




Focus and the year that was 2022

 **Medical Mutual**
INSURANCE COMPANY OF MAINE

2022 ANNUAL REPORT

The background of the slide is a blurred image of a wooden door or window frame. Through the glass, several logos and a silhouette are visible. At the top left, there is a logo with a blue 'M' and a green 'i'. To its right, the word 'Me' is partially visible in blue. Below these, there is a dark silhouette of a tree. The text on the blue box is white and bold.

**Uncertainties from
pandemic years
came into focus as
a sense of normalcy
returned in 2022**



**Frank W. Lavoie, MD, MBA
PRESIDENT & CEO**

Without question, uncertainty swirled during the pandemic that began back in March 2020, mostly around questions of public health and economic disruption. And while Medical Mutual successfully adapted to the operational challenges spawned by the pandemic, the Company still faced questions as we entered and navigated the year 2022.

Would court closures continue to impact the resolution of alleged cases of medical malpractice? Was rising severity in the marketplace an anomaly or a trend? Would the pandemic restrictions eventually begin impacting Company performance?

As the health crisis waned in 2022 and we, as a company at least, returned to some semblance of normalcy, the answers to these questions came into better focus, bringing welcomed clarity for current and future decision-making.

Company culture a focal point of return to the office

Like much of the business world, Medical Mutual embraced a largely remote work model during the pandemic with a minimum level of daily in-office staffing for certain essential operations. The Company introduced a new hybrid model in 2021 that provided some remote-work flexibility, while bringing all staff back into the office on a regular basis.

And I'm happy to report that 2022 ushered in a renewal of the kind of day-to-day collaboration, cross-team communication and teamwork that has always been a hallmark of the Company culture. There's no question that being together on a regular basis makes it easier to manage teams and maintain focus on common goals. It's also a far more effective model for onboarding new employees and assimilating them into the culture. Most of all, it reinforces the ethic of personalized service that is so important to delivering the kind of connected customer experience that sets us apart from other carriers.



Courts re-opened—and trial resolutions show severity now a front-and-center issue

Just as Medical Mutual employees came back to the office in 2021, judges and lawyers returned to courtrooms throughout the country in 2022. And while the return of in-person trials and the renewed pace of litigation may not have caused an increase in claims severity, the fact that an increase in severity is now a bona fide trend is indisputable.



We first raised the specter of the potential shift in our 2018 annual report and it finally hit home for Medical Mutual last year. Which is to say, your Company paid four separate significant claims of \$9.6 million, \$6 million, \$6 million and \$5 million in 2022 — all much higher than typical claims historically experienced here in Northern New England.

Analysts like independent actuarial firm Milliman posit that, “social inflation is a major contributor to the phenomenon. Juries have been awarding higher damages, as jurors are more sympathetic to plaintiffs...”

We take the statement to be accurate at the national level. Locally, though, we are confident that social inflation has, so far at least, not been a factor in cases involving our insureds.

Rates remain stable in the face of increasing severity, hardening market

Nevertheless, the reality of increasing severity has clearly contributed to increasing rates your Company must pay in the reinsurance market to help cover the costs of higher judgments and jury awards. Accordingly, Medical Mutual enacted modest rate increases in 2022 for hospitals in New Hampshire and Vermont, the areas most affected so far. In Maine, hospital rates stayed flat, while physician rates and relativities remained relatively stable across the Company’s northern New England service territory, as they have since 2014.

Continued focus on risk management and core principles foster patient safety, support solid financial performance

Medical Mutual has always leaned into fundamentals and core principles to guide our decision-making and the overall management of the business, especially during challenging times. So as we began to emerge from the pandemic last year, the Company took the opportunity to place renewed emphasis on the kinds of risk management activities that had been put on hold for two years.



Back into the field

Risk managers got back to conducting on-site risk assessments, as well as reviews and presentations at member hospitals and practices.

In addition, the Company renewed for the fifth year the popular and effective Safe Care Obstetrics program, which focuses on enhancing the skills of providers and nurses in coordinating and applying best practices to address the kinds of complex obstetrical scenarios that can easily lead to potential liability hazards. It covers high-risk areas of obstetrics such as fetal heart monitoring and managing problematic conditions like shoulder dystocia, postpartum hemorrhage and hypertensive disorders in pregnancy. In all, 20 of the 27 hospitals insured by Medical Mutual that provide obstetrical services now participate in the program.

Metrics show Company well-positioned among industry leaders

Suffice it to say that operationally, there was a lot to respond to in 2022. That said, Medical Mutual once again produced exemplary financial results for the year. The Company was able to pay its 16th dividend in the last 16 years, including a special mid-year dividend in 2020.

