

**THE DOCTORS COMPANY**

2000 Annual Report



We Insure



# Heroes



#### **TO OUR MEMBERS:**

Physicians perform acts of heroism, some small, some grander, nearly every day. Yet in our society, these actions all too often reward the doctor with a lawsuit, not a laurel. Whether performing surgery, rounding in the hospital, or undertaking diagnostic evaluations in the office, our members rely on us for protection.

Because we are a member-owned company – a doctor-owned company – we understand the pressures faced by medical professionals, both in everyday practice and in the grip of life-threatening emergencies. Because we are doctors ourselves – six of our 10 board members are physicians – we understand how to defend our members' interests in negotiations, in court, and in legislative hallways. Because we are also insurance professionals, we know how to create policies that provide excellent value while maintaining the fiscal integrity that has made The Doctors Company the first national physician-owned insurance carrier to reach its 25th anniversary.

The Doctors Company has policyholders in all 50 states. Although our scope has expanded, we make the same commitment wherever we work: to defend our members' right to practice good medicine and to protect our system of medical care from litigation or legislation abuse. Our policyholders know that our record of successful legal defense is unsurpassed. That can mean not only personal vindication, but also protection of a career. We answer only to our members, not to stockholders, so we can price our coverage based on intelligent risk assessment, not the caprices of the marketplace. We may not always be the lowest-priced carrier in a region, but we are always there for the long run. Our strong balance sheet – with a surplus of more than \$381 million – attests to the success of this philosophy.

This record of steady growth, combined with our fiscal strength and the "A" rating A.M. Best has awarded us for 16 consecutive years, assures our policyholder-members The Doctors Company will be there, whenever and wherever we are needed.

Nationally known as a force for tort reform and internationally known as a leader in medical malpractice insurance, the TDC Group of companies today insures more than 35,000 doctors and medical professionals with a wide variety of experiences and practices. Among the TDC Group of companies are The Doctors Company and our wholly owned subsidiary, Underwriter for the Professions Insurance Company. Both provide liability coverage for health care providers – doctors, nurses, technicians, and other medical professionals. We are actively expanding our mantle of protection to include other professions whose members could benefit from our blend of strength, integrity, and legal sophistication. Our Warschaw subsidiary and the Professional Underwriters Liability Insurance Company write policies for doctors with disproportionate exposure or nonstandard risks. TDCRe provides reinsurance protection, and our Alternative Risks division offers coverage for other areas of risk. In addition, The Doctors Company Insurance Services and The Doctors Life Insurance Company offer our members additional lines of coverage and direct insurance services.

In 2000, for the fifth time – and the second year in a row – The Doctors Company was named to Ward's 50 Benchmark Group, the best-performing property and casualty insurance companies in the world. We also received new sponsorships and endorsements from the American College of Physicians-American Society of Internal Medicine, the American Association of Neurological Surgeons, the American College of Occupational and Environmental Medicine, and the faculties of several of America's top medical schools.

The practice of medicine has changed significantly in the past 25 years – the insurance industry has changed, too. The Doctors Company is a model company – as our Ward's and Best's recognition proves – but in fundamental ways, we have not changed at all. We continue to provide our members with outstanding service, fiscal strength, and an unwavering commitment to risk management and legislative advocacy.

Twenty-five years after our founding, we still pursue the same goal that animated our founders: to protect the practice of good medicine. And we will continue to do so with undiminished enthusiasm.

**Richard E. Anderson, M.D., F.A.C.P.** Chairman of the Board of Governors



#### **TO OUR MEMBERS:**

In this era of change, the rate at which companies enter and leave markets has accelerated. In contrast, The Doctors Company celebrated its 25th continuous year of providing strong, well-funded professional liability insurance to our members. We have insured many of you – not just for a year, but for most of your medical careers.

The last few years have been difficult for the insurance industry. It reached a critical point this year with some companies raising their rates substantially. A.M. Best and other rating agencies downgraded other carriers. Reinsurers, usually a bellwether for change, found that premiums for some of the risks they were reinsuring needed to be increased. Investment return compounded this problem. When investment results deteriorated, the financial impact on some companies was dramatic.

