



Annual Report
2012

Endorsed by:

Bexar County Medical Society
Collin-Fannin County Medical Society
Dallas County Medical Society
El Paso County Medical Society
Harris County Medical Society
Hidalgo-Starr County Medical Society
Jefferson County Medical Society
Lubbock-Crosby-Garza County Medical Society
Nueces County Medical Society
Smith County Medical Society
Tarrant County Medical Society
Texas Academy of Family Physicians
Texas Medical Association
Texas Orthopaedic Association
Travis County Medical Society

TMLT is a Gold Corporate Affiliate of the
Texas Medical Group Management Association

Rated A (Excellent) by A.M. Best Company

TMLT is the only medical professional liability insurance provider created and exclusively endorsed by Texas Medical Association.

TEXAS MEDICAL LIABILITY TRUST

901 Mopac Expressway South, Building V, Suite 500, Austin, TX 78746-5942

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Message FROM THE CHAIRMAN

STUART D. MCDONALD, MD
Chairman

We are living in the age of exponential growth. Changes — to medicine, technology, and economies — are occurring faster than ever before. And as our world is transformed, we physicians are forced to adapt.

Some change has been positive: new life-saving medical technologies and treatments, new cures, accessibility and convenience of mobile technology. Some changes have been less positive: lower reimbursements, tighter budgets, pressure to treat more patients in less time, changes in the workplace.

TMLT has been sensitive to the challenges our physicians have faced. It is impossible not to be. My fellow Board members and I are all physicians, practicing in various specialties across Texas. As Board Chair, I have worked with the CEO to oversee improvements that TMLT has introduced to help you cross over into new frontiers.

A generation ago, doctors' financial futures were secure. That is not always the case today. That is why in January 2012, TMLT launched our new Trust Rewards initiative.

Each year you renew your policy, funds will be set aside in your Trust Rewards account. To demonstrate our commitment, the Board has dedicated \$100 million to fund the Program for 2012. We also implemented a bonus system that rewards new policyholders with money in their account. In a time when you will be more and more financially stretched, this program will bring an added benefit when you retire.

Also in the past, dissatisfied or disgruntled office staff would simply find new jobs. Today, the trend appears to be that employees may be opting to pursue employment practice suits. In response to these concerns, effective February 1, 2013, TMLT will add employment practices liability insurance (EPLI).

Provided at no additional premium, EPLI protects you from employee claims of discrimination, harassment, and other employment-related allegations. Limits of liability are \$50,000 per claim and per yearly aggregate (including both defense and indemnity payments) with a \$5,000 deductible. We sell extended limits to physicians or groups that believe they need more protection.

Because of changing economic conditions, many of you have decided to sign contracts and become employed with hospitals, ACOs, or other entities. To adapt, TMLT has become more flexible when dealing with changes of employment status. To avoid an interruption of coverage, a newly employed policyholder's coverage is reissued to coincide with the group's expiration and billing.

Technology, an area known for rapid change, can bring an advantage to many physicians. Smart phone apps, like DocbookMD, provide more flexibility, allowing us to send HIPAA-compliant consults to colleagues. Also, tablets allow us to be more productive when we are on the go, which is why TMLT implemented a mobile version of tmlt.org.

These technological benefits, unfortunately, come at an expense. The threat of viruses, hackers, and lost mobile devices are a harsh reality for many TMLT physicians. For this reason, the Trust includes a cyber liability endorsement in every policy. Our cyber liability coverage includes:

- network security and privacy;
- regulatory fines and penalties;
- patient notification and credit monitoring costs; and
- data recovery costs.

Because physicians need more than basic cyber liability coverage, on January 1, 2013 TMLT will expand the cyber liability endorsement to cover:

- multimedia;
- cyber extortion; and
- cyber terrorism.





A Texas Original. Did you know Texas has its own Eiffel Tower? It's located in - you guessed it - Paris, Texas.

Cyber liability coverage offers annual aggregate limits of \$50,000 per insured physician and/or entity. We sell extended limits to physicians or groups that require higher limits.

