

**A REPORT ON
THE LEVEL OF COMPETITION
IN VIRGINIA RELATING TO
MEDICAL MALPRACTICE INSURANCE**

**PREPARED FOR:
THE VIRGINIA BUREAU OF INSURANCE**

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Executive Summary

Technical Associates, Inc. ("TAI") was retained by the Virginia Bureau of Insurance to study the competitiveness of the five sub-lines of Medical Malpractice Insurance in Virginia and make a determination as to whether competition is an effective regulator of rates in the Commonwealth. These sub-lines are categories defined by the National Association of Insurance Commissioners ("NAIC") for which certain financial data are reported annually.

The approach used by TAI was similar to the approach used by the Bureau for several years in determining the competitiveness of various predetermined troubled lines of professional liability insurance. In the current and former studies, quantitative analyses were conducted to measure certain important structural, behavioral, and performance characteristics of each sub-line in Virginia. In addition to the quantitative analysis, each sub-line was qualitatively assessed based on factors that could not be readily modeled, as well as individual circumstances within each sub-line.

Because the quantitative analysis is based on individual results relative to a scoring standard, the determination of whether a sub-line is, or is not competitive is subjective based on the stringency of the scoring standard itself. In this regard three scoring standards were developed: lenient; moderate; and, strict.

The following table summarizes the quantitative analysis findings for each sub-line of medical malpractice in Virginia:

Sub-Line	Exceeds Competitive Standard		
	Lenient	Moderate	Strict
Physicians & Surgeons	Yes	Yes	Yes
Other Professional	Yes	Yes	No
Hospitals	Yes	Yes	No
Other Facilities	Yes	Yes	No
Miscellaneous	----Could Not Be Determined----		

As shown above, a quantitative scoring for the Miscellaneous sub-line could not be determined due to the lack of reliable data. The remaining four sub-classifications were found to be competitive under a lenient and moderate scoring standard, and Physicians and Surgeons was the only sub-line found to be competitive even under a strict scoring standard.

Individual circumstances and specialties were evaluated within the qualitative assessment. This qualitative assessment, coupled with the quantitative analysis results in the following findings and recommendations:

- (1) no sub-line or classification should resort back to prior approval ratemaking, but instead, continue with file and use rates, for the present time.
- (2) Hospitals, Other Facilities and Miscellaneous Medical Malpractice should continue to be monitored by the Bureau of Insurance regarding the availability, affordability, and level of competition existing for these types of medical malpractice insurance in Virginia.

A REPORT ON THE LEVEL OF COMPETITION IN VIRGINIA RELATING TO MEDICAL MALPRACTICE INSURANCE

Introduction And Overview

As a result of several recent events surrounding the Medical Malpractice insurance market, the Virginia Bureau of Insurance (“Bureau”) requested that Technical Associates, Inc. (“TAI”) conduct a study to assess the level of competition that currently exists within this line of insurance in Virginia and to determine whether competition is an effective regulator of rates for the major sub-classifications of medical malpractice insurance in the Commonwealth.

Since about 1999, medical malpractice rates have, in general, increased dramatically. Moreover, during this same period of time the number of major insurance companies writing medical malpractice insurance has declined, due to insolvencies, as well as insurers voluntarily dropping this line of insurance.^{1/} Since mid 2001 the two largest writers of medical malpractice have left the Virginia market. In addition, at least three other insurance groups have also ceased writing businesses in the state.^{2/} In terms of 2001 premium, these insurers represented about 36% of Virginia medical malpractice market.

Although medical malpractice rates are specific to individual medical specialists and types of service, the National Association of Insurance Commissioners (“NAIC”) collects and reports data for five major sub-classifications (sub-lines) of medical malpractice insurance by state: Physicians and Surgeons; Other Professional; Hospitals; Other Facilities; and Miscellaneous. It is at this sub-classification level that the medical malpractice market was studied for purposes of this report. However, as discussed later in this report, the Bureau Staff’s recent surveys regarding

^{1/} This is true nationally as well as in Virginia. In June 2003, the U.S. Government Accounting Office (“GAO”) issued a report to Congress regarding the national state of affairs concerning medical malpractice.

^{2/} Saint Paul, Phico, Frontier, Mixx, Princeton, and Reciprocal of America.

medical malpractice and the joint report by the Bureau's consulting actuaries (Mercer Risk, Finance and Insurance, Inc.) and TAI regarding the rate adequacy of Physicians and Surgeons rates in Virginia were also relied upon in reaching our final recommendations.

Approach, Data, and Methodology

The general approach used for purposes of this study is similar to that used and relied upon for several years by the Bureau in determining whether competition was an effective regulator of rates pursuant to § 38.2-1905.1E (repealed by Acts 1997) of the Code of Virginia for various predetermined troubled lines of professional liability insurance. Specifically, certain important indicators as to the structure, behavior, and performance of insurers for each sub-line examined were quantitatively analyzed using a standardized scoring system. Qualitative assessments were also employed (based primarily on the Bureau's survey results) in reaching a final conclusion and finding for each sub-line.

With regards to the quantitative analyses, the factors selected and measured reflect the requirement that in order to evaluate the competitiveness of a market, certain structural, behavioral, and performance characteristics must be examined. This analysis was limited to those characteristics that are the most important from an economic perspective, i.e., these factors that capture important interrelationships in the way markets function. For example, even if there are only a limited number of suppliers in an industry that has few barriers to entry, potential competition alone may be sufficiently robust to force existing firms to refrain from monopolistic practices. But in order to arrive at such a conclusion, the financial performance of suppliers must be examined over some reasonable period of time.

On the other hand, suppose a line of business is characterized by a comparatively high level of profitability. But at the same time, we also observe that there are many suppliers operating in the market and that business concentration is comparatively low. Given such circumstances, a logical conclusion is that the observed level of profitability is necessary to

compensate suppliers for risk, especially if a high degree of volatility is exhibited in the pattern of earnings.

With data collected from the NAIC database and from the Bureau's recent surveys, major indicators were developed to serve as a means of quantitatively evaluating the competitiveness of the five medical malpractice sub-lines. These factors are essentially the same as those employed for the competition hearing studies referenced earlier and consist of: (A) the 2004 insurance company Herfindahl-Hirshman Index or HHI; (B) the minimum number of companies that are currently seeking to write new business in Virginia; (C) the minimum number of companies aggressively seeking to write new business in Virginia; (D) the aggregate average rate of return earned on equity over the 2000-04 period or Average ROE; and, (E) the number of years in the 2000-04 period when the aggregate average ROE was clearly inadequate.^{3/}

In order to incorporate these factors into an objective and manageable analytical framework, a scoring system has been constructed whereby the five quantitative factors are equally weighted such that each sub-line receives a point score value of 55, 65, 75, 85, or 95 for each indicator depending on sub-line characteristics.

For the five indicators the possible point scores are the same. Thus, these factors are equally weighted, but the particular score received by a sub-line for an indicator is dependent on the extent of the pro-competitive characteristic of that factor for the sub-line.

The greater the pro-competitive quality of an indicator, the higher is the point score value. This is based on economic principles, which demonstrate that a market is more likely to function competitively when: (1) the number of suppliers is comparatively large; (2) seller concentration is relatively low; (3) average profitability is not exceptionally high; and (4) profitability is volatile

^{3/} During the competition hearing era, a statutorily mandated data call was issued to all licensed insurance companies requesting certain financial and operational information. As a result of the repeal of the statute requiring these report (§ 38.2-1905.2), this data call is no longer made. However, financial data, applicable to Virginia by company, is available for each sub-line through the NAIC database. Moreover, the Bureau's recent survey of insurance companies provided relevant information on the number of new business seekers, albeit, not for each of the five sub-lines of medical malpractice.

over time. The scoring system shown in Schedule 1 attempts to collectively capture, in an objective manner, the interplay of these principles.

A market can be characterized as being oligopolistic, if not monopolistic, when there are three or fewer active suppliers. Everything else aside, such a condition presents the clear danger of an abuse of market power. As the number of firms expands, this potentiality continuously diminishes unless the firms in the market are able to operate collectively such as through a cartel. When the number of sellers reaches more than a dozen, however, even the possibility of maintaining the anti-competitive practices of a cartel (on either a tacit or overt basis) becomes remote due to the theory of the recalcitrant firm. The presence of more than a dozen active suppliers, furthermore, suggests that buyers have an ample selection from which to choose.

