



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: May 12, 2006
TO: Commissioner Jorge Gomez
Roger A. Peterson, Director Financial Analysis and Examinations Bureau
FROM: Tim Vande Hey, Insurance Financial Examiner - Advanced
SUBJECT: In the Matter of the Acquisition of Control of Physicians Insurance Company of Wisconsin, Inc. by ProAssurance Corporation (Case No. 06-C29893)

This memorandum is regarding the proposed Acquisition of Control of Physicians Insurance Company of Wisconsin, Inc., a Wisconsin domiciled property and casualty insurance company by ProAssurance Corporation, a Delaware holding company.

DESCRIPTION OF THE TRANSACTION

Overview

Physicians Insurance Company of Wisconsin, Inc. (PIC-WI) was organized in 1986 pursuant to a resolution passed by the House of Delegates of the State Medical Society of Wisconsin to organize an insurance company to provide its members with medical professional liability insurance. PIC-WI is licensed to write insurance in Wisconsin, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Nevada, North Dakota, Ohio, and South Dakota.

The latest available Wisconsin Insurance Report (2004) ranked PIC-WI as the largest writer of medical malpractice insurance in the State of Wisconsin representing over 30% of the total medical malpractice market in the state. The following chart depicts the direct premium written by jurisdiction of PIC-WI for the years ended 2004 and 2005, respectively.

	2004	2004	2005	2005
Wisconsin	\$39,645,817	49.90%	\$40,931,224	52.63%
Iowa	19,815,047	24.9	15,893,622	20.4
Illinois	8,155,425	10.3	6,897,648	8.9
Nevada	8,070,038	10.2	9,152,896	11.8
Nebraska	2,431,450	3.1	2,296,309	3.0
Minnesota	1,127,189	1.4	1,777,397	2.3
South Dakota	190,197	0.2	218,191	0.3
Kansas	0	0.0	606,907	0.8
Total	\$79,435,163	100.00%	\$77,774,194	100.00%

ProAssurance Corporation was incorporated in Delaware to serve as the holding company for Medical Assurance, Inc. in connection with its acquisition of Professionals Group, Inc. in 2001. It is a publicly traded company that is listed on the New York Stock Exchange under the symbol "PRA".

ProAssurance Corporation is a holding company for specialty property and casualty insurance company focused on the professional liability and the personal lines insurance markets. Its core operating subsidiaries are The Medical Assurance Company, Inc., ProNational Insurance Company, NCRIC Insurance Company, Inc., and Red Mountain Casualty Insurance Company, Inc. ProAssurance Corporation also writes a limited amount of medical professional liability insurance through Woodbrook Casualty Insurance Company, Inc. (formerly Medical Assurance of West Virginia, Inc.), which is considered to be a non-core operating subsidiary.

ProAssurance Corporation is the successor to twelve insurance organizations and much of its growth has come through mergers and acquisitions. In each, ProAssurance Corporation attempted to retain key personnel, allowing it to maintain a local presence and preserve important institutional knowledge in claims management and underwriting. ProAssurance Corporation also maintains 16 local claims and/or underwriting offices to provide it a local presence in the markets it serves.

ProAssurance Corporations predecessor company, Medical Assurance, was founded by physicians as a mutual company in Alabama and wrote its first policy in 1977. ProAssurance Corporation demutualized and became a public company in 1991. Medical Assurance expanded through internal growth and the acquisition of professional liability insurance companies with strong regional identities in West Virginia, Indiana and Missouri, along with books of business in Ohio and Missouri.

Professionals Group traces its roots to the Brown-McNeeley Fund, which was founded by the State of Michigan in 1975 to provide medical professional liability insurance to physicians. Physicians Insurance Company of Michigan, which ultimately became ProNational Insurance Company, was founded in 1980 to assume the business of the Fund. That company also expanded through internal growth and the acquisition of a book of business in Illinois and the acquisition of professional liability insurers in Florida and Indiana.

Recent Transactions

August 3, 2005, ProAssurance Corporation completed its acquisition of NCRIC Group, Inc. ("NCRIC") through the merger of NCRIC into a newly formed, wholly-owned subsidiary of ProAssurance pursuant to the Agreement and Plan of Merger dated February 28, 2005 between ProAssurance Corporation and NCRIC ("Merger Agreement"). In accordance with the Merger Agreement, each outstanding share of NCRIC common stock was converted into 0.25 of a share of ProAssurance common stock resulting in approximately 1.74 million shares of ProAssurance common stock being issued in the transaction.