With a busy practice, it can be difficult to keep up with medical and risk management information, which is why TMLT produces content that is relevant to you. Our publications include:

- *the Reporter*: TMLT's bimonthly newsletter, which features articles on the latest trends in medical liability, ways to reduce risk in the medical office, TMLT and industry news, and closed claim studies.
- *the Specialty Edition Reporter*: TMLT's newsletter that covers risk management issues in fifteen medical specialties.
- Risk management publications: a series of guides and manuals intended to increase physicians' knowledge of risk management, reduce physicians' exposure to claims, and assist physicians in their defense should a claim occur.
- *Case Closed Volumes 1 through 5* contain studies based on actual TMLT claims. These cases illustrate how actions by physicians led to allegations of professional liability, and how risk management techniques may have either prevented the outcome or increased the physician's defensibility. Physicians who complete the activities are eligible for CME credit.

Sometimes you are so busy that you do not have time to read an entire issue of a publication. The convenience of social media may better fit your needs. TMLT regularly provides content on Facebook, Twitter, and LinkedIn. We also produce a blog, TrendsMD, which seeks to connect physicians and other professionals who are interested in discussing medical liability issues. The blog is written by a variety of physicians, attorneys, and insurance experts and covers trends that could affect the practice of medicine.

In conclusion, as a pulmonary and critical care medicine specialist with a busy practice, I understand that the changes you are experiencing may be causing you frustration. The Trust will do everything it can to help you through these challenges.

Stuart D. McDonald

Stuart D. McDonald, MD



Board of Governors (L-R): Jimmy L. Strong, MD, John R. Holcomb, MD, David G. Joseph, MD (Secretary-Treasurer), Stuart D. McDonald, MD (Chairman), Charles R. Ott, Jr. (CEO), Arthur F. Evans, MD (Vice Chairman), Donald R. Butts, MD, Cristie Columbus, MD, Mark S. Gonzalez, MD, Pamela D. Holder, MD



A Texas Original. Big Tex was a 52-foot tall statue and marketing icon of the annual State Fair of Texas held in Dallas, Texas. Since 1952 Big Tex has served as a cultural ambassador to visitors. In 2012, Big Tex was destroyed by an electrical fire, but fair officials say he will be rebuilt in time for the 2013 fair.

We also fine-tuned our Medefense and Cyber Liability coverage to offer greater protection to physicians from risks associated with disciplinary actions and security breaches.

In August, we announced a 4 percent rate reduction for policyholders who renew in 2013. This is our tenth rate cut and it will save policyholders approximately \$5.5 million. Renewing policyholders will also receive a 15 percent dividend, saving them approximately \$20 million in 2013 premium.

While many of our competitors compromised customer service to reduce costs, TMLT invested in people and technology to serve our 16,639 policyholders even better. We are implementing a new insurance system and self-service web portal that will automate our processes and enable policyholders to do more of their business online.

In September, our A.M. Best rating of "A" was reaffirmed. This rating speaks directly to our strong financials and TMLT's position as the dominant medical professional liability carrier in Texas.

TMLT continued to explore additional business offerings in 2012. We finalized our purchase of Physicians Insurance Company (PIC), a Florida-based medical malpractice insurance company. This acquisition will diversify our product base and allow us to expand to new markets.

In 2012, we reached out in new ways to physicians. Physicians learned about TMLT through our alliances with 15 specialty and county medical societies. We made personal visits to our policyholders and prospective policyholders. We introduced a mobile version of the TMLT web site. We launched Community Advisory Boards in multiple communities. The purpose of these boards is to engage local medical communities in meaningful discussions and use their feedback to improve our products and services. Community Advisory Boards will continue to meet in 2013.

This year was not without its challenges. We continued to work closely with the Texas Medical Association to protect the rights of physicians who enter into

A Texas Original. The Ann W. Richards Congress Avenue Bridge in downtown Austin is the spring and summer home to 750,000 Mexican free-tailed bats. From March through April thousands of mostly female, pregnant bats migrate north to give birth. It's the largest urban bat colony in North America.