The HHI indicator takes into account both the number and market shares of insurance groups operating in each line of business. The gradations shown in Schedule 1 for HHI follow essentially the guidelines used by the U.S. Department of Justice ("DOJ") in its evaluation of whether to take legal action against horizontal mergers. For example, a horizontal merger that results in a post-merger HHI of 1000 or less generally would not be opposed by the DOJ. In contrast, a post-merger HHI of more than 1800 typically would be subject to challenge. To a substantial degree, the HHI employed by the DOJ is a version of the benchmark framework that has been used in the determination of medical malpractice sub-line competitiveness.

The levels and gradations of the Average ROE indicator in Schedule 1 are based on the results of cost of capital analyses that TAI has conducted for the Bureau over a number of years in connection with its various regulatory responsibilities. The results of these studies have indicated that a reasonable rate of return on equity in the property and casualty insurance industry has been generally in the range of 11% to 17%, depending on the particular insurer, its capital structure, the line of business in question, market costs of equity, and a number of other factors. An ROE range of 11% to 17% was used as the profitability standard in the quantitative analysis.

As a means of taking into account the volatility of earnings in a line of business, the number of years in which ROE has been clearly inadequate (less than 5%) is used as a second profitability indicator. This is an important factor because the presence of a sustained high level of profits is suggestive of market power. However, the contrary is true when such a level is accompanied by a significant number of downward fluctuations. The gradations shown in Schedule 1 are a means of capturing these relationships.

The number of New Business Seekers provides a measure of the extent to which consumers are presently afforded choice in the marketplace, as well as rivalry among suppliers. Thus, use of both the number of New Business Seekers and the HHI attempts to capture such differences in market structure. For purposes of this study, there are two separate new business seeker categories. The first is the number of companies that are willing to write new business, either aggressively, or only on a selective basis for preferred risks. The second factor only includes those companies aggressively writing new business. With respect to these two new business seeker factors, there is one important caveat. That is, the number of companies seeking new business were compiled from responses to the Bureau's voluntary survey of insurance companies. All writers of medical malpractice did not respond to this survey and the Bureau is aware of some major companies that did not respond to the survey, that are writing new business.^{4/} Therefore, these factors understate the actual number of firms currently seeking new business in Virginia. It should also be noted that the number of new business seekers cannot be equated to the total number of writers in each sub-line. The total number of writers for each sub-line is larger than the number of new business seekers because some insurance companies are offering renewals to existing policies but are not seeking new policyholders.

The HHI is a statistic designed to simultaneously take into account the number and market shares of sellers in a line of business. The HHI is defined as the sum of the squares of the market

^{4/} The Bureau's survey of insurers included both licensed and unlicensed insurers writing medical malpractice, insurance in the Commonwealth. The vast majority of insurers that did not respond to the Bureau's survey are unlicensed and thus, under no obligation to comply with the Bureau's requests.

shares for each and all of the sellers. In its limits, the value of the HHI can be 10,000 (total monopoly) or close to zero (atomistic competition).

For example, if there were only one firm in the market, the HHI would equal 10,000, i.e., the square of a market share of 100% disregarding percent signs. If there were four sellers each with a 25% market share, the HHI would be equal to $2500 = [(25)^2 + (25)^2 + (25)^2 + (25)^2]$. With 100 firms each with a market share of 1%, the HHI would equal 100. And if there were 1,000 firms, each with a market share of 1/1,000 or 0.1%, the HHI would be 10.

The HHI is, in essence, a scoring system that permits comparisons among industries, markets, and/or lines of business. To illustrate, an HHI in one market of 1,000 versus an HHI in another market of 5,000 suggest that the former is far more likely to be competitive than the latter. As indicated earlier, the U.S. Department of Justice uses HHI scores as benchmarks in determining whether to protest horizontal mergers.

Schedule 2 shows the scores tabulated for each of the five sub-lines. These scores are then used on Schedule 3 to develop competitiveness findings under three scoring standards, which are designated as lenient (a required average score of at least 65), moderate (a required average score of at least 70), and strict (a required average score of at least 75). As can be seen in Schedules 2 and 3, no quantitative competitiveness scores were tabulated for this Miscellaneous sub-line. This is due to the fact that: (a) the number of new business seekers are unknown for this sub-line, and (b) credible profitability estimates could not be calculated for this sub-line of medical malpractice in Virginia due to a lack of reliable data.^{5/}

Three scoring standards were employed in order to provide an indication of the sensitivity of the results of the quantitative analysis. This approach also serves to recognize that determinations regarding market or line of business competitiveness are judgmental in nature when there is no clear evidence of abusive practices.

^{5/} See footnotes to Schedule 4.

With respect to the question of sensitivity, all sub-lines for which a quantitative score could be tabulated are found to be competitive under a lenient or moderate standard. However, there are differences in the results under the moderate and strict standards as indicated on Schedule 3. Specifically, there is a shift from competitive to non-competitive in the status of Other Professionals, Hospitals, and Other Facilities as the standard is raised from moderate to strict.

Schedule 4 summarizes the calculated aggregate rates of return on equity ("ROE") for each of the five sub-lines under study. These ROEs are presented by year, as well as the average for the 2000-2004 period. The detailed calculations underlying the values shown in Schedule 4 are provided in the Appendix to this report. Even though ROE's are presented for the Miscellaneous sub-line, TAI considers the results to be unreliable for the reasons set forth in the footnotes to Schedule 4.

The ROE calculation relies on information gathered by the NAIC, as well as the methodology in the 2003 Report on Profitability By Line By State published by the National Association of Insurance Commissioners ("NAIC Report").

The figures shown in Schedule 4 represent aggregate ROEs. That is, individual company information is aggregated by sub-line from the NAIC database and then applied in the ROE methodology. This annual aggregate information for each sub-line includes those companies that had at least \$100,000 in 2004 Virginia written premiums. This \$100,000 minimum standard was selected because many allocations are required in the NAIC ROE methodology. Therefore, if Virginia volumes are negligible, allocations based on total company amounts can be highly unreliable. Using these aggregate data, each sub-line's ROE applicable to Virginia was calculated based on what is generally known as the NAIC profitability methodology.

This methodology is presented in a yearly publication of the NAIC, which is entitled Report on Profitability By Line By State ("NAIC Report"). As the name suggests, each annual

NAIC Report contains estimates of aggregate rates of return on equity, by major line of insurance, for insurers in each state and on a country-wide basis.

The NAIC methodology effectively addresses two major obstacles in estimating insurance profitability by type of business and by state jurisdiction: first, it is comprised of procedures that attempt to appropriately deal with the difficult issue of allocating costs and other financial data; and second, it is a method for restating (or converting) financial data reported on a Statutory Accounting Principles ("SAP") basis to a Generally Accepted Accounting Principles ("GAAP") format.

Allocations are required in the NAIC methodology because many income statement and balance sheet items are not reported by individual line of business and/or by state. Moreover, many costs are only reported on a net of reinsurance basis, whereas certain state specific costs are only available on a direct basis. The NAIC methodology allocates costs and other financial data to lines of business and states using what can be regarded as reasonable cost causation relationships. The conversion of financial data from a SAP to a GAAP basis also permits a comparison of insurance industry rates of profitability with returns in other industries.

The information contained in the Annual Statements of insurers is based on SAP. The accounting conventions therein are primarily intended to measure the "liquidation value" of insurers, whereas the aim of GAAP is to reflect the "going concern" value of firms. SAP is inherently a far more conservative accounting approach than GAAP, in that it excludes consideration of many income statement and balance sheet items otherwise reported under GAAP. These items include pre-paid expenses, excess reserves over statutory based reserves, unauthorized reinsurance, various SAP non-admitted assets, salvage and subrogation and the largely cash basis (versus accrual) used under SAP for reporting underwriting expenses.

The ROE calculations in this study differ from the NAIC profitability methodology in one major respect. The NAIC methodology allocates income statement and balance sheet items only to major lines of insurance. However, the ROE determinations for this study required further

allocations to specific sub-lines of the major line of total medical malpractice insurance. For a number of these elements needed in the sub-line ROE calculation, ratios of Sub-line Virginia specific data corresponding to major line Annual Statement data are used as allocators.^{6/}

The ROEs considered in this analyses provide comparative measures of the past appropriateness of sub-line profitability, but cannot be used to definitively answer questions regarding whether profits in a sub-line have been adequate, inadequate, or excessive. This is true for several interrelated reasons.

