

On the cover..

**Erik G. Pingoud, ABIM
Radiologist
Middletown, CT**

The changes in radiology over the past 30 years have been monumental. When I started in 1976, nobody had heard of computed tomography or magnetic resonance imaging. Ultrasound was in its infancy. My own subspecialty, interventional radiology, did not exist. Angiography was the fanciest stuff that we did at the time.

Radiology has rapidly evolved with the introduction of CT and MRI. We can now look at blood vessels without having to put in a catheter. We can not only diagnose, we can fix things; for instance, interventional radiology techniques allow repair of arteries which have become narrowed.

One of the newer applications of CT scanning which I am very excited about is CT colonography, or the so-called virtual colonoscopy. Colon cancer is one of the big killers of men and women. To use CT scanning we need around 200 cross sections. Since the bowel moves, these need to be taken quickly to avoid artifacts. Newer scanners can now take 16 slices or more per rotation. This allows us to quickly acquire images for the entire colon, to be evaluated on workstation, in color and in 3D. Traditional colonoscopy has the advantage that a biopsy can be done at the same time. This will remain the gold standard. However, CT offers a less invasive screening method. It is going to be a much-utilized diagnostic procedure in the future.

Not only are we seeing vast changes in the quality and speed of imaging, but also radiology is moving toward being a paperless and filmless department. Interpretation is beginning to take place on monitors, and archives will be entirely electronic. This will allow electronic images to be shared. For instance, we have three satellite facilities. Being able to electronically share images permits radiologists to do the reading at any location. For example, if there is a radiologist here at the hospital that is not busy, he or she can pick up the CT scans generated in one of the outlying clinics.

FINANCIAL DATA (IN MILLIONS)*

	2001	2002	2003
Total group assets	\$1,305.8	\$1,366.9	\$1,546.2
Net written premium	\$134.2	\$178.4	\$199.4
Policyholder surplus	\$363.9	\$303.5	\$342.8
Premium to surplus	.37	.59	.58

* Statutory Basis

From the Chairman of the Board

The rapid run-up in jury verdicts that began in the mid-1990s continues to generate turmoil within the medical malpractice industry. The past few years have reminded many of us of the 1970s when malpractice insurance was almost exclusively provided by large national carriers. These companies were financially strong, but had no long-term commitment to healthcare professionals. When awards skyrocketed and the red ink flowed, they abandoned the medical malpractice market.



Barry M. Manuel, MD, FACS

At the time, many physicians were unable to obtain malpractice insurance at any cost. In many states, groups of physicians organized with the support of state medical societies and doctor-directed insurance companies were born. ProMutual Group has evolved into one of those companies. The goal was to “never again” have the fate of medical practices in the hands of companies with little commitment to healthcare.

We have a Board of Directors composed of 13 members, nine of whom are providers of healthcare. Eight of our Board members are physicians, one of whom represents the Massachusetts Hospital Association, and one is a dentist. Our major commitment is to serve healthcare professionals.

Due to the rising cost of professional liability insurance some physicians are exploring alternatives to traditional insurance such as risk retention groups, captives, etc. While some of these alternatives may offer less expensive rates initially, one should be certain that the financial strength and expertise of the organization is sufficient to ensure that they will still be in business three to five years from now when claims have to be paid.

Our industry has had its share of alternative insurance initiatives which have failed and have left their healthcare policyholders uninsured and unprotected.

I am pleased to report that despite the challenging year, your company remained strong. Our strength was reaffirmed by A.M. Best, the nation’s leading independent insurance rating organization, which once again gave the group an A- (Excellent) rating. That’s an impressive accomplishment since, for the third consecutive year, rating downgrades for the medical malpractice industry outpaced upgrades.

Today, the plight of physicians crushed between rising costs, including medical malpractice premiums, and falling reimbursement rates is making many question whether they can remain in medicine. Even one doctor contemplating leaving the profession for economic reasons is painful to consider.

Tort reform efforts are proceeding in many states and on a national level, but we can’t wait much longer for corrective action to reign in out-of-control jury awards. I continue to urge fundamental change to correct our flawed system of dealing with medical injury. It is a system that drives up the cost of professional liability insurance to the point where it threatens patients’ ability to receive care from physicians.

I take pride in the knowledge that since its beginning ProMutual Group has had an ironclad commitment to assist policyholders, reduce risk in their practice and when a claim occurs to settle those with merit as soon as practical and to vigorously defend those claims without merit. Let me assure you that we will continue to honor this commitment.

Sincerely,

A handwritten signature in black ink that reads "Barry M. Manuel". The signature is written in a cursive, professional style.

