



LEADING CHANGE
= FOR TEXAS PHYSICIANS =
Annual Report 2014

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

TMLT is exclusively 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
- Potter-Randall County Medical Society
- Smith County Medical Society
- Tarrant County Medical Society
- The Texas Academy of Family Physicians
- The Texas Orthopaedic Association
- Travis County Medical Society

TMLT is a gold corporate affiliate of the Texas Medical Group Management Association.





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A great man once wrote that there were two certainties in the world: death and taxes. I would suggest one more: change. Change is inevitable, constant, and often challenging. Organizations that succeed are those that meet change head on with new ideas, processes, and technologies. When I look back on 2014, I believe wholeheartedly that TMLT met the changes we encountered with energy, innovation, and strength.

One of our biggest changes this last year saw TMLT name a new CEO, Robert (Bob) Donohoe. I am delighted that TMLT's board was able to engage such a highly qualified and capable leader. Since assuming this role, Bob has done a remarkable job of keeping TMLT at the forefront of our industry, protecting physicians in Texas, and inspiring our staff with an infectious enthusiasm that has ushered in a new era of growth for our company.

That kind of positive change and growth is part of our history. It's in our DNA. I am so proud of how TMLT played a key role in bringing about tort reform in Texas. With the changes brought about by tort reform in 2003, patients across our state suddenly gained greater access to health care than they had ever known, particularly in some of our most underserved communities. In 2014, TMLT continues to play a leading role and works diligently to protect these reforms. This strength and success has helped TMLT grow to be the largest, most respected medical liability provider in Texas, protecting more than 17,000 physicians.

And 2014 saw even more growth for TMLT. While insurance companies across the country reduced the number of policies they wrote in 2014, TMLT increased its number of policyholders. Our competitors simply can't report the same kind of growth. We've been able to achieve this growth by continuing to offer our signature, comprehensive coverage, products, and services while also introducing new programs, new standards of customer service, and new benefits for our policyholders, such as Trust Rewards.

We've added new coverages to all of our policies, at no additional cost, including Employment Practices Liability Insurance, or EPLI, to protect physicians from employment-related claims such as harassment, wrongful termination or discrimination, and locum tenens coverage to protect a substitute physician who assumes responsibility for a policyholders' patients during a scheduled absence.

“ TMLT WILL ALWAYS KEEP THE INTERESTS AND CONCERNS OF PHYSICIANS AS OUR TOP PRIORITY. ”

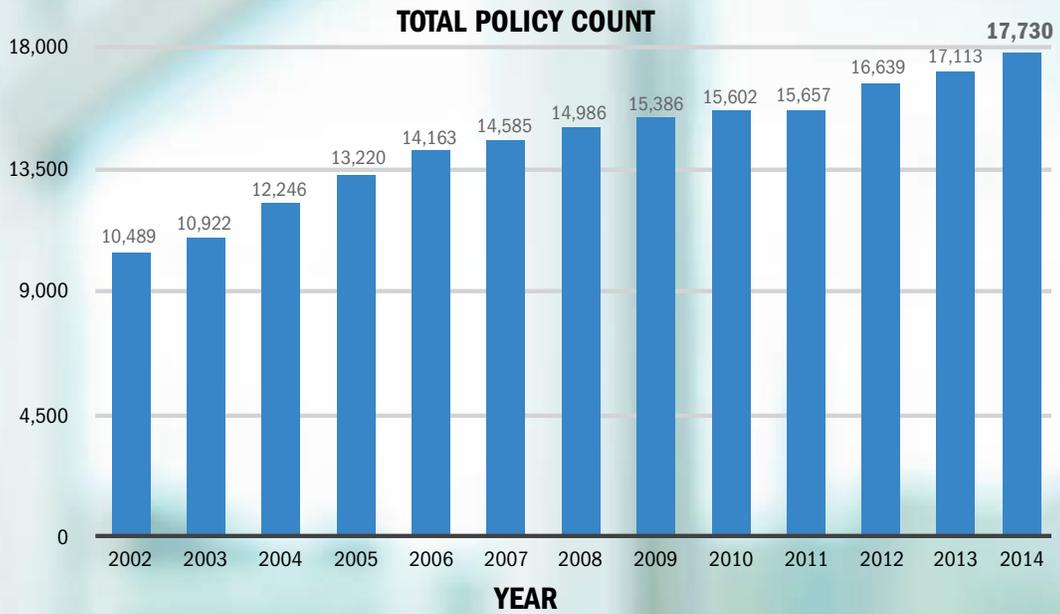
Our growth is attributed to our proven ability to stay ahead of a changing medical liability landscape. Traditionally, solo and private physicians have been the focus of our industry, and TMLT is committed to our good relationships in that sector. However, an emerging trend in our industry is to provide coverage for large groups of physicians and health care professionals, and TMLT has met this challenge by developing and nurturing these new relationships. We provide the same kind of high-level service for big groups as we provide for individual physicians.