On January 4, 2006, ProAssurance Corporation announced the closing of the sale of its personal lines insurance operations to Motors Insurance Corporation, a subsidiary of GMAC Insurance Holdings, Inc. The effective date of the transaction is January 1, 2006. MEEMIC Insurance Company is accounted for as discontinued operations in ProAssurance Corporation's 2005 results.

On December 21, 2005, ProAssurance Corporation filed a plan to acquire all the outstanding shares of common stock in PIC-WI. The definitive agreement calls for each share of PIC-WI stock to be converted into shares of ProAssurance stock having a value of \$5,000. The exchange ratio is based on the average closing price of a share of ProAssurance stock on the ten trading days preceding the effective date of the merger.

Scope of Wisconsin's Regulatory Concern

Section 611.72, Wis. Stat., requires the Office of the Commissioner of Insurance (OCI) to approve a plan for acquisition of control if it finds, after a hearing, that the plan would not violate the law or be contrary to the interests of the insureds of any domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation.

OBSERVATIONS BASED ON REVIEW OF DOCUMENTS AND INQUIRIES

Format and Informational Sufficiency of the Form A

The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the filing and in the supplementary information obtained by OCI in connection with review of this filing is sufficient for OCI to make a decision concerning the proposed plan.

Legality and Fairness of the Proposed Plan

My review of the Form A included a review of the following items:

1. Agreement and Plan of Merger dated December 8, 2005 and subsequent amendments
2. Corporate Organizational Chart identifying relationships among ProAssurance Corporation and its affiliates before and after the proposed transaction
3. Officers and Directors Biographical Information
4. Proposed Plan of Operations
5. ProAssurance Investment Guidelines
6. Consulting, Confidentiality and Non-Competition Agreement
7. Expense Allocation Agreement (Effective 1/1/06)
8. ProAssurance Management Services Agreement
9. Tax Allocation Agreement (Effective 9/1/05)
10. ProAssurance Corporation 10K for the year ended 12/31/05 & Annual Report to Shareholders

11. ProAssurance Corporation 10K for the year ended 12/31/04 & Annual Report to Shareholders
12. ProAssurance Corporation 10K for the year ended 12/31/03 & Annual Report to Shareholders
13. ProAssurance Corporation 10K for the year ended 12/31/02 & Annual Report to Shareholders
14. ProAssurance Corporation 10K for the year ended 12/31/01 & Annual Report to Shareholders
15. Combined Annual Statement of ProAssurance for the year ended 12/31/04
16. ProAssurance Corporation S-4 Registration Statement filed with the SEC

The following is a brief summary of the agreements included in the list of items reviewed above:

Agreement and Plan of Merger

There is an Agreement and Plan of Merger dated December 8, 2005 (the "Plan"), by and between ProAssurance Corporation and Physicians Insurance Company of Wisconsin, Inc. As noted earlier, the definitive agreement calls for each share of PIC-WI stock to be converted into shares of ProAssurance stock having a value of \$5,000. The exchange ratio is based on the average closing price of a share of ProAssurance stock on the ten trading days preceding the effective date of the merger. This ratio is subject to a 20% range around \$49.76, which is the average closing price in the ten days preceding the date of the definitive agreement. As a result, PIC-WI shareholders may receive more than \$5,000 for each share of stock if the average closing price of ProAssurance stock is more than \$59.71; conversely, PIC-WI shareholders may receive less than \$5,000 per share if the average closing price of ProAssurance stock is less than \$39.80. At \$5,000 a share the transaction would be valued at approximately \$99 million.

After June 30, 2007, the Plan requires the creation of a physician underwriting/claims committee for the State of Wisconsin (the "Wisconsin Advisory Committee"). The members of the Wisconsin Advisory Committee are to consist of physician members of the Board of Directors of PIC-WI. The Wisconsin Advisory Committee is to provide advice as to underwriting and claims matters regarding medical professional liability insurance in the state.