Amidst all this change in the industry, The Doctors Company, with its stable pricing and financial security, became the choice of more physicians, medical groups, institutions, and allied health providers. During 2000, The Doctors Company maintained its “A” rating from A.M. Best. It was also named for the fifth time to Ward’s list of the top 50 property and casualty insurance companies in the world.

The Doctors Company was well positioned to respond to the impact of the changing environment. Our reserves have remained steady over time. We invest a modest percentage of our funds in equities, but we do so conservatively. Our key ratios remain very strong by insurance industry standards. Regulators recommend that the reserves-to-surplus ratio be no greater than 4:1. At the end of 2000, our reserves were \$500.1 million and our surplus \$381.1 million, producing a ratio of 1.3:1. At \$255 million in written premium, our premium-to-surplus ratio, which regulators suggest should be no greater than 3:1, was at 0.6:1. These very strong ratios protect The Doctors Company from becoming vulnerable to instability in the marketplace.

We must maintain these strong surplus ratios by taking modest rate increases when necessary. Monitoring risk on a case-by-case, region-by-region basis will ensure that we can spare our members the stress of sudden, dramatic rate increases.

It is important for The Doctors Company to maintain our basic infrastructure. Our geographic range, product diversification, and focus on policyholder value are vital to our success. We operate in all 50 states and some territories. Our reinsurance and alternative risk units balance our risk among different parts of the insurance industry. And we continue to explore opportunities nationally and internationally.

Despite significant setbacks in the industry, e-commerce promises to be a vital part of our future. The Internet has connected millions of people and businesses throughout the world. E-mail is now the most common form of written business communication. Experts say that by 2003, 100 percent of businesses will have a presence on the Web. Neither health care nor insurance has embraced technology like some other industries – but we have no choice. Beyond the increase in efficiency, real-time business transactions are the future. More importantly, it is what our members will demand. Granted, there are significant security problems to be addressed and privacy policies to be established. The real challenge is for us to integrate the new technologies with our business processes and systems. Our information technology is not developed in a vacuum, but as part of a coordinated goal to provide the most efficient service to our policyholders.

Our financial strength, our physician advocacy, our diversification, and our discipline have a common purpose. We have an obligation to our policyholders. We must continue to provide you with value: value through competent management of your company and value in the thoughtful support of your business needs.

**Manuel S. Puebla** President

BREAST CANCER IS SECOND ONLY TO LUNG CANCER AS A CAUSE OF CANCER DEATH AMONG WOMEN IN AMERICA. A PRIMARY CARE PHYSICIAN PROBABLY SAVES THE LIVES OF TWO WOMEN FROM BREAST CANCER EVERY YEAR. EARLY DIAGNOSIS IS CRITICAL – IT IS A MATTER OF LIFE OR DEATH.



A patient makes her annual visit to her ob/gyn; during the breast exam, the doctor palpates a left breast mass.


# 1

More than one-third of malpractice lawsuits against our insured primary care physicians involve delayed diagnoses, and late diagnosis of cancer is the most common claim. As patients have become increasingly involved in their health care decisions, the roles and responsibilities of physicians of all specialties have become far more visible, and the media has heightened public awareness of late diagnosis as a common basis for malpractice lawsuits.




## 2

Mammography fails to detect 10 to 20 percent of cancers. This doctor knows that mammography is not a definitive diagnostic tool. With such a high false-negative rate, a nondiagnostic mammogram should not delay biopsy of a suspicious lesion.



The ob/gyn refers her patient to a radiology lab for a mammogram; the mammogram findings are indeterminate.




A pathologist performs a fine-needle aspiration (FNA); the cytologic examination shows suspicious cells.

## 3


More than half of the malpractice claims against our insured pathologists allege false-negative cancer diagnoses, with breast cancer representing almost a quarter of these claims. FNAs have a false-negative rate of three to five percent. These doctors know these statistics and that adequate clinical information is as critical as adequate tissue sampling.