The ROEs in Schedule 4 are calculated on an aggregate average basis and, therefore, may not reflect typical levels of profitability among insurers in a sub-line. If a few large writers were very profitable, for example, while all other suppliers sustained losses, the aggregate average ROE might suggest an adequate or even an excessive level of profitability. However, as the construction of this hypothetical indicates, the typical experience for the bulk of the insurers in the sub-line has been one of unprofitability. A converse situation is equally possible.

The determinations of ROE using the NAIC Report methodology necessarily rests on a number of allocations, such as with respect to the attribution of surplus and other common equity components to lines and sub-lines of insurance. Accordingly, while the allocation methodology is reasonable from an aggregate perspective, it may not be specifically appropriate for each and every insurance company writing business in one or more sub-lines. Except as noted, it is fair to say that the aggregate average ROEs in Schedule 4 provide reasonable indications as to the likelihood of sub-line profitability appropriateness or inappropriateness, but they cannot be employed in any absolute or definitive context. Some of the difficulty in the application and interpretation of aggregate ROEs is addressed in the qualitative analysis.

^{6/} Virginia specific sub-line data is gathered and reported in the "Annual Statement, Supplement A to Schedule T." These include Virginia direct premiums written and earned, losses incurred, and loss reserves.

Quantitative Findings

As shown in Schedule 3, the quantitative scoring analysis results in a finding that four sub-lines of medical malpractice are competitive under the lenient and moderate scoring standards. The strict scoring standard resulted in a finding that the Physicians & Surgeons are competitive; while Other Professional, Hospitals, and Other Facilities did not meet the competitive minimum standard. As indicated earlier, quantitative findings could not be determined for the Miscellaneous sub-line.

Qualitative Analyses

In addition to the quantitative analysis, each sub-line was qualitatively assessed based on factors that could not be readily modeled, as well as individual circumstances within each sub-line. The following is a discussion of the qualitative assessment of each medical malpractice sub-line studied.

Physicians and Surgeons

Although the number of insurers writing Physicians and Surgeons medical malpractice is likely fewer today than it was in the late 1990's there are still at least 15 companies currently writing new business in Virginia. No single firm dominates in Virginia, as indicated by the comparatively low HHI value of 1,039. In fact, 2004 Physicians and Surgeons HHI's were calculated for each state in the nation, and as shown in Schedule 5, Virginia has the lowest market concentration (HHI) for Physicians and Surgeons in the United States.

With respect to the profitability of Physicians and Surgeons malpractice insurance, Schedule 4 shows that over the last five years (2000-2004), this sub-line has earned an average ROE of about 5%. As indicated in Schedule 4, the pattern of profitability for this sub-line of insurance has been a steady increase from losses in 2000 and 2001 to a reasonable profit level by 2004. Based on this sub-line's profitability during the last two years, it appears that Physicians

and Surgeons medical malpractice insurance has returned to reasonable profitability, which is an indicator of competitive markets. Moreover, the number of companies seeking new business in Virginia has increased from 15 in 2003 to at least 23 currently.^{2/}

Based on the quantitative analysis of market factors and further investigation of this sub-line's profitability and market concentration, TAI concludes that this sub-line is competitive and should continue with "file and use" rates.

Other Professionals

The Other Professional sub-line of medical malpractice insurance applies to nurses, nurse practitioners, medical and dental assistants, laboratory professionals, and clinical workers. The number of insurers seeking to write new business was not surveyed by the Bureau because coverage for these professionals is known to be readily available either individually, or through professional associations and purchasing groups. The quantitative analysis for other professionals indicates that the sub-line is competitive under a lenient and moderate scoring standard but not competitive under a strict standard. The sole reason the quantitative score failed to meet the competitive threshold under a strict scoring standard is attributable to this sub-line's level of profitability. As shown in Schedule 4, this sub-line has experienced relatively high rates of return over the 2000-2004 period.

Nurses constitute the vast majority of policies written under this sub-line of medical malpractice insurance. Rates charged nurses are very inexpensive relative to Physicians and Surgeons rates, and the Bureau has not received any complaints regarding the rate charged to other professionals. Moreover, the quantitative analysis did not consider the number of insurers currently seeking new business for Other Professional. However, in 2004 there were 29 companies writing this sub-line of medical malpractice insurance in Virginia. As previously discussed, coverage is generally widely available for Other Professionals. As such, had the actual number of new business seekers been available for this sub-line, there is little doubt that the high

^{2/} See TAI's Report on the level of Competition in Virginia Relating to Medical Malpractice, dated November 2003.

scores from the number of new business writers factor would have substantially mitigated the low scores achieved from the profitability factors. To illustrate, a quantitative point score value for new business seekers is achieved with 13 or more writers. Considering that there were 29 writers of this sub-line in 2004, a point value of 95 would be expected. With this value introduced into the quantitative analysis, an average score of 81 would be achieved. A score of 81 would render this sub-line competitive under all three scoring standards. For these reasons, TAI finds that the Other Professional sub-line of medical malpractice insurance is competitive in Virginia and should continue with file and use rates.

Hospitals

The quantitative analysis indicates that the Hospitals sub-line is competitive under a lenient or moderate scoring standard, but fails to meet the minimum score required under the strict scoring standard. A large concern to TAI is the small number of writers offering Hospital Malpractice insurance in Virginia. In this regard, there are two important factors that were considered. First, hospitals are becoming more and more horizontally integrated by joining or being purchased by large health care corporations (e.g., Columbia HCA). These large health care corporations tend to be self insured for malpractice. Second, and more important is the fact that Virginia had a hospital insurance reciprocal until January 2003. This reciprocal, "Reciprocal of America," has subsequently been declared insolvent and has withdrawn from the market.

During the time in which ROA operated, many insurers would not consider entering the Virginia market due to the presence of the Reciprocal (they could not compete with the Reciprocal rates). Because, ROA has recently left the Virginia market, it is too early to tell if its demise will prompt other insurers to enter the Virginia Hospital medical malpractice market.

The Bureau's hospital survey resulted in a finding that hospitals are currently able to either self insure or obtain malpractice coverage from an insurer.

TAI recommends no change in the file and use status for Hospital medical malpractice at this time. However, this sub-line should be closely monitored by the Bureau during the next year for availability and affordability of insurance.

Other Facilities and Miscellaneous

Even though the Other Facilities sub-line was found to be competitive under the lenient and moderate standards, and a quantitative score could not be determined for the Miscellaneous sub-line, these two sub-lines are somewhat of a “catch all” for numerous specific specialties. Moreover, because there are no specific standards for classifying the various specialties into the five NAIC sub-lines, inconsistencies may be found in the way insurance companies categorize specialties into the five sub-lines. The catch-all classification of numerous specialties within the Other Facilities and Miscellaneous sub-lines also must be considered in evaluating the quantitative analysis because this grouping combines specialties ranging from very high risk and exposure to very low risk and exposure. Thus, a company may report financial data under these sub-classifications but actually only write a selected group of specialties within these two sub-lines.

For these reasons, TAI and the Bureau staff relied largely upon information provided by the Bureau’s Consumer Services Section and its own experience in evaluating any problem specialties within these two sub-classifications.

Given the amalgamation of specialties, inconsistencies with sub-line classifications, and questionable financial data, TAI cannot reach a definitive conclusion regarding the competitiveness of Miscellaneous medical malpractice in Virginia at this time.

With regards to the Other Facilities and the Miscellaneous sub-classifications, it is TAI’s opinion that there is no reason to change these sub-classifications from file and use to any other form of rate regulation primarily due to the lack of complaints or contacts with the Bureau’s Consumer Services Section regarding the availability or affordability of these other specialties.

