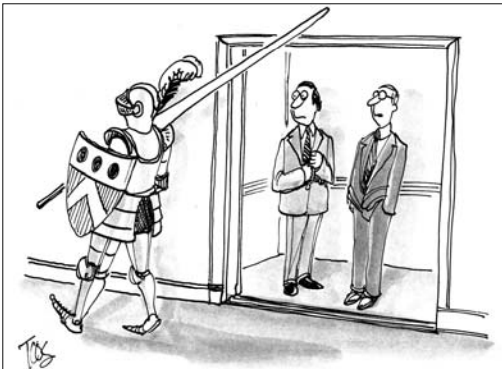



## Mergers & Acquisitions in Medical Professional Liability




**"There he goes, the bravest M&A knight  
that our little kingdom has ever known."**

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## Discussion Items



- Recent Medical Professional Liability Activity
- What's Driving It?
- Is This Going to Continue?
- Key Issues to Consider When Contemplating a Transaction

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## Recent Medical Professional Liability M&A Activity




Announce Date	Acquirer	Target	Transaction Size (\$M)	Comments
09/28/2011	 MEDICAL PROTECTIVE	Princeton Insurance	NA	Expansion in liability coverage for health-care providers in the Northeast U.S.
07/01/2011	 NORCAL	 MEDICUS	\$59	Geographic expansion for NORCAL
05/23/2011	 THE DOCTORS COMPANY	 FPIC	\$362	Largest Florida medical professional liability writer gives The Doctors Company a market leading position
08/31/2010	 PROASSURANCE	 APS American Physicians Service Group, Inc.	\$229	Established medical professional liability writer gives ProAssurance a foothold in Texas
07/07/2010	 THE DOCTORS COMPANY	 APCapital	\$396	Largest Michigan medical professional liability writer gives The Doctors Company a market leading position
07/30/2009	 FPIC	 Advocate	\$46	Growing Texas medical professional liability writer provides diversification
06/03/2009	 ProMutual Group	 FINCOR Holdings, Inc.	\$264	Hospital writer gives ProMutual geographic diversity
10/28/2008	 PROASSURANCE	 PICA	\$135	Sponsored demutualization gives diversification to ProAssurance
06/16/2008	 NORCAL	 MILLENNIUM	\$23	Smaller deal provides NORCAL with additional geographic diversification
10/15/2007	 THE DOCTORS COMPANY	 acp	\$280	Combination brought leaders of Northern California and Southern California together
06/25/2007	 Hanover	 Professionals Direct, Inc.	\$23	Provided The Hanover Group entry point into the market
04/01/2007	 THE DOCTORS COMPANY	TriState Medical Insurance Company	NA	Geographic expansion for The Doctors Company


Source: SNL Financial

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## What's Driving It?






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## Strong Underwriting Performance...



■ Prior to reforms, the medical professional liability industry combined ratios were meaningfully higher than the aggregate P&C combined ratio; however, it declined significantly in 2004 and significantly outperformed between 2006 and 2011 with a five-year average calendar year combined ratio of 83.1% (2007-2011)

