

A Purposeful Approach.

**2022
Annual
Report**



Physicians Insurance
A MUTUAL COMPANY

Greetings, Colleagues.

It's an honor to serve as your board chair at this pivotal time in our profession. As a longtime member of the medical community, I've seen many changes and challenges to our healthcare system—but nothing quite like the transformation we're experiencing now.

As we move forward from the COVID-19 pandemic, its impact still weighs heavily upon us. The rise of virtual medicine is reshaping how and where we see patients and contributing to new questions about the coordination of care under a more fragmented care model. Meanwhile, we're grappling with widespread staffing shortages, heightened legal scrutiny, and uncertainty about the role that innovations like artificial intelligence will have on the services we provide.

Even though technology is playing a bigger and bigger part in medicine, the need for human connection has never been greater. You are at the center of the care-delivery system, improving the lives of your patients one interaction at a time. As you work to navigate today's rapidly evolving healthcare environment, you can count on Physicians Insurance to help you meet the demands of today—and prepare for the challenges of tomorrow.

An aerial photograph of a desert canyon with a winding road. The road is light-colored and curves through the rugged, reddish-brown rock formations. Sparse green desert vegetation is scattered throughout the canyon. In the bottom right corner, a few small figures of people can be seen on the road.

**Count on us to
help you meet the
demands of today—
and prepare for
the challenges of
tomorrow.**



As your new chair,

I encourage you to take advantage of the resources that Physicians Insurance offers you to not only manage and mitigate risk, but also thrive in your day-to-day professional practice.

As the numbers in this report attest, Physicians Insurance offers an unrivaled level of claims and underwriting support from an experienced team of experts who can help you stay abreast of emerging trends, risks, and concerns. For example, what new regulatory concerns or technology issues are on the horizon? What risk-management strategies can help you ensure that you continue to deliver care safely while optimizing your patients' outcomes? These are some of the questions Physicians Insurance can help answer.

You can also benefit from proactive services like risk assessments and an expansive online resource library that will help ensure that you're following best practices for the care challenges of today.

Physicians Insurance provides a purposeful approach,

with timely, relevant services tailored to your individual needs. From guiding you in claims or risk-mitigation matters to advocating for legislation that supports good medicine, we are committed to protecting, supporting, and defending you so that you can focus on your top priority: your patients.

With so many complex factors at play, navigating the 2023 landscape will not be easy. However, we are all driven by a common goal: caring for people. Physicians Insurance is your partner in this endeavor, helping you continue practicing with purpose.

A handwritten signature in black ink that reads "Shane Macaulay MD". The signature is fluid and cursive, with the "MD" written in a slightly larger, more distinct font at the end.

Shane E. Macaulay, MD

Radiologist, Board Chair of Physicians Insurance

Affirming Our Purpose.

Dear Members,

In 2022, you again showed your unwavering commitment to care in the face of unprecedented challenges. Inspired by your dedication, our leadership—in partnership with our board and staff—examined and formally articulated our purpose:

An aerial photograph of rolling green hills, likely in the Philippines, with a winding road cutting through the landscape. The hills are covered in lush green vegetation, and the sky is a pale blue with some light clouds.

To protect, defend, and support our Members.

These seven words are the single guidepost that informs every decision we make at Physicians Insurance: the products we build, the risk-management services we deliver, and the claims resources we deploy on your behalf.

Each of your challenges, each risk that emerges with the ongoing advances in your field, is a call to action, and a call to our purpose to protect, defend, and support you.

Each of your challenges, each emerging risk, is a call to our purpose to protect, defend, and support our Members.

And the challenges are many.

Social and economic inflation are driving up jury awards. Costs of medication, labor, and supplies continue to climb. Physician burnout and staffing shortages are putting more strain than ever on finances and care.

Mergers and acquisitions, a potential salve on the industry's financial difficulties, have instead heightened management liability exposures. Tort reform continues to fail physicians. And the specter of personal criminal liability for medical care has raced to the forefront in the wake of the Supreme Court's overturning of *Roe v. Wade*.

At the same time, there are plenty of new opportunities. The rise of virtual medicine is proving vital to increasing access. Artificial intelligence holds incredible promise in assisting with the reduction of administrative burdens and expediting diagnoses. Medicine continues to evolve—but as it does, so do your exposures.

Our Purpose in Practice

Against this backdrop, Physicians Insurance has been diligent in putting our purpose into practice. In 2022, we were the first medical malpractice carrier in the nation to provide Criminal Defense Reimbursement Coverage, enhancing our professional liability insurance to reimburse the defense costs that physicians and hospitals may incur in responding to criminal allegations arising from direct patient care.