Our high-level service comes from one of our greatest strengths: our staff. Everyone who works for TMLT is a first-rate professional. We've been able to attract and retain the highest caliber talent in the medical liability field. Our staff works to create new products and services to meet the changing needs of our policyholders. With 35 years of this kind of proactive service, TMLT has built a strong reputation of providing the best coverage and service for the best possible price.

Also, for the first time in its history, TMLT is looking beyond the Texas border to provide coverage for physicians in other states through our partnership with Lone Star Alliance RRG. This partnership will also allow our Texas policyholders to extend their own individual or group practices and enable their own growth.

TMLT will always keep the interests and concerns of physicians as our top priority. My goals for TMLT are to continue to provide the very best coverage and service so that our policyholders can safely practice medicine without unnecessary worry.

I look forward with great excitement to working with my fellow board members, Bob Donohoe, and the entire staff at TMLT to achieve yet another year of excellence and growth for TMLT in 2015. I invite you to join us as we continue on this journey.





In July 2014, I assumed the duties of President and CEO of TMLT. I came to TMLT in 2012 and have served as Senior Vice President, Chief Administrative Officer, and Chief Operating Officer before assuming my current role. And though I am relatively new to TMLT, I have 28 years experience in the insurance industry.

The Governing Board and knowledgeable TMLT staff made the transition in leadership as smooth as possible. But a transition of another kind is also occurring at TMLT . . . the transformation of TMLT into a different kind of insurance company. A new TMLT. Let me explain.

To understand the changes occurring at TMLT, we must first describe how we got to our present position.

Over the last 10 years, the health care industry has been confronted with fundamental change: stunning technological innovations; HIPAA, HITECH, and an alphabet soup of regulations; the Affordable Care Act and all its new types of organizations, consolidations, management strategies, and payment arrangements.

In short, everything about physician practices has changed. And it became clear that TMLT had to change – and not only to capture future opportunities. The fact is, if we stayed still, our ability to *fully* protect physicians would have been at risk. So we made important decisions and got to work.

We now offer a more customized approach to insurance and services. TMLT is not simply a liability carrier, but a business partner for our policyholders. We offer coverage customized for all practice types. For example, we now have part-time coverage for all specialties and three options for leave of absence coverage. To meet the needs of physician practices expanding outside of Texas, we now offer coverage through our partnership with Lone Star Alliance, RRG. For emergency medicine and urgent care groups, we now offer per-patient rated policies. We provide risk sharing and reinsurance options for unique exposures and business arrangements. And of course we continue to offer claims-made and occurrence policies at a variety of limits.

“**IN 2015 AND BEYOND, THE NEW TMLT WILL CONTINUE TO PROVIDE COMPETITIVELY PRICED, VALUE-ADDED PRODUCTS AND SERVICES TO TEXAS PHYSICIANS.**”

We also offer customized risk management education programs and provide access to a more comprehensive cyber liability risk analysis.