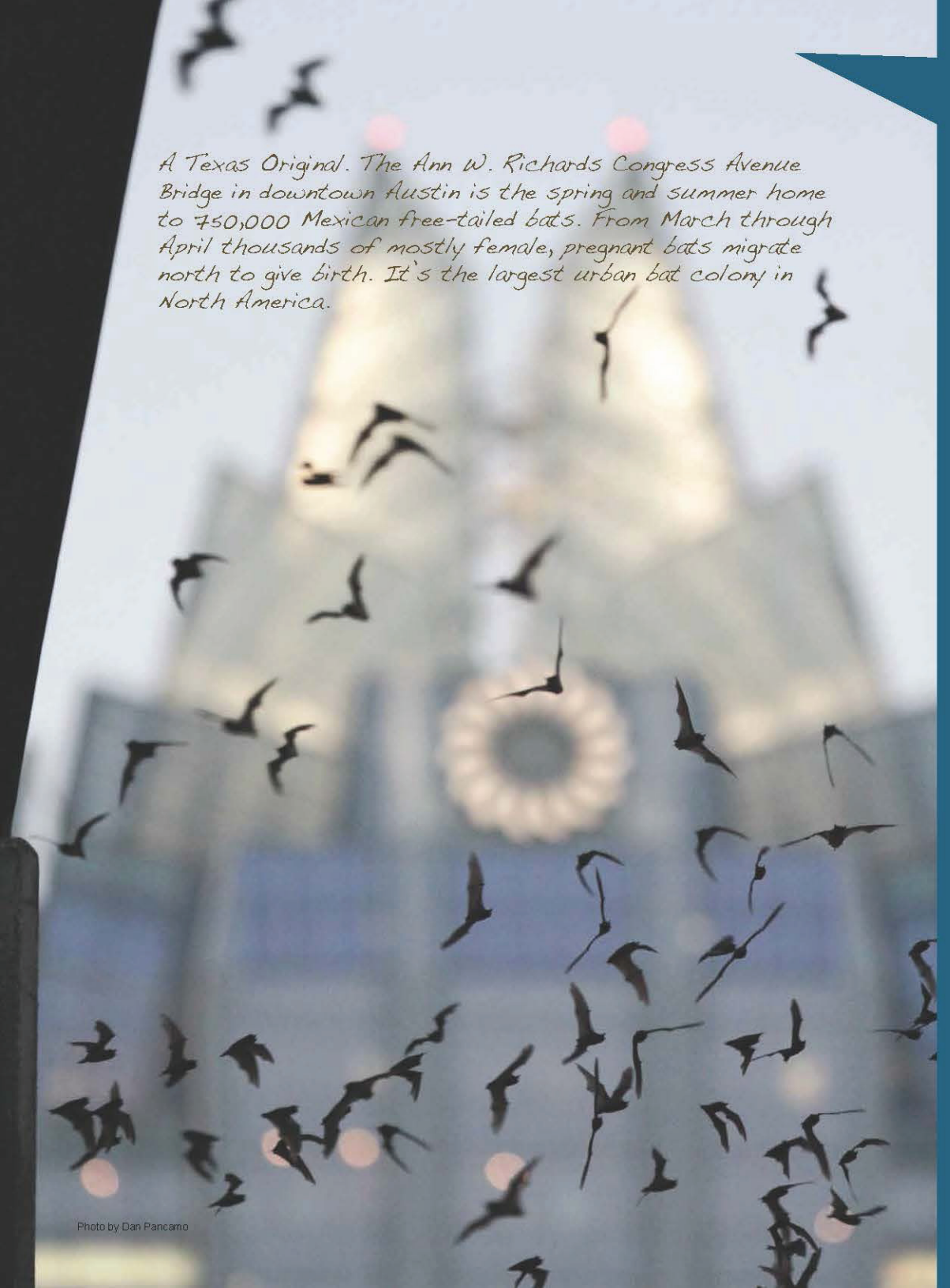


Photo by Dan Pancarno

FACTS AT A GLANCE 2012

Sales and marketing	
Number of new policies:	1,934
Number of quotes sent:	5,311
Total new written premium:	\$10,076,114

Underwriting	
Total policyholder count:	16,639
Total physician visits by staff:	347
Retention rate:	94.3%
Total number of applications received:	2,493

Claims	
Number of claims received:	1,090
Number of claims closed:	1,052
Claim frequency (including mass litigation):	6.55%
Percentage of cases taken to trial:	1.9%
Number of trial victories:	19

Risk management	
Total number of CME course completions:	20,147
Number of physicians participating in practice reviews:	2,043



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This year was not without its challenges. We continued to work closely with the Texas Medical Association to protect the rights of physicians who enter into

employment contracts with ACOs and hospitals. We want to make sure physicians have the right to select their own liability insurance carrier and to be able to withhold consent to settle claims. As the federal and state governments implement the Affordable Care Act (ACA), TMLT is diligently monitoring the ACA's impact on medical liability.

