LEADING THE WAY

OMIC 2016 MEMBERS REPORT

OPHTHALMIC MUTUAL INSURANCE COMPANY
(a Risk Retention Group)

Sponsored by the American Academy of Ophthalmology

MISSION

Our MISSION is to serve the needs of members of the American Academy of Ophthalmology by providing high quality medical liability insurance products and services. OMIC strives to be a leader in the medical liability community and to promote quality ophthalmic care and patient safety.

MESSAGE

It was the summer of 1985 and all the national television networks were there. You could hear the cameras clicking and the whir of their motors grinding away. Before a committee of the House of Representatives a hesitant man leans forward and begins to speak.

Amazingly, nearly every seat facing him was empty. This is the way Congress works. Representatives appear before the lenses in this room to make speeches to constituents back home. They are gone before the testimony they've requested from the man begins.

The plea to Congress on this day was delivered in the infectious deep-throated vibrato of the Academy's liaison, Dr. Jerry Bettman, an absolute giant in the field of ophthalmology and arguably the father of modern day ophthalmic ethics. Rehearsing the night before, he wondered which might go over better—following prepared remarks or speaking extemporaneously—before ultimately deciding on the latter.

The media had exposed controversial examples of medical malfeasance in the months leading up to his testimony. They showed how much something cost and how much more an ophthalmologist was selling it for. They dug up dubious rebates, kickbacks, and trickery. They highlighted serious cases of wrongdoing and presented the worst of our profession with little context, as is often the case.

Dr. Bettman was there on behalf of the American Academy of Ophthalmology to express concerns about patient care. In essence, he was asking Congress to give the Academy the power to enforce a code of ethical standards. "Give us the handle of the broom, and we'll clean this thing up," he implored. At a spry 76 years young, Dr. Bettman was in his element.

Congress was having none of it. Unbelievably, the representatives later argued that the implementation of a code of ethics amounted to "restraint of trade." And there is the rub. Government agencies upon which we rely to protect patients and identify dangers were failing us.

Eventually Dr. Bettman and the Academy proved successful, but it took another two years and countless hours of tedious work in order to convince the Federal Trade Commission to release an advisory opinion paving the way for the code—a great victory for our profession.

But in many ways, the more things change the more they stay the same. The FDA and FTC remain overtaxed and frequently unable to foresee changes in specialty healthcare. American Institutional Review Boards are compromised in their ability to track borderline and inappropriate protocols and are woefully underfunded.

This hits close to home for me as I step forward to lead OMIC and make the case for patient safety as one of our core missions. Unfortunately, real-world concerns have begun to emerge. OMIC has identified claims resulting from treatments that completely fail the ethical tests established by the Academy's prophetic leaders.

It is not a stretch to imagine that as changes in healthcare create strains in ophthalmic practice, ethical quandaries arise and lawsuits inevitably follow. As a community, we must proactively identify questionable or inappropriate medical practices and avoid them as they are the toughest-to-defend cases. Those who would be seduced by profit over their patients' well-being present a risk that is unacceptable for our company.

Fortunately, this type of practice is anathema to the overwhelming majority of ophthalmologists in America, who would move mountains to protect their patients.

I am honored to follow in the footsteps of Dr. Bettman, who was a founding father of OMIC. His vision became part of our company's mission to improve the quality of care, not only because better medicine leads to fewer claims, but more importantly because it's the right thing to do. He and OMIC were on the frontlines of patient safety before almost anyone else, and I and your Board are determined to carry on this legacy.

—George A. Williams, MD
Chair, Board of Directors

MESSAGE

Settling into my seat waiting for the plane to inch backward, I stare out the window and think about what it took to get here: a twenty-year journey to travel the eighteen hundred and forty-six miles to this town in a state that is both incredibly beautiful and completely frustrating.