### Historical Medical Professional Liability Combined Ratios

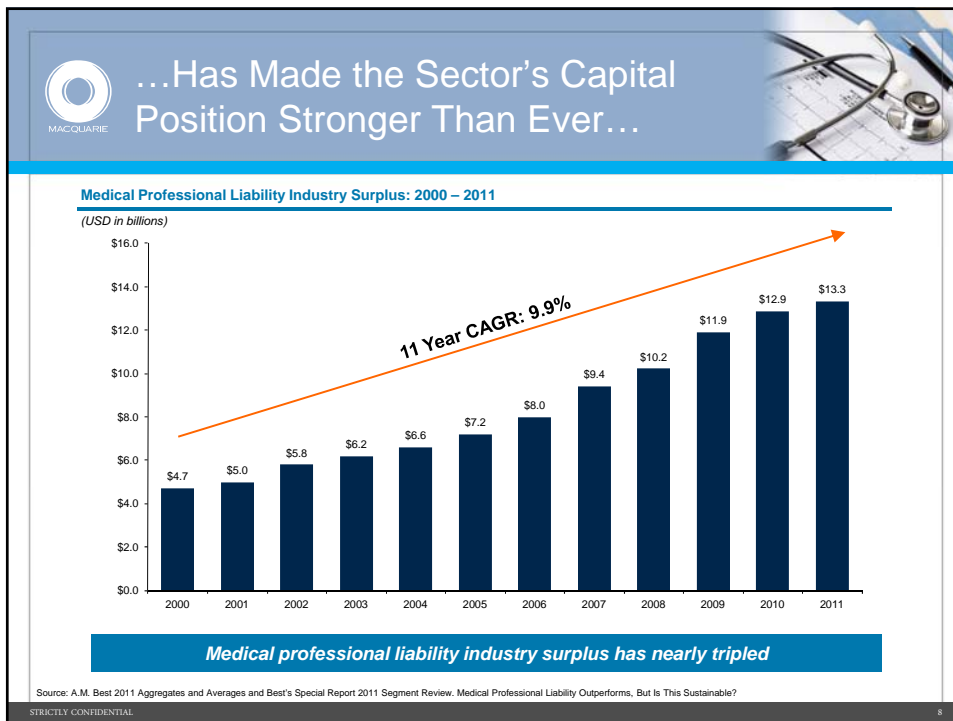
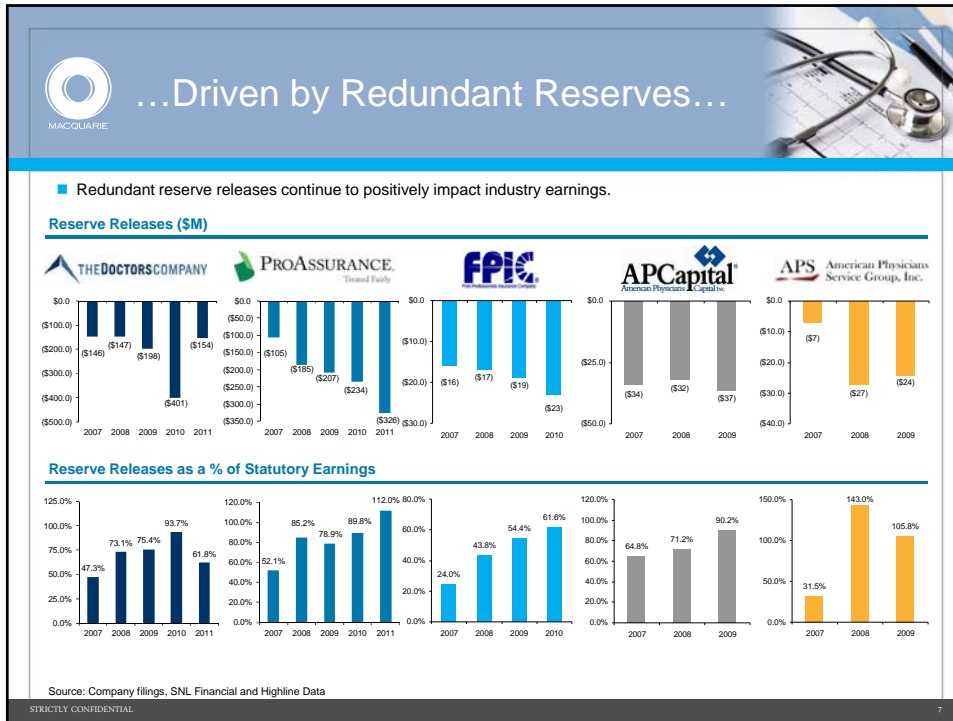
Year	Expense Ratio	Dividend Ratio	Combined Ratio
2000	19.8%	110.0%	133.7%
2001	19.7%	131.9%	154.7%
2002	17.9%	123.2%	142.3%
2003	16.8%	120.1%	137.3%
2004	15.1%	95.2%	110.9%
2005	16.4%	83.9%	101.0%
2006	17.3%	72.6%	91.1%
2007	18.5%	62.6%	84.3%
2008	18.9%	56.1%	77.5%
2009	20.9%	59.3%	83.2%
2010	19.5%	56.6%	81.4%
2011	21.2%	63.0%	89.1%