Schedule 1

**VIRGINIA MEDICAL MALPRACTICE INSURANCE SUB-LINES
POINT SCORE VALUES FOR COMPETITIVENESS INDICATORS**

(1)	(2)	(3)	(4)	(5)
No. of New Bus. Seekers	2004 HHI	2000-04 Average ROE	2000-04 Years of Inadequate ROE ^{1/}	Point Score Values
13 or more	900 or less	11% or less	3	95
10 to 12	901 to 1,800	11.01% to 13%	2	85
7 to 9	1,801 to 2,700	13.01% to 15%	--	75
4 to 6	2,701 to 3,600	15.01% to 17%	1	65
3 or less	3,601 or more	17.01% or more	0	55

^{1/} Less than 5% ROE.

**VIRGINIA MEDICAL MALPRACTICE INSURANCE
QUANTITATIVE COMPETITIVENESS VALUES and SCORES**

Subline	(1)	(2)	Level		(4)	(5)
	Number of Co. Seeking New Bus. 1/	Number of Co. Aggressively Seeking New Bus. 1/	HHI		2000 - 04 Average ROE	2000 - 04 No. of Years Inadequate ROE
Physicians & Surgeons	23	15	1,039		5.2%	2
Other Professional	N/A	N/A	802		23.1%	1
Hospitals	11	5	1,610		14.1%	0
Other Facilities	10	2/ 3	2/ 2,041		16.4%	2
Miscellaneous	N/A	N/A	5,215		NMD	NMD

Subline	(6)	(7)	Competitiveness Score		(9)	(10)	(11)
	Number of Co. Seeking New Bus. 1/	Number of Co. Aggressively Seeking New Bus. 1/	HHI		2000 - 04 Average ROE	2000 - 04 No. of Years Inadequate ROE	Average Score
Physicians & Surgeons	95	95	85		95	85	91
Other Professional	N/A	N/A	95		55	65	72
Hospitals	85	65	85		75	55	73
Other Facilities	85	2/ 55	2/ 75		65	85	73
Miscellaneous	N/A	N/A	55		NMD	NMD	NMD

1/These levels are based only on the number of insurers that responded to the Bureau's survey. Several unlicensed Virginia insurers did not respond to the survey. Even though the Bureau knows some of these insurers do, in fact, write new business, only those that responded to the survey are included.

2/ Only includes Nursing Homes. Does not include insurers writing other type of health care facilities within this subline.

**VIRGINIA MEDICAL MALPRACTICE INSURANCE SUBLINES
COMPETITIVENESS (YES) AND NON-COMPETITIVENESS (NO) RATINGS UNDER
ALTERNATIVE SCORING STANDARDS**

Subline Description	Lenient <u>1/</u>		Moderate <u>2/</u>		Strict <u>3/</u>	
	Yes (Y)	No (N)	Yes (Y)	No (N)	Yes (Y)	No (N)
Physicians & Surgeons	Y		Y		Y	
Other Professional	Y		Y			N
Hospitals	Y		Y			N
Other Facilities <u>4/</u>	Y		Y			N
Miscellaneous	----- Could Not Be Determined -----					

1/ Based on average score of at least 65.

2/ Based on score of at least 70.

3/ Based on average score of at least 75.

4/ Applies only to Nursing Homes.

**VIRGINIA MEDICAL MALPRACTICE
SUB-LINE
RATES OF RETURN ON EQUITY ("ROE")
(2000-2004)**

Subline	Year					5-Year Average
	2000	2001	2002	2003	2004	
Physicians & Surgeons	-0.79%	-2.96%	6.14%	10.15%	13.31%	5.17%
Other Professional	17.58%	2.56%	44.86%	18.11%	32.55%	23.13%
Hospitals	8.63%	10.99%	10.36%	19.97%	20.70%	14.13%
Other Facilities	-- <u>1/</u>	-10.62%	4.45%	43.56%	28.17%	16.39%
Miscellaneous <u>2/</u>	--	-29.25%	14.27%	9.21%	11.62%	1.46%

1/ The calculated ROE is not meaningful for 2000 because of the thirteen writers that had at least \$100,000 of written premium in 2004, only one of the same writers had premiums in excess of \$100,000 in 2000. Thus, the calculated 2000 ROE is largely based on the experience of a single writer with written premium of only \$110,947.

2/ Although 2001-2004 ROE's are presented, little creditability can be placed in these amounts as the 2001-2004 calculations are based only on two writers. There was only one writer in 2000 that has significant premium volume in 2004. Therefore, 2000 ROE is not provided.

STATE BY STATE COMPARISON
 PHYSICIANS & SURGEONS MEDICAL MALPRACTICE INSURANCE
 HERFINDHAL INDICES ("HHI")
 (2004)

State	Number of Insurers	HHI
Alabama	34	5940
Alaska	14	4275
Arizona	35	5707
Arkansas	27	5000
California	44	1631
Colorado	28	5455
Connecticut	30	3146
DC	14	5511
Delaware	22	2674
Florida	51	1830
Georgia	39	4305
Hawaii	15	5704
Idaho	27	2552
Illinois	53	4529
Indiana	27	2925
Iowa	29	3081
Kansas	23	4063
Kentucky	34	1693
Louisiana	20	7575
Maine	18	5471
Maryland	26	4484
Massachusetts	20	6313
Michigan	38	1916
Minnesota	24	6961
Mississippi	26	1400
Missouri	44	1374
Montana	18	3608
Nebraska	19	2881
Nevada	29	2471
New Hampshire	16	3776
New Jersey	33	2484
New Mexico	17	6119
New York	26	4997
North Carolina	36	2672
North Dakota	12	5242
Ohio	44	1755
Oklahoma	25	5995
Oregon	29	3231
Pennsylvania	48	1343
Rhode Island	13	4562
South Carolina	22	3252
South Dakota	14	7392
Tennessee	33	5746
Texas	48	1901
Utah	20	5720
Vermont	13	3905
Virginia	37	1039
Washington	32	3624
West Virginia	27	5669
Wisconsin	19	3271
Wyoming	14	3602

Source: Calculated per NAIC electronic database.

Schedule 6

**VIRGINIA MEDICAL MALPRACICE INSURANCE
2004 SUB-LINE MARKET SHARES
AND FOUR FIRM CONCENTRATION RATIOS (CR4)**

Individual	Physicians & Surgeons	Other Professional	Hospitals	Other Facilities	Miscellaneous
Market	15.3%	14.5%	28.0%	32.3%	65.1%
Shares of	14.5%	13.5%	23.8%	27.9%	31.1%
Four Largest	13.8%	10.0%	6.9%	9.1%	1.5%
Writers	12.2%	9.7%	6.7%	8.7%	1.3%
Concentration Ratio (4)	55.8%	47.7%	65.4%	78.0%	99.0%

APPENDIX

**VIRGINIA MEDICAL MALPRACTICE
PHYSICANS and SURGEONS
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
(1) Dir Premiums Earned	27,413,121	37,165,023	55,040,597	152,804,693	195,977,955
(2) Dir Losses Incurred	25,461,284	28,803,536	39,575,991	96,298,754	108,399,865
(3a) VA Dir Defense & Contain. Expense Incurred-Subline	10,597,598	14,757,937	17,173,191	29,088,859	48,710,748
(3b) VA Dir Adjusting & Other Expense Incurred-Subline	1,642,277	1,824,182	2,140,324	4,907,035	5,838,395
(4) Dir General Expense Incurred	2,022,200	2,602,200	3,049,578	8,381,611	5,698,818
(5) Dir Selling Expenses Incurred	1,992,103	3,114,014	4,408,172	12,843,195	16,411,647
(6) Dir Taxes, Licenses & Fees Incurred	586,154	806,731	1,281,566	3,822,315	4,149,440
(7) Dir Dividends to Policyholders					
(8) Dir Underwriting Profit	(14,888,496)	(14,743,577)	(12,588,225)	(2,537,076)	6,769,042
8a Investment Gain on Insurance Transactions (Reserves)					
A Avg. VA. Dir. Loss Reserves-Sub	71,631,182	74,152,365	81,297,934	136,983,199	211,636,443
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal.	6.00%	4.59%	3.26%	3.16%	3.05%
C Avg VA LAE Reserve-Subline	21,547,879	22,823,601	26,735,053	45,730,360	72,029,442
D Avg. VA Unearned Prem.-Subline	6,372,375	15,152,124	21,623,822	53,307,729	75,303,815
E Avg. C-W Agents Bal Ratio-Med Mal	9.69%	16.93%	15.42%	15.04%	15.09%
F Avg. VA Agents Balances-Subline	2,655,908	6,292,298	8,485,894	22,977,833	29,579,084
F2 Ceded Reinsur. Prem Payable					
G Avg. VA Prepaid Expenses-Subline	844,212	2,017,307	2,775,009	7,187,545	8,960,386
H C-W Investment Income Rate of Return	9.43%	6.01%	8.15%	6.02%	5.48%
I VA Invest. Income From Reserves-Subline	9,056,081	6,243,125	9,652,195	12,394,449	17,569,282
J C-W Other Income Ratio-Med Mal	-5.3448%	0.7039%	-0.0055%	-0.0348%	0.0932%
K VA Other Income-Subline	(1,465,170)	261,598	(3,024)	(53,223)	182,588
L VA Invest. Inc. From Res.+ Other Inc. -Subline	7,590,911	6,504,724	9,649,172	12,341,226	17,751,870
8b Income Taxes (Underwriting & Invest. Income from Reserves)					
A.	2,446,447,624	1,497,398,164	2,158,736,981	1,960,626,849	2,091,006,519
B.	340,930,558	207,060,608	259,496,752	382,107,303	432,863,258
C.	(35,656,425)	(25,401,905)	1,546,931,030	540,840,990	28,938,738
Z.	31.16%	31.24%	16.38%	23.41%	28.55%