Expense Allocation Agreement

It is anticipated that ProAssurance Corporation will enter into an expense sharing agreement with PIC-WI to establish a method to allocate direct and indirect expenses for statutory and financial purposes. ProAssurance Corporation filed the current expense sharing agreement between its insurance subsidiaries and their respective parent companies that I found to be fairly consistent with our standards. ProAssurance Corporation intends to file Notice in a Form D subject to the appropriate regulatory authorities with respect to the expense sharing agreement and the effective date of such agreement will be subject to and conditioned upon the permission or approval of such regulatory authorities.

Management Services Agreement

Similar to the Expense Allocation Agreement, ProAssurance Corporation has a Management Services Agreement with all of its insurance subsidiaries. It is anticipated that PIC-WI will become a party to this agreement and that ProAssurance Corporation will provide accounting and administrative services as required for PIC-WI and its subsidiaries. Similarly, a notice in a Form D will be filed subject to regulatory authority. Direct and indirect expenses are to be allocated as set forth in the Expense Allocation Agreement that is to be entered into simultaneously with this agreement. Management fees, commissions, or overrides for performing the services of Manager as set forth in this agreement are prohibited.

Tax Sharing Agreement

It is also anticipated that PIC-WI and its respective subsidiaries will file a consolidated federal income tax return with ProAssurance Corporation. Similar to the other agreements, Notice in a Form D subject to the appropriate regulatory authorities with respect to the tax sharing agreement and the effective date of such agreement will be subject to and conditioned upon obtaining the permission or approval of regulatory authorities. Under the terms of the existing tax sharing agreement, income taxes are allocated to affiliates based on the consolidated taxable income attributable to each contributing member. Any member(s) having losses or tax credits utilized by other member(s) is reimbursed by the member(s) enjoying the tax reduction.

This review of the Form A and the component agreements of the proposed plan, with due consideration to supplementary information filed in response to examiner inquiries, discloses no basis for denial of the application on a point of law.

I can find no basis on which execution of the proposed transactions disclosed in the Form A should not be regarded as reasonable and fair to each participating insurer and to each participating insurer's policyholders, within the scope of Wisconsin's regulatory concern.

Satisfaction of Licensing Requirements Maintained

Execution of the transactions disclosed in the Form A according to the plan would have no effect on the ability of Physicians Insurance Company of Wisconsin, Inc. or any other participating insurer to maintain their existing licenses to write the lines of insurance for which they are presently licensed.

Effect on Competition within the Wisconsin Insurance Marketplace

The following chart reports the direct premium written classified as “medical malpractice” in the State of Wisconsin as reported in the 2004 Wisconsin Insurance Report:

Rank	Insurer	% of Market	2004 Direct Premium Written
1	Physicians Ins. Co. of WI, Inc.	35.9	\$ 36,997,671
2	Medical Protective Co., The	18.7	19,244,046
3	Continental Casualty Co.	11.1	11,457,852
4	Preferred Professional Ins. Co.	10.4	10,762,545
5	Midwest Medical Ins. Co.	6.3	6,540,627
6	Wisconsin Health Care Liability Ins. Plan	3.5	3,650,044
7	Zurich American Ins. Co.	2.0	2,083,188
8	Cincinnati Ins. Co., The	1.8	1,846,742
9	OHIC Ins. Co.	1.7	1,787,992
10	NCMIC Ins. Co.	1.6	1,672,008
11	American Casualty Co. of Reading PA	1.6	1,624,802
12	Podiatry Ins. Co. of America, a Mutual Co.	1.0	1,044,956
13	Chicago Ins. Co.	0.9	963,404
14	Everest National Ins. Co.	0.7	698,820
15	National Union Fire Ins. Co. of Pittsburgh	0.6	574,226
16	Gulf Ins. Co.	0.5	470,450
17	American Physicians Assurance Corp.	0.4	394,836
18	Pharmacists Mutual Ins. Co.	0.3	298,330
19	Ace American Ins. Co.	0.2	249,533
20	Doctors Co., an Interinsurance Exchange, The	0.2	248,952
Totals For 20 Ranked Insurers		99.5	\$ 102,611,024
Totals For 40 ranked Insurers Writing This Line		100.0	\$ 103,144,443

PIC-WI is the largest writer of medical malpractice insurance in the State of Wisconsin. However, it does not appear that any significant concentration of the market will result from the acquisition as the ProAssurance group of companies reported less than \$50,000 of direct premium written in the State of Wisconsin in 2004. While the 2005 Wisconsin Insurance Report is not available, it is not expected that relative market shares will change significantly as PIC-WI is expected to continue to be the largest writer in the state and ProAssurance continues to report insignificant writings in the state. It does not appear that the effect of this transaction will be to create a monopoly or substantially to lessen competition in any type or line of insurance business in Wisconsin.