Barry M. Manuel, MD, FACS
Chairman of the Board

From the President

The past few years have been a time of financial instability and rising rates, what many in the industry have called a “perfect storm.” This resulted from the convergence of low premiums, intense competition, rapidly rising claim frequency and severity, the economic impact of 9/11, and modest investment returns.



Richard W. Brewer

Over the past three years, we have implemented rate increases in every state where we do business in order to bring rates in line with loss experience. We are just now beginning to see the benefits of these past changes. In 2003 rates have become more adequate. One of our key ratios, the combined ratio that compares premiums to claim and operating expenses, improved by five points. We expect stronger improvement in 2004.

While our combined ratio is moving in the right direction, further improvement is needed to ensure our long-term success. We recognize that policyholders want us to maintain the long-term underlying financial strength of the company, for ours is a long-term business. We must — and will — continue to reduce our combined ratio.

In addition to achieving actuarially sound rates, on a selective basis we are pursuing a number of initiatives designed to write additional quality business. ProMutual Group is no longer a one-state operation. We have been able to grow substantially while maintaining the integrity of our underwriting and pricing standards. This has permitted us to serve the needs of nearly 16,000 policyholders throughout the northeast. Today, we are the largest writer in Massachusetts, the second largest in Connecticut, Maine, New Hampshire, Rhode Island, and Vermont, and the third largest writer in New Jersey.

We are convinced that limited geographic diversification, in familiar markets, is in the best interest of the Group as a whole. A bigger ship, well built, can better weather a perfect storm.

We have made great strides in recovering from the adverse conditions of the past few years and this has reinforced the importance of our financial strength. However, we still have a lot of work to do. The next year will be critical. Actions we will put into place will position ProMutual Group to respond better to the needs of policyholders.

In conclusion, I look forward to the future with optimism and thank you for your loyalty and support.

Sincerely,

A handwritten signature in blue ink that reads "Richard W. Brewer".

Richard W. Brewer
President and CEO

Market conditions have a profound impact on all medical malpractice carriers, regardless of how well they are managed.

Meeting the Challenge of Change

Change¹

- *Every day, over 7,000 scientific and technical articles are published.*
- *Satellites orbiting the globe send enough data to fill 19 million volumes in the Library of Congress — every two weeks.*
- *Every two to three years, the knowledge base doubles.*
- *There will be as much change in the next three decades as there was in the last three centuries.*

Rapid change is the defining characteristic of our time. In medical malpractice insurance, because of the “long tail” nature of the business, change is especially challenging.

A change today may not have a significant impact for five years or more. Failure to predict market trends accurately, and to make changes to reflect those trends, can hurt a company for many years.

ProMutual Group’s challenge is to keep the company financially strong in order to effectively respond to policyholders’ future needs. ProMutual Group has taken, and will continue to take, steps to meet this challenge.

Market Conditions

Market conditions have a profound impact on all medical

malpractice carriers, regardless of how well they are managed. These conditions are often outside the control of the company, yet the better prepared a company is, the better it can serve its policyholders.

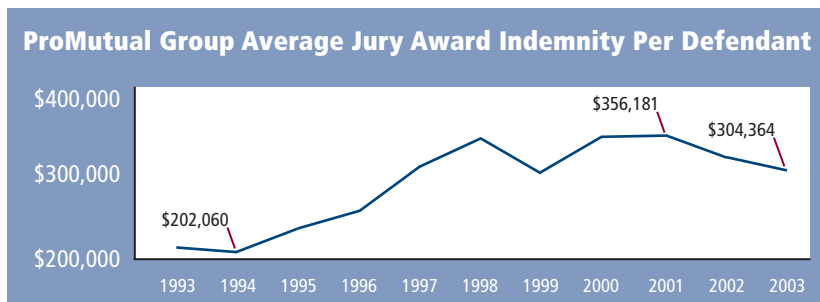
The market trends with the greatest long-term impact on company performance were jury awards and legislative action.

Jury Awards

The average indemnity per defendant is about 50 percent

higher than it was in the mid-1990s, but it has dropped by more than \$50,000 from its high of \$356,181 in 2001. Based on ProMutual Group’s own claim experience, the size of jury verdicts appears to be leveling off. If this proves to be a long-term trend it is indeed good news and should moderate the need for future rate increases. However, because of the “long tail” impact of claims on rates, it does not mean rates will stabilize overnight.

