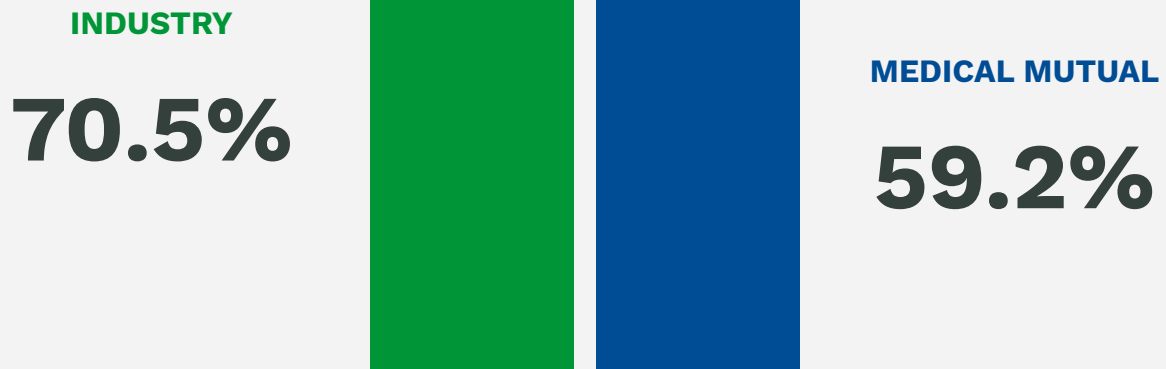
#### EXPENSE RATIO



## Our members' responsible practices contributed to a low loss ratio.

Our loss ratio—the percentage of premium we collect that is used to pay claims—was also significantly below industry average in 2016, thanks to our members' responsible patient care and practice management, the support provided by our risk management tools, and our Claims Department's close engagement throughout the claims process.<sup>1</sup> Our loss experience has been consistently low for several years, which has helped us keep our premiums in check.

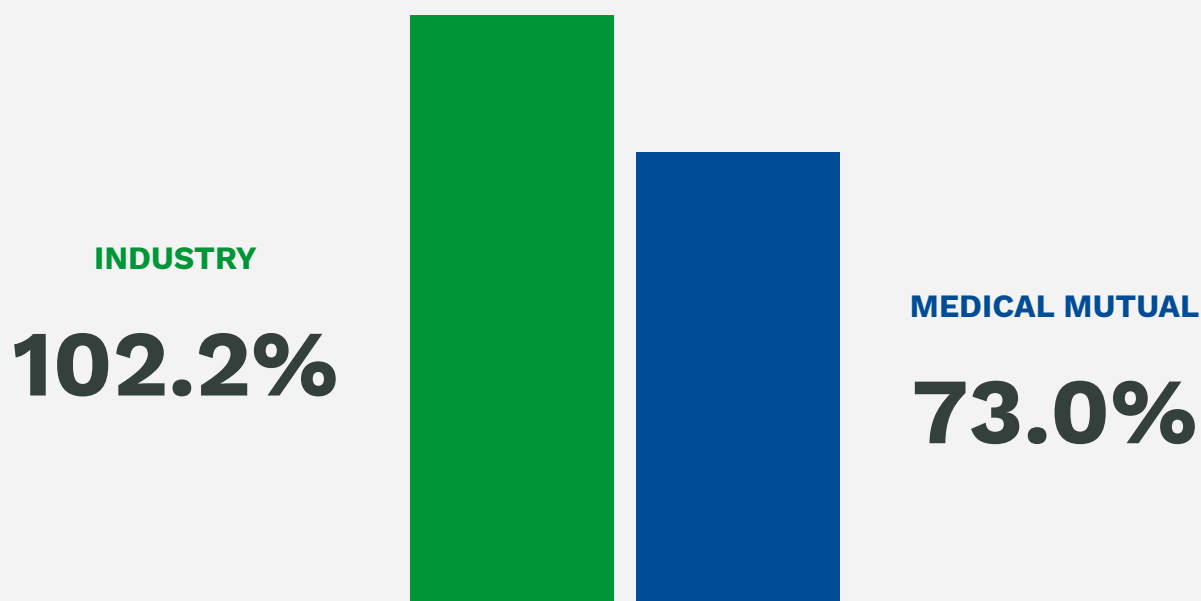
### LOSS RATIO



## Our combined ratio is the second-lowest among all liability insurers.

Looking at our expenses and losses together, Medical Mutual achieved a 73% combined ratio for 2016—dramatically lower than the industry average of 102%, and the second-lowest among all medical professional liability insurers.<sup>1</sup> The profitability resulting from these strong operating ratios flows back to our members in the form of increased investment opportunities, disbursements to Legacy Fund accounts, policyholder dividend payments, and other member benefits.

