Our Mission

To provide insurance coverage to physicians and other health care providers at the lowest possible cost consistent with sound financial and insurance practices.

To anticipate and respond to changing needs and trends in a manner that is beneficial to our members.

To improve the quality of medical care and patient safety.

To protect the personal and professional interests of our members consistent with sound financial and insurance practices.

Financial Highlights

Financial Highlights (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Written Premium</td>
<td>$ 80,056</td>
<td>$ 83,138</td>
<td>3.85%</td>
</tr>
<tr>
<td>Net Premiums</td>
<td>$ 70,578</td>
<td>$ 65,705</td>
<td>-6.90%</td>
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<tr>
<td>Net Investment Income Earned</td>
<td>$ 13,781</td>
<td>$ 13,637</td>
<td>-1.04%</td>
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<tr>
<td>Realized Investment Gains</td>
<td>$ 586</td>
<td>$ 2,234</td>
<td>281.23%</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 16,534</td>
<td>$ 13,288</td>
<td>-19.63%</td>
</tr>
<tr>
<td>Combined Ratio</td>
<td>81.0%</td>
<td>87.4%</td>
<td>7.90%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$377,779</td>
<td>$398,592</td>
<td>5.51%</td>
</tr>
<tr>
<td>Policyholders’ Surplus</td>
<td>$161,185</td>
<td>$179,958</td>
<td>11.65%</td>
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</tbody>
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ON THE COVER AND PAGE 1:
Pictured at Overlake Hospital Medical Center, Bellevue, Washington. Kurt L. Leinweber, DO, and Katherine A. Van Kessel, MD

“Medical procedures may get complex, but we feel secure with Physicians Insurance. The risk management staff responds immediately to answer any question, and specialty-specific materials are available and easy to understand.”

KATHERINE A. VAN KESSEL, MD, Obstetrics & Gynecology, Overlake Obstetricians & Gynecology, PC, Bellevue, Washington

KURT L. LEINWEBER, DO, Anesthesiology, Matrix Anesthesia, PS, Bellevue, Washington
Whether it’s national policy being debated in Washington, DC, or the development of credentialing standards for robotic surgery in Spokane, Washington, health care is changing. But in the Northwest medical community, there’s one constant: Physicians Insurance is the leader in understanding the changes and developing strategies to manage the liability risks of the future.

Owned and operated by its insured physicians and clinics, Physicians Insurance is a mutual medical professional liability insurance company composed of more than 6,600 insureds in Washington, Oregon, and Idaho. Founded in 1981, the firm holds an Excellent rating from A.M. Best Company, the world’s leading insurance-company rating agency. The company achieved this stature by offering the widest protection at a reasonable cost, by leading the way in emphasizing patient safety, and by its acknowledged leadership in claims management.
“With strong physician involvement, Physicians Insurance understands what I want from my insurance carrier. I also find that Physicians Insurance’s interests are aligned with mine.”

DAVID M. SILVER, MD
Family Medicine
Northwest Primary Care
Milwaukie, Oregon

Physicians Insurance declared a $5 million dividend to eligible members for the third consecutive year, reflecting our members’ commitment to safe, patient-centered care. Meanwhile, the number of insureds increased in all three states, and surplus grew to $180 million. For the sixth consecutive year, there was no increase in base rates. In fact, during those six years, most insureds have enjoyed significant premium decreases.

With fewer exclusions than other carriers, policies that are always simple to understand, and personal, local service, it’s always easy to do business with Physicians Insurance. In 2010, the company responded to emerging liability risks by expanding coverage to include HIPAA issues and data compromise. In 2011 Physicians Insurance added Employment Practices Liability Protection for employment-related claims up to $100,000 with higher limits available through the company’s insurance agency.

The company’s Stop-Loss department is part of its efforts to help physicians succeed in their practices. Provider Excess coverage gives medical provider organizations protection from potential catastrophic loss from their capitated members. Medical Stop-Loss provides protection for clinics that self-insure their health coverage. These policies offer physicians and clinics top-quality, reasonably priced protection so they can implement the contracts and policies that work for them.
“Communication is the missing link to improving patient safety and decreasing malpractice liability. This exciting collaboration between Physicians Insurance, University of Washington, and other key stakeholders will set a national standard for enhancing communication among health care workers, and between health care workers and patients to both prevent medical injuries and to respond more effectively when injuries take place.”

Physicians Insurance is dedicated to improving health care in the Northwest. Two grant proposals that Physicians Insurance played a significant part in developing received federal funding in 2010, and both aim at improving patient safety.

One project, led by University of Washington physician Thomas Gallagher, concerns adverse event analysis, disclosure, and compensation. The $2.97 million grant covers a three-year program to improve communication within the health care delivery team and between patients and physicians. The emphasis is on improving patient care by training the entire health care team in better communication skills. It also seeks to improve the ability to respond to adverse events promptly and thoughtfully, and to lend support to providers and patients alike.

The second grant, led by MultiCare Health System attorney Dianne Garcia, provides $300,000 for development of an alternative dispute-resolution mechanism for physicians and patients to make compensation fairer, faster, and more readily available for injured patients. The new system will be designed to reduce administrative and legal costs, create incentives for health care delivery improvements, improve accountability between patients and providers, and make the process more efficient, predictable, accessible, and sustainable.