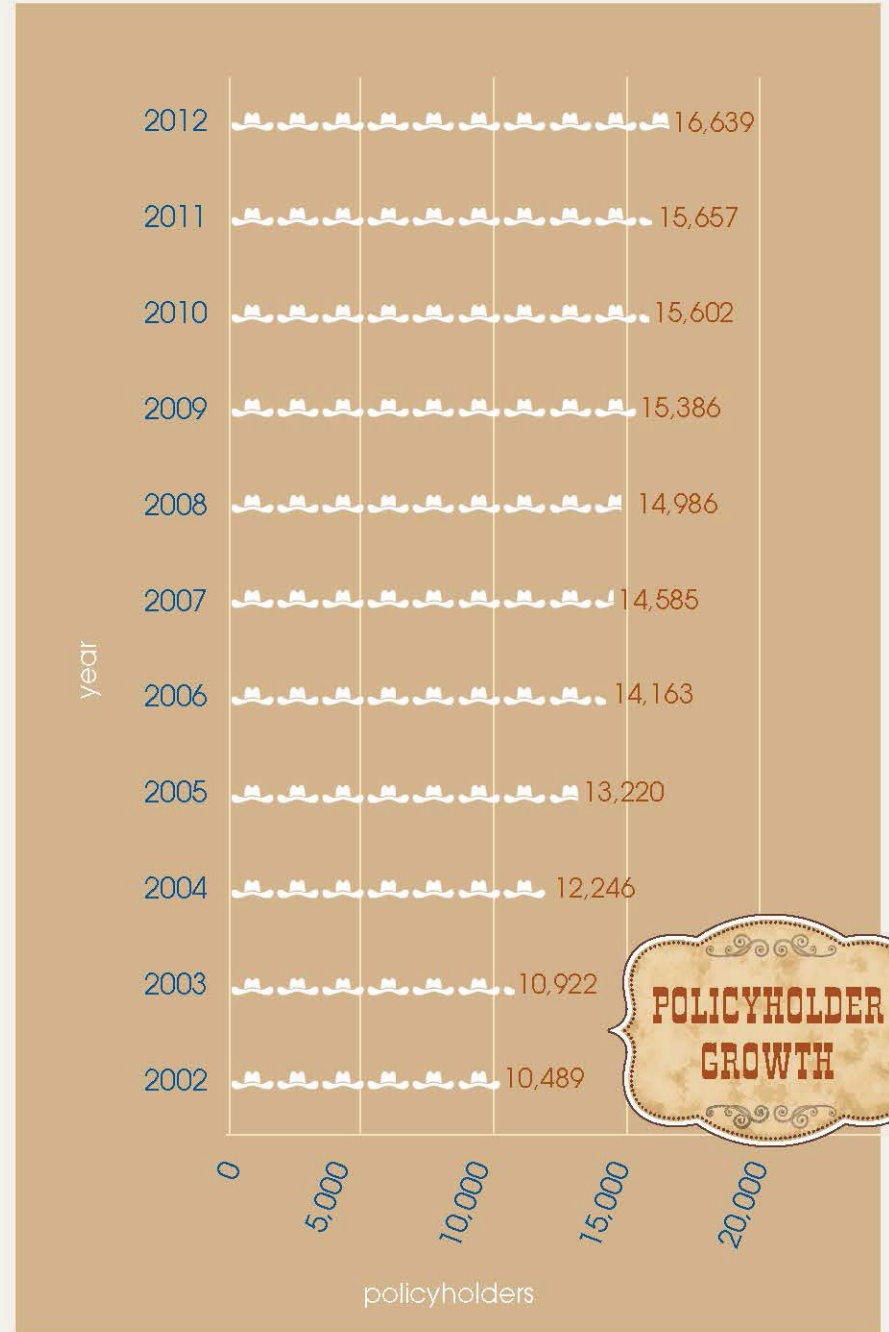
The soft market continued in 2012 and our competitors sought to gain market share at our expense. TMLT is well placed to confront these challenges. Along with our activities as a direct writer, we enjoy a strategic alliance with appointed agents. Our agent program has allowed TMLT access to many physicians and practice managers who prefer using agents in their insurance program. Our agents play a key role in the development of business opportunities.