We have expanded our management liability focus and staff, preparing to enhance protection for our Members even as increased exposure sends many carriers retreating from healthcare management liability altogether.

We continue to be devoted to mounting a rigorous defense of our Members in claims and litigation whenever it's appropriate, and to quickly settling claims when it isn't. Our 10-year average of 96%





defense verdicts in our Members' jury trials is testimony to one all-important truth: Physicians Insurance will fight for you. That's also evident in the world-class advocacy we bring to addressing the erosion of tort reform and pushing for legislation that protects your interests. And as always, we are here to minimize volatility while optimizing your coverage and services, despite market difficulties.

In 2023, we continue to build upon our foundational purpose with a brand clarity that enhances our ability to march in lockstep across our organization, doubling down on our reason for being: protecting, defending, and supporting you as you rise to the challenges of today and pursue the opportunities of tomorrow.

Underpinning Our Purpose: Financial Stability

Our financial stability is the underpinning of our purpose, enabling everything we do for you. I'm pleased to report that through careful business management, our 2022 revenue was at an all-time high. Despite marketplace challenges, Physicians Insurance has been successful both in retaining our Members and growing strategically and with geographic diversification. In 2022, AM Best affirmed our A- (Excellent) financial strength rating—and our surplus remains strong at \$270 million, despite market volatility.

In closing, I want to express my gratitude to Dr. David Carlson as he finishes his tenure as Chair of the Board at Physicians Insurance. Dr. Carlson was a strong leader and ally through some of the

healthcare industry's most difficult days over the past four years. On behalf of all of us at Physicians Insurance, Dr. Carlson, thank you.

And please join me in welcoming Dr. Shane Macaulay as he takes the helm as Chair of the Board. Dr. Macaulay is an esteemed radiologist who has been actively involved with the Washington State Medical Association for more than a decade. He has a deep understanding of and commitment to our purpose and yours.

Physicians Insurance is values-driven and wholly Member-focused. We are an organization that always puts **people first**, strives to endlessly deepen our **expertise**, and demonstrates daily our **commitment**, accountability, and dedication to our Members and each other.

I'd like to conclude this message with optimism about the future of Physicians Insurance and of our Members. We stand with you as you face the challenges of your calling, and will continue to celebrate—and help you manage the risks of—the life-changing advances that define your life's work and healthcare today.

It is, as always, an honor to be of service to you.

William Cotter

President and CEO

Physicians Insurance A Mutual Company



Financial Summary

Financial Strength Rating
A- (Excellent) AM Best Company



2022 Financial Highlights

Gross Written Premium	\$155 million
Claims Incurred	\$85 million
Net Income	-\$13.3 million
Net Income Excluding One Time Impairment of Subsidiaries and Joint Ventures	\$4.5 million
Total Assets	\$569 million
Claims Reserves	\$239 million
Policyholders Surplus	\$270 million

0.44:1
**Premium-to-
Surplus Ratio**

A measure of our financial strength; industry guide-lines prescribe a ratio no greater than 3:1

0.89:1
**Reserves-to-
Surplus Ratio**

A measure of financial stability

**\$105
million+**
**Dividends
Returned
to Members**

A long history of giving back to our members

Download our full financial audit at phyins.com/financials.

Statements of Income— Statutory Basis

Years ended December 31, 2022 and 2021

REVENUES	2022	2021
Premiums earned	\$149,271,964	\$151,724,530
Less: ceded reinsurance premiums earned	\$34,123,120	\$34,576,715
Net premiums earned	\$115,148,844	\$117,147,815
LOSSES AND EXPENSES		
Net losses incurred	\$53,919,163	\$67,823,828
Net loss adjustment expenses incurred	\$44,659,565	\$40,101,720
Other underwriting expenses incurred	\$23,222,220	\$24,683,640
Total underwriting deductions	\$121,800,948	\$132,609,188
Net underwriting loss	(\$6,652,104)	(\$15,461,373)
INVESTMENT INCOME		
Net investment income earned	\$11,394,712	\$11,235,751
Net realized capital (losses) gains, less tax expense of \$112,902 and \$2,650,544 at December 31, 2022 and 2021, respectively	(\$17,392,605)	\$9,971,095
Net investment (loss) gain	(\$5,997,893)	\$21,206,846
OTHER INCOME (LOSS)		
Net loss from agents' or premium balances charged off	(\$6,163)	(\$33,010)
Finance and service charges not included in premiums	\$24,953	-
Other income (expense), net	\$236,570	(\$1,269,642)
Total other income (loss)	\$255,360	(\$1,302,652)
(Loss) income before federal income taxes	(\$12,394,637)	\$4,442,821
Federal income tax expense (benefit)	\$878,797	(\$2,838,901)
Net (loss) income	(\$13,273,434)	\$7,281,722

Download our full financial audit at phyins.com/financials.