**VIRGINIA MEDICAL MALPRACTICE
PHYSICIANS and SURGEONS
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
Income Tax Underwrite+reserve Inc.	(2,845,631)	(3,128,020)	(2,825,787)	2,000,998	7,437,459
8c Net Profit on Insurance Transactions	(4,451,953)	(5,110,834)	(113,266)	7,803,152	17,083,453
9 Net Worth (Equity)					
A Avg. VA Dir. Loss Reserves-Subline	71,631,182	74,152,365	81,297,934	136,983,199	211,636,443
B C-W Dir Unalloc LAE Res ratio-W-C	6.00%	4.59%	3.26%	3.16%	3.05%
C VA Dir LAE Reserves-Subline	21,547,879	22,823,601	26,735,053	45,730,360	72,029,442
D VA Dir Unearned Prem.- Subline	6,372,375	15,152,124	21,623,822	53,307,729	75,303,815
E VA Dir Prem. Earned- Subline	27,413,121	37,165,023	55,040,597	152,804,693	195,977,955
F C-W Surplus Ratio-All Lines	0.4728	0.4525	0.3665	0.2866	0.2829
G C-W Prem deficiency Reserve Ratio- All Lines	-0.337%	1.396%	1.097%	2.258%	0.804%
H C-W Unauth Reinsur Ratio- All Lines	1.326%	1.480%	1.120%	1.121%	1.439%
I C-W Non Admitted Asset Ratio	1.500%	1.500%	1.500%	0.500%	0.500%
J C-W Prepaid Expense Ratio-Med Mal	12.811%	11.923%	11.439%	11.263%	10.342%
M Avg. Yr Net Worth (Equity) =					
VA Dir Surplus-Subline	60,025,064	67,560,344	67,696,870	111,454,807	156,988,226
VA Dir Prem. Deficiency Reserves-Subline	(428,399)	2,083,939	2,026,015	8,778,111	4,463,743
VA Dir Unauthorized Reinsurance-Subline	1,319,796	1,659,809	1,452,471	2,644,638	5,164,209
VA Dir Non Admitted Assets-Subline	1,904,468	2,239,397	2,770,461	1,944,130	2,774,738
VA Dir Prepaid Expenses-Subline	816,362	1,806,655	2,473,443	6,004,202	7,787,695
Total VA Dir Avg. Net Worth-Subline	63,637,291	75,350,143	76,419,260	130,825,887	177,178,612
10 Investment Gain on Net Worth (Surplus+ other) Funds					
A Avg. VA. Dir. Loss Reserves-Subline	71,631,182	74,152,365	81,297,934	136,983,199	211,636,443
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal	6.002%	4.588%	3.260%	3.164%	3.052%
C Avg VA LAE Reserve-Subline	21,547,879	22,823,601	26,735,053	45,730,360	72,029,442
D Avg. VA Unearned Prem.-Subline	6,372,375	15,152,124	21,623,822	53,307,729	75,303,815
E VA Dir Earned Prem-Subline	27,413,121	37,165,023	55,040,597	152,804,693	195,977,955

**VIRGINIA MEDICAL MALPRACTICE
PHYSICANS and SURGEONS
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
F VA Dir Prepaid Expenses-Subline	844,212	2,017,307	2,775,009	7,187,545	8,960,386
G C-W Surplus Ratio-ALL Lines	47.277%	45.253%	36.653%	28.664%	28.289%
H C-W Investment Income Rate of Return	9.428%	6.014%	8.152%	6.021%	5.483%
I VA Dir Investment Gain on Net Worth Funds -Subline	5,738,985	4,184,052	5,745,202	7,143,378	9,099,010
11 Income Taxes (Invest. Income from Net Worth)					
A.	2,446,447,624	1,497,398,164	2,158,736,981	1,960,626,849	2,091,006,519
B.	340,930,558	207,060,608	259,496,752	382,107,303	432,863,258
C.	(35,656,425)	(25,401,905)	1,546,931,030	540,840,990	28,938,738
Z.	31.160%	31.242%	16.375%	23.409%	28.551%
Income Taxes (Invest. Income from Net Worth)	1,788,279	1,307,199	940,801	1,672,203	2,597,837
12 VA Dir Return on Net Worth-Subline	-0.79%	-2.96%	6.14%	10.15%	13.31%

**VIRGINIA MEDICAL MALPRACTICE
OTHER PROFESSIONAL
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
(1) Dir Premiums Earned	6,977,085	7,584,721	10,069,996	16,654,121	20,354,680
(2) Dir Losses Incurred	2,396,774	4,722,411	(264,652)	6,927,696	5,621,247
(3a) VA Dir Defense & Contain. Expense Incurred-Subline	1,249,768	2,207,732	(141,803)	2,669,502	2,672,276
(3b) VA Dir Adjusting & Other Expense Incurred-Subline	136,352	209,543	(9,273)	227,728	205,377
(4) Dir General Expense Incurred	528,823	516,382	564,528	826,392	1,024,061
(5) Dir Selling Expenses Incurred	866,473	934,023	910,964	2,462,776	2,252,012
(6) Dir Taxes, Licenses & Fees Incurred	164,264	174,332	189,670	500,787	482,272
(7) Dir Dividends to Policyholders					
(8) Dir Underwriting Profit	1,634,632	(1,179,703)	8,820,562	3,039,239	8,097,436
8a Investment Gain on Insurance Transactions (Reserves)					
A Avg. VA. Dir. Loss Reserves-Sub	12,412,782	12,722,547	11,373,805	11,853,787	15,326,694
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal.	5.53%	4.48%	3.16%	2.60%	2.35%
C Avg VA LAE Reserve-Subline	4,998,428	4,949,065	4,590,823	4,836,710	6,089,255
D Avg. VA Unearned Prem.-Subline	1,891,497	3,994,514	4,741,222	8,691,221	9,171,033
E Avg. C-W Agents Bal Ratio-Med Mal	11.31%	18.48%	16.22%	15.47%	16.22%
F Avg. VA Agents Balances-Subline	788,811	1,401,667	1,633,816	2,575,862	3,300,841
F2 Ceded Reinsur. Prem Payable					
G Avg. VA Prepaid Expenses-Subline	367,065	737,732	759,602	1,529,789	1,448,619
H C-W Investment Income Rate of Return	7.83%	4.75%	8.53%	5.20%	5.63%
I VA Invest. Income From Reserves-Subline	1,420,217	928,174	1,561,975	1,105,442	1,455,485
J C-W Other Income Ratio-Med Mal	-0.1231%	-0.0415%	-0.7619%	-1.1643%	-0.3587%
K VA Other Income-Subline	(8,587)	(3,147)	(76,718)	(193,898)	(73,003)
L VA Invest. Inc. From Res.+ Other Inc. -Subline	1,411,629	925,027	1,485,257	911,544	1,382,482
8b Income Taxes (Underwriting & Invest. Income from Reserves)					
A.	3,171,547,840	1,897,077,820	3,588,509,460	2,608,367,373	3,387,112,797
B.	448,882,755	343,409,527	397,111,198	585,301,661	762,661,628
C.	309,716,777	195,707,658	1,677,023,340	855,038,620	496,441,701
Z.	28.74%	27.45%	21.89%	21.44%	25.22%
Income Tax Underwrite+reserve Inc.	977,804	(158,992)	3,412,377	1,259,172	3,182,812
8c Net Profit on Insurance Transactions	2,068,457	(95,683)	6,893,442	2,691,611	6,297,107