We offer products that go beyond protection for medical liability claims.

As medicine changes, physicians' needs change too. We've added employment practices, medical director, and locum tenens coverage to all our policies. We've increased the limits on our Meddefense and Cyber Liability coverage to better protect physicians from risks associated with disciplinary actions and technology-based security threats.

We continue to offer the best defense and work as your advocate in the courtroom, at the state legislature, and before the Texas Medical Board. We continue our partnerships with organized medicine, and our strong support of these organizations will continue to play a role in the success of TMLT.

Our benefits are unchanged and unmatched in the industry. Trust Rewards allocations continue to grow. In 2014, we added \$20 million to the program, bringing the Trust Rewards total to **\$150 million**. The dividend program continued for its tenth year in 2014. Renewing policyholders will receive a 10 percent dividend, saving them approximately \$13 million in 2015 premiums.

I am proud of the TMLT team for bringing us to this point. I am also grateful to you, our policyholders, for your support during this journey. I hope and trust that you are pleased with how your company is growing and evolving.

In 2015 and beyond, the new TMLT will continue to provide competitively priced, value-added products and services to Texas physicians. We will continue to evolve to meet your needs and serve as your business partner through all transitions that occur.

FACTS AT A GLANCE 2014

SALES AND BUSINESS DEVELOPMENT

Number of new policies:	1,918
Total new written premium:	\$9,097,513

UNDERWRITING

Total policyholder count:	17,730
Retention rate:	92.7%

CLAIMS

Number of claims received:	1,118
Number of claims closed:	1,061
Claim frequency (including mass litigation):	6.31%
Trial record:	12 wins, 0 losses

RISK MANAGEMENT

Total CME course completions:	13,291
Providers participating in practice reviews:	3,187



From left to right: Gerald R. Callas, MD; Mark S. Gonzalez, MD; William Fleming, III, MD; Michelle Harden, MD; Donald R. Butts, MD; Robert Donohoe (CEO); Arthur F. Evans, MD (Chairman); Cristie Columbus, MD; John R. Holcomb, MD; Pamela D. Holder, MD



THE 2014 TMLT BOARD OF GOVERNORS



TORT REFORM AND BEYOND – LEADING CHANGE FOR TEXAS PHYSICIANS

Claim frequency and severity continue an upward trend that began in 1996.

TMLT 2000 campaign launches, alerting policyholders that a medical liability crisis is looming.

TMLT announces rate increases averaging 13 percent.

1999

TMLT participates in TMA's second data study. Results show 1 in 4 physicians faced a malpractice claim in 2000.

TDI finds that regulated carriers in Texas lost \$229 million in 2000. TMLT lost \$7 million.

TMLT joins in the formation of a medical liability consortium – the Texas Alliance for Patient Access (TAPA) – to pursue medical liability reform in 2003.

2000

TMLT participates in TMA's first medical liability data study. The study confirms that claim frequency and severity are escalating.

The Texas Department of Insurance (TDI) finds that regulated medical liability insurance companies in Texas lost \$103.5 million in 1999. TMLT posted an \$11 million loss in 1999 as well.

2001

January – The TDI announces the number of medical liability carriers in Texas dropped from 17 to 4 in one year. TMLT continues insuring physicians in all specialties across Texas.

April – Physicians in five Texas cities stage a one-day protest march to the steps of their local courthouses. Nearly 1,000 doctors, nurses, and patients participate in the march in Edinburg, Texas.

April – Governor Rick Perry announces a plan to solve the medical liability crisis in Texas, to include a \$250,000 cap on non-economic damages.

May – The Texas House Committee on Insurance holds a public hearing on medical liability insurance. TMLT staff testify before the committee.

September – TMLT staff serve on the TAPA legislative committee to develop a health care liability reform agenda modeled after California's MICRA statute.

2002

January – Governor Perry declares medical liability reform an emergency issue for the 78th Texas legislature.