Balance Sheets — Statutory Basis

Years ended December 31, 2022 and 2021

ADMITTED ASSETS	2022	2021
Cash and investments:		
Bonds	\$387,963,011	\$396,576,963
Common stock	\$77,157,291	\$94,272,619
Cash and cash equivalents	\$16,047,953	\$36,539,979
Other invested assets	\$37,230,535	\$20,171,778
Total cash and investments	\$518,398,790	\$547,561,339
Uncollected premiums and agents' balances in the course of collection	\$35,636,570	\$24,990,646
Reinsurance recoverables on paid losses	\$4,466,773	\$579,599
Accrued interest and dividends	\$2,855,822	\$2,915,667
Receivable from affiliates	\$907,441	\$1,149,775
Net deferred tax asset	\$751,405	-
Federal income tax recoverable	\$430,884	\$1,801,826
EDP equipment and software	\$167,081	\$60,618
Other assets	\$337,646	\$1,006,328
Total admitted assets	\$563,952,412	\$580,065,798
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Liabilities		
Reserves for losses	\$171,319,593	\$170,725,622
Reserves for loss adjustment expenses	\$67,822,533	\$61,908,953
Reinsurance payable on paid losses and loss adjustment expenses	\$1,686,078	\$1,609,210
Unearned premiums	\$37,245,253	\$33,394,677
Advance premiums	\$5,923,054	\$12,884,949
Commissions payable	\$344,606	\$1,393,948
Other expenses	\$3,910,254	\$3,083,215
Retroactive reinsurance reserves assumed	\$698,400	\$2,000,000
Taxes, licenses, and fees payable	\$337,255	\$78,738
Provision for reinsurance	\$76,363	\$587,011
Ceded reinsurance premium payable to reinsurers	\$4,680,209	\$490,282
Net deferred tax liability	-	\$4,818,235
Payable for securities	-	\$103,020
Total liabilities	\$294,043,598	\$293,077,860
Policyholders' surplus	\$269,908,814	\$286,987,938
Total liabilities and capital and surplus	\$563,952,412	\$580,065,798

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Statements of Cash Flows—Statutory Basis

Years ended December 31, 2022 and 2021

CASH FLOWS FROM OPERATING ACTIVITIES	2022	2021
Premiums collected, net of reinsurance	\$104,957,617	\$112,776,484
Net investment income	\$13,218,605	\$13,858,537
Miscellaneous income (expense)	\$18,790	(\$1,302,652)
Total income	\$118,195,012	\$125,332,369
Benefits and loss-related payments	\$57,130,464	\$47,105,159
Expenses paid	\$62,277,157	\$58,851,277
Federal and foreign income taxes (recovered) paid	(\$379,242)	\$1,832,340
Total	\$119,028,379	\$107,788,776
Net cash flows from operating activities	(\$833,367)	\$17,543,593
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments sold, matured, or repaid:		
Bonds	\$50,274,739	\$92,965,877
Common stocks	\$9,371,538	\$20,110,395
Other invested assets	-	\$225,496
Total investment proceeds	\$59,646,277	\$113,301,768
Cost of investments acquired:		
Bonds	\$43,659,304	\$97,914,713
Common stocks	\$10,547,414	\$4,123,276
Other invested assets	\$23,367,988	\$17,303,020
Miscellaneous applications	\$103,020	(\$103,021)
Total investments acquired	\$77,677,726	\$119,237,988
Net cash flows from investing activities	(\$18,031,449)	(\$5,936,220)
FINANCING AND MISCELLANEOUS ACTIVITIES		
Other cash applied	(\$1,627,210)	(\$1,826,150)
Net cash flows from financing activities	(\$1,627,210)	(\$1,826,150)
Net change in cash and cash equivalents	(\$20,492,026)	\$9,781,223
CASH AND CASH EQUIVALENTS		
Beginning of year	\$36,539,979	\$26,758,756
End of year	\$16,047,953	\$36,539,979

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A Clear Path Forward.

More than 40 years ago, a group of physicians created Physicians Insurance with a clear purpose: to establish a better and more cost-effective way to protect themselves from risk. We have lived up to that purpose for more than four decades.

In 2022, our leadership, Board of Directors, and staff together revisited and formally articulated the purpose and values that define our company today:

Our Purpose

**To protect, defend,
and support our
Members.**

Our Values

**People-first
Expertise
Commitment**

An aerial photograph of a vast, open landscape under a clear sky. A paved road winds through the center of the frame, flanked by golden-brown fields. In the distance, there are rolling hills and small bodies of water. The overall tone is warm and expansive.

