

# Best's Rating Report



# MEDICAL PROTECTIVE

Strength. Defense. Solutions. Since 1899.

*a Berkshire Hathaway Company*

Fort Wayne, Indiana



A++

## Berkshire Hathaway Insurance Group THE MEDICAL PROTECTIVE COMPANY

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### BEST'S RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Rating of A++ (Superior). The company's Financial Size Category is Class X.

### RATING RATIONALE

**Rating Rationale:** The rating reflects both the implicit and explicit financial support provided by Medical Protective's ultimate parent, Berkshire Hathaway Inc. and its (re)insurance affiliates and the benefits derived from two significant reinsurance transactions. The rating also considers Medical Protective's leading market presence in the primary medical professional liability market, its distribution capabilities, aggressive claims philosophy and its comparatively strong operating performance. Partially offsetting these positive rating factors is the inherent challenges associated with being a monoline medical malpractice insurer, particularly as it relates to price competition, legislative (tort) reform, loss cost trends and regulatory challenges. Although, A.M. Best recognizes the company's broad premium base that somewhat mitigates these concerns. The rating outlook is based on Medical Protective's enhanced financial flexibility, conservative pricing and reserving, and leading business position.

The reinsurance transactions include a 50% loss portfolio transfer of existing reserves as of December 31, 2005, and a 50% quota share agreement on business transacted on or after January 1, 2006. These two agreements are between Medical Protective and its parent, Columbia Insurance Company, and an affiliate, National Indemnity Company, indirectly wholly owned subsidiaries of Berkshire Hathaway Inc. The transactions demonstrate in effect the commitment provided by Berkshire Hathaway, partially mitigating the future risk of adverse loss reserve development and significantly improving Medical Protective's risk-adjusted capitalization that is supportive of its superior rating. The rating acknowledges the change in reserve philosophy and the additional reserve strengthening that occurred in the third quarter of 2005, following the company's acquisition on June 30, 2005.

**Best's Rating: A++**

**Outlook: Stable**

### KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pretax Operating Income	Total Admitted Assets	Policy- holders' Surplus	Comb. Ratio
2002	538,436	-64,180	1,747,668	401,726	124.4
2003	713,505	34,279	2,133,086	442,881	104.4
2004	526,278	92,606	2,172,579	510,822	97.1
2005	-342,582	29,597	2,254,936	571,331	86.7
2006	337,386	88,413	1,703,799	645,885	90.4

### BUSINESS REVIEW

For over 100 years, Medical Protective has specialized in providing professional liability coverages for physicians and dentists and is the oldest of its kind in the country. The company currently operates as an independent unit of the Berkshire Hathaway Insurance Group.

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The company manages its risk portfolio on the basis of geography as well as medical specialties and its spread of risk and diversification is enhanced by its national presence. Through the use of technology and market analysis, Medical Protective writes a balanced mix of medical specialties. Currently licensed to write professional liability in 50 states and the District of Columbia, Medical Protective has at least \$5 million of medical professional liability premium in nearly 25 states and at least \$1 million in almost 40 states. Today, Medical Protective is one of the largest writers of primary physician medical malpractice and dental professional liability insurance in the country, and is a relatively small writer of hospital professional liability.

Policies are written on both an occurrence and claims-made basis for physicians. The mix between these two coverage types has shifted in recent years with claims-made coverage now being a greater part of the company's business. Rates are independently filed and are based on the doctor's specialty, policy limits and the state and territory in which the insured practices. The company generally writes coverage for liability limits of \$1 million or less per claim (over 80% of direct premiums written), but also selectively offers liability limits of up to \$5 million for any one claim. The company's captive agency force produces roughly 30% of direct premiums written. Further, the company also manages a dedicated network of distributors (over 400) that are experts in medical malpractice and these distributors generate the remaining direct premiums written.