June – The Texas legislature passes House Bill 4, including a \$250,000 cap on non-economic damages.

June – Historic “rush to the courthouse” begins. From June to October, the TMLT claim department receives 1,489 lawsuits, compared to 532 lawsuits received June to October 2002.

July – *The Wall Street Journal* publishes an editorial calling the Texas medical liability reforms, “Ten-gallon Tort Reform.”

September – TMLT announces it will reduce rates by 12 percent if Texas voters pass Proposition 12, the constitutional amendment allowing the legislature to set caps on non-economic damages.

September – Proposition 12 passes, ensuring the medical liability reform measures enacted in 2003 will withstand judicial scrutiny.

2003

January – TMLT's 12 percent rate cut begins. TMLT is the first carrier to cut rates following tort reform.

September – TMLT announces a 5 percent rate cut, its second rate reduction since the passage of tort reform.

2004

May – Texas is removed from the American Medical Association's list of states in medical liability crisis. The AMA cites the medical liability reforms of 2003 as the reason for the improved conditions in Texas.

August – *Texas Tech Law Review* publishes an article on Texas medical liability reforms.

September – TMLT announces its third rate cut (5 percent) since the passage of tort reform.

2005

July – The TMB reports a significant increase in physician licensure applications in 2006, an 88 percent increase over the same period in 2003.

September – TMLT announces a 7.5 percent rate cut.

2006

A challenge to the Texas cap on non-economic damages is filed in federal court.

October – TMLT announces an average 4.7 percent rate reduction.

2007

May – 30 medical liability carriers are now writing coverage in Texas.

July – More than 10,000 new physicians are licensed in Texas since the passage of reforms.

October – TMLT announces a 6.5 percent rate reduction.

2008

October – TMLT announces a 1 percent rate reduction.

2009

March – The federal challenge to the Texas cap is argued before a magistrate in Marshall, Texas.

More than 21,000 new physicians are licensed in Texas.

TMLT announces a 1 percent rate reduction.

2010

TMLT announces an average of 6.9 percent rate reduction.

2011

March – A federal judge finds that Texas' non-economic damage cap is constitutional.

TMLT announces an average of 4 percent rate reduction.

2012

2013

September – Since 2003, the number of high-risk specialists in Texas has grown more than twice as fast as the state's booming population.

Ten years ago, TMLT led the way to tort reform in Texas. We continue to work hard to keep protection for Texas doctors secure.



The messages from our chairman and chief executive officer describe many aspects of change at TMLT and within our industry. However, as chief financial officer, I would like to highlight a key area within TMLT that has not and, with continued vigilance, will not change: our continued strength, stability, and growth.

In 2014, TMLT worked to maintain and grow the financial resources needed to weather the volatile economy and current insurance market conditions. With our strong capitalization, TMLT stands ready when our policyholders need us the most.

Our 2014 financial results reflect this strength.

- Net income totaled \$33.0 million in 2014.
- Policyholders' surplus is approaching the half-billion dollar mark, totaling \$494.8 million at year-end 2014, an increase of 7.4% from 2013.
- Policyholder dividends totaled \$13.3 million for 2014, reflecting the tenth consecutive year we have declared dividends.
- Trust Rewards allocations now total \$150 million; distributions from the program totaled just under \$2.0 million in 2014.
- Our number of policyholders continues to grow, increasing from 17,113 in 2013 to 17,730 in 2014.
- Total assets reached another milestone at \$822.0 million, reflecting growth of 5.5% from 2013.

The medical professional liability insurance industry remains very competitive—particularly in Texas. Given this environment, growth in premiums is very difficult; yet, TMLT was able to increase direct written premiums by 4.4% in 2014. Direct written premiums totaled \$154.8 million in 2014, compared to \$148.3 million in 2013.