We continually invest in deepening our expertise with a laser focus on what our Members need now and need next.

Our purpose and values are not words in a document on a shelf. They are the lifeblood of our organization, inextricably ingrained in everything we do.

Internally, our Culture Committee reinforces our values with initiatives ranging from workshops and training to a virtual “wall of appreciation” where colleagues spotlight and celebrate each other for living our values. For our Members, our purpose and values are evident in all we do, and how we do it.

People-first: Treating everyone with respect and empathy.

Respect and empathy permeate every aspect of our high-touch, personalized service. At no time is this more apparent than when we are—literally—by our Member’s side during the challenging days of a claim. We understand the emotional, reputational, and financial stakes of that situation, and we support their individual journey with equal parts competence and compassion.

As befits a healthcare-focused organization, well-being is paramount at Physicians Insurance. We champion every individual and intentionally cultivate a diverse and inclusive environment. Being here is belonging: As we all work in lockstep to provide gold-standard protection and service to our Members, our different experiences and perspectives elevate everything we do.

Expertise: Striving to be the best at what we do.

From our risk-management consultants and underwriters to our claim professionals, our staff counts experience not in years but in decades. We continually invest in deepening our expertise with a laser focus on what our Members need now and need next. Best-in-class third-party resources are a hallmark of Physicians Insurance: We bring superior resources, from highly specialized defense counsel and jury consultants to expert witnesses, to support our Members.

Commitment: Accountable and dedicated to our Members and each other.


Our commitment is our calling: We rigorously protect, defend, and support our Members as they both navigate unprecedented challenges and leverage once-unimaginable advances in healthcare and technology. While we are stalwart in ensuring the financial strength to deliver on our commitment, we are always evolving as our Members' needs and exposures do.

At Physicians Insurance, our daily work is not driven by quarterly shareholder calls, but by ensuring the greater good of our Members and the practice of medicine. This clear-eyed focus makes all the difference.

What will you see in 2023?

After honing our purpose and values in 2022, we are now focused on refining our brand identity to amplify our voice in the marketplace and speak to everyone—and everything—that Physicians Insurance stands for today.

Continued evolution is important to us and imperative for building a progressive, future-focused company—one that is in it for the long haul, through ongoing marketplace shifts. We are committed to being here for our Members, and we are continually investing to make our organization the partner of choice for physicians, clinics, and hospitals, now and for decades to come.

An aerial photograph of a dense forest with a winding road cutting through it. The trees are mostly green, with some autumn-colored foliage visible. The road is a light gray color, curving from the top center towards the bottom center of the frame.

**Our commitment is our calling:
We rigorously protect,
defend, and support our
Members as they both
navigate unprecedented
challenges and leverage
once-unimaginable
advances in healthcare
and technology.**

“Physicians Insurance

made every effort to be sure I was prepared and well represented. The entire team made an experience that every physician dreads into something my wife and I both felt good about in the end, surprising as that may seem. Their supportive approach helped us understand the process and what was required. My defense attorney constantly impressed us; she was always aware of how we were faring, and made time for the empathy and reassurance we needed. We give our sincerest thanks to everyone who participated in this case on my behalf. We appreciate and marvel at what you do.”

BRADLEY A. BRINGGOLD, MD
PORT ANGELES, WA

OVER 10 YEARS:

8,289

Claims Reported

96.7%

Success at Trial

80.75%

Claims Closed
Without Payment

“With Physicians Insurance,

I have direct access to core individuals in key roles—whether in underwriting, claims, risk management, or leadership—which speeds service responsiveness for me and my clients. By virtue of being a mutual company, they have a willingness to work with me and my groups in a challenging market. They are good at putting people first, which means we can collaborate on bigger-picture considerations, for long-term solutions. Plus, they have the self-awareness to realize how to evolve with the market. They’re with us for the long haul.”

ERIK BURT
PRESIDENT, HEALTHCARE PRACTICE
ARTHUR J. GALLAGHER

2022 Board of Directors

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Board Chair
Diagnostic Radiology

David Carlson, DO
Board Chair
Family Medicine

Bill Cotter
President and CEO
Physicians Insurance
A Mutual Company

Joseph Deng, MD
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General Surgery

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Family Medicine

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Skip Li, JD
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Ursula Luckert
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Administrator

John Pasqualetto
President, Chairman,
and CEO
Seabright Holdings
(retired)

Walter Skowronski
President, Boeing Capital
Corporation (retired)

Thank You to Our Outgoing Chair

David Carlson, DO
Board Chair
Family Medicine



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