Physicians Insurance is confident that these two studies will lead to new strategies to reduce the volume of claims, the cost of litigation, and the time to claims closure. Innovation in provider communication, patient communication, and dispute resolution will result in long-term savings for physicians, improved patient care, and an increase in patient and physician satisfaction.
“The simulation training program provided many benefits—hands-on practice for situations that occur rarely, development of tools to use for these emergency situations, and most importantly, allowing us to practice working together as a team. Teamwork practice has proven most beneficial, and will carry over into other obstetrical emergencies as well.”

ANGELA J. CHIEN, MD
Obstetrics & Gynecology,
Evergreen Women’s Health Center
Kirkland, Washington

Physicians Insurance’s AVERT (AdVerse Event Response Team) Training Program prepares physicians to address the needs of patients, families, and peers following an adverse event. In 2010, the AVERT workshop became the basis for the educational component of the University of Washington program described above. And Physicians Insurance’s Patient SAFE Medical Practice Survey is an excellent baseline measuring tool to help achieve quality care and mitigate the likelihood and severity of claims.

The company is pleased to be a partner with the Gossman Center at Swedish Hospital to provide simulation training to health care teams at facilities around the Northwest. Simulation training provides hands-on practice in critical clinical situations such as shoulder dystocia, postpartum hemorrhage, and neonatal resuscitation. Using a lifelike model and sophisticated computer analysis, health care teams are video-recorded during the simulated procedure for post-drill analysis. A physician or other provider who rehearses these complex maneuvers gains an advantage when encountering the problem with real patients. The response to these drills has been enthusiastic. Simulation training may be the best clinical tool to improve patient care that we have seen in many years.

Physicians Insurance is committed to continuing to lead the way in finding and implementing new ideas to improve patient care.
Physicians Insurance advocates for health care liability reform, the protection of patient safety activities, and reasonable insurance laws. Physicians can count on us to work with legislators and regulators to make the practice of medicine safer.”

ANNE E. BRYANT
Senior Director of Government Relations
Physicians Insurance

As health care changes, Physicians Insurance leads the way in identifying new insurance needs and risks. With some doctors becoming hospital employees, the company has demonstrated to hospitals the value of insuring their employed physicians separately from the hospital program. Hospitals recognize that Physicians Insurance offers unique expertise in claims and risk management services across the entire continuum of patient care, from a physician’s office to outpatient treatment facilities to emergency care to specialized hospital-based procedures and other inpatient care.

In 2010, Physicians Insurance conducted medical specialty focus groups and surveys designed to improve understanding of new risks on the horizon. As one result, the company streamlined its Web site (www.phyins.com) to improve access to specific specialty information in anesthesia, emergency medicine, obstetrics and gynecology, radiology, and surgery. The company will develop this information further and lead the way in the development of various specialty-specific risk management training programs and tools.

In the public realm, the company’s Government Relations Program has established Physicians Insurance as a leading advocate for reasonable laws that impact health care liability, insurance, and patient safety. The company works in close cooperation with organizations that pursue similar goals in Washington, Oregon, Idaho, and the nation’s capital. Physicians Insurance is a trusted resource for legislators and regulators, and during this time of rapid change in health care policy, the company will work with them to avoid unintended consequences of new laws that might inadvertently increase liability or harm the physician-patient relationship.
“One example of the company’s commitment to the future of health care in the Northwest is their work with the Pacific Northwest University of Health Sciences in Yakima, a collaboration that is now in its third year. PNWU, founded in 2005 to meet the critical need for more health care professionals in rural and underserved communities, is dedicated to training physicians to provide primary care throughout the Northwest, as well as improving the quality of medical care.”

TIMOTHY L. MELHORN, MD
Internal Medicine
Memorial Physicians, Yakima, Washington
Physicians Insurance Board member

Along with the Washington State Medical Association (WSMA) and other organizations, Physicians Insurance is exploring ways to help physicians navigate the changes that will come about with health care reform. The company wants to help physicians find strategies that preserve and enhance the profession of medicine, adapt to accountable care organizations and new payment models, and identify and manage new liability risks.

Physicians Insurance is working hard to anticipate those new liability risks and educate its insureds about how to control them. We are looking closely at the challenges and opportunities presented by the electronic health record. We are developing strategies to manage the growth of e-discovery in litigation. We are preparing for ways to mitigate the impact of financial incentives to reduce the number of tests and procedures provided to patients and to safely absorb the influx of millions of newly insured patients into the health care system. The increasing use of medical assistants and other physician extenders in patient care is inevitable, so we are examining how to safely move in that direction. Health care outcomes are adversely affected by patient noncompliance, and we will expand our efforts to protect physicians with tools and techniques to promote patient accountability. We must protect both the science and the art of medicine, and we will fight the growing tendency to mandate compliance with strict guidelines without leaving room for physician judgment.

The Board of Directors, the various company committees, and the periodic focus groups we hold with members will serve a vital role in keeping us abreast of new challenges in health care. Regardless of the changes that may come, you, the members of Physicians Insurance, can be confident we will be leading the way.

Mary-Lou A. Misrahy, President and CEO
James P. Campbell, MD, Chairman
Physicians Insurance Board of Directors

Left to right: James P. Campbell, MD, Chairman; Walter E. Skowronski; Ralph A. Rossi, MD; Timothy L. Melhorn, MD; Mary-Lou A. Misrahy, President and CEO; Thomas J. Curry, Executive Director and CEO, WSMA; Cheryl Wright-Wilson, MD; John R. Huddlestone, MD; David S. McClellan, MD, Vice Chairman; Stew Cogan, JD; Sanford Levy, MD; Brian P. Wicks, MD; Grant E. McLaughlin, CPA; Leslie A. Struxness, MD; David A. Russian, MD; Sheila Rege, MD