# 4

More than half of breast biopsy claims involve the false-negative diagnosis of breast carcinoma, while more than a third involve the false-positive diagnosis of breast cancer. In malpractice lawsuits, a false-positive diagnosis can be nearly as serious as a false-negative diagnosis. With an excisional or core-needle biopsy, the pathologist can usually make a more definitive diagnosis.




A breast surgeon and an anesthesiologist work together to complete an excisional biopsy.




The pathologist confirms infiltrating ductal carcinoma and clear biopsy margins. With the very high cure rate of this cancer and negative lymph nodes, the patient's oncology team discusses the role of systemic therapy and follow up.

# 5



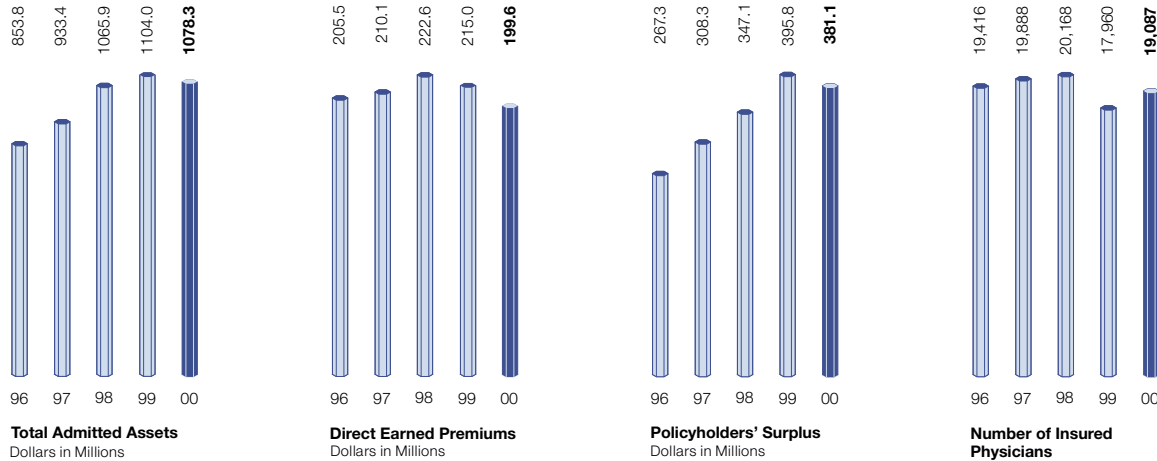
The oncologist consults with a radiologist about the patient's case.



**THE DOCTORS COMPANY IS THE DOCTOR'S ADVOCATE - IN THE OFFICE, IN THE LAB, IN THE HOSPITAL, IN THE COURTROOM, AND IN THE LEGISLATURE. WE DEFEND THE PRACTICE OF GOOD MEDICINE. WE RESOLVE NEARLY 80 PERCENT OF CLAIMS AGAINST OUR DOCTORS WITHOUT INDEMNITY PAYMENTS - OR NPDB REPORTS. OUR ATTORNEYS WIN DEFENSE VERDICTS IN FOUR OUT OF FIVE TRIALS.**

**2000 FINANCIAL HIGHLIGHTS\***

(Dollars in Millions)	2000	1999
Total admitted assets	\$1,078.3	\$1,104.0
Loss reserves	500.1	533.1
Direct earned premiums	199.6	215.0
Net premiums earned	211.7	218.2
Policyholders' surplus	381.1	395.8
Number of insured physicians	19,087	17,960
Total claims reported	2,785	2,829



\*The Doctors Company, Professional Underwriters Liability Insurance Company, and Underwriter for the Professions Insurance Company combined

**TO OUR MEMBERS:**

In 1977, The Doctors Company Board of Governors created the Audit Committee to oversee the financial affairs of the exchange and to assure policyholders that business is administered with effective and efficient operations, reliable financial reporting, and in compliance with legal and regulatory requirements.

I have served as the Audit Committee Chairman since 1986. As a former president of Allstate Insurance Companies, I bring 38 years of insurance industry experience to my duties at The Doctors Company.