**VIRGINIA MEDICAL MALPRACTICE
OTHER PROFESSIONAL
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
9 Net Worth (Equity)					
A Avg. VA Dir. Loss Reserves-Subline	12,412,782	12,722,547	11,373,805	11,853,787	15,326,694
B C-W Dir Unalloc LAE Res ratio-W-C	5.53%	4.48%	3.16%	2.60%	2.35%
C VA Dir LAE Reserves-Subline	4,998,428	4,949,065	4,590,823	4,836,710	6,089,255
D VA Dir Unearned Prem.- Subline	1,891,497	3,994,514	4,741,222	8,691,221	9,171,033
E VA Dir Prem. Earned- Subline	6,977,085	7,584,721	10,069,996	16,654,121	20,354,680
F C-W Surplus Ratio-All Lines	0.5692	0.5576	0.4877	0.3554	0.3577
G C-W Prem deficiency Reserve Ratio- All Lines	1.649%	3.878%	3.007%	3.330%	2.368%
H C-W Unauth Reinsur Ratio- All Lines	2.469%	2.593%	2.109%	2.014%	1.988%
I C-W Non Admitted Asset Ratio	1.500%	1.500%	1.500%	0.500%	0.500%
J C-W Prepaid Expense Ratio-Med Mal	19.494%	19.821%	18.464%	17.394%	17.445%
M Avg. Yr Net Worth (Equity) =					
VA Dir Surplus-Subline	14,957,450	16,310,935	15,007,991	14,941,198	18,221,347
VA Dir Prem. Deficiency Reserves-Subline	433,408	1,134,349	925,372	1,399,722	1,206,501
VA Dir Unauthorized Reinsurance-Subline	476,541	561,841	436,648	511,196	608,004
VA Dir Non Admitted Assets-Subline	394,197	438,763	461,638	210,179	254,708
VA Dir Prepaid Expenses-Subline	368,731	791,767	875,441	1,511,748	1,599,913
Total VA Dir Avg. Net Worth-Subline	16,630,327	19,237,654	17,707,089	18,574,043	21,890,475
10 Investment Gain on Net Worth (Surplus+ other) Funds					
A Avg. VA. Dir. Loss Reserves-Subline	12,412,782	12,722,547	11,373,805	11,853,787	15,326,694
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal	5.527%	4.477%	3.157%	2.599%	2.351%
C Avg VA LAE Reserve-Subline	4,998,428	4,949,065	4,590,823	4,836,710	6,089,255
D Avg. VA Unearned Prem.-Subline	1,891,497	3,994,514	4,741,222	8,691,221	9,171,033
E VA Dir Earned Prem-Subline	6,977,085	7,584,721	10,069,996	16,654,121	20,354,680
F VA Dir Prepaid Expenses-Subline	367,065	737,732	759,602	1,529,789	1,448,619
G C-W Surplus Ratio-ALL Lines	56.916%	55.762%	48.765%	35.544%	35.769%
H C-W Investment Income Rate of Return	7.826%	4.753%	8.530%	5.196%	5.633%
I VA Dir Investment Gain on Net Worth Funds -Subline	1,199,335	810,383	1,344,911	855,784	1,108,053
11 Income Taxes (Invest. Income from Net Worth)					
A.	3,171,547,840	1,897,077,820	3,588,509,460	2,608,367,373	3,387,112,797
B.	448,882,755	343,409,527	397,111,198	585,301,661	762,661,628

**VIRGINIA MEDICAL MALPRACTICE
OTHER PROFESSIONAL
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
C.	309,716,777	195,707,658	1,677,023,340	855,038,620	496,441,701
Z.	28.739%	27.448%	21.894%	21.440%	25.223%
Income Taxes (Invest. Income from Net Worth)	344,672	222,436	294,453	183,483	279,489
12 VA Dir Return on Net Worth-Subline	17.58%	2.56%	44.86%	18.11%	32.55%

**VIRGINIA MEDICAL MALPRACTICE
HOSPITALS
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
(1) Dir Premiums Earned	6,245,706	9,605,403	19,222,201	25,342,994	32,162,645
(2) Dir Losses Incurred	5,434,161	6,135,384	11,965,425	11,871,082	15,403,279
(3a) VA Dir Defense & Contain. Expense Incurred-Subline	1,254,256	1,778,626	2,165,062	3,251,819	5,012,121
(3b) VA Dir Adjusting & Other Expense Incurred-Subline	288,173	50,882	390,786	454,924	436,620
(4) Dir General Expense Incurred	188,669	274,290	413,960	923,756	(837,882)
(5) Dir Selling Expenses Incurred	387,488	637,908	1,240,491	2,448,796	3,757,575
(6) Dir Taxes, Licenses & Fees Incurred	12,358	33,370	40,411	53,798	101,714
(7) Dir Dividends to Policyholders					
(8) Dir Underwriting Profit	(1,319,399)	694,942	3,006,066	6,338,820	8,289,217
8a Investment Gain on Insurance Transactions (Reserves)					
A Avg. VA. Dir. Loss Reserves-Sub	36,641,316	37,926,225	43,146,821	52,997,844	66,901,643
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal.	2.00%	1.68%	1.51%	1.96%	1.92%
C Avg VA LAE Reserve-Subline	6,319,560	6,428,856	6,944,626	9,163,333	12,551,700
D Avg. VA Unearned Prem.-Subline	500,190	2,055,606	5,974,151	10,028,894	12,490,526
E Avg. C-W Agents Bal Ratio-Med Mal	4.51%	7.12%	4.85%	6.11%	10.49%
F Avg. VA Agents Balances-Subline	281,389	684,333	931,946	1,549,344	3,373,610
F2 Ceded Reinsur. Prem Payable					
G Avg. VA Prepaid Expenses-Subline	40,338	175,735	538,765	1,257,428	1,263,335
H C-W Investment Income Rate of Return	6.58%	5.77%	2.34%	5.26%	5.27%
I VA Invest. Income From Reserves-Subline	2,837,339	2,627,771	1,277,942	3,649,527	4,601,597
J C-W Other Income Ratio-Med Mal	-0.3613%	-0.2010%	0.0967%	-1.5295%	0.3463%
K VA Other Income-Subline	(22,564)	(19,306)	18,593	(387,618)	111,386
L VA Invest. Inc. From Res.+ Other Inc. -Subline	2,814,775	2,608,465	1,296,535	3,261,909	4,712,983
8b Income Taxes (Underwriting & Invest. Income from Reserves)					
A.	734,910,057	689,199,421	303,332,420	813,012,963	1,013,055,225
B.	263,461,824	264,478,787	281,813,636	318,046,977	400,129,553
C.	87,808,875	67,471,708	49,862,478	152,865,971	151,991,940
Z.	21.83%	21.53%	3.91%	19.41%	20.10%
Income Tax Underwrite+reserve Inc.	152,553	804,770	1,102,798	2,851,835	3,848,481
8c Net Profit on Insurance Transactions	1,342,823	2,498,636	3,199,803	6,748,893	9,153,718