Medical Mutual continues to be the dominant medical malpractice insurance carrier in Northern New England by market share. Its insured retention rate continues to average a remarkable 99 percent. And the Company continues to earn an "A," or "Excellent" rating with a "Stable" outlook from independent rating agency AM Best.

Moreover, Medical Mutual's important operating ratios are among the best in the country. In fact, when compared to peer and other national commercial carriers, the Company is better positioned than many other A rated companies and even some A+ rated companies on most metrics.

The bottom line is that while the Company entered 2022 with significant questions to answer relative to the waning pandemic and uncertain market forces, we closed the book on the year as strong as ever. We are extremely well positioned in our marketplace. Even more important, we further solidified the already strong foundation needed to support your work in providing quality healthcare to your communities.

As always, it is our honor to serve as your partner in patient safety and medical liability protection.

Claim prevention and the immeasurable importance of Medical Mutual's added-value

In the healthcare industry, medical professional liability insurance is essential. The fact is that unfortunately, medical errors do happen, and that a bad outcome could result in a lawsuit, even in cases where the treatment provided was reasonable under the circumstances. With an in-force medical professional liability insurance policy, you will receive financial protection up to the limits chosen on your policy.

That protection is what you pay for—and with most carriers, that's essentially all you will receive. With a Medical Mutual policy, you are entitled to additional personal services providing meaningful, immeasurable, added value. As an integral part of its coverage, Medical Mutual provides services that help reduce medical errors and prevent lawsuits. All of this is done with a both personal and systematic approach in consideration of your needs.

As a reminder of the consequential added-value you receive from your partnership with Medical Mutual, I am taking this space to provide summaries and examples of three of those integrated services: free risk management seminars, free on-site clinical risk assessment services, and state house involvement on active bills with potential financial or liability implications for the medical community.



O. Robert Stevens, MD
BOARD CHAIR



Timely, topical seminars present best practices for sensitive issues in the care environment

Sometimes healthcare practices and hospitals face challenging issues not anticipated or outlined by medical or management training.

How can you effectively deal with violence in a practice or hospital setting? What is right and fair in handling the perceived cognitive decline of a physician colleague? What are the myriad factors you must consider in implementing telehealth services? All of these questions and how you respond to them in any given moment can have serious implications with regard to personal and patient safety, as well as medical liability. These questions vex virtually every practice or hospital at one point or another. Whether you have any insight on best practices for such challenges—which often arise when you least expect them—and whether your team will be prepared to respond are appropriate questions.

If you're a Medical Mutual member-policyholder, you will have had the opportunity to attend Company-sponsored seminars featuring national experts who present best practices related to the complex challenges noted above. You will have access to online webinars and a comprehensive library of risk management practice tips. In short, Medical Mutual serves as a proactive problem-solver to help clients preempt serious human and financial hazards in the care environment. It's a role we relish, a role we take very seriously, and a role we take on in the spirit of our partnership with you.

Day-to-day risk management guidance helps prevent systemic failures, the source of most claims

Medical Mutual's industry-leading risk management services also include on-site guidance on a vast array of clinical and healthcare administration activities. The truth is that most malpractice claims arise from systemic failures—things like unreported lab results, diagnostic errors due to faulty sharing of pertinent information among the care team, and protocol errors in surgical preparation.

To address such errors, the Company employs professional risk managers, most of whom have extensive clinical experience as registered nurses. Their focus is on helping practices and hospital departments learn and implement best practices specific to the kind of care they deliver. For practices, this translates to on-site assessments of everyday record-keeping and patient flow systems, as well as live presentations on topics often chosen and requested by the practice itself.

In addition, a specific risk manager is assigned to each client hospital. They work with the hospital's in-house risk or quality managers, often on a daily basis. Together they develop an annual work plan to address systems to optimize patient safety, particularly in high-risk activities, department by department. The risk manager is always available to consult when an issue arises.

These kinds of close working partnerships provide sensible safeguards against medical errors and measurable results that improve clinical quality.



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A local and vocal advocate when legislation impacts the care environment

Finally, while national carriers may indeed be active lobbying the halls of Congress in Washington, the most important legislative battles relative to the care environment and medical liability concerns are often fought at the state level. And when a proposed bill has potential financial or liability implications for the medical community in the states we serve, you can count on us to be part of the conversation on your behalf.