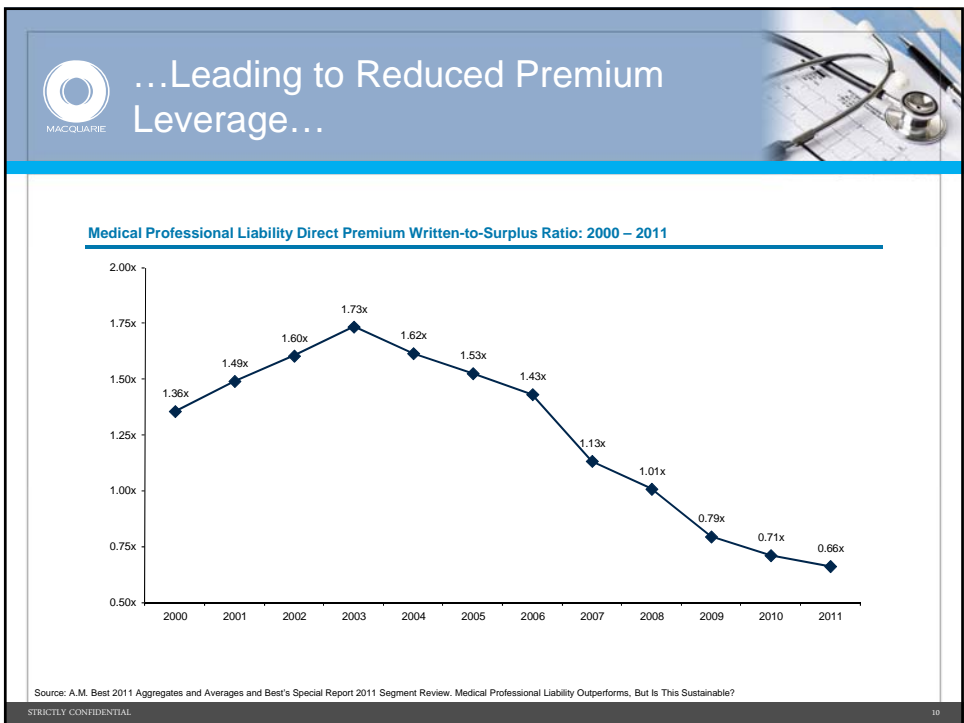
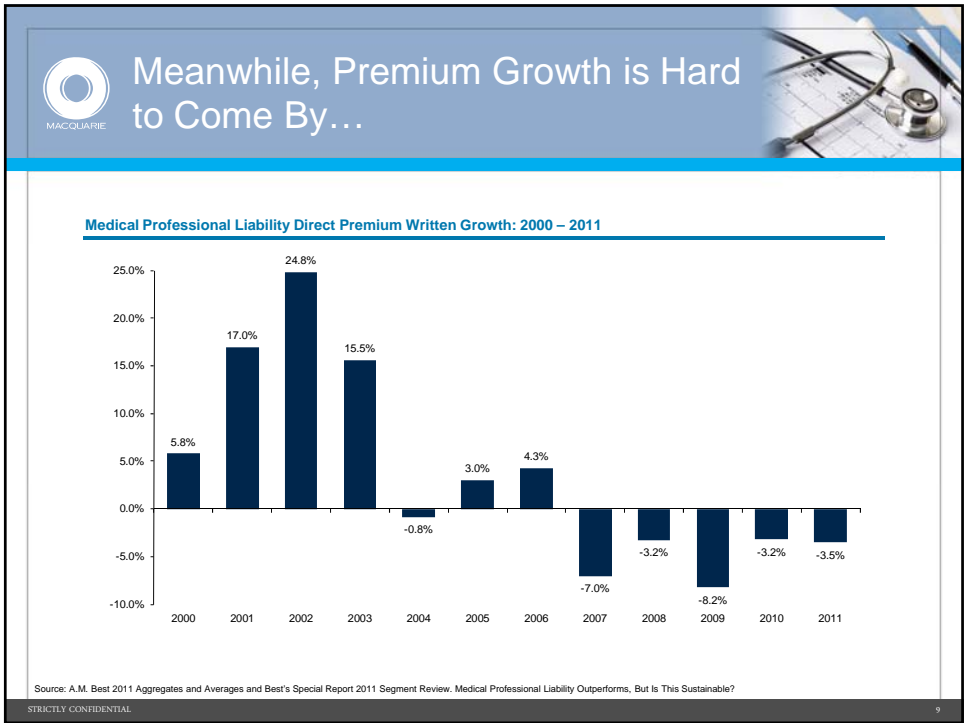
### Difference Between Medical Professional Liability and P&C Aggregate Combined Ratios

