ProMutual Group

Comments and Recommendations and Management's Responses

2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
125 High Street
Boston MA 02110
Telephone (617) 530 5000
Facsimile (617) 530 5001

April 5, 2006

Board of Directors and Audit Committee of
ProMutual Group
101 Arch Street
Boston, Massachusetts 02205

Gentlemen:

In planning and performing our audit of the financial statements of Medical Professional Mutual Insurance Company, ProSelect Insurance Company and ProSelect National Insurance Company, Inc. (the "Company") for the year ended December 31, 2005, we made a study and evaluation of the Company's internal control to the extent we considered necessary for the expression of our opinion on the financial statements. Although our consideration of internal control was more limited than would be necessary to express an opinion on the internal control taken as a whole, and accordingly would not necessarily disclose all matters which might be material control weaknesses, we noted certain matters involving internal control and are submitting for your consideration the accompanying recommendations designed to help the Company improve internal accounting control and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to management.

The accompanying comments and recommendations are intended solely for the information and use of the Audit Committee, Board of Directors, management and others within ProMutual Group and are not intended to be and should not be used by anyone other than those specified parties.

We appreciate the cooperation we have received from the Company in connection with developing these recommendations. Should you have any questions about our recommendations, this letter or other matters, please contact us at your convenience.

Very truly yours,

PricewaterhouseCoopers LLP

ProMutual Group
Comments and Recommendations
With Management's Responses
2005

Section I: Comments and Recommendations with Management's Responses

1. Suggested Refinements to Process and Documentation around Other-Than-Temporary Impairment Conclusions

Investment advisors perform quarterly impairment analyses on the Company's investment portfolio using accounting policy guidance provided by management. Management has been taking an active role in monitoring the impairment analyses prepared by the investment managers and also prints its own impairment analysis from the EPS system. During the year ended December 31, 2005, we noted that the investment advisors did not recommend any investments be impaired. However, upon review of management's analysis, we noted equity investments that appeared to be in unrealized loss positions for more than 12 months and investment grade bonds that appeared to have fallen to below-investment grade during 2005. Upon management's further review, it was determined that the equity investments did not require impairment, since due to their more volatile nature, each of their individual market values had exceeded cost at least at one point during the year and that the below investment grade bonds had either been purchased as such during the year or been validly explained by management as being only temporarily impaired or immaterial. Management provided documentation of these conclusions toward the end of the audit.

We recommend management review not only the investment advisors' impairment analyses on a quarterly basis, but also their reports from the EPS system to identify equities with other-than-temporary declines in market value and bonds with a deterioration in credit rating. Management should ensure that the investment advisors specifically consider all investments which in management's opinion may be other-than-temporarily impaired. FASB Staff Position No. FAS 115-1 "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" provides further guidance as to which investments should be considered. For those other-than-temporarily impaired investments with valid reasons as to why they should not be impaired, we recommend management and/or the investment advisors contemporaneously document their rationale.

Management's Response:

Management agrees and intends to continue to hone the process of recognizing OTTI securities. Beginning in 2006, management will provide its investment advisors with its own listing of potentially impaired securities generated from the EPS accounting system for discussion and analysis. Management will obtain evidence-based judgment from their advisors in order to support impairment decisions. We will further instruct our advisors to enhance their quarterly qualitative reports to the Investment Committee by disclosing all downgrades for the period within their respective portfolios.

2. Consideration of Sarbanes Oxley Provisions by the NAIC

As mentioned in prior years, the NAIC continues to consider modification of the current Model Audit Rule to adopt certain provisions of Sarbanes-Oxley for insurance companies. One of the provisions being considered is the public company requirement that management report on the effectiveness of their internal controls over financial reporting, and that the independent auditors provide an opinion on management's report (commonly referred to as Section 404). Although any changes would not be effective for at least the next few years, implementing a Section 404 assessment would be a significant change for the Company. The proposed amendments from Title II and Title III Sub-groups to the Model Audit Rule to incorporate certain provisions from Sarbanes-Oxley were re-exposed in the spring of 2005 and the current goal is to complete the project for Title II and Title III by the end of 2006.

Key changes under the proposed Model Audit Rule:

- Companies with direct written and assumed premiums, rather than net written premium, of more than $500 million would be required to annually file with the Department of Insurance a Management Report of Internal Control over Financial Reporting. (No related audit report would be required). If a company has less than $500 million in direct and assumed premium, but has triggered an RBC event, domiciliary commissioner can require compliance.
- Companies meeting certain premium thresholds would be required to have independent audit committee members, who would also be required to be members of the board of directors. The number of independent members would vary based on premium volume. The threshold for a majority (50% or more) of independent audit committee members has recently been increased to $100 million, and the requirement for a supermajority (75% or more) of independent members has recently been increased to $300 million.
- Auditor rotation and independence requirements including scope of services would be revised to conform more closely to the requirements of Sarbanes-Oxley.