#### 2006 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Med Mal Cl-Made	401,893	197,880	58.7	25.0	344,304
Med Mal Occur	272,669	137,337	40.7	56.1	428,184
All Other	3,139	2,168	0.6	84.1	8,745
Totals	677,701	337,386	100.0	38.3	781,232

#### HISTORY

Medical Protective was incorporated under the laws of Indiana on December 2, 1909, and commenced business on January 1, 1910. The company is the successor to the Physicians Defense Company, formed in 1901, and the Physicians Guaranty Company, organized in 1899. Paid-in capital of \$34.8 million consists of 120,000 shares of \$40 par value common stock and \$30.0 million of contributed surplus. All authorized shares are issued and outstanding.

On October 15, 1998, the company's parent, Medical Protective Corporation (MPC), became a wholly owned subsidiary of Employers Reinsurance Corporation (ERC). Subsequently, on December 29, 1999, ERC assigned to GE Insurance Solutions Corporation (formerly GE Global Insurance Holding Corporation) (GEIS) 100% of its investment in the common stock of MPC. On June 30, 2005, MPC was acquired from GEIS by Columbia Insurance Company, an indirect wholly owned subsidiary of Berkshire Hathaway Inc.

#### MANAGEMENT

Medical Protective Corporation, an Indiana corporation principally engaged in insurance, investing and finance, owns all of the outstanding common stock of the company.

Administration of the company's affairs is under the direction of individuals who have had many years of experience in the professional liability field.

**Officers:** President and Chief Executive Officer, Timothy J. Kenesey; Executive Vice President, Daniel J. Landrigan (Corporate Risk Management); Senior Vice President and Chief Financial Officer, Joseph A. Svitek (Finance and Treasury); Senior Vice President, Secretary and General Counsel, Trent C. Heinemeyer (Legal); Senior Vice President and Chief Actuary, James D. Kunce; Senior Vice Presidents, Robert L. Ignasiak (Claims), Timothy M. Smith (Distribution and Customer Service), Mark T. Walthour (Underwriting); Vice Presidents, Kimberly D. Kem (Human Resources), Joseph F. Sarosi (Business Development), Nancy Stahulak (Marketing), Tim Wiggins (I-T and Operations), Mark L. Wittel (Sales); Treasurer, Anthony A. Bowser; Controller, Garrett J. Davenport.

**Directors:** Ajit Jain, Daniel J. Jaksich, Timothy J. Kenesey, Forrest N. Krutter, Donald F. Wurster.

#### TERRITORY

The company is licensed in the District of Columbia and all states.

#### Balance Sheet Admitted Assets (\$000)

	12/31/2006	%
Bonds	\$1,261,279	74.0
Preferred stock	12,736	0.7
Common stock	77,009	4.5
Cash & short-term invest	148,283	8.7
Other non-affil inv asset	21	0.0
Real estate, offices	10,958	0.6
Total invested assets	\$1,510,287	88.6
Premium balances	75,027	4.4
Accrued interest	17,622	1.0
All other assets	100,863	5.9
Total assets	\$1,703,799	100.0

#### Liabilities & Surplus (\$000)

Loss & LAE reserves	\$ 781,232	45.9
Unearned premiums	154,474	9.1
Conditional reserve funds	17	0.0
All other liabilities	122,190	7.2
Total liabilities	\$1,057,914	62.1
Capital & assigned surplus	34,800	2.0
Unassigned surplus	611,085	35.9
Total policyholders' surplus	\$ 645,885	37.9
Total liabilities & surplus	\$1,703,799	100.0

# Best's Rating Report

## Why is this Best's® Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. Best's Ratings represent the current and independent **opinion** of a company's financial strength and ability to meet obligations to policyholders. Best's Ratings are **not a warranty** of an insurer's current or future ability to meet obligations to policyholders, nor are they a recommendation of a specific policy form, contract, rate, or claim practice.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial strength, operating performance and market profile.

Best's Ratings are assigned according to the following scale:

### Secure Best's Ratings

A++ and A+	.....	Superior
A and A-	.....	Excellent
B++ and B+	.....	Good

### Vulnerable Best's Ratings

B and B-	.....	Fair
C++ and C+	.....	Marginal
C and C-	.....	Weak
D	.....	Poor
E	.....	Under Regulatory Supervision
F	.....	In Liquidation
S	.....	Rating Suspended

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