Future Plans after the Change in Control

ProAssurance Corporation intends to continue PIC-WI as a Wisconsin domiciled insurer and maintain its strong presence in the State of Wisconsin and allow it to continue to service its core market. PIC-WI will serve as ProAssurance Corporation’s northwest regional office.

Underwriting, policy administration, claims, and risk management operations for Wisconsin, Iowa, Minnesota, Nebraska, Nevada and South Dakota will be handled by the Madison, Wisconsin office. Any admitted business currently written by the ProAssurance Group of companies will be transferred to Madison for policy administration.

Underwriting, policy administration and risk management for the Illinois business of PIC-WI will be consolidated into ProAssurance Corporation's existing underwriting office located in Okemos, Michigan and claims will be serviced by its claims office in Lisle, Illinois. PIC-WI has had a fairly strong presence in Illinois and the proximity with Wisconsin has traditionally resulted in some cross border exposures where physicians with primarily Wisconsin residency/practice also on occasion have part-time practices in Illinois. Claims arising in these cases often have cross-jurisdictional issues that must be considered. ProAssurance Corporation has indicated a preference towards allowing the local claim offices primarily handle claims filed in its assigned jurisdictions with consultation as necessary from other offices. In this case, an Illinois filed claim would be handled by the office located in Lisle, Illinois and the Madison office would be consulted as necessary. Wisconsin domiciled risks with incidental cross border exposures would continue to be underwritten and serviced by the Madison office.

ProAssurance Corporation intends to continue to write all Wisconsin business through PIC-WI as a statutory company. All other business is also expected to continue to be written through the same statutory entities; however, business may be transferred between companies upon policy renewal, with these decisions based primarily on the capacity and rating agency considerations. ProAssurance Corporation has indicated that it will continue to honor tenure within the ProAssurance Group for purposes of free tail coverage on claims made policies due to death, disability or retirement.

PIC-WI currently offers medical liability coverage on both a claims made and occurrence basis with approximately 12.9% of its total writings on the occurrence form. ProAssurance Corporation no longer offers policies on an occurrence basis. While ProAssurance Corporation has indicated that the parties will re-evaluate the desirability of maintaining the occurrence form and it is therefore uncertain whether going forward the occurrence form will be offered; the fact that occurrence based policies represents a dwindling minority of PIC-WI's policies being written and ProAssurance Corporation doesn't offer any policies on an occurrence basis appears to make it unlikely that the option will be available for the long term.

My review noted that nursing homes that are operated as a single entity with a hospital are required to participate in the Wisconsin Injured Patients & Families Compensation Fund (WI Compensation Fund), and must have their primary coverage with a licensed carrier. Currently, the majority of these nursing homes have their primary coverage placed with PIC-WI. While there are only approximately 33 nursing homes in the state that require this coverage, the availability of this coverage and their dependence on PIC-WI to provide this primary coverage is considered beneficial to maintain. Correspondence noted that ProAssurance Corporation is familiar with this type of coverage and intends to continue to offer the coverage if the change in control is approved. The recommendation for approval of this transaction is supported by ProAssurance Corporation's assurances, which are documented in its filings, that it will continue to provide this coverage.

ProAssurance Corporation's reinsurance program is similar the existing PIC-WI program, placed on an excess-of-loss basis, with ProAssurance retaining \$1 million per claim and PIC-WI

retaining \$500,000 per claim. At the anniversary of PIC-WI's reinsurance program, January 1, 2007, it is anticipated that PIC-WI will become reinsured under ProAssurance Corporation's reinsurance program.

ProAssurance Corporation Birmingham, Alabama office serves as the centralized accounting office for its medical malpractice business. ProAssurance Corporation noted the primary reason for its centralized accounting function was related to its needs as a publicly traded company to comply with the Sarbanes-Oxley Act. The centralized operation assists in establishing a more uniform control environment over its financial reporting. PIC-WI's accounting staff is expected to complete accounting for 2006 in Madison, Wisconsin and a transition plan will be put in place to transfer ongoing accounting functions to its Birmingham, Alabama office on or after January 1, 2007. This mirrors similar integrations noted earlier including its most recent acquisition of NCRIC Group, Inc.