In response to these soft market conditions and the evolving needs of physicians, TMLT developed a new approach to doing business in 2012. Our new philosophy is to be aggressive, creative, and flexible when it comes to new business. As a way to bring more physicians to TMLT, we do not rule out requests for coverage options or suggestions for products.

With such a successful year behind us, we are energized by the challenges that lie ahead. We will continue to launch new initiatives and introduce new products as we move forward.

For 33 years, TMLT has understood that our purpose is to serve physicians. Thank you for allowing us to serve you.

Charles R. Ott, Jr.





VINCE KASCH

Sr. Vice President,
Chief Financial Officer

Message
FROM THE
CFO

TMLT's

financial success continues to forge ahead regardless of the economic, political, and competitive environments over the past decade. While there has been instability and volatility in many areas affecting the medical professional liability industry, TMLT again produced excellent financial results in 2012. Net income totaled \$39.6 million, which was the primary driver in increasing policyholders' surplus to \$435.7 million. This represents 11% growth from 2011. Total assets increased more than 4% during the year to \$776.8 million.

Being here for policyholders when they need us is the cornerstone of our financial management philosophy. Whether that is tomorrow or 10 years from now, TMLT will be here for our medical professionals. That is why we focus on maintaining a strong policyholders' surplus that serves as the foundation for this security. A.M. Best Company continued to recognize our financial strength and stability by affirming our "A" rating in 2012.

We continue to operate in a difficult investment market with historically low interest rates. As we communicated in 2011, we have not strayed from our prudent, conservative investment philosophy. However, we have refined our strategy with modest changes in our asset diversification and allocations. High quality, well-diversified investment grade bonds remain the core of our portfolio, but we have added some increased exposure in real estate, stocks, and high-yield bonds during 2012. We refuse to chase higher returns with risky and aggressive investments. Rather, we are taking a measured approach based on sound asset allocation strategies designed to be successful over the long term.

From a strategic marketplace perspective, we closed on the acquisition of Physicians Insurance Company (PIC) in the spring of 2012. Along with the



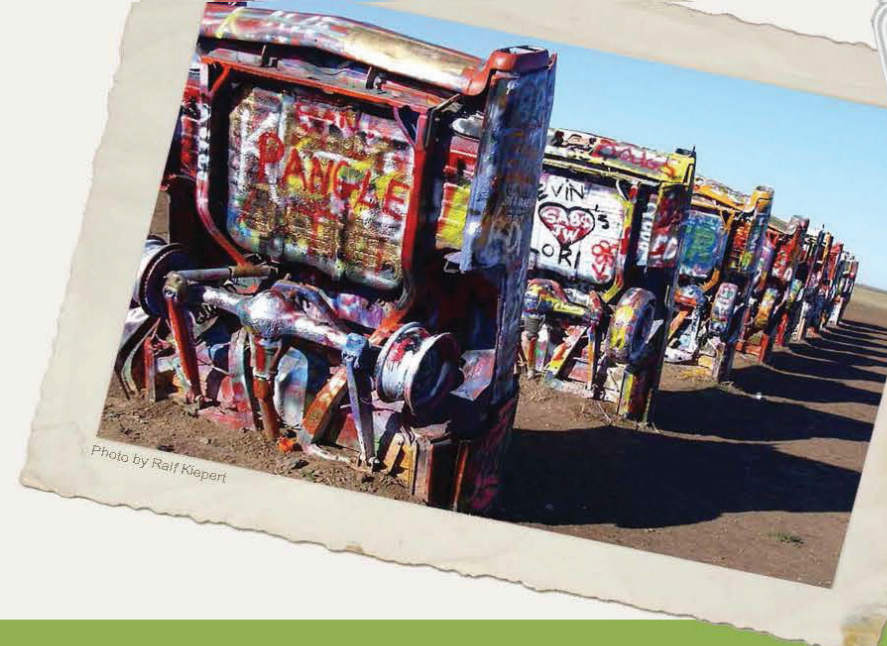
A Texas Original. The Margaret Hunt Hill Bridge is a six-lane bridge built over the Trinity River in Dallas, Texas. The signature, 40-story center-support arch adds a new feature to the Dallas skyline, as it can be seen from miles away in several directions.

