



Dear Doctor:

It is hard for me to believe that we have entered our ninth year of operations already. What has emerged from the 2008 consolidation of New Jersey Healthcare Providers Insurance Exchange (NJHPIX) and Maryland Healthcare Providers Insurance Exchange (MDHPIX) into our Pennsylvania company is Healthcare Providers Insurance Exchange (HPIX)--a financially strong company (see related articles) which has gained a solid reputation in the physician community.

When we began operations in 2003, the marketplace for physician professional liability insurance was in shambles. There were many critics who questioned the rationale for us to form a new company and who doubted our ability to survive. Our initial goals were straightforward yet daunting:

- Stabilize premiums
- Change physician behavior on reporting adverse outcomes
- Provide unparalleled customer service
- Take a conservative financial approach

Our last six report cards look excellent! Our premium rates have not risen since the company's inception. In fact, many of our clients have been rewarded with lower premiums for favorable loss experience. However, I still remain concerned with the "predatory" pricing being used by some companies to gain market share. These premiums are irresponsible because they cannot be supported from an actuarial standpoint. Keep in mind, it was this type of premium slashing that helped fuel the previous malpractice crises. HPIX's objective is to charge a fair price for the exposure that it writes and allow our physicians to benefit from improvements in their risk profile. We owe this to our existing clients if we want to be here for the long term.

Our efforts to cause changes in physician behavior have focused primarily on early reporting and intervention following adverse patient outcomes or situations. Because HPIX is unique among our competitors by not surcharging or non-renewing physicians for being named in a claim, our clients have been very willing to report events before they escalate into claims. This enables HPIX to take action to minimize and even prevent claims. Not only has this lowered HPIX's costs, it also spares physicians the emotional toll of living and working through a claim. Our trial track record is impressive: 30 wins, 2 losses. In addition, we lead the industry in the use of mediation, arbitration and monetary settlements as a means of resolving cases.

Our customer service commitment which was established early on by our physician advisors is highlighted elsewhere in our case studies. HPIX mandates that its executives be accessible to our clients.

HPIX's conservative financial approach coupled with its unique operational approach, discussed earlier, has resulted in a company with over \$100 million of assets, balance sheet strength and excellent operating performance as shown by all of its key ratios.

HPIX has chosen not to seek a rating from any of the established agencies, nor many of the lesser established agencies such as Demotech. We do not believe ratings are the only or even the most reliable indication of a company's financial health. The examples of rating misfires are



numerous: PHICO, MIIX, Reliance, PIE and most recently AIG. Our reinsurance program is another key ingredient of our success. HPIX is fortunate to have the support and protection of eighteen leading reinsurance companies with billions of dollars of assets and superior ratings. Our strong financial results are also due to the surplus contributions in excess of \$20 million that HPIX has received since 2003.

This year, HPIX will be continuing the gradual return of surplus contributions to our current policyholders. Our intent was to return these contributions over a 5-year period starting in 2009/2010 for the physicians who became subscribers in 2003. We are pleased to report that we returned over \$1,000,000 in cash to our subscribers in 2009/2010 and will be returning an estimated \$1,400,000 to subscribers in 2011. In closing, I want to thank each of our subscribers for their loyalty and support. In these troubling economic times, please be assured that HPIX remains strong and committed to helping our physicians feel secure about their malpractice insurance and professional reputation.

Sincerely,

Thomas S. Gaudiosi
President and Chief Executive Officer