As in prior years, TMLT reviewed its reinsurance program and commuted select contracts in 2014. This impacted earned premiums. Favorable loss reserves have allowed for these commutations. Proceeds from commuted contracts reduced reinsurance premiums by \$20.8 million in 2014 and \$23.0 million in 2013. Primarily due to the commutation differences, net premiums earned were stable between years at \$127.4 million in 2014 and 2013.

“**WE PROMISE TO NEVER CHANGE OUR FOCUS ON MAINTAINING AND GROWING OUR FINANCIAL STRENGTH AND STABILITY.**”

Investment management is a major component of our financial strategy. We pursue revenue growth while adhering to prudent underwriting standards and operating expense control. While conservative in our investment philosophy, we seek enhanced returns in moderation with appropriate asset allocations. Investments primarily include bonds, stocks, and real estate; but, the core of our investments is a high quality, well-diversified investment grade bond portfolio.

Modest increases in real estate, equities, and high yield bonds help produce higher levels of net investment income totaling \$18.8 million in 2014 compared to \$16.2 million in 2013. Much of the increase is related to real estate and equity investments. Results for 2014 also reflect significantly higher net realized gains on investments, totaling \$14.1 million in 2014 compared to \$6.0 million in 2013. The increase in gains was driven by sales of common stocks, with substantial appreciation from the strong stock market performance over the last several years.

Losses and loss adjustment expenses totaled \$62.7 million in 2014 compared to \$46.8 million in 2013. While losses have increased, we continue to experience favorable loss reserve development, although the magnitude of the favorable development is diminishing. A smaller portion of the increase in losses is directly related to differences in effects from reinsurance commutations.

Expense control remains a critical component of our financial strategy. TMLT reduced operating expenses from \$41.6 million in 2013 to \$38.4 million in 2014.

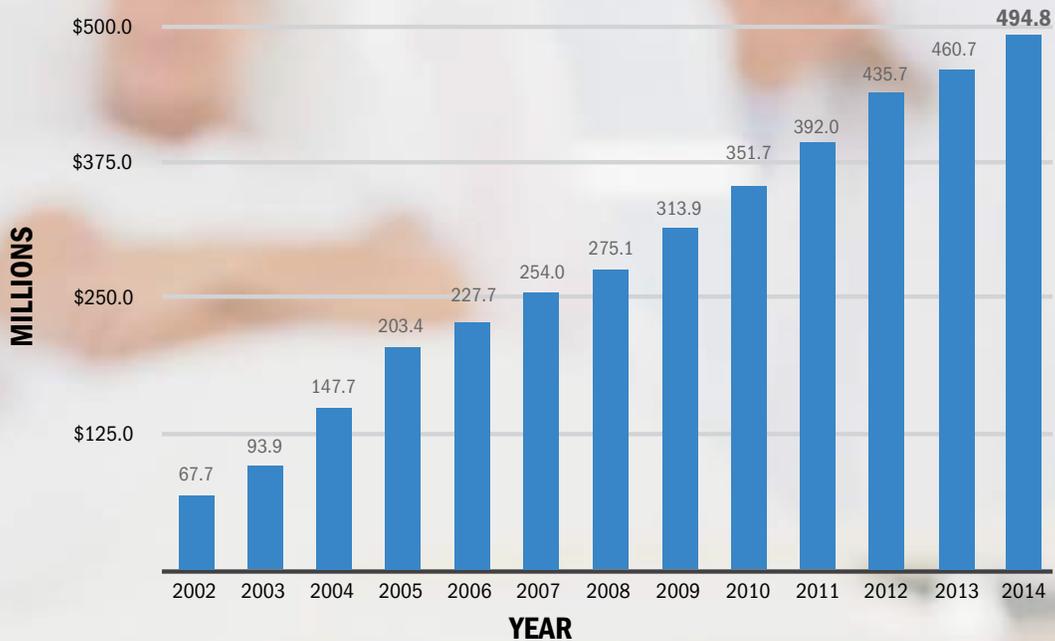
TMLT continues to evolve to meet the needs of our policyholders. However, we promise to never change our focus on maintaining and growing our financial strength and stability.

