

Healthcare Providers Insurance Exchange Subscriber Information Statement

SUMMARY

You may apply to become a subscriber to Healthcare Providers Insurance Exchange (the "Exchange") if you are a physician or physician group licensed to practice medicine in Pennsylvania, New Jersey, Delaware or Maryland. All of these forms are included in your subscription package and can also be found at our website which is www.hpix-ins.com

To apply, please complete and submit the following items to the Exchange:

- A signed application to the Exchange for insurance in the form enclosed with your subscription package;
- A signed subscribers agreement in the form enclosed with your subscription package; and
- A surplus contribution agreement in the form enclosed with your subscription package signed by you and by the other person or entity, if any, making the surplus contribution on your behalf. If we accept your application, we will, at that time, request the payment of your surplus contribution.

We use the surplus contributions physicians make to us to enhance our financial condition. After the sixth anniversary of the date on which a physician or another person or entity has paid the surplus contribution in full, our current plan is to return that surplus contribution in five equal installments without interest, subject to certain conditions discussed below.

If we accept your application, we will offer you insurance. If you accept our offer of insurance, we bind coverage and request the payment of your surplus contribution.

THE EXCHANGE

Who are we?

We are a Pennsylvania-domiciled reciprocal insurance exchange formed in 2002. We insure physicians who practice in Pennsylvania, New Jersey, Delaware or Maryland against medical malpractice liability. We also insure physician corporations, affiliated allied health professionals and surgery centers. We have an operating philosophy that is different from our competitors. We think our different operating philosophy enables us to provide superior service to the physicians we insure. As a reciprocal insurance exchange, we are managed by a separate legal entity called an attorney-in-fact.

Who is your attorney-in-fact?

Our attorney-in-fact is HPIX, LLC ("HPIX"), which we also formed in 2002. HPIX manages us pursuant to an attorney-in-fact agreement. Under that agreement, HPIX receives a fixed percentage of our gross written premium as a management fee. In return for that management fee, HPIX is responsible for our underwriting, risk management, premium collection, investment portfolio, claims and general administration. We are responsible for our losses and loss adjustment expenses.

HPIX has more than 40 employees located in its offices in Philadelphia, Harrisburg, Hamilton, NJ and Hunt Valley, MD in order to provide local marketing, underwriting and claims services.

What types of insurance do we offer?

We offer physicians both individual and corporate/partnership, including designated employees, professional liability claims made and occurrence coverage with limits as follows:

<u>State</u>	<u>Basic Limit</u>	<u>Aggregate Limit</u>
Pennsylvania	\$500,000*	\$1,500,000*
New Jersey	1,000,000	3,000,000
Delaware	1,000,000	3,000,000
Maryland	1,000,000	3,000,000

* These limits will increase if Pennsylvania changes the Mcare attachment.

When we issue a policy to a physician, we commit to insuring that physician for a minimum of five years, subject to the physician's continuing satisfaction of our eligibility and underwriting standards.

Do you maintain reinsurance?

Yes. Since our inception, we have purchased reinsurance with A-rated reinsurers. Currently this coverage applies to any loss in excess of \$250,000 per occurrence. Our current lead reinsurer is Aspen Re.

What is your financial condition?

We have a strong financial condition. Our surplus is currently in excess of \$30 million. Our investment portfolio is conservatively invested and we have incurred minimal investment losses compared to most other insurers. We also are an insurance company for state law purposes, which risk retention groups are not, and our policyholders are thus protected by the Property and Casualty Insurance Guaranty Association in each respective state. Risk retention groups are not considered insurance companies and thus this protection is not available to physicians insured by risk retention groups.

Do you have an A.M. Best rating?

No, we do not have an A.M. Best rating or any other rating because we believe our strong capitalization and financial condition speaks for itself. Our premium to surplus ratio and our risk-based capital ratios, which insurance regulators employ to test all insurers' claims-paying ability, are excellent. We believe the fact that we require a surplus contribution emphasizes that we have established a new paradigm for medical professional liability. We believe the plan we recently adopted under which we, subject to certain conditions, will return the surplus contributions we receive from physicians we insure after the surplus contribution has been paid in full for six years is another significant tangible demonstration of our safe and sound financial condition. At December 31, 2008, our risk-based capital ratio was strong and approximately two and one-half times the minimum level.

What is our target market?

