TDC Agents Meeting
The Changing Face of Healthcare
October 3, 2013
Richard E. Anderson, MD
Chairman and Chief Executive Officer
Introduction

• “The best thing about the future is that it comes only one day at a time” -- A. Lincoln
  ▪ If only…

• Trending today

• Defensive medicine
  ▪ Trillion dollar gorilla

• TDC and you
Our Mission is to advance, protect, and reward the practice of good medicine
Trending Today
TDC Member Growth

Sales Agents 2013/ 5
MPL Mergers and Acquisitions

Sales Agents 2013/ 6
Nationwide Frequency

TDC Claims per 100 Doctors

Actuarial evaluation as of 4Q12. Full-time mature exposures on an IM equivalent basis.
Nationwide Severity ($000s)

4% Annual Trend Rate

Actuarial evaluation as of 4Q12, unlimited loss

Sales Agents 2013/9
U.S. Medical Malpractice Verdicts Greater Than $10 Million

$ Thousands

2007 2008 2009 2010 2011 2012

$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0

Large Verdicts
TDC Nationwide Rate Changes and Discounts

Percent

Policy Year


έ29%

Manual Rate Change  Net Rate Change
TDC Dividends

($’s Millions)

2006-2009: $61
2010-2012: $63
2012-2013: ~$25M
TDC Retention

Year: 2006 - 2013 Q2

- Custom Accounts
- Total TDC

- 2006: 85%
- 2007: 84%
- 2008: 90%
- 2009: 93%
- 2010: 97%
- 2011: 95%
- 2012: 86%
- 2013 Q2: 98%

- 2006: 90%
- 2007: 89%
- 2008: 90%
- 2009: 92%
- 2010: 92%
- 2011: 92%
- 2012: 89%
- 2013 Q2: 91%
Net Promoter Scores

Source: Satmetrix 2011-12
Ward’s 50 Group

- **TDC recognized as one of the 50 best property-casualty insurance companies in the world for the 5th year in a row**
- **Covers a full decade of performance**
Defensive Medicine and the Cost Curve
“Anybody who doesn’t believe that doctors and hospitals practice defensive medicine, you’re crazy. And therefore we ought to have real tort reform, real malpractice reform. We can’t afford to have the doctors practicing defensive medicine.”

Erskine Bowles
January 2012
Co-Chair, National Commission of Fiscal Responsibility (Democrat)
Why Defensive Medicine is Important

- Failure to bend the cost curve = end of private medicine
- Failure to limit medical spending to medically indicated = failure to bend the cost curve
- Limiting medical spending to only medically indicated = dramatically reducing defensive medicine
- Ergo, failure to reduce defensive medicine = end of private medicine
- QED
All Medicine is Defensive:

**TDC RAND - No Such Thing as Low Risk**

Percent of Physicians

Physician Age

- **High Risk**
- **Low Risk**

Sales Agents 2013/19
TDC RAND: Proportion of Physicians Facing a Malpractice Claim Annually

- Neurosurgery
- Thoracic-cardiovascular surgery
- General surgery
- Orthopedic surgery
- Plastic surgery
- Gastroenterology
- Obstetrics and gynecology
- Urology
- Pulmonary medicine
- Oncology
- Cardiology
- Gynecology
- Neurology
- Internal medicine
- Emergency medicine
- All Physicians
- Anesthesiology
- Diagnostic radiology
- Ophthalmology
- Nephrology
- Pathology
- Dermatology
- Family general practice
- Other specialties
- Pediatrics
- Psychiatry

Claim with payment to a plaintiff
Any claim


Sales Agents 2013/20
TDC RAND: Percent of Career Consumed with Pending Claim

Claims with indemnity  □ Claims without indemnity

- Neurosurgery
- Cardio-Thoracic Surgery
- Orthopedic Surgery
- General Surgery
- Plastic Surgery
- Obstetrics and Gynecology
- Gastroenterology (No Surgery)
- Urology
- Oncology
- Pulmonary Medicine
- Internal Medicine
- Cardiology
- Gynecology
- All Physicians
- Anesthesiology
- Neurology
- Diagnostic Radiology
- Pathology
- Ophthalmology
- Emergency Medicine
- Family General Practice
- Nephrology
- Dermatology
- Other
- Pediatrics
- Psychiatry