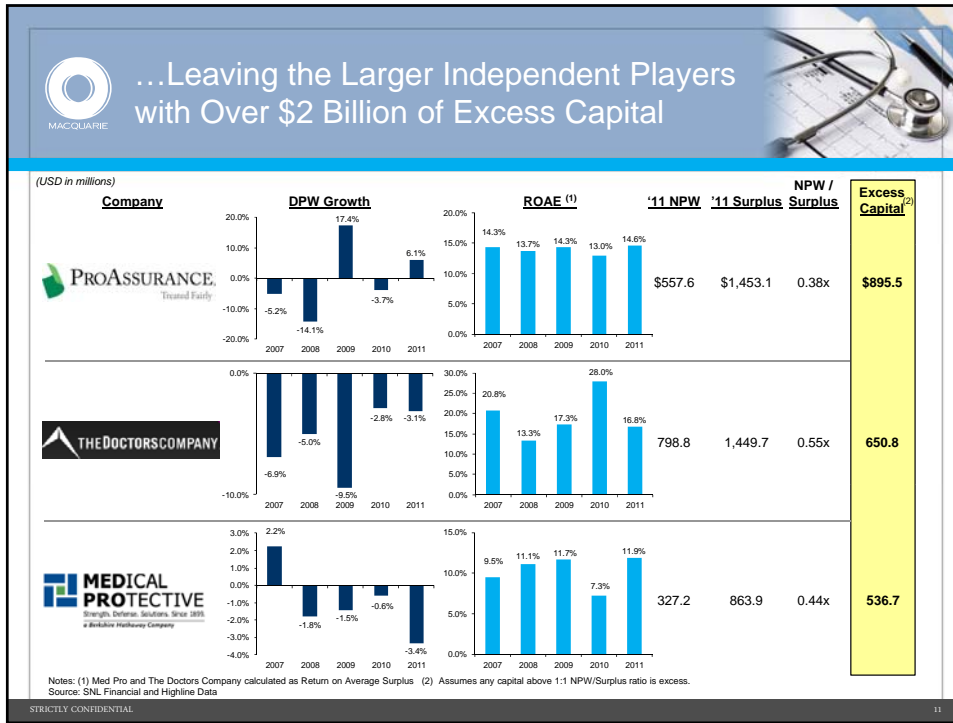
Year	Difference
2000	23.6%
2001	38.9%
2002	34.8%
2003	37.2%
2004	12.5%
2005	0.2%
2006	-1.5%
2007	-11.4%
2008	-26.6%
2009	-17.5%
2010	-21.1%
2011	-18.6%

Source: A.M. Best 2011 Aggregates and Averages

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**What Happens to Excess Capital?**

	Stimulates Growth	Accretive to Earnings	Benefits Owners	Benefits Policyholders
Policyholder dividends				✓
Stockholder dividends (1)			✓	
Share buybacks (1)		✓	✓	
Reduced by under pricing business	✓			✓ (short term)
Acquisitions	✓	✓	✓	?



(1) Stock companies only

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 So, Is This Going to Continue?? 




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 Questions to Consider 

- What will be the catalyst that causes a hard market? (Conversely, how long will the soft market last?)
- How will healthcare reform / national medical professional liability tort reform change the market?
- Will the benefits of scale outweigh geographic focus in the competitive marketplace?
- There is only one public company left. Does that mean there aren't any more sellers?

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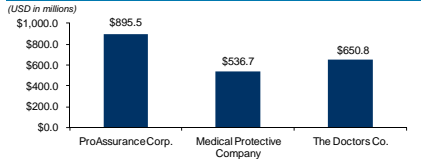


## Why Will Consolidation Continue?



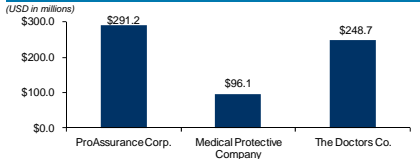
- The medical professional liability insurance business continues to enjoy favorable results due to tort reform, good loss trends and strong loss reserves.
- Organic growth has proved difficult for the majority of players, with the recent industry 5-year compound annual premium growth rate (2005-2010) at -3.6%, a sharp decline from the prior 5-year period (2000-2005) of 11.5%.
- Significant excess capital will continue to keep premium rates from increasing in the short term.
- Scale in "good" states continues to be the goal. Growth via acquisition has remained one of the few ways that players can increase market share in states that are considered favorable.