The proposed effective dates are years ending December 31, 2008 for the new audit committee requirements and years ending December 31, 2009 for all other requirements.

We recommend that the Company's management, both operational as well as financial, focus on gaining an understanding of the impact on the Company's operations related to adoption of Sarbanes-Oxley provisions, and remain cognizant of NAIC activity with respect to the Act's adoption.

Management's Response:

As indicated in prior years, management closely monitors the activities of the NAIC/AICPA Working Group through its trade association, the Property Casualty Insurers Association of America. Management provides a SOX update at each Audit Committee meeting.

Although excluded from the requirement for management to report on the effectiveness of their internal controls based on the current premium volume, we will conform to this requirement as a best practice for transparency purposes. After the revised NAIC Model Audit Rule ("now called the Annual Financial Reporting Model Regulation") is finalized, management will need to determine the best approach to document and implement the appropriate internal controls.

ProMutual Group
Comments and Recommendations issued in 2004
With Management's Updates
2005

Section II: Comments and Recommendations issued in 2004, with Management's Updates

1. Update Definition in Incentive Compensation Plan

The Company-Wide Incentive Compensation Plan Document Schedules for the President/Chief Executive Office, Senior Vice Presidents, Vice-Presidents, and Employees defines "adjusted net income" as "net income as published in the GAAP financial statements for the calendar year, adjusted to exclude realized and unrealized capital gains or losses, policy holder dividends, and expense items that could not be anticipated or are not under management control". We noted through discussions with management and procedures performed on the Plan that the intended definition of "adjusted net income" is actually "statutory net income, adjusted to exclude realized capital gains or losses, policy holder dividends, and expense items that could not be anticipated or are not under management control". This is also noted in our report dated March 23, 2005 for the 2004 Incentive Compensation agreed-upon procedures.

If "adjusted net income" is not accurately defined in the Plan Document Schedules, the financial performance factor may be interpreted as it is currently documented, rather than how it is truly intended. Although there was no impact in 2004, this could ultimately lead to a discrepancy in determining whether an individual met the conditions for an award payment.

We recommend the Company-Wide Incentive Compensation Plan Document Schedules be updated for President/Chief Executive Officer, Senior Vice Presidents, Vice-Presidents, and Employees to accurately define "adjusted net income" as it is intended to be interpreted.

Management's Response:

Management agrees with this recommendation and will make the following change to the Company – Wide Incentive Compensation Plan Schedules for the 2005 performance year.

Substitute the existing definition of "adjusted net income" with the following language:

"Adjusted net income " means net income as published in the December 31 statutory financial statements for the calendar year, adjusted to exclude realized capital gains or losses, policyholder dividends, and expense items that could not be anticipated or are not under management control (for example, merger and acquisition expenses).

PwC's 2005 Update:

We noted that the definition of "adjusted net income" had been updated appropriately in the Medical Professional Mutual Insurance Company Company-Wide Incentive Compensation Plan dated January 1, 2005.

2. Implement Enhancements to Monitor Underwriters' Performance

As part of our audit procedures, we met with the Vice President of Underwriting to obtain and update our understanding of the Company's underwriting processes. During our discussions, it was brought to our attention that the Company does not have the ability to review losses by underwriter and territory as a means for assessing underwriting performance.

As the company continues to grow, the ability for management to adequately monitor the underwriting process on an individual level will become more difficult. The absence of a formal report to review losses by underwriter and territory, could allow issues with an individual underwriters' performance to go undetected for a significant period of time. This could ultimately lead to a negative impact on the Company's profitability.

We recommend management develop a formal report to identify losses by underwriter and territory to facilitate regular monitoring of underwriting performance at a more detailed level.

Management's Response:

Management does run reports periodically based upon the underwriter's territory, but do not have a formal program to do so. We question the credibility and value of the data when it is limited to this extent. Also, being a long tail line of business, it is quite likely that the losses that may drive a high loss ratio in a territory were the result of a previous underwriter for that territory and would have no reflection on the current underwriter. We feel that the quarterly self audits that are conducted, the bi-weekly training sessions, the individual letters of authority given to the underwriters along with the rather tight managerial span of control are sufficient to quickly detect any deficiencies in an underwriter's performance.

PwC's 2005 Update:

We concur that management's procedures results in a regular monitoring of underwriting performance.