In general, ProAssurance Corporation doesn't anticipate any significant changes in the factors that determine the rate levels for PIC-WI. ProAssurance Corporation utilizes loss cost and trend information to calculate rates for a specific state. If ProAssurance Corporation has no loss experience of its own to project the pure premium, then information is based off the rate filings of the largest writers in that jurisdiction. The loads for commissions, taxes, licenses, and fees are also based on state specific requirements. ProAssurance Corporation acknowledged that a portion of its rates reflects the countrywide experience of the group augmented with industry information as compiled by the Insurance Services Office (ISO), with their permission. These items are reviewed for on an annual basis to determine whether they need to be adjusted to reflect state specific experience.

The only rating factors that were identified as significantly different between the two companies for the physician and surgeon programs are the Profit and Contingencies load and the Commission load. PIC-WI does not currently incorporate a load for Profit and Contingencies into their rates. ProAssurance Corporation typically utilizes a profit and contingency factor, net of investment income, based on estimated earnings as a percent of earned premiums and the required return on equity from insurance operations. ProAssurance Corporation has used a load in the 3.5% to 4.5% in its most recent physician and surgeon rate filings. Over the next two years, ProAssurance Corporation would introduce a similar provision in the ratemaking process of PIC-WI. In regards to the Commission load, PIC-WI currently utilizes a 5.8% load for commissions in their physician rates and a factor of 10% in their hospital rates. ProNational Insurance Company (ProNational) uses loads of 8% and 10%, respectively. No change is anticipated to the Wisconsin agency force or the related commission load that is currently being utilized by PIC-WI.

Finally, the load for general liability rates for the hospital professional liability programs is significantly different between the two companies. PIC-WI currently utilizes a 19% charge, while the comparable charge for ProNational is 10%. The charge would be reviewed in future rate filings, with deference given to PIC-WI experience.

ProAssurance provided the following rate comparison that was based on information it had obtained from the Medical Liability Monitor for 2003-2005. 2006 rates were based on currently filed rate levels.

	PIC-WI				ProNational			
	2003	2004	2005	2006	2003	2004	2005	2006
Internal Medicine	5,612	5,973	5,973	6,272	N/A	6,505	7,675	7,675
General Surgery	19,641	21,504	21,504	22,579	N/A	20,511	24,985	24,985
OB/GYN	30,304	32,255	32,255	33,869	N/A	28,915	35,371	35,371

The comparison revealed significantly higher rates for ProNational. These differences are likely not reflective of the anticipated changes to rates as the ProAssurance Group had not written significantly in the state and rates were calculated based on the Wisconsin rate level indications for PIC-WI, The Medical Protective Company, and Midwest Medical Insurance Company. The indications from these competitors were given the following weights: 30%, 65%, and 5%, respectively. ProAssurance Corporation indicated that had the rate level been based entirely upon PIC-WI indications, then the 2006 rates for ProNational would have been as follows:

	2006
Internal Medicine	6,760
General Surgery	21,783
OB/GYN	30,796

In March 2004, ProAssurance Corporation purchased the renewal rights to all of OHIC Insurance Company's (OHIC) physician, hospital and healthcare facility business in Indiana, Illinois, Kansas, Kentucky and Wisconsin. ProAssurance Corporation had expected to write no more than one-third of the expiring business, measured by premium volume. ProAssurance believed that the business was under-priced, a portion of the accounts would not meet their underwriting standards and the medical malpractice market was becoming more competitive. Nevertheless, ProAssurance Corporation was interested in completing the transaction as a way of entering or expanding its presence in these markets for a relatively low cost. As expected, once its underwriting criteria and pricing were applied, ProAssurance Corporation wrote approximately \$5 million of the \$17 million of expiring premium. The business was written by either ProNational or The Medical Assurance Company, Inc., depending on which entity operates in each of the states in question. The following chart reflects the rates charged by ProNational and PIC-WI on this respective business:

	PIC-WI	ProNational
Acute Care Bed	644.00	1,877.32
Psych Bed	644.00	1407.99
Other O/P Visit	32.20	56.32
E/R Visit	186.76	187.73

The comparison reveals that ProNational's hospital liability rates were significantly higher than that of PIC-WI. However, ProNational's rates were based on the filed rates and rating factors of OHIC Insurance Company (OHIC), since ProNational had focused on marketing to former OHIC policyholders, the differences don't necessarily reflect anticipated rate increases. The forgoing rate comparisons demonstrate the potential volatility associated with professional liability rates

in Wisconsin and are reflective of rate concerns nationally related to the affordability of this coverage.