Another measure of the impact of jury awards comes from Jury Verdict Research[®] of Horsham, PA. According to their data the median award jumped 40 percent in 1998, from \$500,000 to \$700,000. There was no change from 1998 to 1999. Then in 2000 the median skyrocketed 43 percent to \$1,000,000, where it remained in 2002. In 2003 it inched up slightly to \$1,010,858. Jury awards of \$1,000,000 or more



¹ *Leadership & Technology*, Gerald D. Bailey, Dan Lumley and Deborah Dunbar

Policyholders can conveniently fulfill part of their ongoing education requirements via the Internet.

used to be big news. Now they are the norm.

Legislative Trends

So far, lawmakers on both the state and federal levels have made little progress in bringing stability to medical malpractice insurance. While efforts to introduce caps on malpractice awards succeeded in a few states, no significant reforms were enacted in any state in which ProMutual Group operates.

On the national level, President George W. Bush and Senate Majority Leader Dr. Bill Frist have both pledged to make medical malpractice reform a national issue in 2004.

How ProMutual Group is Responding

Risk Management Training

ProMutual Group's risk management seminars allow physicians to learn how to reduce risk within their practice and to earn continuing medical education (CME) credits at the same time. With reduced reimbursement rates, heavier caseloads are the norm. Over the past decade healthcare professionals have found it increasingly difficult to make time for training and attendance at ProMutual Group seminars began to drop.

The challenge was to find ways to deliver risk management

education in a manner and at times that matched the needs of policyholders.

Beginning in 2002, written tests certified for CME credit were incorporated into *Perspectives*, ProMutual Group's risk management newsletter. Physicians can now read this information at a convenient time, take the test, and qualify for CME credits.

However, it was recognized that this is only part of the answer to the training challenge. With advancements in Internet-based "e-learning," it was determined that the Internet would provide an ideal vehicle to bring CME-qualifying training to policyholders 24 hours a day, seven days a week.

Policyholders can now log on to the Massachusetts Medical Society Internet site at their convenience and have access to CME-qualifying courses developed by ProMutual Group. These are certified by the society and are offered to policyholders in all states at discounted rates. Policyholders can conveniently fulfill part of their ongoing education requirements via the Internet.

Attention to risk management techniques and adhering to proper protocols can significantly reduce the risk of medical errors and the resulting malpractice claims. An inter-

departmental effort at ProMutual Group is working with one specialty society to identify high-risk procedures that account for a disproportionate number of claims.

Based on this research, ProMutual Group assisted in the development of an innovative interactive shoulder dystocia risk reduction training program. This pilot program will offer a premium reduction to healthcare providers in Massachusetts who successfully complete the course exam.

The results of this new program will be closely monitored and if successful it will become a model that other specialties can use to work in cooperation with the company to identify high-risk procedures and to develop effective ways to reduce resulting medical errors and to help control medical malpractice insurance costs.

Compliance Training

Given today's regulatory environment and the constant threat of litigation, every employee in the healthcare industry needs thorough compliance training. However, finding time for traditional on-site training can be a challenge.

Total Compliance Solutions, Inc. (TCS) is a leading provider of outsourced Internet-based healthcare accreditation

programs. More than 17,000 healthcare professionals at nearly 6,000 healthcare facilities in North America rely on Internet-based, interactive training programs from TCS.

ProMutual Group is working with TCS to develop a program to assist hospitals, medical groups and similar healthcare organizations meet the compliance training needs of their staff. The jointly developed training program will be introduced in 2004.

Benefits of Joint Counsel

ProMutual Group has a fiduciary responsibility to policyholders to protect their interest, while maintaining the group's excellent closed-without-payment record (76 percent in 2003) and our impressive defense verdict win ratio (95 percent in 2003). That is why ProMutual Group's goal is to provide the very best defense it can to each policyholder.

However, more than 80 percent of loss-adjustment expenses are attributed to legal fees rather than to settlements — and these costs continue to climb. Until recently, the initial approach was to provide each defendant with his or her own counsel. While this sounds like the best approach, it often is not.

In many cases, a joint defense can be more effective, since

“One thing we learned from 9/11 is that victims don't act the way you might expect.”



