

# Real Doctors. Real Solutions.



**CMIC**  
Insurance Solutions For You

## Preventing Errors and Defending Claims– Electronic Health Records (EHR)

### Why is CMIC encouraging its insured physicians to use EHRs?

Combining sound clinical practice with an integrated EHR can increase the quality of patient care while addressing important risk management issues. Legible, accurate and complete treatment documentation not only supports good medical practice, but is also essential in evaluating the care retrospectively when necessary. Medical records are always a principal focus in malpractice litigation.

### How does an EHR benefit practicing physicians and CMIC?

An EHR is most beneficial when it is fully integrated and utilized by the physicians and staff in a medical practice. There are many positive components including:

- ▶ Systematic follow-up for tests, procedures and medications.
- ▶ Tracking patient visits, missed appointments and compliance.
- ▶ Eliminates misfiling of critical medical information.
- ▶ Facilitating continuity of care for all physicians treating the same patient.

**“CMIC recognizes the important potential of the EHR in the prevention and defense of physicians malpractice claims.”**



As Chairman of the Risk Management Committee, I have reviewed many cases where the utilization of an EHR in the practice would have either prevented the claim from arising in the first place or would have enabled the Company to better defend the physician during the claims resolution.

### How is CMIC responding to those physicians integrating an EHR into their medical practices?

CMIC recognizes the important potential of the EHR in the prevention and defense of physicians malpractice claims. Because we have a vested interest in the adoption of EHRs by our insureds, we are currently participating in a joint initiative with the Physicians Insurance Agency of Massachusetts, a subsidiary of the Massachusetts Medical Society, to offer the first malpractice premium credit available to Massachusetts physicians meeting our underwriting criteria and using a certified EHR.

I anticipate that once this pilot project shows the successes we anticipate and EHRs are more fully implemented in Connecticut, it will be offered to all CMIC insured physicians.

Robert Lincer, M.D.  
General Surgeon, Fairfield County  
Chairman, Risk Management Committee

# Tri-County Medical Associates and CMIC– Best Practices Partnership

## What is a Best Practices Partnership?

Tri-County is a multi-specialty group with 65 physicians in 20 locations. Currently, each practice may vary in the way they address issues. Our group is faced with the challenge of integrating ‘best practices’ throughout our organization.

CMIC has partnered with Tri-County to identify quality improvement opportunities and provide us with support needed to implement these best practices. As Tri-County progresses to a completely integrated group, consistent policies and procedures ensure quality care, promote patient safety and ensure that all regulatory requirements are met.

We introduced our best practices partnership last winter with a physician seminar. CMIC presented the components of our partnership, the services available and provided an opportunity for the physicians to identify areas of concern they wanted to see addressed.

## What has been accomplished so far?

Working closely with CMIC risk managers, we have developed a two year plan that includes seminars for our physicians, assessment and development of best practices policies and procedures, educational workshops for our office managers and management team, as well as a plan to conduct office reviews and internal audits. We have been successful in implementing an incident reporting procedure throughout the organization as well as a uniform policy for termination of the physician-patient relationship.

## How do these collaborative “Best Practices” get implemented?

After we identify a topic to be addressed, CMIC performs a thorough assessment of the current policies and practices within the organization. Then, based on their own practice management experience, CMIC’s risk managers recommend the best practices that should be utilized.

Working collaboratively with the administration of the group, a new policy is developed. This policy is then integrated throughout the organization following a CMIC presentation for both physicians and employees. After the implementation, CMIC monitors and assesses program success.

## What advantage does CMIC’s Risk Management Program bring to Tri-County?

Tri-County is committed to patient safety, risk reduction and quality care. We joined CMIC last year with the anticipation that their risk management services would provide us with a foundation to integrate common best practices throughout the organization. In turn this should have a direct impact on minimizing losses for our group. CMIC has been extremely responsive and committed to this program development. We have made great progress in the last year and look forward to this continued Best Practices Partnership.