0%  5%  10%  15%  20%  25%  30%

Sales Agents 2013/21
Intensifying Battle to Nullify Even Existing Legal Reforms

• No forward movement nationally
• Forced back on defense in the states
  ▪ Anti-MICRA initiative
    • In addition to the usual arguments, adds visceral anti-doctor core
    • Wisconsin statutes under attack
    • Florida challenge still pending
    • Illinois, Georgia already nullified
  ▪ Reversals in these battles will significantly amplify soft market losses, and are terrible for our members
    • The pressure to practice defensive medicine shows no sign of abating
We All Need to be Involved

TDC has pledged our data, our expertise, and $10M to defeat the CA initiative
Prevalence of Defensive Medicine

- National - 91% of physicians believe malpractice concerns result in defensive medicine
- Pennsylvania - 93% report engaging in various forms of defensive medicine
- Massachusetts - 83% report engaging in various forms of defensive medicine
Defensive Medicine: Breast Cancer - Standards of Care

- Approximately **11%** of mammograms read as abnormal in U.S. vs. **<2.5%** in Sweden despite same sensitivity
  - Harvard study of screening mammography:
    - 9,762 women for 10 years
    - Cumulative 10-year risk of a false positive exam: 49.1%
    - 18.6% of women screened for 10 years will undergo a negative biopsy (*NEJM* 1998; 338:1089)
    - More than 2 out of 3 breast biopsies are benign (*Mayo Clinic*)
The Problem with the Standard of Care Standard

• Everyone talks about it, everybody can define it, but nobody knows what it is or will be tomorrow.
• Poor outcomes are subject to litigation. Period.
• Standards of care are medical-legal, not medical.
What About Practice Guidelines?

Breast Cancer

- Common
- Well-studied
- Stable diagnostic technology
- Decades of data
- Should be easy
What About Practice Guidelines?

Breast Cancer

• The American Cancer Society [110], American College of Radiology [111], American Medical Association [112], the National Cancer Institute [113], the American College of Obstetricians and Gynecologists [51], and the National Comprehensive Cancer Network (NCCN) [114] recommend starting routine screening at age 40. The American Academy of Family Physicians recommends screening mammography every one to two years for women ages 40 and older [115].

• The United States Preventive Services Task Force (USPSTF), the American College of Physicians, and the Canadian Task Force on the Periodic Health Examination recommend beginning routine screening at age 50 [116-118]. The Canadian Task Force in 2011 revised its recommendations to recommend against screening for women under age 50 [118]. These groups advise individual risk assessment and shared decision-making with patients regarding mammogram screening for women 40 to 49 years of age [116,117]. For women who do not wish to participate in shared decision-making, the ACP suggests mammograms every one to two years for women age 40 to 49 years. The USPSTF advises screening every two years for women who elect to be screened.

• In 2000, the Advisory Committee on Cancer Prevention in the European Union recommended women between the ages of 50 and 69 be offered mammogram screening in the context of an organized screening program with quality assurance [119]. Women aged 40 to 49 should be advised of potential harms of screening, and if mammograms are offered to these women, they should be performed with strict quality standards and double reading.
Age to discontinue — Several groups do not explicitly state at what age breast cancer screening should stop. The USPSTF recommends mammography screening to age 74, as does the Canadian Task Force of Preventive Health Care [116,118]. They state that there is insufficient evidence beyond age 74. The American College of Radiology recommends screening until life expectancy is less than five to seven years, on the basis of age or comorbidities [111]. The American College of Obstetricians and Gynecologists recommend that women aged 75 years and older should consult with their physician to decide whether to continue screening [51].

Breast examination guidelines differ in each
Practice Guidelines and Defensive Medicine: Breast Cancer

- What is clinician to do?
  - Especially if radiologist follows guidelines and suggests annual screening
  - Courts have held guidelines alone do not establish legal standard of care
  - Informed consent
  - Remember, most cases not about missed screening but delayed diagnosis after failing to evaluate palpable lump or abnormal mammogram
How Pervasive is Defensive Medicine?