**VIRGINIA MEDICAL MALPRACTICE
HOSPITALS
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
9 Net Worth (Equity)					
A Avg. VA Dir. Loss Reserves-Subline	36,641,316	37,926,225	43,146,821	52,997,844	66,901,643
B C-W Dir Unalloc LAE Res ratio-W-C	2.00%	1.68%	1.51%	1.96%	1.92%
C VA Dir LAE Reserves-Subline	6,319,560	6,428,856	6,944,626	9,163,333	12,551,700
D VA Dir Unearned Prem.- Subline	500,190	2,055,606	5,974,151	10,028,894	12,490,526
E VA Dir Prem. Earned- Subline	6,245,706	9,605,403	19,222,201	25,342,994	32,162,645
F C-W Surplus Ratio-All Lines	0.7559	0.6703	0.5008	0.4109	0.4203
G C-W Prem deficiency Reserve Ratio- All Lines	-1.209%	-0.940%	-0.574%	0.609%	0.559%
H C-W Unauth Reinsur Ratio- All Lines	0.461%	0.463%	0.505%	0.511%	0.512%
I C-W Non Admitted Asset Ratio	1.500%	1.500%	1.500%	0.500%	0.500%
J C-W Prepaid Expense Ratio-Med Mal	10.092%	10.114%	8.585%	10.491%	9.192%
M Avg. Yr Net Worth (Equity) =					
VA Dir Surplus-Subline	37,572,782	37,549,546	37,702,631	40,076,185	52,164,201
VA Dir Prem. Deficiency Reserves-Subline	(600,859)	(526,550)	(431,834)	594,104	693,702
VA Dir Unauthorized Reinsurance-Subline	200,282	214,992	282,998	368,804	470,322
VA Dir Non Admitted Assets-Subline	745,602	840,241	1,129,317	487,665	620,533
VA Dir Prepaid Expenses-Subline	50,477	207,914	512,910	1,052,104	1,148,129
Total VA Dir Avg. Net Worth-Subline	37,968,284	38,286,143	39,196,022	42,578,862	55,096,887
10 Investment Gain on Net Worth (Surplus+ other) Funds					
A Avg. VA. Dir. Loss Reserves-Subline	36,641,316	37,926,225	43,146,821	52,997,844	66,901,643
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal	1.996%	1.682%	1.513%	1.958%	1.920%
C Avg VA LAE Reserve-Subline	6,319,560	6,428,856	6,944,626	9,163,333	12,551,700
D Avg. VA Unearned Prem.-Subline	500,190	2,055,606	5,974,151	10,028,894	12,490,526
E VA Dir Earned Prem-Subline	6,245,706	9,605,403	19,222,201	25,342,994	32,162,645
F VA Dir Prepaid Expenses-Subline	40,338	175,735	538,765	1,257,428	1,263,335
G C-W Surplus Ratio-ALL Lines	75.589%	67.034%	50.078%	41.090%	42.032%
H C-W Investment Income Rate of Return	6.577%	5.769%	2.341%	5.260%	5.271%
I VA Dir Investment Gain on Net Worth Funds -Subline	2,473,871	2,176,335	895,144	2,174,127	2,815,951
11 Income Taxes (Invest. Income from Net Worth)					
A.	734,910,057	689,199,421	303,332,420	813,012,963	1,013,055,225
B.	263,461,824	264,478,787	281,813,636	318,046,977	400,129,553

**VIRGINIA MEDICAL MALPRACTICE
HOSPITALS
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
C.	87,808,875	67,471,708	49,862,478	152,865,971	151,991,940
Z.	21.826%	21.528%	3.908%	19.413%	20.099%
Income Taxes (Invest. Income from Net Worth)	539,938	468,513	34,986	422,073	565,974
12 VA Dir Return on Net Worth-Subline	8.63%	10.99%	10.36%	19.97%	20.70%

**VIRGINIA MEDICAL MALPRACTICE
OTHER FACILITIES
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
(1) Dir Premiums Earned	136,845	371,525	5,396,553	7,477,460	13,310,056
(2) Dir Losses Incurred	172,209	477,484	3,801,267	1,105,891	6,855,415
(3a) VA Dir Defense & Contain. Expense Incurred-Subline	(4,430,796)	99,565	883,484	283,148	1,256,694
(3b) VA Dir Adjusting & Other Expense Incurred-Subline	17,883	8,333	104,095	53,956	272,334
(4) Dir General Expense Incurred	5,161	7,173	37,447	247,284	(1,452,536)
(5) Dir Selling Expenses Incurred	18,089	57,126	600,040	806,660	1,669,786
(6) Dir Taxes, Licenses & Fees Incurred	1,226	3,677	24,479	24,937	66,786
(7) Dir Dividends to Policyholders					
(8) Dir Underwriting Profit	4,353,073	(281,833)	(54,260)	4,955,584	4,641,577
8a Investment Gain on Insurance Transactions (Reserves)					
A Avg. VA. Dir. Loss Reserves-Sub	482,254	608,030	2,708,207	5,127,090	9,803,894
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal.	5.35%	4.43%	3.17%	3.38%	3.49%
C Avg VA LAE Reserve-Subline	85,318	101,193	556,059	1,220,153	2,263,472
D Avg. VA Unearned Prem.-Subline	39,982	257,041	3,597,379	4,523,907	6,778,176
E Avg. C-W Agents Bal Ratio-Med Mal	3.45%	5.63%	4.51%	6.18%	13.32%
F Avg. VA Agents Balances-Subline	4,719	20,914	243,343	461,842	1,772,818
F2 Ceded Reinsur. Prem Payable					
G Avg. VA Prepaid Expenses-Subline	6,897	37,276	352,017	626,258	503,539
H C-W Investment Income Rate of Return	5.65%	5.23%	3.15%	5.57%	5.15%
I VA Invest. Income From Reserves-Subline	33,696	47,477	197,463	545,109	852,582
J C-W Other Income Ratio-Med Mal	-3.5678%	-3.7294%	0.0054%	-2.2292%	-0.0205%
K VA Other Income-Subline	(4,882)	(13,856)	292	(166,691)	(2,725)
L VA Invest. Inc. From Res.+ Other Inc. -Subline	28,814	33,622	197,756	378,418	849,858
8b Income Taxes (Underwriting & Invest. Income from Reserves)					
A.	514,361,858	515,058,968	348,236,493	753,239,639	871,176,153
B.	213,780,759	218,366,297	229,247,744	259,725,919	331,517,018
C.	86,910,213	67,705,546	27,728,716	143,925,519	129,290,554
Z.	19.09%	19.63%	13.74%	20.73%	20.56%
Income Tax Underwrite+reserve Inc.	1,529,075	(92,043)	8,187	1,812,898	1,799,303
8c Net Profit on Insurance Transactions	2,852,811	(156,168)	135,309	3,521,104	3,692,132

**VIRGINIA MEDICAL MALPRACTICE
OTHER FACILITIES
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
9 Net Worth (Equity)					
A Avg. VA Dir. Loss Reserves-Subline	482,254	608,030	2,708,207	5,127,090	9,803,894
B C-W Dir Unalloc LAE Res ratio-W-C	5.35%	4.43%	3.17%	3.38%	3.49%
C VA Dir LAE Reserves-Subline	85,318	101,193	556,059	1,220,153	2,263,472
D VA Dir Unearned Prem.- Subline	39,982	257,041	3,597,379	4,523,907	6,778,176
E VA Dir Prem. Earned- Subline	136,845	371,525	5,396,553	7,477,460	13,310,056
F C-W Surplus Ratio-All Lines	0.8808	0.7394	0.5430	0.4414	0.4384
G C-W Prem deficiency Reserve Ratio- All Lines	0.922%	1.048%	0.850%	0.932%	0.813%
H C-W Unauth Reinsur Ratio- All Lines	0.590%	0.633%	0.667%	0.728%	0.724%
I C-W Non Admitted Asset Ratio	1.500%	1.500%	1.500%	0.500%	0.500%
J C-W Prepaid Expense Ratio-Med Mal	16.175%	13.617%	9.038%	11.648%	8.444%
M Avg. Yr Net Worth (Equity) =					
VA Dir Surplus-Subline	655,678	989,214	6,656,093	8,098,311	14,096,287
VA Dir Prem. Deficiency Reserves-Subline	6,866	14,022	104,200	170,946	261,472
VA Dir Unauthorized Reinsurance-Subline	3,587	6,115	45,778	79,143	136,527
VA Dir Non Admitted Assets-Subline	11,166	20,067	183,873	91,743	160,778
VA Dir Prepaid Expenses-Subline	6,467	35,000	325,120	526,949	572,358
Total VA Dir Avg. Net Worth-Subline	683,764	1,064,418	7,315,063	8,967,091	15,227,423
10 Investment Gain on Net Worth (Surplus+ other) Funds					
A Avg. VA. Dir. Loss Reserves-Subline	482,254	608,030	2,708,207	5,127,090	9,803,894
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal	5.351%	4.428%	3.173%	3.381%	3.494%
C Avg VA LAE Reserve-Subline	85,318	101,193	556,059	1,220,153	2,263,472
D Avg. VA Unearned Prem.-Subline	39,982	257,041	3,597,379	4,523,907	6,778,176
E VA Dir Earned Prem-Subline	136,845	371,525	5,396,553	7,477,460	13,310,056
F VA Dir Prepaid Expenses-Subline	6,897	37,276	352,017	626,258	503,539
G C-W Surplus Ratio-ALL Lines	88.082%	73.944%	54.299%	44.136%	43.838%
H C-W Investment Income Rate of Return	5.654%	5.228%	3.151%	5.572%	5.146%
I VA Dir Investment Gain on Net Worth Funds -Subline	37,464	53,669	220,839	486,131	751,247
11 Income Taxes (Invest. Income from Net Worth)					
A.	514,361,858	515,058,968	348,236,493	753,239,639	871,176,153
B.	213,780,759	218,366,297	229,247,744	259,725,919	331,517,018