### COMBINED RATIO



## Our commitment to excellence has never waned—and it shows.

For the thirteenth year running, Medical Mutual earned an **A (“Excellent”)** financial strength rating from **A.M. Best Rating Services**—proof of our strong balance sheet, operating performance, and leadership in our core markets.



## FINANCIAL BENEFITS FOR MEMBERS

### We're committed to returning value to our members.

As a physician-owned mutual company, Medical Mutual is committed to giving our members a meaningful return on their premium investment. Through The Legacy Fund and our Policyholder Dividends programs, we aim to return about half of our net income to our members each year. As in past years, we achieved this goal again in 2016.

**The Legacy Fund** is made up of savings accounts for our members that grow tax-deferred, and pay out to account-holders upon designated events, including retirement.



The **Policyholder Dividends** program makes cash payments to qualifying physicians once a year.



The **Premium Rewards Program** offers discounts on premiums for members who take part in specific risk management activities.



## CLAIMS

### We're there when our members need us.

We take a highly collaborative approach to the claims process and emphatically support our physicians through what can be the most difficult experience in their professional lives. When our members face a claim, we offer them detailed advice about how to proceed—but ensure they have a say in all decisions. We support our members throughout the entire claims process—from arranging peer-to-peer support services and retaining expert witnesses to attending every day of every trial. We're not just insurance providers. We're partners who are committed to getting our members back to doing what they do best.

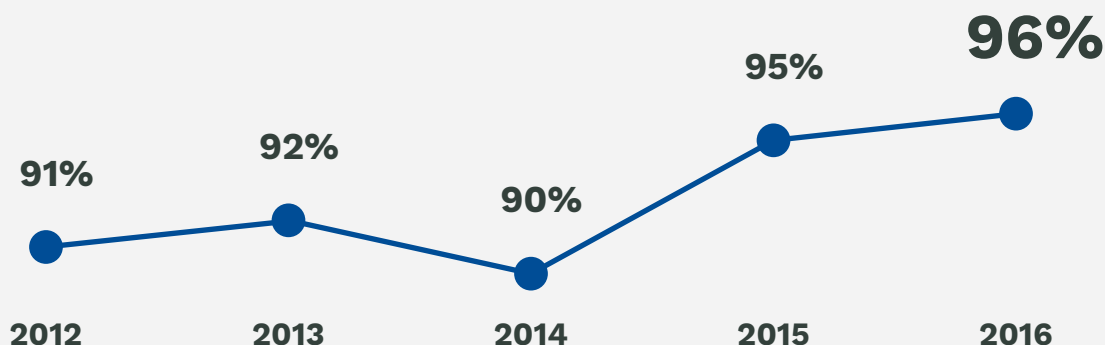
### We won nearly all of our cases that went to trial in 2016.

Our physicians won **14 of the 15 cases** that went to trial in 2016.

### We closed nearly all of our cases in 2016 without payment.

Out of a total **1,192 incidents, claims, and suits** closed in 2016, **96.3%** closed without payment. Our rate of claims closed without payment has been steadily climbing for several years.

#### INCIDENTS, CLAIMS, AND SUITS CLOSED WITHOUT PAYMENT



## RISK MANAGEMENT

### Our experience and preparedness matter when it comes to managing risk.

Medical Mutual's Risk Management team supports our member physicians and their administrators in practicing safe and effective medicine, while concurrently limiting their exposure to regulatory and compliance risks.

Our consultants are experienced in clinical and regulatory / compliance matters. They're on call to address immediate or fast-moving concerns, and also provide a comprehensive set of tools (many CME-eligible) to educate members about complex and developing issues within the healthcare industry. Our consultants' offerings include:



**Situation-specific  
handbooks and  
toolkits**



**Webinars,  
seminars, and live  
presentations**



**In-person and  
online risk  
assessments**

### We successfully handled more than 7,000 member interactions in 2016.

Our Risk Management team tallied **7,121 touchpoints** with members in 2016—including toolkits, webinars, risk assessments, and personal contacts.



## SUPPORTING SERVICES

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### We provide more than just medical malpractice insurance.

We know that our members' needs do not start and end with medical malpractice insurance alone. That's why we're committed to going above and beyond the industry standard by offering a broader range of services to support clinical care and practice management. Our exceptional service paves the way for our member physicians and their administrators to in turn provide exceptional care to their patients.