POLICYHOLDER DIVIDEND PROGRAM

5.0% in 2005
 20.0% in 2006
 22.0% in 2007
 22.5% in 2008
 24.0% in 2009
 24.0% in 2010
 18.5% in 2011
 15.0% in 2012
 12.0% in 2013
 10.0% in 2014



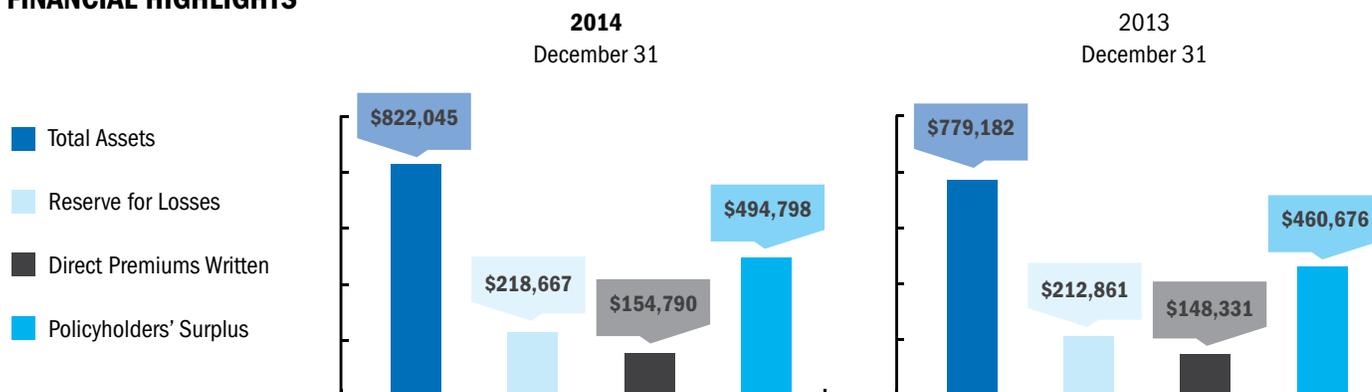
POLICYHOLDERS' SURPLUS - CONSOLIDATED



CONDENSED CONSOLIDATED FINANCIAL INFORMATION

(Unaudited, in thousands)

FINANCIAL HIGHLIGHTS



BALANCE SHEETS

	December 31 2014	December 31 2013
ASSETS		
Fixed Maturity Securities	\$477,874	\$453,396
Equity Securities	82,326	69,211
Real Estate and Other Investments	39,320	31,586
Cash and Cash Equivalents	22,497	38,052
Premiums Receivable	52,208	49,556
Reinsurance Receivable	73,697	64,555
Other Assets	74,123	72,826
TOTAL ASSETS	\$822,045	\$779,182
LIABILITIES		
Reserve For Losses	\$218,667	\$212,861
Unearned Premiums	74,453	71,635
Policyholder Dividends Payable	13,500	15,500
Notes Payable	-	725
Other Liabilities	20,627	17,785
TOTAL LIABILITIES	327,247	318,506
POLICYHOLDERS' SURPLUS	494,798	460,676
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	\$822,045	\$779,182

INCOME STATEMENTS

	Year Ended December 31 2014	Year Ended December 31 2013
Net Premiums Earned	\$127,406	\$127,416
Net Investment Income	18,843	16,248
Net Realized Gains on Investments	14,053	5,964
Other Revenue	5,239	4,334
TOTAL REVENUES	165,541	153,962
Losses and Loss Adjustment Expenses	62,740	46,789
Other Operating Expenses	38,427	41,595
Policyholder Dividends and Trust Rewards Benefits	15,304	16,495
Amortization of Intangible Assets	2,518	2,518
TOTAL EXPENSES	118,989	107,397
Income Before Income Tax	46,552	46,565
Income Tax Expense	13,576	14,754
NET INCOME	\$32,976	\$31,811

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



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