**VIRGINIA MEDICAL MALPRACTICE
OTHER FACILITIES
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
C.	86,910,213	67,705,546	27,728,716	143,925,519	129,290,554
Z.	19.087%	19.627%	13.743%	20.729%	20.562%
Income Taxes (Invest. Income from Net Worth)	7,151	10,533	30,350	100,771	154,474
12 VA Dir Return on Net Worth-Subline	--	-10.62%	4.45%	43.56%	28.17%

**VIRGINIA MEDICAL MALPRACTICE
MISCELLANEOUS
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
(1) Dir Premiums Earned	770,847	1,451,784	1,887,670	2,615,066	3,378,341
(2) Dir Losses Incurred	1,101,959	1,619,672	32,130	965,147	1,432,010
(3a) VA Dir Defense & Contain. Expense Incurred-Subline	1,285,496	1,004,696	910,662	972,254	1,055,599
(3b) VA Dir Adjusting & Other Expense Incurred-Subline	239,026	200,725	3,971	66,668	163,817
(4) Dir General Expense Incurred	126,549	209,560	232,227	247,941	240,120
(5) Dir Selling Expenses Incurred	79,068	125,029	166,143	183,867	227,101
(6) Dir Taxes, Licenses & Fees Incurred	19,851	24,607	43,644	62,258	67,268
(7) Dir Dividends to Policyholders					
(8) Dir Underwriting Profit	(2,081,101)	(1,732,504)	498,893	116,931	192,426
8a Investment Gain on Insurance Transactions (Reserves)					
A Avg. VA. Dir. Loss Reserves-Sub	460,530	882,849	1,450,158	1,851,043	2,780,173
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal.	10.48%	10.73%	11.29%	11.00%	10.66%
C Avg VA LAE Reserve-Subline	1,168,508	1,198,856	1,841,113	2,860,830	3,531,015
D Avg. VA Unearned Prem.-Subline	236,346	902,265	1,171,149	1,577,151	1,898,717
E Avg. C-W Agents Bal Ratio-Med Mal	12.79%	23.79%	22.36%	22.07%	22.77%
F Avg. VA Agents Balances-Subline	98,601	345,359	422,070	577,199	769,199
F2 Ceded Reinsur. Prem Payable					
G Avg. VA Prepaid Expenses-Subline	50,220	154,487	197,646	218,799	230,590
H C-W Investment Income Rate of Return	5.50%	5.62%	3.26%	3.80%	4.60%
I VA Invest. Income From Reserves-Subline	94,464	139,684	125,205	208,615	331,945
J C-W Other Income Ratio-Med Mal	0.9886%	-0.4143%	1.3406%	1.4078%	1.5988%
K VA Other Income-Subline	7,621	(6,015)	25,306	36,815	54,014
L VA Invest. Inc. From Res.+ Other Inc. -Subline	102,084	133,669	150,511	245,430	385,959
8b Income Taxes (Underwriting & Invest. Income from Reserves)					
A.	8,000,032	8,761,497	5,617,802	7,577,005	10,940,290
B.	3,257,689	3,189,350	2,604,870	2,362,088	3,599,815
C.	507,527	225,026	(636,103)	555,295	621,936
Z.	21.55%	23.63%	23.58%	24.19%	24.02%
Income Tax Underwrite+reserve Inc.	(706,383)	(574,789)	210,108	100,287	160,046
8c Net Profit on Insurance Transactions	(1,272,634)	(1,024,047)	439,296	262,074	418,339

**VIRGINIA MEDICAL MALPRACTICE
MISCELLANEOUS
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
9 Net Worth (Equity)					
A Avg. VA Dir. Loss Reserves-Subline	460,530	882,849	1,450,158	1,851,043	2,780,173
B C-W Dir Unalloc LAE Res ratio-W-C	10.48%	10.73%	11.29%	11.00%	10.66%
C VA Dir LAE Reserves-Subline	1,168,508	1,198,856	1,841,113	2,860,830	3,531,015
D VA Dir Unearned Prem.- Subline	236,346	902,265	1,171,149	1,577,151	1,898,717
E VA Dir Prem. Earned- Subline	770,847	1,451,784	1,887,670	2,615,066	3,378,341
F C-W Surplus Ratio-All Lines	0.5912	0.5790	0.4730	0.3734	0.3544
G C-W Prem deficiency Reserve Ratio- All Lines	8.388%	6.817%	5.032%	3.761%	4.066%
H C-W Unauth Reinsur Ratio- All Lines	0.185%	0.169%	0.155%	0.156%	0.120%
I C-W Non Admitted Asset Ratio	1.500%	1.500%	1.500%	0.500%	0.500%
J C-W Prepaid Expense Ratio-Med Mal	21.278%	17.674%	18.073%	15.302%	13.752%
M Avg. Yr Net Worth (Equity) =					
VA Dir Surplus-Subline	1,558,616	2,568,249	3,003,369	3,324,903	4,107,253
VA Dir Prem. Deficiency Reserves-Subline	221,139	302,375	319,554	334,889	471,160
VA Dir Unauthorized Reinsurance-Subline	3,455	5,035	6,934	9,796	9,835
VA Dir Non Admitted Assets-Subline	39,543	66,536	95,251	44,520	57,941
VA Dir Prepaid Expenses-Subline	50,289	159,465	211,661	241,328	261,120
Total VA Dir Avg. Net Worth-Subline	1,873,042	3,101,660	3,636,770	3,955,437	4,907,309
10 Investment Gain on Net Worth (Surplus+ other) Funds					
A Avg. VA. Dir. Loss Reserves-Subline	460,530	882,849	1,450,158	1,851,043	2,780,173
B Avg. C-W Unalloc LAE Res. Ratio-Med Mal	10.479%	10.732%	11.289%	10.999%	10.661%
C Avg VA LAE Reserve-Subline	1,168,508	1,198,856	1,841,113	2,860,830	3,531,015
D Avg. VA Unearned Prem.-Subline	236,346	902,265	1,171,149	1,577,151	1,898,717
E VA Dir Earned Prem-Subline	770,847	1,451,784	1,887,670	2,615,066	3,378,341
F VA Dir Prepaid Expenses-Subline	50,220	154,487	197,646	218,799	230,590
G C-W Surplus Ratio-ALL Lines	59.123%	57.899%	47.296%	37.341%	35.443%
H C-W Investment Income Rate of Return	5.503%	5.623%	3.258%	3.798%	4.604%
I VA Dir Investment Gain on Net Worth Funds -Subline	88,535	153,101	104,297	134,583	199,709
11 Income Taxes (Invest. Income from Net Worth)					
A.	8,000,032	8,761,497	5,617,802	7,577,005	10,940,290
B.	3,257,689	3,189,350	2,604,870	2,362,088	3,599,815

**VIRGINIA MEDICAL MALPRACTICE
MISCELLANEOUS
RATES of RETURN on EQUITY
(2000 - 2004)**

	2000	2001	2002	2003	2004
C.	507,527	225,026	(636,103)	555,295	621,936
Z.	21.553%	23.631%	23.583%	24.187%	24.017%
Income Taxes (Invest. Income from Net Worth)	19,082	36,179	24,597	32,551	47,964
12 VA Dir Return on Net Worth-Subline	—	-29.25%	14.27%	9.21%	11.62%