While it is acknowledged that this transaction is expected to have an impact on medical liability rates charged in the state, it doesn't appear, based the information filed and summarized above, that rates will be dramatically affected following the change in control.

Financial Soundness of Prospective Affiliates

On a consolidated basis, ProAssurance Corporation reported assets of \$3.9 billion, liabilities of \$3.1 billion, and stockholders' equity of \$765 million as of December 31, 2005. Cash and invested assets accounted for over \$2.6 billion of the total consolidated assets.

In addition to the relatively strong balance sheet of the ProAssurance Group of companies, the previously mentioned sale of ProAssurance Corporation's personal lines subsidiary (MEEMIC Insurance Company), effective January 1, 2006, to Motors Insurance Corporation, a subsidiary of GMAC Insurance Holdings, Inc. provides the group with even greater liquidity to address the financial needs of its insurance subsidiaries and potentially entertain additional mergers and acquisitions that might become available.

As of December 31, 2005, the financial benchmark data for the core operating insurance subsidiaries for the ProAssurance Group are as follows:

	A.M. Best Rating	RBC Ratio
Medical Assurance Company, Inc.	A-	458.70%
ProNational Insurance Company	A-	506.00%
NCRIC Insurance Company, Inc.	B++	546.90%
Red Mountain Casualty Insurance Company, Inc.	A-	9,511.30%*

* - Red Mountain Casualty Insurance Company, Inc. is an excess and surplus lines insurer and cedes 100% of its business to ProNational. This reinsurance relationship creates an artificially low risk-based capital requirement that results in a large risk-based capital ratio.

Although the A.M. Best ratings and risk-based capital ratios are listed side-by-side, the function of each is quite different. The A.M. Best ratings are that nationally recognized statistical rating organization's independent opinion, based on a comprehensive quantitative and qualitative evaluation, of the companies' balance sheet strength, operating performance and business profile. The risk-based capital ratios indicate whether certain thresholds that are commonly accepted among the states for regulatory intervention or inquiry have been reached. For example, a risk-based capital ratio of 200% or below will generally prompt the insurance department of a company's state of domicile to request a business plan outlining how the company intends to improve its financial position. The fact that one company's risk-based capital ratio is higher than another's is not an indication of relative financial strength. The foregoing financial ratings and risk-based capital ratios generally reflect favorably on the ProAssurance Group of companies.

The financial condition of ProAssurance Corporation, individually, and the holding company system taken as a whole, is unlikely to jeopardize the financial stability of PIC-WI or to prejudice the interests of their respective Wisconsin policyholders.

Competence and Integrity of Prospective Management

The board of directors of ProAssurance Corporation is composed of the following ten individuals:

<i>Name and Residence</i>	<i>Principal Occupation</i>
A. Derrill Crowe, M.D. Birmingham, Alabama	Chairman and Chief Executive Officer ProAssurance Corporation
Victor T. Adamo, ESQ., CPCU Birmingham, Alabama	Vice Chairman and President ProAssurance Corporation
Lucian F. Bloodworth Birmingham, Alabama	Chairman and President Cain Manufacturing Company, Inc.
Paul R. Butrus Birmingham, Alabama	Vice Chairman ProAssurance Corporation
Robert E. Flowers, M.D. Dothan, Alabama	Retired Physician
John J. McMahon, Jr. Birmingham, Alabama	Chairman Ligon Industries
John P. North, Jr. Birmingham, Alabama	Retired Partner Coopers & Lybrand (now PricewaterhouseCoopers)
Ann F. Putallaz, Ph.D. Ann Arbor, Michigan	Vice President – Data Communication Services Munder Capital Management
William H. Woodmans, M.D. Mattawan, Michigan	Physician
Wilfred W. Yeargan, Jr., M.D. Tuscaloosa, Alabama	Physician