Indeed, Medical Mutual is currently providing testimony in opposition to a bill in the Maine Legislature that would essentially remove the statute of limitations for a plaintiff to bring suit for cases of medical negligence. The impacts on healthcare costs would be substantial and the new rule would drive medical liability insurance rates higher for both employed and independent physicians, putting immense financial pressure on hospitals, private practices, and nursing homes.

Our position is that there has been no study to substantiate a change to a prevailing law. The current bill risks further upheaval in a healthcare marketplace that has already endured turbulence through the COVID-19 pandemic. It's a marketplace that now needs more stability—not a compounding of financial stresses for Maine's medical providers.

Offense as the best defense

The bottom line is that when you're the subject of an unfounded medical malpractice claim, you can count on Medical Mutual to mount a rigorous defense. Our process results in a success rate at trial of over 90 percent.

Even more important, as a true partner in patient safety and medical liability protection, your Medical Mutual coverage includes the kind of industry-leading services the national carriers cannot provide: integrated risk management to help prevent avoidable claims and local Legislative support to preserve a sensible environment.

We believe our personal approach to provide added value is the immeasurable focus that sets us apart.

Medical Mutual Insurance Company of Maine

Financial Highlights

At and For the Years Ended December 31, 2022, 2021, and 2020 (Dollars in Thousands)

At December 31

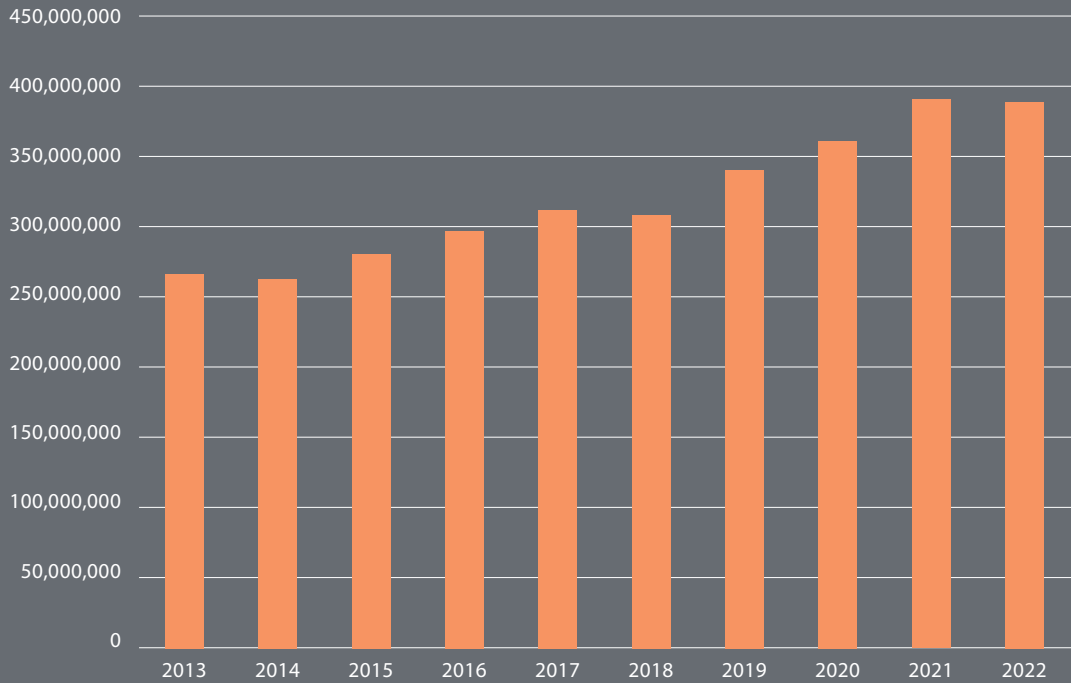
ADMITTED ASSETS	2022	2021	2020
Investments - Bonds	\$282,305	\$266,620	\$238,323
Investments - Equities	51,028	63,499	63,364
Cash and Short-Term Investments	22,167	25,910	27,530
Other Invested Assets	4,175	2,179	2,180
Total Invested Assets	359,675	358,208	331,397
Premiums Due from Policyholders Net of Reinsurance Premiums	26,048	28,040	24,633
Other Assets	5,001	5,884	6,128
TOTAL ADMITTED ASSETS	\$390,724	\$392,132	\$362,158