I was leaving Madison, Wisconsin, to return to California after meeting with lobbyists, lawyers, and consultants who had the fate of OMIC in their hands. With me was Steve Sanford, the President and CEO of Preferred Physicians Medical Risk Retention Group, an anesthesia-specific insurance company, which, like OMIC, was looking to change minds in the badger state's Office of the Commissioner of Insurance.

On that spring day in 2014, Wisconsin remained the only state in America that had not yet modernized its statutory framework to allow for insurance companies called risk retention groups, such as OMIC and PPM, to operate. Steve and I had flown in to try to get the restrictive laws changed.

OMIC began this dialogue with Wisconsin's OCI twenty years earlier and my predecessors had pursued both legislative and legal remedies, their paths taking circuitous routes but ultimately landing right back where they had started. OMIC was stuck, unable to move forward with insuring ophthalmologists in the state and with little hope for change on the horizon.

To understand the legal issue at hand one must first know a little bit about our company's structure. OMIC was assembled using a blueprint that relies upon a federal law known as the Liability Risk Retention Act. This regulatory insurance vehicle was meant to eliminate administrative burdens for organizations of "similarly situated" groups or persons—in our case ophthalmologists—so they could control their own risks and defend their own claims.

The law introduced a new type of company, known as a risk retention group, which had many advantages over the traditional insurance companies that existed at the time. Subject to the laws of a single state of domicile, risk retention groups could operate across state lines efficiently and at a lower cost.

This paved the way for the American Academy of Ophthalmology to create its own insurance company that would serve its members nationwide. The onerous process previously required to operate in each individual state was no longer a deterrent and the Academy saw this as an opportunity to wrestle control for the fate of ophthalmology.

Before OMIC was created in 1987, the rates charged ophthalmologists were disproportionally high in relation to the risk involved and when compared with other specialties. OMIC and other risk retention groups not only injected competition into the current market, but also created a new niche for specialty-specific insurance products and services. It was a brilliant move. Almost immediately, malpractice insurance rates fell, and for everyone. Even ophthalmologists insured by multispecialty carriers started paying less.

Initially, some states were wary of the single state regulation model. But seeing the success of companies like ours, all but Wisconsin eventually supported risk retention groups. This is why it was so important to clear the last remaining obstacle created by the outdated laws in this key Midwestern state. OMIC exists to respond to the needs of Academy members nationwide.

I am excited to report that this complicated chapter in OMIC's history is finally closed. During a recent legislative session, the state updated its laws to allow companies like ours to write healthcare liability coverage. We are now open for business in Wisconsin. OMIC's ascent continues and we will move forward to get as many Academy members on board as possible to benefit from everything we have to offer—because that is our mission.

— Timothy J. Padovese
President & CEO

A woman has surgery to repair a retinal detachment in August. By December her vision is lost. Despite close monitoring and diligent postoperative care, chronic uveitis and choroidal detachments cause her eye to decline precipitously in the weeks and months following the procedure. She sues the ophthalmologist, beginning a twenty-year legal odyssey—the longest running and one of the most expensive cases we have ever defended.

The claim was first reported to us on September 1, 1993, two years after the surgery was performed. I had been hired by OMIC a few months earlier and was still getting my feet wet learning about ophthalmic liability under the tutelage of the visionary Dr. Jerry Bettman of California and Jim Holzer, OMIC's President and CEO.

Immediately upon receiving the call from our insured, OMIC's claims team began to research the issues surrounding the patient's outcome and assigned counsel. Triage and assessment by a subspecialist was performed to identify the clinical issues involved. An aggressive legal strategy for defense was in the works.

It was hard not to feel sorry for the woman. She had an unfortunate outcome. But it was clear our insured had done nothing wrong; the treatment she received was excellent, well within the standard of care. Her condition was the result of her underlying disease, not her physician's actions.

At the time, I was busy pulling together content for the fall edition of our *OMIC Digest*, which was to be published the following week. Dr. Bettman and another ophthalmologist, Dr. Gerhard Cibis of Missouri, were to write about the personal toll that malpractice litigation can have on a physician—extraordinarily prescient considering the path this claim was about to take.