**Patrick R. McSweeney, M.D.**  
**Family Medicine, Medway, MA**  
**Medical Director, Tri-County Medical**  
**Associates**

**“We have made great progress in the last year and look forward to this continued Best Practice Partnership with CMIC.”**



## A Message from the Chairman

**“2007 marked the 3rd consecutive year that CMIC’s rates were unchanged keeping doctors’ premiums stable.”**



Sultan Ahamed, M.D., M.B.A.  
*President and Chairman*

## Success and Challenges

The excellent results for 2005 and 2006 underscore the positive impact of the Company’s actions resulting from the 1999-2002 medical malpractice crisis. Although it seems that the most recent storm has passed, the underlying causes have remained unchanged. The cost of settling cases continues to rise, and according to the National Practitioner Data Bank, Connecticut had the highest average indemnity payment in the nation totalling \$731,695 in 2005. Efforts by the Connecticut Trial Attorneys Association to extend the Statute of Limitations for minors in the current legislative session would certainly exacerbate this problem.

While the Company remains vigilant regarding the challenges our members and our Company face, CMIC is moving forward with its growth strategies—expanding our physician membership in Connecticut and Massachusetts and extending our programs for podiatrists into Massachusetts.

### Solutions for Doctors

2007 marked the 3rd consecutive year that CMIC’s rates were unchanged keeping doctors’ premiums stable. Good loss experience was also rewarded with more physicians receiving larger loss experience credits.

During the past year, CMIC was nationally recognized as the first professional liability insurer to acknowledge the potential value of electronic health records (EHRs) in controlling professional liability losses and costs. A pilot program is currently underway in Massachusetts combining the use of EHRs with other key risk management approaches to improve patient care and reduce liability.

CMIC’s financial strength and its focus on developing innovative insurance and practice solutions for our insureds will keep our Company relevant to members as we deal with the challenges ahead.

## Policyholders’ Surplus



## 2006 Management's Discussion and Analysis



Denise A. Funk  
CEO, Executive Vice President

The financial results of 2006 clearly exceeded expectations. The Company's financial position is now measurably stronger than at anytime in its history. Conservative pricing decisions, strong claims management, underwriting discipline and highly focused business development once again came together to produce a very successful year. This led A.M. Best to upgrade CMIC's rating outlook from stable to positive.

Significantly for our policyholders, the Company was able to keep the 2007 rates at the same level for the third consecutive year while increasing loss experience credits for many of our members.

### Results of Operations

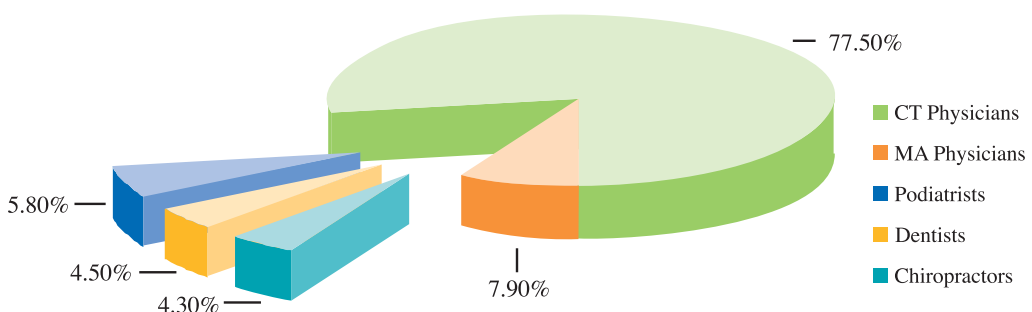
Net premium written at \$42.5 million was \$1.1 million less than 2005. While rates remained unchanged in 2006, larger loss experience credits were issued to our insureds and new members were joining at lower mature year premium rates despite the Company's higher membership count year over year. The 2005 net premium earned was further reduced by \$20.0 million for the Company's unearned premium reserve. This reserve is established for the future issuance of free, extended reporting endorsements for death, disability or retirement. No comparable adjustment was deemed necessary for 2006. As a result net premium earned in 2006 was \$42.0 million as compared to 2005's reported \$23.0 million.

Incurred losses and loss expenses for 2006 amounted to \$24.6 million and were \$2.0 million higher than 2005. Both 2006 and 2005 calendar years benefited substantially from improving ultimate loss projections for prior policy years. The favorable impact of these declining losses can be seen in the improvement of the Company's combined ratio over the last five years (see graph below). As loss development occurs over an extended period of time, this may result in actual ultimate losses and loss expenses differing significantly from projected amounts previously reported in the Company's financial statements. Therefore, estimates and assumptions used to establish the liability for losses and loss adjustment expenses are continually reviewed and, as adjustments become necessary such adjustments are included in the current year's operating results.