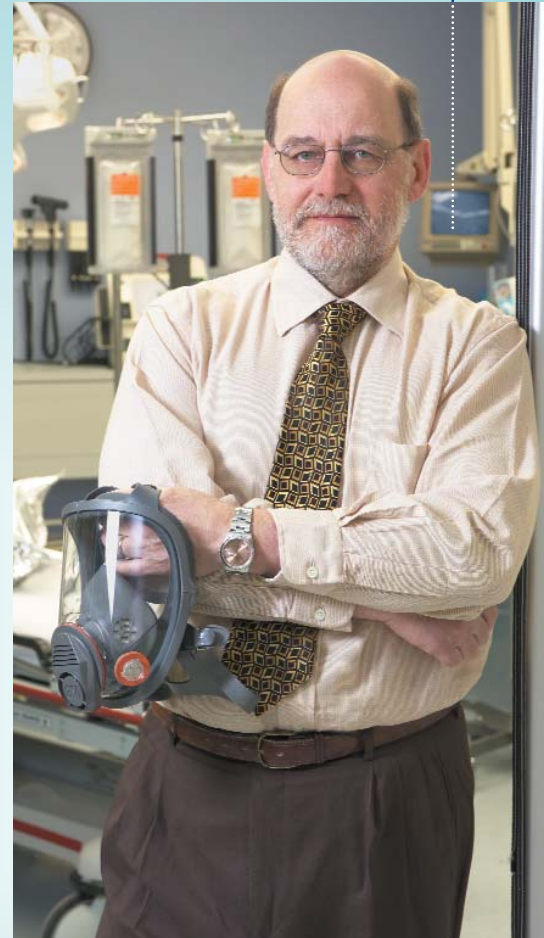
Dr. Timothy R. Drury, FACEP Emergency Physician Wakefield, RI

There is always change in emergency medicine — new technology, new techniques. However, the changes we faced after 9/11 were of a whole different magnitude.

In the future, emergency room personnel will be frontline responders to a terrorist attack. They will likely be the first to detect exposure, identify the agent used, and treat the victims.

Before 9/11 the typical emergency room was equipped to handle simple decontamination and to provide antidotes for small numbers of victims, but a major incident would overwhelm them. New federal guidelines require that both new and remodeled ERs must include a decontamination station that victims have to go through before entering the ER and having decontamination suits available for the staff.

One thing we learned from 9/11 is that victims don't act the way you might expect. If they are ambulatory, many will go home first and only then show up in the ER. If this happened as a result of a terrorist attack, there could be hundreds of secondary exposures. To meet such a challenge regional responses are being prepared and coordinated by Homeland Security. This includes mobile decontamination stations capable of handling hundreds of victims.



In a few weeks the area hospitals will be taking part in regional training that will include setting up a mobile decontamination unit, “decontaminating” several hundred volunteers and “treating” those with “symptoms.”

We are taking this challenge very seriously. Another challenge we face is the need to know more about new risks we might face and how to respond. For example, many of us thought that smallpox was eradicated, but now we know it wasn't. We now have an ER team that has received smallpox immunization.



"You have to develop an effective way of dealing with both physical ailments and emotional needs."



Dr. Nicholas Handanos (left)
Dr. Robert J. Clinton, Jr. (right)
**Hospitalists
Portland, ME**

(N.H.) Physicians are facing the challenge of a growing body of both outpatient and inpatient medicine. As a result, hospital based medicine is evolving as a separate specialty.

(R.C.) I am convinced hospital based medicine will improve patient satisfaction and cut down on length of stay. The challenge is to get all the physicians on the outside to buy into the concept.

(N.H.) We know that in some cases there has been reluctance by primary care physicians to accept hospitalists. That was not the case here. We initially got in touch with all outside doctors in the community and explained what we could do for them. That personal contact broke down any barriers and the program has been exceptionally well received.

(R.C.) Handoffs are critical. Upon admission we do a thorough admission history and physical. In the admission we try to encompass all referral sources, either by letter, voice mail or fax.

(N.H.) Equally important is the relationship with a patient, family members and friends. These relationships are very intense and may last a day or a week. They start the moment you pull back the curtain. You have to develop an effective way of dealing with both physical ailments and emotional needs.

(R.C.) A lot of emergencies happen during the day. We help primary care physicians by being only a page away. We see the patient multiple times a day if they need it. In addition, we have working relationships with the various departments and can often leverage hospital resources more quickly than the patient's physician, who might be in the hospital only sporadically.

a joint defense is a unified defense. Using the same attorney to represent multiple defendants also reduces scheduling conflicts, minimizes duplication of discovery and allows the defense attorney and ProMutual Group to manage the case more efficiently. This will ultimately benefit all policyholders.

Each claim will continue to be evaluated by the ProMutual Group claims staff. The initial approach will now be to use joint defense in all cases where the claims staff determines it can provide a more effective defense, while still giving policyholders the same high-quality legal counsel they would have had with individual defense counsel. Where appropriate, individual counsel will continue to be assigned.

Tomorrow's Defense

Another challenge looming for all medical malpractice insurance companies is having a pool of talented, experienced defense attorneys to draw on in the future. It is critical for law firms to recruit and develop tomorrow's trial attorneys.