In the ensuing years, OMIC went to trial multiple times, including four different appearances before the state Supreme Court, always resulting in defense verdicts. The woman appealed each time. She appeared on local television stations to tell her story and hired and

Paul Weber, JD, Vice President, Risk Management/Legal

fired at least six different attorneys. She found experts but eventually each backed out as the saga dragged on.

OMIC's claims team continued to vigorously pursue justice and finally in 2013, two months shy of the twenty-year mark, the long legal journey came to an end when all avenues for appeal were exhausted. The 6,000-page file was closed; the last legal invoice was paid. OMIC had spent more than $1 million successfully defending our insured.

The frustration the ophthalmologist endured was indescribable. On multiple occasions he expressed how grateful he was to have OMIC support him during the drawn-out legal nightmare that spanned decades. We too were grateful that he had placed his trust in us to take this case the distance.

We learn in our business that a lawsuit may go swiftly or lag on, be brilliantly conceived or miss the bar completely, surprise with twists and turns, or fall flat and come to a predictable end. Despite assertions to the contrary, no one can predict the life of a lawsuit or the inclination of a jury.

What we do know is that OMIC consistently outperforms multispecialty carriers in defending ophthalmic litigation. Year in and year out, our Vice President of Claims, Mary Kasher, reports this fact to our policyholders and to our executive leaders. She has featured in past members reports charts and graphs that show our significant advantage when compared with other companies. We close more claims without a payment to the plaintiff. When we do have to pay, we pay less than our peers—a lot less.

Today when I read that *OMIC Digest* published so many years ago, I am amazed at how spot-on our leaders were about the consequences of a malpractice claim. Dr. Bettman described in "The Psychological and Emotional Impact of Being Sued" the symptoms of litigation stress syndrome: anger, self doubt, irritability, insomnia, anorexia, and inability to concentrate. His guidance for insureds on what they should and should not do immediately after they report a malpractice claim is still used by OMIC staff to this day.

Dr. Cibis advised ophthalmologists in "How to Survive a Malpractice Lawsuit and Emerge Stronger" to "prepare for a long battle" when a malpractice notice arrives. It is a marathon, he explained, and cautioned against peaking too early in the process.

These ophthalmologists, drawing from their own experiences and judgment, make the case that no company is in a better position to map out the defense of ophthalmology than one composed of those who have dedicated their lives to the profession.

In looking back on my early years at this one-of-a-kind company, I recognize that OMIC's mission is exemplified in its defense of lawsuits such as the one described here. The stamina and commitment it takes to endure such a case is uniquely OMIC.

—Paul Weber

Mary Kasher, MSN, JD, Vice President, Claims

UNDERWRITING RISK

Experienced hikers know that a compass is probably the most important tool you can have when you're out wandering in the wilderness. An accurate reading of your bearings will vastly improve your odds of making it home safe and sound. But the device won't tell you everything you need to know.

Ray Fontenot, Vice President, Underwriting

A topographical map will also reveal a thing or two about your journey ahead. A steep climb or a sudden drop—these are the obstacles I'd like to know about before I set out on my way.

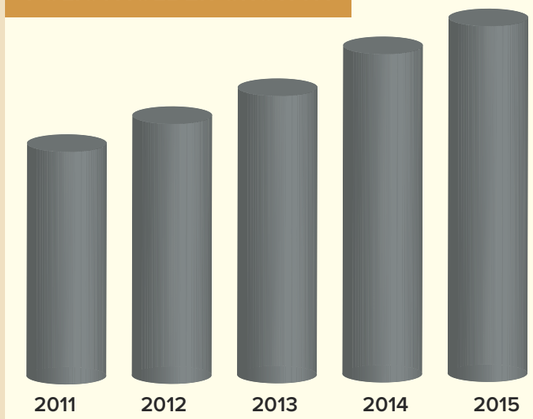
When I began underwriting risk for OMIC more than twenty years ago, I quickly learned to navigate a path that could sometimes turn treacherous with little warning. There were new procedures and techniques, such as Radial Keratotomy and LASIK, that presented unforeseen challenges like bends and curves on a narrow and menacing trail.