Underwriting expenses at \$7.0 million were \$0.7 million higher than 2005. The increase in underwriting expenses resulted from higher information technology expenses and depreciation related to the Company's recent installation of new information systems.

2006 investment income at \$16.5 million was slightly higher than the amount reported a year ago. The Company recorded \$0.9 million in capital gains for 2006 which compares to \$3.4 million in capital gains recorded in 2005. The 2006 capital gains were generated by the Company's fixed income investment portfolio while the 2005 gains came from the equity investment portfolio which had in previous years accumulated the gains as unrealized in Policyholders' Surplus and realized in 2005.

### CMIC Membership Distribution



Federal income taxes for 2006 were \$4.5 million as compared to \$0.7 million in 2005. In 2006 and 2005 federal income taxes were substantially minimized by the utilization of prior year tax losses and credit carry forwards to offset any federal income tax due on the Company's pretax income.

Net Income at \$22.9 million compares to \$12.5 million in 2005. The favorable development from prior policy years and utilization of prior year tax losses and tax credit carry forwards were the major contributors to 2006's reported net income.

### Financial Position

At year-end total assets were \$390.1 million, \$16.5 million higher than the beginning of the year. Increases in the Company's fixed income and equity investment portfolios were responsible for higher level of assets at year-end 2006.

The Company's investments, as in past years, were primarily made in the fixed income market and must comply with the Company's strict guidelines for liquidity, safety and after tax returns. The National Association of Insurance Commissioners (NAIC) has rated 99% of the Company's bonds held at year-end in their two highest categories. The Company has \$33.8 million in equities that have been market adjusted upwards at year-end by \$7.8 million for a total equity market valuation of \$41.6 million.

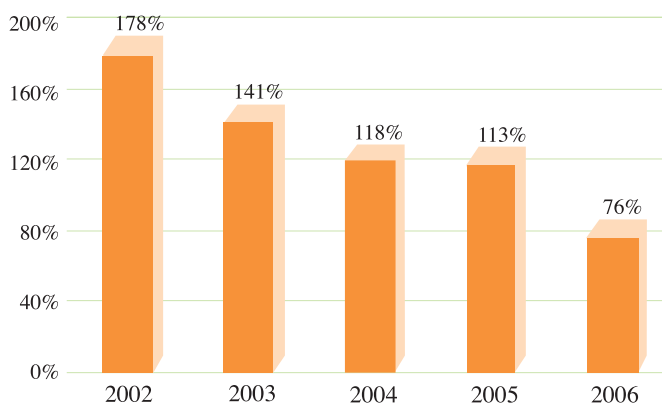
Cumulative unpaid losses and loss expenses reserves in 2006 were reported at \$221.9 million, \$8.1 million lower than the prior year. The unpaid losses and loss expenses reserves were increased by the 2006's net addition for estimated losses of \$24.6 million and reduced by \$32.7 million for 2006 loss and loss expense payments which are net of reinsurance recoveries.

The Company has received favorable opinions from its consulting actuaries that its unpaid losses, loss expenses and unearned premium reserve levels for 2006 and 2005 are reasonably stated.

The Company's unearned premium reserve contains \$40.0 million for the future issuance of free tails for death, disability or retirement. This reserve is determined actuarially in accordance with the guidelines established by the NAIC. The reserve level did not change during the 2006 year.

Policyholders' surplus at \$111.9 million is \$27.7 million higher than the beginning of the year balance. The net increase was the result of \$22.9 million from the 2006 operations and increases of \$5.9 million from net deferred taxes and unrealized equity investment gains offset by \$1.1 million for the return of policyholders' surplus contributions.