We offer insurance to physicians in Pennsylvania, New Jersey, Delaware and Maryland. We accept applications regardless of medical specialty or the location or size of the physician's practice. If you practice in a group, we will insure the entire practice group, but we will not insure individual members of the group.

What are our conditions for insuring a physician?

We have several conditions to insuring you. We require that each of our insured physicians agree to the following:

- *Early Reporting.* All insured physicians must agree to report an adverse medical outcome as soon as practicable after the adverse event becomes known to the insured

physician. There is compelling evidence that early incident reporting reduces the cost of claims and ultimately the cost of insurance. The failure of an insured physician to provide timely incident reports is a basis for our nonrenewal of that physician's insurance.

- *Coordinated Defense.* All insured physicians must agree to coordinated defense to the extent ethically permissible. We believe that coordinated defense agreements, principally with hospitals and other physician defendants, significantly reduce the number of attorneys defending a claim and have a significant impact on reducing the costs of defending a claim. Our loss adjustment expense ratio demonstrates this effect.

- *Risk Management.* All policyholders must agree to participate in programs that promote risk management. We provide a free on-site risk assessment service to the physicians we insure. This free assessment also helps us underwrite groups who present as "high risk." We have found that a substantial majority of our insured physicians benefit significantly from this review. This assessment is a renewal requirement for policyholders who have increasing claim frequency and severity. The failure to undergo these practice assessments and follow our risk management directives is a basis for our nonrenewal of that physician's insurance. In addition, we provide CME programs to our subscribers along with risk management news and clinical case study material all available on-line.

- *Qualitative Underwriting.* We base our underwriting on an applicant's specialty, location and claims history. We employ comprehensive underwriting standards to determine the acceptability of and appropriate pricing for each prospective insured. We do not engage in matrix underwriting where the evaluation is based on frequency and the dollar amount of claims. We talk to each physician who applies for insurance to make sure we understand that physician's claims history.

How do we finance our operations?

We have a positive cash flow derived primarily from premiums from physicians and income from our investment portfolio. We supplement these funds with the surplus contributions we receive from physicians.

What are our rates?

Our rates vary depending on medical specialty classification, our underwriting analysis and geographic location. In addition, we make upward and downward adjustments to our premiums. We believe premium adequacy is important and prevents future financial distress. We have a retention rate of 96%, a resounding indication that the physicians we insure appreciate the value proposition we represent.

Where are our offices?

Our principal executive office is located at:

Healthcare Providers Insurance Exchange
30 South 17th Street
Philadelphia, PA 19103
Telephone: 1-877-704-8361
Website: www.hpix-ins.com

Our main policyholder service office is located at:

Healthcare Providers Insurance Exchange
305 North Front Street, 5th Floor
Harrisburg, PA 17101
Telephone: (717) 237-2700
Website: www.hpix-ins.com

We also have offices in Hamilton, New Jersey and Hunt Valley, Maryland, to service the physicians we insure who practice in New Jersey and Maryland.

Who are the principal officers of HPIX?

The principal officers of HPIX, and certain information about them is as follows:

Thomas S. Gaudiosi, President and Chief Executive Officer

Email: tsgaudiosi@hpix-ins.com; **Phone:** 215-979-1509; **Cell:** 610-574-1656

Mr. Gaudiosi, who has been President and Chief Executive Officer of HPIX since 2002, has over 30 years of experience in health care insurance and risk management with a specific focus on professional liability for health care providers and institutions. Mr. Gaudiosi has held executive, marketing and consulting positions with insurance carriers such as CIGNA and the Pennsylvania Medical Society Liability Insurance Company ("PMSLIC") and with brokers/consultants, including Johnson & Higgins; Glenn, Nyhan & Associates; Jardine Insurance Brokers and Nichols & Associates. Mr. Gaudiosi has a BA in communications and an MBA in health care administration from Temple University.

Mark S. Etter, M.D., Chief Medical Officer

Email: metter@hpix-ins.com; **Phone:** 215-979-1516; **Cell:** 215-480-8414

Dr. Etter, who was one of our founders in 2002, is the Chairman of the Department of Anesthesia at Abington Memorial Hospital and the former Chairman of the Board of Infinity/RiskCare, a risk management company. Dr. Etter works for HPIX on a part-time

basis. As a practicing physician, Dr. Etter represents the physician's perspective in the strategic decisions we make. Dr. Etter is responsible for managing our risk management processes and practices that we provide to the physicians we insure.