#### COMMUNITY AND ADVISORY BOARDS

Every spring and fall since 1998, we have gathered physicians and practice administrators in the cities and regions where they practice for a series of interactive dialogues. These Physician Community Boards and Administrator Advisory Boards allow us to hear vital information from our members about the issues that matter to them and about their front-line view of emerging trends in clinical care and practice management. At the same time, these meetings allow us to educate our members about important issues in the field as well as noteworthy developments within our company. We facilitated 34 individual meetings in 2016.

#### CYBER LIABILITY COVERAGE

Keeping patient data safe from hackers and in step with regulatory requirements is one of the fastest-growing risk areas in the healthcare field. Medical Mutual's e-MD® Network Security & Privacy Coverage is designed to help protect practices from these dangers, with coverage for risks such as cyber extortion, privacy breach, and network asset damage. \$50,000 of cyber liability coverage is included with all Medical Mutual policies, and members have the option of purchasing additional coverage up to \$10 million.

#### PARTNERS+

Our Partners+ program offers physicians and administrators from our largest and most complex member practices a suite of enhanced services that support their unique needs—including invitations to an annual two-day symposium featuring presentations from prominent national speakers and the opportunity to network with peers from other practices, specialties, and regions.

## ALTERNATIVE RISK

We offer an insurance captive for providers who are looking to take more control of their professional liability risk. Through that captive, providers effectively self-insure and manage their risk. Depending on the program design and level of involvement, the owners and insureds can participate in underwriting, claims, and investment decisions. At the end of 2016, 17.3% of our total premium was run through this captive.

## COMMERCIAL INSURANCE

Early in 2016, Medical Mutual initiated a partnership with Sentinel Risk Advisors, a leading risk management and brokerage firm. Through this relationship, we're able to provide our members access to a range of commercial insurance offerings beyond our core medical professional liability offering—including property and casualty insurance and risk management services.



# SharpVue Capital

**We're giving members the chance to invest their money with a firm whose interests align with theirs.**

Medical Mutual's new wealth and asset management affiliate, SharpVue Capital, began operations early in 2016. The addition of SharpVue to the Medical Mutual family significantly broadened the platform of services we offer our members.

Led by a talented team that brings a diverse set of experiences to this new venture, SharpVue offers our members access to some of the same investment strategies that Medical Mutual uses. SharpVue serves all of its clients in a fiduciary capacity as a registered investment advisor—so our clients can take comfort in knowing that their needs and interests are the firm's first priority. Moreover, being supported by the strength and stability of Medical Mutual enables SharpVue to leverage best-in-class financial tools and systems on behalf of our clients.

SharpVue provides comprehensive financial planning and advisory services customized uniquely to the needs of each of our clients—from those who are in the early stages of their careers to more seasoned professionals.



## WEALTH MANAGEMENT

Through SharpVue, we offer our members tailored financial planning tools, including education savings support, retirement strategies, risk management guidance, and more.



## MANAGED PORTFOLIOS

We provide a range of regularly monitored and rebalanced risk-based model portfolios that tactically allocate among exchange-traded funds.



## REAL ESTATE

SharpVue's institutional-quality investment process is focused on growth markets across the Southeast and Mid-Atlantic regions.



## PRIVATE EQUITY

Through SharpVue, our members now have access to differentiated investment opportunities in operating companies throughout the Southeast and Mid-Atlantic regions.

## ASSETS UNDER MANAGEMENT

**As of December 31, 2016**

**\$211,000,000**

# Outlook

## **We've had a year of significant transformation.**

2016 was a year of growth and change for Medical Mutual. We expanded beyond our traditional offerings by growing our medical malpractice insurance business, enhancing our ancillary services, and establishing an entirely new financial services affiliate. In size, scope, and offerings, we're a wholly different company today than we were when 2016 began.

We're excited for our transformation to continue as we further expand our platform of support for our member physicians and medical practices. We've made great strides together in the past year. And today, we're more prepared than ever to deliver on our promise to help doctors focus on taking care of their patients.



# Endnotes

## SharpVue Capital Disclaimer:

This material is not financial advice or an offer to sell any product. No assurance can be made that profits will be achieved or that substantial losses will not be incurred. All investments involve risk including the loss of principal. The investment strategies discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. SharpVue Capital is a registered investment adviser. Registration does not imply a certain level of skill or training. More information about SharpVue Capital can be found in its Form ADV 2, which is available upon request.

## Citation:

- 1 Industry comparisons for expense, loss, and combined ratios (pages 9-11) from Milliman's Medical Professional Liability Summary of 2016 Statutory Financial Results

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