### Comparison of Combined Ratios



## Statements of Income and Balance Sheets - Statutory Basis

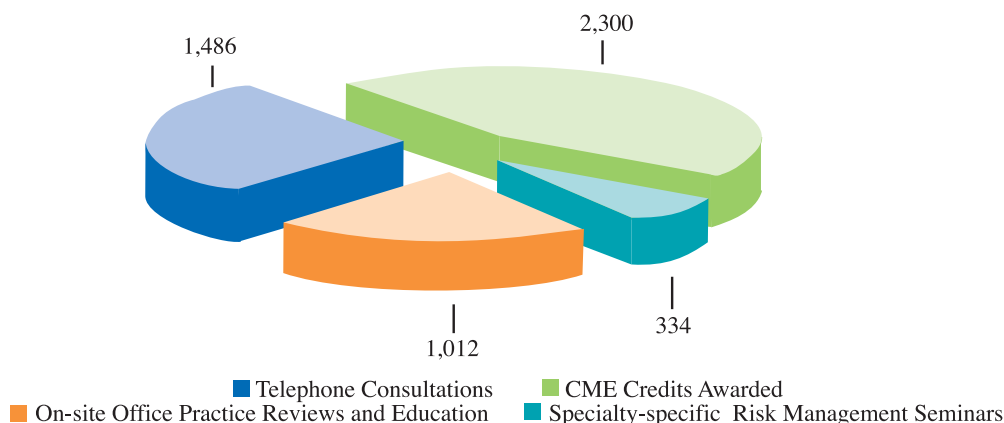
<b>Statements of Income</b> - for the years ended December 31,	<b>2006</b>	<b>2005</b>
Net premiums written	\$ 42,478,694	\$ 43,591,203
Change in unearned premium	(507,802)	(20,585,982)
Net premiums earned	41,970,892	23,005,221
Losses and loss expenses incurred	24,615,952	22,556,413
Underwriting expenses	7,042,729	6,346,478
<b>Net Underwriting Income (Loss)</b>	10,312,211	(5,897,670)
Net investment income and capital gains	17,395,374	19,348,454
Other (expense)	(233,623)	(304,802)
<b>Income Before Federal Income Taxes</b>	27,473,962	13,145,982
Federal income taxes	4,533,206	686,637
<b>Net Income</b>	\$ 22,940,756	\$ 12,459,345

<b>Balance Sheets</b> - as of December 31,	<b>2006</b>	<b>2005</b>
<b>Admitted Assets:</b>		
Cash and short term investments	\$ 7,545,885	\$ 8,409,811
Other investment assets	372,603,487	356,149,805
Other assets	9,978,947	8,991,707
<b>Total Admitted Assets</b>	\$390,128,319	\$373,551,323
<b>Liabilities and Policyholders' Surplus:</b>		
Unpaid losses and loss expenses	\$221,862,460	\$230,048,236
Unearned premiums	41,093,784	40,585,982
Advance premiums	12,467,629	11,606,248
Amounts held for accounts of others	491,011	1,739,612
Taxes payable	58,702	2,620,877
Other liabilities	2,205,641	2,768,607
<b>Total Liabilities</b>	278,179,227	289,369,562
<b>Total Policyholders' Surplus</b>	111,949,092	84,181,761
<b>Total Liabilities and Policyholders' Surplus</b>	\$390,128,319	\$373,551,323

The 2006 and 2005 condensed financial statements have been derived from complete statutory-basis financial statements, which were audited by our independent auditors. A complete set of audited financial statements and notes may be obtained upon request.

## 2006 Loss Prevention Initiatives



## Board of Directors

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Vazrick Mansourian, M.D.

John D. McCallum, III, M.D.

Brian M. Van Linda, M.D., M.B.A.

Theodore Zanker, M.D.

## Corporate Officers

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*Vice President, Claims*

Beatrice C. Holt, CPCU  
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David M. Burke,  
*Assistant Vice President,  
Director, Business Development*

Kristin Parker, RN  
*Director, Risk Management*

Michael J. Thomas  
*Director, Information Technology*

*Cover photos (clockwise from upper left)*

Robert D. Rutstein, D.P.M.	Podiatrist	Hartford, CT
John B. Hornby, M.D.	Ophthalmologist	Old Saybrook, CT
Stephen M. Rouse, M.D.	ENT Surgeon	Willimantic, CT
John Swierzewski, D.P.M.	Podiatrist	West Springfield, MA
Carol A. Petruff, M.D.	Gastroenterologist	Hartford, CT
Francis Vesce, D.C.	Chiropractor	New Britain, CT

# ANNUAL MEETING OF MEMBERS

June 20, 2007 • 5:30 p.m.

CMIC Offices