PIC-related entities we acquired at the end of 2011, these organizations are being integrated into TMLT. They will play an important role in expanding our business model into other sources of revenue and profitability for our policyholders.

The underwriting side of our business continues to produce outstanding results. Net premiums earned totaled \$164.1 million in 2012, compared to \$137.1 million in 2011. Once again, based on our favorable loss reserve development and management of our reinsurance program, we commuted significant reinsurance contracts in 2012, as we did in 2011. Proceeds from the commutations reduced reinsurance premiums by more than \$54 million in 2012, with a smaller reduction of about \$20 million in 2011. The lower reinsurance premium expense resulted in increased net premiums earned in both years.

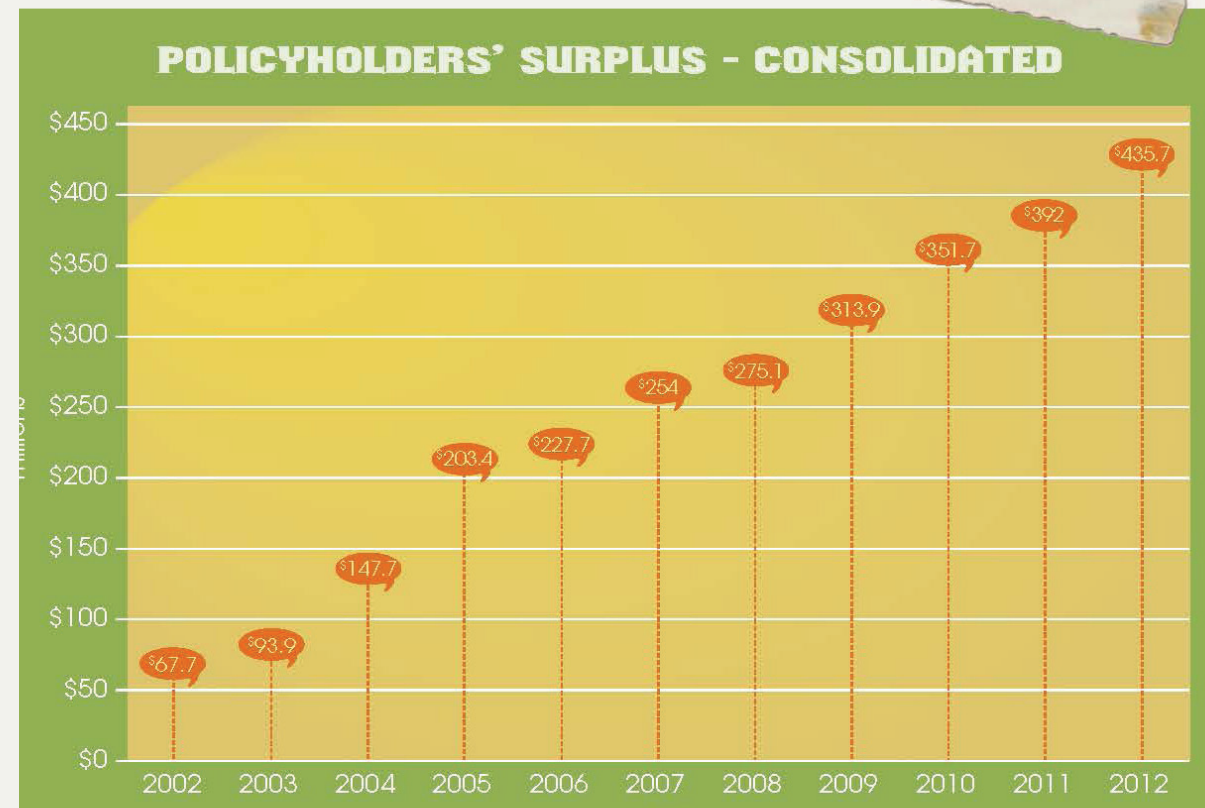
An initial review of losses and loss adjustment expenses reflects \$68.4 million for 2012 and \$33.2 million for 2011. This increase is not an unfavorable result, but is due to the reinsurance commutations. Along with the large return of reinsurance premiums, TMLT must take back complete responsibility for the claims that were previously covered by reinsurance contracts. This is the primary reason for the increase, as the reinsurance commutations in 2012 were significantly larger than in 2011. In fact, the favorable loss reserve developments that TMLT has experienced continued in 2012. However, as we have been expecting, the magnitude of the favorable development is diminishing.