Nicholas S. Gaudiosi, Chief Operating Officer

Email: nsgaudiosi@hpix-ins.com; Phone: 215-979-1520; Cell: 610-574-1656

Mr. Gaudiosi oversees our marketing and new business development. He manages our agent and broker relationships, new business production, market research and new content development. In addition, he is responsible for supporting business plan development and managing our ongoing relationships with strategic partners and vendors. Mr. Gaudiosi spent four years with Towers Perrin Reinsurance where he specialized in the brokering and placement of professional liability reinsurance for a variety of clients including some of the largest medical professional liability carriers in the country. Mr. Gaudiosi is a graduate of St. Joseph's University, a member of the Professional Liability Underwriting Society (PLUS) and a licensed property, casualty, life and health insurance broker.

Karl L. Detweiler, Chief Underwriting Officer

Email: kldetweiler@hpix-ins.com; Phone: 717-237-2701; Cell: 717-514-2749

Mr. Detweiler has more than 30 years of insurance experience in claims, policyholder service and medical professional liability underwriting. Prior to joining us in 2003, Mr. Detweiler served as Vice President of Underwriting at PMSLIC and Mutual Insurance Company of Arizona and was a senior underwriter with The Medical Protective Company. Mr. Detweiler oversees all insurance underwriting and claim operations in the four states in which we operate.

Brian S. Schleider, CPA, Chief Financial Officer

Email: bsschleider@hpix-ins.com; Phone: 215-979-1562; Cell: 856-816-6905

Mr. Schleider, a certified public accountant, has nearly 20 years of insurance industry experience. Mr. Schleider heads our finance and statutory accounting departments. Previously, Mr. Schleider served as our Controller. Prior to joining us in 2007, Mr. Schleider served as Assistant Vice President and Assistant Controller for Radian Group, a mortgage guaranty insurance company, and held various accounting positions with Reliance Insurance Company, a property and casualty insurer. Mr. Schleider holds a BS in Accounting from Rider University and an MBA in Finance from St. Joseph's University. He is a member of the American Institute of Certified Public Accountants.

Our principal professional advisors are:

AAM Insurance Investment Management: Investment Advisors.

Huggins Actuarial Services, Inc.: Actuaries.

BMS Intermediaries, Ltd.: Reinsurance Intermediaries.

Beard Miller Company: Independent Auditors.

Duane Morris LLP: Insurance Regulatory Counsel.

HPIX is a Delaware limited liability company. Wescott Holding Company, LLC, an entity in which Duane Morris LLP owns a controlling interest, owns a majority interest in HPIX. Thomas S. Gaudiosi and Mark Etter also have an ownership interest in HPIX.

RELATIONSHIP WITH HPIX

A reciprocal insurance exchange is a form of organization for an insurance company. A reciprocal insurance exchange is an unincorporated association. The members, or subscribers, of the unincorporated association, in effect, exchange insurance contracts among themselves through our attorney-in-fact. If the exchange meets certain capitalization requirements established by state law, which we do, its members have no personal liability. The absence of personal liability is an important difference from risk retention groups. In addition, the Exchange constitutes an insurance company for state law purposes and, as such, its liabilities are insured by the Pennsylvania Property and Casualty Insurance Guaranty Association, while the liabilities of risk retention groups are not similarly insured.

Our attorney-in-fact is known as HPIX, LLC. An attorney-in-fact agreement governs the relationship between HPIX, LLC and us. When you subscribe to the Exchange, you appoint HPIX, LLC as your attorney-in-fact, which is why we sometimes refer to you as a subscriber.

Certain important provisions of the attorney-in-fact agreement are as follows:

- HPIX, LLC provides all the following management services:
 - the exchange of the reciprocal insurance policies of our members;
 - the administration and management of our day-to-day business;
 - the solicitation, receipt and acceptance or rejection of application for insurance pursuant to our underwriting standards;