LIABILITIES & POLICYHOLDERS' SURPLUS

Reserves:			
Unpaid Losses	\$87,016	\$78,257	\$70,056
Loss Adjustment Expenses	24,130	25,184	25,052
Total Reserves	111,146	103,441	95,108
Unearned Premiums	23,260	22,825	22,899
Death, Disability, and Retirement Reserve	814	853	865
Federal Income Tax Payable	155	1,450	1,831
Net Deferred Tax Liability	1,787	4,703	4,237
Dividends Declared and Unpaid	5,157	8,090	5,102
Ceded Reinsurance Premiums Payable Net of Ceding Commission	11,566	10,870	9,092
Other Liabilities	8,704	7,002	6,630
Total Liabilities	162,589	159,234	145,764
Policyholders' Surplus	228,135	232,898	216,394
TOTAL LIABILITIES & POLICYHOLDERS' SURPLUS	\$390,724	\$392,132	\$362,158

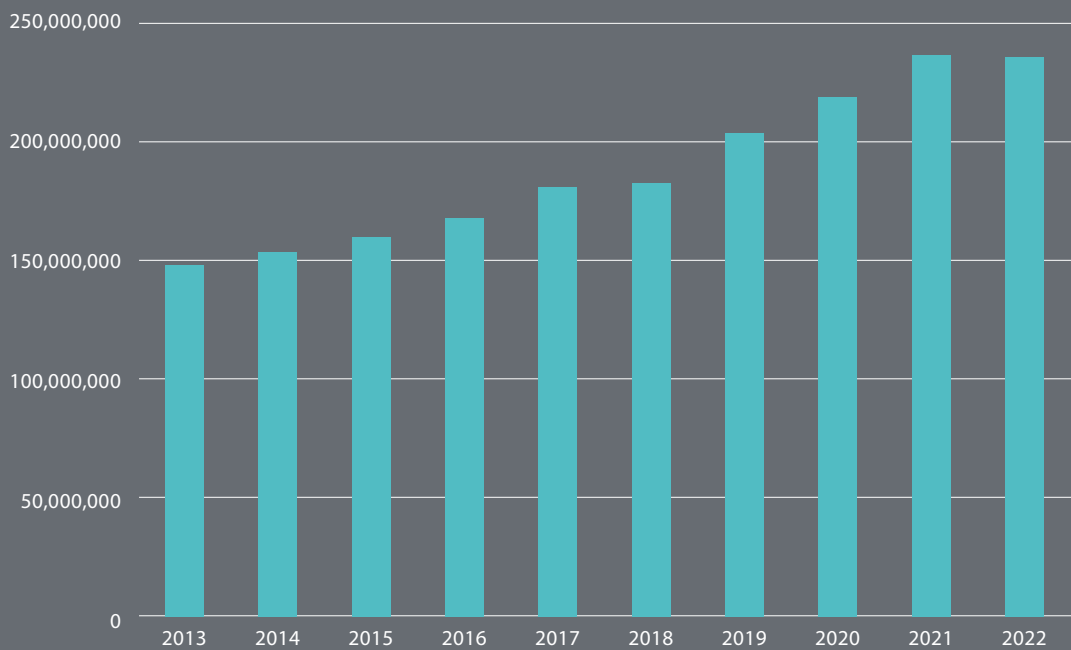
For the Year Ended December 31	2022	2021	2020
OPERATIONS			
Premiums Earned	\$33,256	\$37,064	\$38,127
Net Losses Incurred	16,534	15,537	14,709
Net Loss Adjustment Expenses	5,036	6,378	6,275
Underwriting Expenses	8,614	8,371	8,333
Net Underwriting Gain (Loss)	3,072	6,778	8,810
Net Investment Gain	8,426	15,919	10,674
Other Income	26	28	27
Income before Taxes and Dividends	11,524	22,725	19,511
Dividends Declared	4,903	7,983	8,785
Income before Taxes	6,621	14,742	10,726
Federal Income Tax Expense	1,226	1,397	1,427
Net Income	\$5,395	\$13,345	\$9,299
Gross Premiums Written	\$51,500	\$51,120	\$53,107
Premiums Ceded	17,848	14,142	15,127
Net Premiums Written	\$33,652	\$36,978	\$37,980
Percent Premiums Retained	65%	72%	72%

ADMITTED ASSETS - TEN YEAR HISTORY



With total admitted assets exceeding \$391 million, Medical Mutual continues to carry an A (Excellent) rating from independent rating agency A.M. Best.

SURPLUS - TEN YEAR HISTORY



Medical Mutual has steadily increased surplus to \$228 million over the past 10 years, giving the Company more than ample financial capacity necessary to cover unexpected losses and to support new business efforts.



Medical Mutual
INSURANCE COMPANY OF MAINE

One City Center • PO Box 15275
Portland, Maine 04112-5275
Tel 207-775-2791 • 1-800-942-2791
MedicalMutual.com