The Audit Committee monitors financial, accounting, and auditing procedures of the exchange. It also oversees the Internal Audit Services Department and the selection of our independent auditors, currently Ernst & Young, LLP (E&Y). Periodically, the Audit Committee meets with each of these entities to affirm that each is carrying out its responsibilities.

Because adequate loss reserves are particularly important to The Doctors Company's financial strength, the Audit Committee pays significant attention to reserve-oriented policies and procedures. Extensive review is conducted with respect to claims handling. This includes analyzing the appropriateness of procedures, decision-making authority, recorded reserves, and cost-saving measures. Claims losses are also reviewed as part of E&Y's annual audit, and the exchange is routinely audited by state insurance departments, which usually hire independent actuaries.

The Audit Committee reviews all of these monitoring activities. In 2000, the Audit Committee expanded the scope of the company's internal audit program. The Internal Audit Services Department evaluates the quality and effectiveness of the exchange's financial, operational, and compliance activities. Internal Audit also provides management with internal quality assurance, analysis, and evaluations that empower informed business decisions.

Together, the Audit Committee, Internal Audit Services, and Ernst & Young work closely to promote and improve operational effectiveness and efficiency. These combined auditing functions help control business risk, protect policyholder interests, and advance the overall success of The Doctors Company interinsurance exchange.

**Robert B. Sheppard** Chairman of the Audit Committee

**BALANCE SHEET\*** (Statutory Basis – unaudited)

(In Thousands) at December 31	2000	1999
<b>ADMITTED ASSETS</b>		
Bonds	\$ 705,618	\$ 740,375
Preferred stocks	16,449	4,207
Common stocks – unaffiliated	180,851	195,008
Common stocks – affiliated	22,536	21,252
Cash and short-term investments	22,606	23,188
Real property	14,087	14,568
Other invested assets	16,613	10,655
Total cash and invested assets	\$ 978,760	\$1,009,253
Federal income tax recoverable	0	11,703
Interest and dividends receivable	9,912	10,855
Uncollected premiums and funds held	80,375	65,605
Reinsurance recoverable	7,549	6,260
Other admitted assets	1,696	370
Total admitted assets	\$1,078,292	\$1,104,046
<b>LIABILITIES AND POLICYHOLDERS' SURPLUS</b>		
Reserves for losses and loss adjustment expenses	\$ 500,100	\$ 533,148
Unearned premiums	153,986	140,727
Premiums received in advance	5,928	7,300
Amounts held for others	5,355	6,670
Payable to affiliates	8,485	5,854
Ceded premiums payable – unaffiliated	13,232	9,007
Federal income tax payable	3,533	1,345
Other liabilities	5,735	3,212
Reserves for unauthorized reinsurance	853	962
Total liabilities	\$ 697,207	\$ 708,225
Policyholders' surplus	381,085	395,821
Total liabilities and policyholders' surplus	\$1,078,292	\$1,104,046

**INCOME STATEMENTS\*** (Statutory Basis – unaudited)

(In Thousands) for years ended December 31	2000	1999
<b>UNDERWRITING INCOME</b>		
Premiums earned	\$ 211,707	\$ 218,247
<b>UNDERWRITING DEDUCTIONS</b>		
Loss and loss adjustment expenses incurred	\$ 167,279	\$ 189,818
Other underwriting expenses incurred	56,065	57,510
Total underwriting deductions	\$ 223,344	\$ 247,328
Net underwriting loss	\$ (11,637)	\$ (29,081)
<b>INVESTMENT INCOME</b>		
Investment income earned (net of investment expenses of \$4,720 in 2000 and \$4,689 in 1999)	\$ 48,673	\$ 43,229
Net realized gain on sale of investments	6,645	1,600
Net investment income	\$ 55,318	\$ 44,829
Other expense	0	1
Income before federal income tax expense (benefit)	43,681	15,747
Federal income tax expense (benefit)	14,621	(3,760)
Net income	\$ 29,060	\$ 19,507

\*The Doctors Company, Professional Underwriters Liability Insurance Company, and Underwriter for the Professions Insurance Company combined

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