**Significant Excess Capital Exists...**



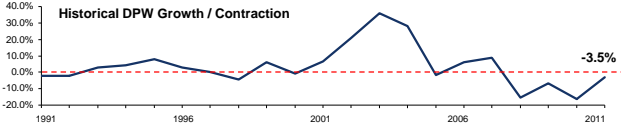
Company	Excess Capital (USD in millions)
ProAssurance Corp.	\$895.5
Medical Protective Company	\$536.7
The Doctors Co.	\$650.8

**...And Continues to Build <sup>(1)</sup>**



Company	2011 Net Income (USD in millions)
ProAssurance Corp.	\$291.2
Medical Protective Company	\$96.1
The Doctors Co.	\$248.7


**While Premium Levels Continue to Decline...**




**Historical DPW Growth / Contraction**

(1) Represents 2011 Net Income. Sources: SNL Financial, Macquarie Research and A.M. Best

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15

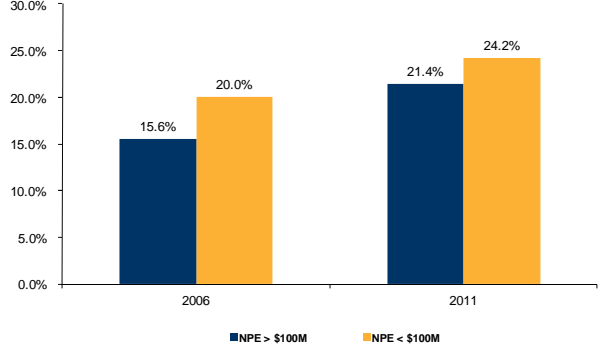


## Scale versus Geographic Focus



- Medical professional liability companies with greater than \$100M in premiums earned have a clear expense ratio advantage over their smaller competitors.

**Scale of Business: Medical Professional Liability Expense Ratio Analysis**




Year	NPE > \$100M	NPE < \$100M
2006	15.6%	20.0%
2011	21.4%	24.2%


Source: SNL Financial. Companies are group based on premiums earned in each calendar year

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16





## Effects of Industry/Healthcare Reform



*“Carriers in a number of states indicated an emerging competitor for MPLI business is the phenomenon of hospital organizations acquiring entire physician practices and incorporating those exposures into the hospital’s own captive insurer or other insurance program.”*

— Best’s Special Report – “Stability in Soft Market Conditions Despite Premium Revenue Declines” – May 2, 2011

*“According to a 2009 report by the American Medical Association, 1 in 6 doctors works for a hospital, and the number is quickly growing. Last year, half of new doctors were hired by hospitals, according to the Medical Group Management Association, a professional organization for physician practices.”*

— [www.npr.org](http://www.npr.org) – “Hospitals Lure Doctors Away From Private Practice” – October 13, 2010

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17



## Another Factor: Seller Composite





Seller	Company Type
Medicus Insurance Holdings, Inc.	Private stock company
FPIC Insurance Group, Inc.	Public company
American Physicians Services Group	Public company
American Physicians Capital, Inc.	Public company
Advocate, MD Financial Group, Inc.	Private stock company
FinCor Holdings, Inc.	Private stock company
Podiatry Insurance Company of America (PICA Group)	Sponsored demutualization
Millennium Insurance Company	Private stock company
SCPIE Holdings, Inc.	Public company
Professionals Direct, Inc.	Public company
TriState Medical Insurance Company	Risk retention group
OHIC Insurance Company	Stock company subsidiary

Source: SNL Financial

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18



 **What Does This Mean for Independent MPL Companies?** 


**In the near term, all strategic options remain viable:**

- Stay Independent**
  - Profitability is good
  - Stable market share
  - Organic growth outside of target region will be challenging
  - Larger competitors will continue to gain scale
- Become An Acquirer**
  - Find a smaller, like-minded company to acquire to gain scale
  - Excess capital to put to work
  - For attractive targets, competing with larger acquirers will be challenging
- Evaluate Merger Proposals**
  - Acquirers will remain active as long as the market remains soft
  - Private companies can and should carefully consider qualitative factors like culture rather than price only
  - With possible significant changes coming via healthcare legislation, scale and strength will be even more important
  - Number of options and negotiating power is highest at times like these

*Once the market hardens, the options narrow as acquirers are able to grow organically, and possible targets may be less desirable*

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 **Key Issues to Consider** 



**I THOUGHT WE WERE GOING TO PLAY DOCTOR.**

**WE ARE PLAYING DOCTOR! I'M A LAWYER AND I'M SUING YOU FOR MALPRACTICE.**

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## Issues to Consider When Contemplating a Transaction



- Are my policyholders going to be better served, more stable, etc., if we remain independent or does scale / diversification provide more benefit?
- Is there a partner out there that shares the same mission / values as my organization?
- How do I know who would make a good partner?
- If I think that at some point my policyholders will benefit from a combination, will I be in a better negotiating position in the future or now?

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21



## Questions?



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22