- Mayo Clinic Survey 2013
  - 2,556 respondents, all specialties, nationwide
  - Doctors most frequently identified Trial Lawyers as the group with most responsibility to reduce the cost of health care (!)
    - Trial Lawyers - 60%
    - Health insurers - 59%
    - Hospitals - 56%
    - Government - 44%
    - Individual practicing physicians - 36%
Healthcare Challenge: Increase Quality, Expand Access, Reduce Cost

• **Better, faster, cheaper**
  - Choose any two
  - Which two?
Liability and ACOs

• Fine line between cost containment and maximizing profit

• ACO cost containment policies subject to challenge when litigating poor outcomes
  - Managed care experience
  - Asserting institutional malfeasance strengthens lawsuit and opens path for punitive damages
  - Broader nature of claims opens door to wider discovery
  - Newer theories of liability
    • Class action against institutions with policies alleged to be harmful to patients, ie physicians’ incentive payments
      - Harvey and Cohen, JAMA 2013

• But legislative purpose of act includes cost savings
Litigation and the Standard of Care

- Signal-to-noise ratio incredibly low:
  - 80% of claims close with no indemnity payment
- What if the police made 80% false arrests, or district attorneys prosecuted the innocent 80% of the time?
- Can we seriously believe that doctors are not defensive in this environment?
- Meaning: The standard of care is to practice defensive medicine
Paradoxical Pressures of Medical Practice Today

• Generate revenue/Reduce costs
• To err is human/Be perfect
• Be optimistic/Be honest
• Be aggressive/Be careful
• Do not undertreat the elderly/What did you do to grandma?
• Prolong survival/Refer to hospice sooner
• Be close/Keep your distance
• Hurry up/Take your time

David Mintzer “Oncodoxes” JCO 2013
Core Principles of Our Company

• **TDC’s strength arises from our:**
  ▪ Commitment to a great mission
  ▪ Willingness to learn, adapt, and lead
  ▪ National platform, and
  ▪ Unified culture
Core Principles of Our Organizational Structure

- The Doctors Company must be The Doctors Company wherever we operate
- We have strong leadership in both headquarters and our regional offices
  - Regionalization allows us to combine national perspective, scale, and resources with a personal touch
  - Each of our parts is very strong, but together TDC is unrivaled
TDC Strategy and Tactics

Three key changes:

1. **Southwest** and **Northeast** operating regions
   - Completes nationwide regionalization

2. **TDC Specialty**
   - Focus our development of competencies, services, and products needed for complex custom accounts and integrated delivery systems
   - Allows development of a key operating unit working within the scope of our mission, but with different culture, services, and incentives
3. Insurance Operations Department
   - Enhance cross-departmental infrastructure
     - Improve efficiency
     - Assure best imaginable member experience across the organization
TDC and You

• Much is changing in healthcare delivery, but consider…
  
  ▪ We are here today because we already have an outstanding relationship
  
  ▪ As medicine consolidates
    • Ever more healthcare providers will have strong professional representation -- you
    
    • Fewer MPL companies will survive
      – Understandably, but disastrously, most will not recognize this (or act on it) until too late
What Does Hubris Look Like? - Jim Collins

- Undisciplined leaps into areas where a company does not have a competitive advantage
- Pursuit of growth beyond what can be delivered with excellence
- Bold, risky decisions made in the face of negative evidence
- Denial of risk
- Arrogance and complacency
• Greatness is not primarily a matter of circumstance; greatness is first and foremost a matter of conscious choice and discipline

• Great companies care as much about values as victory, as much about purpose as profit, as much about being useful as being successful

• Characteristics: discipline, empirical creativity, and ambition, productive paranoia

• Get the best people, eliminate the wrong people
TDC and You

So our partnerships will become even more important
Conclusions (1)

• *The drive toward consolidation is irreversible*
  - Bigger may not be better, but today it is best
• *Patience and fortitude, courage, capital, and commitment will be required to make this journey successfully*
  - We are confident in our mission and our ability to achieve it
• We are proud to partner with you on the road ahead
“Whether you prevail or fail, endure or die, depends more on what you do to yourself than on what the world does to you”

- Jim Collins

This is all we can ask and all we will need
Mission Statement

Our Mission is to advance, protect, and reward the practice of good medicine.