However, because of the widening gulf in potential earnings between defense and plaintiff attorneys, defense firms are finding it increasingly difficult to attract and retain outstanding young legal talent.

Cost-containment action imposed on defense firms by the medical malpractice industry has added to the problem by precluding young attorneys from attending or participating in most high-profile medical malpractice trials — even though such participation is the most effective learning and development tool available to the firms.

In 2003 ProMutual Group, along with some of the area's leading defense firms, created a defense attorney development program which will be introduced in 2004. Emerging defense attorneys will be identified and nurtured in order to provide tomorrow's malpractice defense.

Financial Challenges

A key assumption when setting rates is that the company will retain and invest premium dollars and generate investment income for some period of time before actually paying out losses. This anticipated income is estimated based on the current rates available in the bond market for new money being invested.

Rhetoric in the past tried to blame medical malpractice rate increases largely on underperforming insurance company investments. This is incorrect. The interest assumption used in ratemaking has no relation to prior investment decisions. It is

"We have an elderly population who often cannot recall their entire medical history."



Kerrie Bosela Practice Manager Concord, NH

When I joined Concord Urology, PA three months ago, I was given the challenge of integrating electronic medical records into the operation.

Our physicians decided they wanted electronic medical records for ease of access, to provide quality care, and to reduce their liability risk.

Electronic medical record vendors do more than just sell you a "system." They start with a generic specialty template and then "live" in the practice to understand what your practice needs. They customize the system to truly fit your practice. The practice then must put policies in place to bridge over to the system.

We have an elderly population who often cannot recall their entire medical history. An electronic medical record gives us the ability to quickly access history, lab results, x-ray results, and the ability to have a system to track patient appointments and their results. This is critical for clinical outcomes and quality of care. A system that permits interface with the hospital would



allow us to order and receive test results in a seamless fashion. Results and correspondences could be automatically downloaded into our system, eliminating calling and chasing an endless paper trail, something we must now do manually.

Taking a proactive approach, we identified our needs and are trying to partner with other specialty practices in the area. We are working together to find a specialty based EMR to integrate with the hospital for a fluid flow of all needed records to care for our patients.

current interest rates and the projected change in these rates that are used in setting medical malpractice insurance rates.

The company's investment philosophy is conservative and designed to protect reserves. ProMutual Group allocates over 90 percent of investments in bonds and similar high-quality, yield-bearing instruments. Less than 10 percent are in equities, and these are high-quality companies. The company consistently pursued this investment approach throughout the roller coaster stock and bond markets.

With interest rates at their lowest levels since the Great Depression, the value of ProMutual Group's older, high-interest paying bond portfolio increased dramatically. The past year presented a unique, one-time opportunity to increase surplus by selling a portion of the bond portfolio and re-investing the proceeds. In the year ahead, we will continue to pursue our traditionally conservative investment philosophy.

Reinsurance

Reinsurance is designed to protect insurance companies from unacceptable risk. In 2003, reinsurers were still hobbled by the financial aftermath of 9/11. In addition, reinsurers take a jaundiced view of "long tail"

"E-prescribing systems ... will likely decrease drug-related malpractice claims."



Dr. Jessica R. Rubinstein Pediatrician Acton, MA

The changes in medicine are truly amazing. One change I'm thrilled with that has taken place in this practice is the use of an electronic prescribing system.

The Massachusetts State Board of Pharmacy estimates that 90 percent of prescriptions filled improperly are a result of the wrong drug or incorrect dosage having been prescribed and/or dispensed. E-prescribing systems eliminate many of these errors, improve patient safety, and will likely decrease drug-related malpractice claims as handwriting errors and verbal miscommunication are eliminated.

Our e-prescribing system also saves time. A nurse or physician can have a conversation or email communication with a patient, go into the pharmacy program and enter and send a prescription directly to the pharmacist. Another feature I like is that I can write messages to my patient that the pharmacist then adds to the label. The system includes dosage strengths as well as formulary information for managed care pharmacy programs. The other day I hand



wrote a prescription for 10 milligrams, thinking this was a standard dosage strength. I learned that it wasn't when the pharmacist called me back. Had I written that prescription electronically, the system would have prompted me and it would have saved both the pharmacist and me a phone call. It saves time since they don't have to call the practice back with questions, and it saves our staff time since they don't get interrupted by calls from the pharmacy.

There are various electronic prescribing systems. Before investing in one you have to find out which one is best for your practice. Our current system is patient driven, the patient must agree to use it. We are looking at migrating to a more robust system that is both patient and physician driven.

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