The senior officers of the company are as follows:

Name	Office
Victor D. Adamo	Vice Chairman and President
A. Derrill Crowe	Chairman and Chief Executive Officer
Paul R. Butrus	Vice Chairman
Jeffrey P. Lisenby	Secretary
Howard H. Friedman	Senior Vice President
James J. Morello	Senior Vice President and Treasurer
Frank B. O'Neil	Senior Vice President
Edward L. Rand, Jr.	Senior Vice President and Chief Financial Officer

ProAssurance Corporation provided copies of biographical reports for their officers and directors. Post-merger, the directors of PIC-WI will consist of A. Derrill Crowe, M.D., Victor T. Adamo, Edward L. Rand, Jr., William T. Montei and David L. Maurer. William Montei is a current director and executive officer and Mr. Maurer is a current executive officer of PIC-WI. Review of the composition of the board and management of ProAssurance Corporation discloses no basis for disapproval of the Form A.

Summary of Observations

1. The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the Form A filing and its supplements are sufficient to the transaction.
2. The plan would not violate the law or be contrary to the interests of Physicians Insurance Company of Wisconsin, Inc. or its policyholders.
3. After the acquisition of control, Physicians Insurance Company of Wisconsin, Inc. will not experience a change that would cause it to become unable to satisfy the licensure requirements for it to write the lines of insurance business for which it is presently licensed.
4. It is evident that this transaction will not create a monopoly or substantially lessen competition in any type or line of insurance in Wisconsin.
5. The financial condition of ProAssurance Corporation is unlikely to jeopardize the financial stability of Physicians Insurance Company of Wisconsin, Inc., or to prejudice the interests of their respective Wisconsin policyholders.
6. The plan results in a change in control for Physicians Insurance Company of Wisconsin, Inc. There are no plans or proposals to liquidate Physicians Insurance Company of Wisconsin, Inc., to sell its assets, consolidate it with any person, or make any other material change in its corporate structure. ProAssurance Corporation plans to acquire Physicians Insurance Company of Wisconsin, Inc. under the Merger Agreement. ProAssurance Corporation purports that any other material change in its business or management will be fair and reasonable to policyholders of Physicians Insurance Company of Wisconsin, Inc. and in the public interest. Accordingly, the plan does not appear to be adverse to Physicians Insurance

Company of Wisconsin, Inc., or its policyholders, or to conflict with the public interest; however, it does appear likely that rates will be impacted as a result of the acquisition.

7. The competence and integrity of the persons who would control the operation of Physicians Insurance Company of Wisconsin, Inc. are such that it is in the interest of their respective policyholders and of the public to permit the proposed plan.

RECOMMENDATION

The American Medical Association categorizes Wisconsin as a state that is not in crisis or showing problem signs with respect to medical liability. One of the significant factors universally accepted as contributing to this relative stability is the Wisconsin Injured Patients & Families Compensation Fund (WI Compensation Fund) that provides excess medical liability coverage to Wisconsin health care providers. Health care providers in Wisconsin obtain primary medical malpractice insurance from private insurance companies in an amount required by statute. As of July 1, 1997, that amount is \$1,000,000 per occurrence, and \$3,000,000 annual aggregate. Coverage in excess of the primary insurance is provided by the WI Compensation Fund.

In addition to the benefit provided by the WI Compensation Fund, PIC-WI, a physician founded insurer, has contributed to the stability of the medical liability market. ProAssurance Corporation has a similar physician founded history and in each of its previous mergers has retained key personnel allowing it to maintain a local presence. The Plan that has been submitted appears consistent with the previous acquisitions and the representations made by ProAssurance Corporation to my inquiries. The change in control will likely have some degree of impact on the overall professional liability market in Wisconsin, however ProAssurance Corporation's filing expresses its intention to retain local knowledge, expertise, and provider involvement, while providing PIC-WI access to greater financial resources. In addition, ProAssurance Corporation's filings express a commitment to maintain a market for nursing home coverage and representations regarding its rate practices indicate that rate levels will not be significantly changed. Accordingly, and based on those filings and representations, it is recommended that the plan for the acquisition of control of Physicians Insurance Company of Wisconsin, Inc. by ProAssurance Corporation be approved.