- the underwriting, classification, rating and issuance of insurance policies;
 - record-keeping;
 - the collection and accounting for the payments we receive, the establishment and monitoring of loss reserves and the investment of our assets;
 - reporting to insurance regulatory agencies;
 - the processing and payment of claims;
 - the preparation of marketing materials;
 - the monitoring of our legal affairs and regulatory matters;
 - the appointment, supervision and termination of agents and the payment of their commissions;
 - the oversight of our reinsurance program;
 - the retention of our investment advisers;
 - the defense, at the expense of the Exchange, of legal proceedings and claims against us; and
 - such other action as we or HPIX deem to be necessary or proper in order to maintain our status and as required by our declaration of organization.
- We pay HPIX, LLC a fixed management fee that may not to exceed 25% of our direct gross written premium, less returned premiums due to cancellation, and is currently set at 21%. The management fee is compensation for serving as attorney-in-fact for the policyholders and managing our business and affairs. HPIX, LLC pays all costs of providing such management services including agents and other sales commissions, the salaries and benefit expenses of HPIX's employees, rent and other occupancy expenses, supplies and data processing. The Exchange is responsible for losses and allocated loss adjustment expenses, investment expenses, damages, legal fees and expenses, court costs, taxes, assessments, license fees, actuaries, accountants and investment and other advisors, governmental fines and penalties, the establishment and maintenance of loss and unearned premium reserves and surplus, reinsurance premiums and costs, audit fees and guaranty fund assessments.

- The attorney-in-fact agreement has an indefinite term, subject only to the termination of the attorney-in-fact by the mutual agreement of HPIX, LLC and us.
- The attorney-in-fact agreement provides that we will indemnify HPIX and its members, officers, employees and agents against certain liabilities when the liabilities arise from the willful misconduct or recklessness of any of such persons.

We maintain a members advisory committee that consists of nine physicians HPIX insures. The members advisory committee meets quarterly with American's executive officers and interacts with them on the following matters with respect to HPIX:

- Governance practices
- Nominees for appointment to the members advisory committee;
- Consider the recommendations of the subcommittee of the members advisory committee, which are:
 - the audit committee;
 - the Maryland members advisory subcommittee;
 - the New Jersey members advisory subcommittee;
 - the claims subcommittee; and
 - the investment subcommittee;
- evaluate annually the performance of the principal officers of HPIX; LLC and
- revisions to the charter of the members advisory committee.

APPLICATION PROCEDURE

To apply for insurance, you must provide all of the following:

- A signed application to the Exchange for insurance in the form enclosed with your subscription package or the printable form on our website. You must be licensed to practice medicine in Pennsylvania, New Jersey, Maryland or Delaware for us to issue insurance coverage to you;
- A signed subscribers agreement in the form enclosed in your subscription package or the printable form on our website;

- Talk to a HPIX underwriter to determine the surplus contribution applicable to your practice area or specialty;
- A surplus contribution agreement in the form enclosed with your subscription package or the printable form on our website. You must complete this agreement and sign it;
- Return to us in the enclosed self-addressed envelope the following items (you must provide the appropriate postage):
 - The signed application for insurance;
 - The signed subscribers agreement; and
 - The signed surplus contribution agreement. If we accept your application, we will at that time request the payment of your surplus contribution.

After we receive your signed and completed application for insurance, subscribers agreement and surplus contribution agreement, we will do the following:

- Process your application to determine if you meet our eligibility and underwriting requirements;
- If you satisfy our eligibility and underwriting requirements, contact you or your broker to offer you insurance at a quoted premium;
- If you accept our offer of insurance, we will deliver to you the following:
 - an invoice for your insurance premium;
 - a medical professional liability insurance policy issued by us;
 - an invoice for the portion of your surplus contribution that is currently payable;
 - a certificate representing the surplus contribution in your name or in the name of the other person or entity who paid the surplus contribution on your behalf in which case we will deliver the certificate to that person or entity; and
- We have the right to retain your surplus contribution until the earlier of the 15th anniversary of the date upon which your surplus contribution was paid in full or our dissolution or liquidation and can return the surplus contribution after that date only with the prior approval of the Pennsylvania Commissioner

of Insurance (the "Commissioner"). See below for information on the plan we recently adopted that contemplates a significantly shorter time before we repay your surplus contribution.

- In the event your status changes such that you would be required to pay an increased surplus contribution, you must promptly pay us the increase.

The surplus contribution certificates we issue provide that the surplus contribution is not returnable until the earlier of the 15th anniversary of the date we issued the surplus contribution certificate or our dissolution or liquidation. However, because of our strong surplus position at December 31, 2008 and our profitable operations for the last three years, we have determined that we can begin to return surplus contributions on a first-in, first-out basis without adversely affecting our capitalization beginning on the sixth anniversary of the date your entire surplus contribution has been paid, subject to the prior approval of the Commissioner. In May 2009, we adopted a surplus restructuring plan which we have filed with the Pennsylvania Insurance Department that provides, among other things, for the return of surplus contributions as described below. The Commissioner has approved the return on September 1, 2009 of approximately \$1.0 million, representing 20% of the surplus contributions we received in 2003 from physicians whom we continue to insure.

