



A Letter from your President

August 12, 2009

Dear Policyholder:

As your colleague, fellow policyholder, and President of MLMIC, I'm writing to discuss our company's concern regarding the current regulation of professional liability insurance in New York. As this matter involves both your financial interests as an owner of our company, as well as our individual annual premium costs, please take a moment from your busy professional and personal life to familiarize yourself with this issue.

By now, you should have received your invoice for your annual premium and, no doubt, observed that your rates remained the same as last year. Despite increases in claims costs and past inadequate rates, the New York State Legislature extended, for one more year, the 2008 legislative freeze on medical malpractice premium rates for physicians and surgeons, and prevented a surcharge on premiums until June 30, 2010.

While some medical organizations have championed this freeze as a "victory," I'm sure that those of you who have thought through this issue recognize it as a stop-gap measure designed to treat the "symptoms" generated by New York's dysfunctional civil justice system, rather than the underlying causes, and to quiet the well-founded outrage at the exorbitant premiums our policyholders pay. We all know there is no such thing as a free lunch, and this is particularly true when it comes to a premium rate freeze. While a rate freeze may provide us all with some temporary relief from the high cost of premiums, it does not solve the basic problems which drive premium rates upwards: ever increasing claims costs, and an inefficient and costly tort system.

Ever since 2001, the severity of claims costs for all New York physicians has been increasing significantly; however, the rate increases set by the Superintendent of Insurance have not kept pace. The problem of artificially low rate increases was

acknowledged in former Superintendent Dinallo's press release of July 2, 2007, wherein he stated "the rates established by the State have not matched insurers' projected losses."¹

MLMIC has had to absorb this difference by a reduction in our surplus funds. Our company's surplus is comprised of funds (held in excess of the reserves set aside to pay claims) which are maintained for unforeseen events, such as catastrophic losses. Ultimately, our surplus is owned by all of us as policyholders. If it is not needed, it is used to fund dividends which are shared among all policyholders, as was done during 1998-2002. Obviously, it is our funds in the form of surplus which are being used to subsidize this rate inadequacy. While MLMIC has almost \$300 million in surplus to absorb unforeseen developments, it is not intended to be, nor should it be, used to fund rate inadequacy generated by ill-conceived and counterproductive legislation. The rate freezes in 2008 and 2009 have cost you approximately \$50 million in the form of your company's surplus.

MLMIC has always been well aware of the heavy financial burden high premiums place on our policyholders. The only real solution will come by controlling claims with meaningful tort reform. While we are currently witnessing the marketing of various entities seeking to capitalize on this environment, please recognize that the financial drivers of premiums remain claims costs which will, ultimately, be reflected in premiums no matter which insuring entity is involved. We will continue our efforts toward achieving meaningful tort reform and remain committed to providing those of you who practice good medicine with the highest quality insurance at the lowest possible cost.

We see a rate freeze pattern developing in Albany that is not in the long term interest of our policyholder owners. My goal in writing to you today is to keep you informed on this issue and to seek your understanding and continued support as we move forward.

Thank you for taking the time to consider this issue. I will write to you again when I have other important news to share.

Sincerely,

A handwritten signature in black ink that reads "Robert A. Menotti, M.D." The signature is written in a cursive style.

Robert A. Menotti, M.D.
President, MLMIC

¹ <http://www.ins.state.ny.us/press/2007/p0707021.htm>