As the medical professional liability industry continues to cycle through the soft market, TMLT must continue to focus on strong performance for



A Texas Original. Cadillac Ranch - located in Amarillo, Texas - consists of old Cadillacs representing a number of evolutions of the car line. The cars are half-buried nose-first in the ground, at an angle corresponding to that of the Great Pyramid of Giza in Egypt.

Photo by Ralf Kiepert



our policyholders regardless of the market conditions. Our strong performance has enabled us to again reward our policyholders with dividends totaling more than \$20 million in 2012. Premium rates were also reduced in 2012 for the ninth consecutive year. While rate reductions and dividends have been moderating in recent years, in 2012 we launched the Trust Rewards program. \$100 million was dedicated for our loyal policyholders through Trust Rewards. We will continue to make decisions on rates, dividends, and rewards levels based on the current competitive market and long-term sustainability.

We combine this approach with the continued tightening of expenses. Other operating expenses declined slightly from \$42.8 million in 2011 to \$42.3 million in 2012. However, more than \$5 million of the expenses in 2012 were from the consolidation of our new PIC-related companies into our operating results for the first time. Their premiums and other revenues will more than offset these costs.

No matter where we might be in the cyclical insurance market, TMLT is always positioned to be ahead of the curve to protect our policyholders. Whether it is through adaptive investment and underwriting management, strategic acquisitions, or expense control, we are committed to operational and financial success for the long-term benefit of our policyholders.

The foregoing unaudited condensed consolidated financial information has been derived from the audited consolidated financial statements. These statements are available upon request.

Condensed Consolidated Financial Information

(Unaudited, In Thousands)

FINANCIAL HIGHLIGHTS

	2012	2011
Total Assets	\$776,751	\$745,900
Reserve for Losses	226,413	223,222
Direct Premiums Written	151,218	154,846
Policyholders' Surplus	435,700	391,993

BALANCE SHEETS

Assets

	2012	2011
Fixed Maturity Securities	\$474,505	\$453,848
Equity Securities	53,274	47,005
Real Estate and Other Investments	17,027	9,611
Cash and Cash Equivalents	37,937	28,272
Premiums Receivable	52,657	49,726
Reinsurance Receivable	64,404	83,390
Other Assets	76,947	74,048
Total Assets	\$776,751	\$745,900

Liabilities

Reserve For Losses	\$226,413	\$223,222
Unearned Premiums	74,930	74,431
Policyholder Dividends Payable	20,000	25,233
Notes Payable	1,429	10,912
Other Liabilities	18,279	20,109
Total Liabilities	341,051	353,907

Policyholders' Surplus

Total Liabilities and Policyholders' Surplus

	435,700	391,993
	\$776,751	\$745,900

INCOME STATEMENTS

	2012	2011
Net Premiums Earned	\$164,087	\$137,145
Net Investment Income	15,784	16,836
Realized Gains on Investments	3,504	5,216
Other Revenue	4,520	1,274
Total Revenues	187,895	160,471

Losses and Loss Adjustment Expenses	68,428	33,180
Policyholder Dividends and Trust Rewards Benefits	20,722	25,602
Other Operating Expenses	42,252	42,809
Total Expenses	131,402	101,591

Income Before Income Tax	56,493	58,880
Income Tax Expense	16,857	17,779

Net Income

	\$39,636	\$41,101
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December 31

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