Careful steps were needed to assess these early days of OMIC because resources were scarce when it came to analyzing unfamiliar risks. As new surgeries gained traction in the marketplace, ophthalmologists counted on OMIC to keep them safe and out of legal danger. The problem was, no one knew exactly which hazards lay ahead.

Fortunately, we had a trailblazer who was unafraid to venture into uncharted territory. That person was Betsy Kelley, OMIC's first underwriter, who stepped forward to draw a map for our company. Betsy was able to survey the landscape, locate and catalog major landmarks of ophthalmology, and flag areas of concern.

In reviewing and defending refractive surgery claims, ophthalmic and legal experts helped OMIC identify and decrease liability risks for our company going forward. While multispecialty carriers suffered multimillion dollar refractive surgery losses, OMIC avoided serious trouble and outperformed the industry by a wide margin.

POLICYHOLDER GROWTH



Throughout our nearly thirty-year climb, OMIC has faced other threats in ophthalmic liability, among them screening and treating retinopathy of prematurity, emerging oculofacial services and medical spas, and expanding surgical facilities and professional entities.

Over time, OMIC implemented a carefully crafted plan for dealing with increasing exposures by soliciting ideas and solutions from specialists on our Board and from our policyholders. It is a responsive approach in which insureds participate in the direction and well-being of their company.

When I assumed leadership of OMIC's underwriting team, I knew good planning would protect us from past and future perils. I saw our company on an expedition:

Betsy Kelley, Vice President, Product Development

plotting each day as pioneers, where targeted ophthalmic risk assessment had become a path to success.

As time passed, there would be peaks and valleys when claims spiked and then fell off and financial markets soared and then cratered. There will be more challenges ahead, certainly. Scope of practice and the appropriate training and supervision of ancillary care providers have appeared on our radar, and we are closely monitoring the safety and efficacy of stem cell therapies. Yet despite these changing conditions, OMIC will continue to prosper because we know where we've been and where we're going.

Today we've reached the summit in our industry. We have been out ahead of multispecialty insurers for many years, leading in all major benchmarks for ophthalmic claims defense. In my opinion, it all started in the beginning, with a great strategy, headed in the right direction.

We are committed to making the path for insureds easier by eliminating unnecessary steps and making our process as efficient as possible. We will add features and expand coverage to respond to changes in ophthalmic practice. We will keep prices as low as we can.

Our goals for underwriting remain the same as when we started on this journey all those years ago: identify and navigate major obstacles before us, provide unparalleled personalized service, lead the ophthalmic liability industry, and promote safety and excellence in ophthalmic care.

It takes a stable hand to guide OMIC, especially in the current malpractice climate. OMIC has grown in policy count every year we have been in business, a rise that is remarkable among our peers. But to keep moving forward we must continue to be vigilant and always prepare for the unexpected.

I view our mission statement, much like a compass or a map, as a very simple device we've used for keeping OMIC on the right path. It provides clarity for our staff and helps us remain focused on our destination.

—Ray Fontenot

FINANCIAL HIGHLIGHTS

Each year, OMIC's financial team tries to wreck the company. We grab the wheel, tighten our grip, and press the accelerator of OMIC's financial engines, aiming straight for a brick wall. We're hoping for a big-time crash.

Like researchers who test the effects of auto collisions on the human body so future designs may improve on safety, the finance team strives to identify any dangers that present threats to the stability and well-being of OMIC.

Our aim is to ensure that OMIC could survive a potentially damaging financial hit. We put the company through a series of dramatic scenarios, where volatility caused by imagined variables, such as a severe spike in claims or a sudden loss of insureds, is studied for its impact on our core financial structure.