The principal terms of this plan are as follows:

- A subscriber does not become eligible to receive any return of surplus until the sixth anniversary of the date on which that subscriber's surplus contribution has been paid and we continue to insure the subscriber;
- Once the six-year period is completed, subject only to receiving the approval of the Commissioner and your continuance as one of our insureds, we will pay you 20% of your surplus contribution on the sixth, seventh, eighth, ninth and tenth anniversaries of the date on which your surplus contribution was paid;
- If you cease being insured by us, we will stop repaying your surplus contribution and you will not again be eligible to receive the return of your surplus contribution until the 15th anniversary of the date we issued a surplus contribution certificate to you;
- We reserve the right in our discretion to suspend or terminate the return of surplus contributions; and
- We reserve the right in our discretion to establish administrative procedures relating to the return of surplus contributions.

RIGHTS OF SUBSCRIBERS

You will have the following rights as a subscriber to the Exchange if we issue a medical malpractice liability insurance policy to you:

- You will have the right to insurance coverage as stated in your policy and we will continue to underwrite you for a minimum of five years;
- You will also have certain financial rights. These financial rights are as follows:
 - You will have the right to receive a return of your entire surplus contribution on the earlier of the 15th anniversary of the date we issued a surplus contribution certificate to you or upon our dissolution or liquidation, whether or not you remain insured by us, provided we receive the prior approval of the Commissioner to make such payment;
 - You will have the right to receive a return of your surplus contribution in five equal annual installments of 20% commencing on the sixth anniversary of the date on which your entire surplus contribution has been paid in full, provided that you remain continuously insured by us and further provided that we receive the prior approval of the Commissioner to make such payment; and
 - You own an undivided non-possessory interest in our surplus if you are insured by us at the time of our liquidation and would be eligible to receive your proportionate share of our assets after payment in full of all of our obligations and liabilities, including those obligations and liabilities that arose under insurance policies we have issued.

There are a number of rights that you will not have as a member of a reciprocal insurance exchange that you would if you were insured by a stock insurance company and, in some cases, a mutual insurance company. You should read carefully the following description of the following rights you will not have.

No Voting Rights. Your status as a subscriber does not entitle you to vote on any matters, except as otherwise required by law. In the event you are legally entitled to vote on a matter, you are only entitled to a single vote, regardless of the amount of your insurance premiums, the amount of your surplus contribution or the number of surplus contribution certificates you hold. A person or entity who made a surplus contribution on your behalf will have no voting rights under any circumstances.

No Right to Participate on Committees or in Management. We do not have a board of directors. Although HPIX has established certain committees of insured physicians to advise HPIX on issues such as claims, underwriting and risk management, HPIX selects the

members of those committees and the committees are advisory in nature only. The person or entity who made your surplus contribution is not entitled to participate on any such committees or to participate in the management services HPIX provides to us.

Dividends. We are not obligated to pay any dividends to our subscribers, but could do so under appropriate circumstances. In the event we have excess surplus and our operations continue to be profitable, we may use such excess surplus for capital expenditures or the reduction of future insurance premiums, subject to our obtaining any required regulatory approvals. However, we have determined for the foreseeable future that we should use any excess surplus to repay certain surplus notes we have outstanding and to repay surplus contributions.

If the Commissioner disapproves any of our requests for the repayment of surplus contributions, we have no obligation to raise additional capital or other financing, issue surplus notes, increase our reinsurance, decrease the amount of insurance we write or make any other changes to our operations or financial condition in order to obtain approval for the repayment.

No Return of Surplus Contribution Upon Your Death, Disability or Retirement. We have previously outlined the extremely limited circumstances under which we will repay your surplus contribution. You should note that these circumstances do not include your death, disability or retirement or the fact that you no longer practice medicine in Pennsylvania, New Jersey, Delaware or Maryland, and we have no obligation to return your surplus contribution under any of these circumstances until the 15th anniversary of such payment.

Non-Transferability of Rights. Any rights you or the person or entity making your surplus contribution may have as a result of making a surplus contribution are not transferable other than in the case of a surplus contribution made by a natural person, upon that person's death to such person's personal representatives, spouse or lineal descendants, and in the case of a surplus contribution made by a professional corporation, partnership, corporation, limited liability company or other legal entity, upon the legal dissolution of such entity, to the equity owners of such entity.