3. Review Internal Control Reports from Third Party Administrators

The Company uses various third party administrators (TPAs), such as Northern Trust and Sungard, for certain processing activities. A TPA will often engage its external auditors to provide an annual independent auditors' report on the effectiveness of controls it has placed in operation and, in some cases, results of testing of the operating effectiveness of those controls. The report also contains a list of user controls the TPA recommends its customers have in place to ensure an effective control environment surrounding data sent to and received from the TPA. During the audit, we noted that the Company does not Proactively obtain and review the results of internal control reports from its TPAs.

The internal control reports for TPAs may unveil internal control deficiencies that could negatively impact the operations of the Company. Additionally, user controls that are recommended by the TPA might not be in place at the Company or may be deemed ineffective to mitigate the risk of potential misstatement of the activity processed by the TPA.

On an annual basis, management should obtain the most recent internal control reports from its significant TPAs and read them to determine whether control weaknesses identified would have an impact on the Company's operations. Additionally, management should read the recommended user controls and evaluate whether existing controls at the Company sufficiently address the controls recommended by the TPA to mitigate the risk of potential misstatement.

Management's Response:

Management agrees with this recommendation. Although, Corporate Finance currently receives and reviews SAS 70 reports from its custodial bank (Northern Trust) and investment accounting software vendor (Sungard), we will request and review SAS 70 reports from other third party administrators such as Citizens Bank and the various investment fund managers.

Several of ProMutual Group's other business units have service level agreements (SLA) with application service providers (ASP). Management will implement procedures so that the respective business units responsible for engaging a vendor obtain their SAS 70 internal control reports annually. Each business unit will collaborate with IT management to review and evaluate the providers' internal control reports.

PwC's 2005 Update:

We noted management has been regularly reviewing SAS 70 reports from its third party administrators. Additionally, management has been more active in obtaining and reviewing internal control reports from its fund managers.

Establish Role-based Privileges for System User Access

To establish effective control over significant business processes, distinct roles are established. For example, one individual enters a claim while another individual approves the payment of the claim. No single individual can both initiate and pay a claim. These distinct roles require that individuals are limited to the system privileges associated with their role.

The definition of standard role-based privileges is important for two reasons:

- Individual employees can be consistently assigned the pre-determined privileges appropriate to their assigned role;
- Users' access privileges can be periodically validated by comparing their actual privileges to the role-based privileges.

At ProMutual Group, the business area assigns privileges to an individual by requesting that Information Technology ("IT") either copy the access profile of another user or uniquely specify privileges.

The practices of copying or creating unique access profiles may result in instances of excessive or inappropriate user access, including an inadequate segregation of duties, within an application or across multiple applications.

Although departments periodically review employee listings and confirm that all system users are employees, there is no periodic review of the access privileges of current employees.

We noted that IT is currently initiating an effort to enhance ProMutual Group's approach to user access assignment. This initiative should include IT partnering with the business areas to establish a role based approach to user access assignment, that may include:

- Creation of standard access profiles based on user roles and responsibilities for each financially significant application;
- Periodic review of the standard access profiles for appropriateness;
- Assignment of a standard access profile to a user and approval of that assignment by the business area manager;
- Periodic recertification by the business area of users and their application rights to identify instances of excessive or inappropriate user access.

Management's Response:

ProMutual Group agrees that assigning access rights by modeling a new employee's profile after an existing employee's profile can potentially lead to instances of inappropriate access rights being assigned. And, that the best way to assign access rights is to build role templates for each job duty.

As noted in PwC's findings, IT is currently revising ProMutual Group's approach to user access assignment. Getting to this new approach will require the combined efforts of IT and the business units. This process will include:

- Running reports of every employee's current access rights;
- Verification by all business unit VPs of their employee's access rights;
- Creation of templates, by job duty, with minimum necessary access rights as verified by the business unit VPs;
- Customization of the EARP system (Employee Access Requests) to include individual access rights;
- Training of business unit managers on what functions and privileges each access right allows (particularly for those outside of the templates to be requested on an individual basis).

Once this process is complete, the business unit managers and VPs will no longer be able to request access rights for an employee by requesting that they be modeled after another employee in the same position. All system privileges will be requested by the business unit manager and VP by choosing a job duty template (e.g. Claim Rep Assistant), and in rare instances any additional rights individually.

Additionally, IT will provide the business units with the job duty templates quarterly so that they can be reviewed to ensure that the access profiles assign appropriate rights for the designated position. The business units will also, on an annual basis, receive from IT reports of the access rights of all of their employees to recertify the appropriateness of those rights.

PwC's 2005 Update:

New employees/users set-up on IS4W are no longer modeled after existing employees. Role templates (standard access profiles) for each job duty have been defined and implemented. Furthermore, recertification procedures are in place to validate the appropriateness of user access.