Our mission is to ensure solvency of the company. By building in controls and procedures to absorb the impact of unforeseen events, we meet the directive of the National Association of Insurance Commissioners. We also sleep better at night.

Ultimately, keeping OMIC alive and kicking is only a baseline. As Chief Financial Officer, my aspirations are higher than mere survival. I want our company to emerge from an unexpected jolt unharmed, healthy, and secure.

To accomplish this, we have reinforced the framework of OMIC. We started by strengthening our policyholders' surplus. When I joined OMIC in 2003, surplus was $25 million, not strong enough considering our net written premium exceeded $38 million. To put that in perspective, the benchmark ratio for financial health is a 1 to 1 relation of net premiums written to policyholders' surplus.

This imbalance so many years ago arose when OMIC came to the rescue of hundreds of ophthalmologists who were abandoned by the insurance industry as The St. Paul Company and other large commercial carriers abruptly left the market.

It was actually good news. OMIC was able to fulfill its mission to meet the needs of Academy members by taking hundreds of ophthalmologists on board during a difficult time when, in several areas of the country, no other carriers were writing new policies. But we also needed to absorb the impact of nearly 1,500 new policyholders in a three-year span, with little time to add surplus.

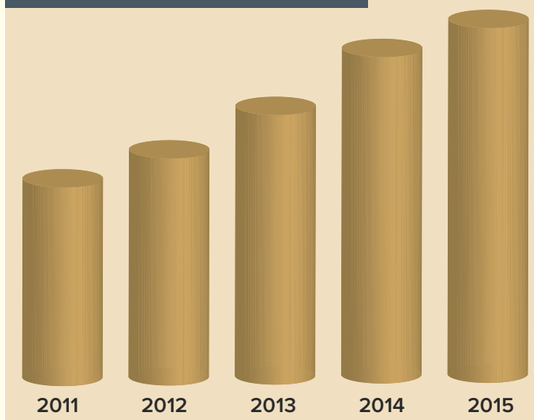
Fortunately, the driving force behind OMIC, our leadership at Board and Executive Staff levels, had the foresight to quickly implement a long-term plan for strengthening surplus. Today, OMIC's premium to surplus ratio is an incredibly solid .21 to 1 and we are a leader in the industry.

Since 2011, we've increased admitted assets by 20%, increased policyholders' surplus by 37%, increased physician policy count by 6%, and decreased rates nationally by 12%. Cumulative dividend credits have averaged more than $8,500 per physician-insured.

I am pleased to report that your company's financial health is well protected and we could withstand an unexpected event, remaining strong, resilient, and capable of meeting all of our operational missions.

—Ric Rascoe

POLICYHOLDERS' SURPLUS



Ricci A. Rascoe, Vice President, Finance & CFO

Statutory Basis—12 months ending December 31st	2015	2014	2013	2012	2011
Net admitted assets	$275,088,108	$268,509,733	$259,923,392	$245,951,335	$232,983,213
Loss & LAE reserves	$39,521,341	$41,001,223	$51,400,262	$55,791,199	$50,863,000
Total open claims	456	449	480	471	456
Policyholders' surplus	$192,714,016	$182,856,531	$163,579,803	$149,533,498	$140,377,848
Net written premium to surplus ratio	20.7%	22.5%	24.4%	25.9%	23.7%
Direct premium written	$44,588,084	$44,139,753	$43,249,762	$42,790,167	$41,507,606
Net earned premium	$39,298,797	$41,117,427	$39,794,461	$37,376,077	$33,648,518
Net income	$10,833,001	$19,685,569	$12,692,079	$7,548,044	$8,080,526
Loss & loss expense ratio	39.9%	8.8%	30.3%	52.3%	46.2%
Combined ratio	86.5%	56.8%	79.2%	97.2%	94.7%
Operating ratio	66.0%	37.2%	60.2%	77.9%	73.8%
Number of insured physicians	4,692	4,627	4,544	4,477	4,411

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