Medical Professional Liability:
State of the Market in 2019

Commitment Beyond Numbers

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About the Presenters

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Agenda

• Financial Results
  – Balance Sheet
  – Risk Measures
  – Profitability
    • Losses
    • Expenses
    • Investments

• Questions on Future Profitability

• RRG Trends
Financial Results

- Calendar years 2009 through 2018
- Presented for a sample of Medical Professional Liability Association (MPLA) member companies
  - Almost all premium from physician medical professional liability (MPL)
  - Generally, more than 10 years of experience for the group
Surplus

Calendar Year Ending 12/31

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$9.3</td>
</tr>
<tr>
<td>2010</td>
<td>$10.4</td>
</tr>
<tr>
<td>2011</td>
<td>$10.6</td>
</tr>
<tr>
<td>2012</td>
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<tr>
<td>2013</td>
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<td>2016</td>
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</tr>
<tr>
<td>2017</td>
<td>$13.4</td>
</tr>
<tr>
<td>2018</td>
<td>$12.8</td>
</tr>
</tbody>
</table>
Change in Surplus

2010 – 2013: +$3.2B

2014 – 2017: +$0.9B
Percentage Change in Surplus

Annual Change
2010 – 2013: 7.6%

Annual Change
2014 – 2017: 1.7%
Traditional Insurance Risks

- Reserve Risk
- Pricing Risk
- Investment Risk
- Reinsurance Risk
Net Reserves to Surplus

Includes indemnity and all LAE reserves
Net Written Premium to Surplus

Calendar Year Ending 12/31

2009: 0.46
2010: 0.40
2011: 0.38
2012: 0.29
2013: 0.30
2014: 0.28
2015: 0.26
2016: 0.27
2017: 0.26
2018: 0.29
Assets by Class

Calculated values in billions of dollars:

- Bonds
- Equities
- Cash & Short Term
- Other

Calendar Year Ending 12/31

Totals tie to cash and invested assets, subtotals line in annual statement.
Gross Written Premium by Component

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Ceded</th>
<th>Ceded</th>
</tr>
</thead>
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<td>$4.3</td>
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<tr>
<td>2017</td>
<td>$3.5</td>
<td>$1.5</td>
</tr>
<tr>
<td>2018</td>
<td>$3.7</td>
<td>$1.6</td>
</tr>
</tbody>
</table>
Profitability

On a calendar year basis, measured by two key ratios:

Combined Ratio = \( \frac{\text{Losses} + \text{U/W Expenses} + \text{PH Dividends}}{\text{Premium}} \)

Operating Ratio = \( \frac{\text{Losses} + \text{U/W Expenses} + \text{PH Dividends} - \text{Investment Gain}}{\text{Premium}} \)
Net Loss & LAE Ratio – Coverage Year and Development on Prior

Based on AM Best data for sample companies. Coverage year ratio is calculated assuming that the A&O development is immaterial.
Calendar Year Net Loss & LAE Ratio

Ratio to Net Earned Premium. Based on AM Best data for sample companies.
U/W Expense Ratio

Ratio to Net Written Premium. Based on AM Best data for sample companies.
Loss & LAE and U/W Expense Ratio

Based on AM Best data for sample companies.
Dividend Ratio

Ratio to Net Earned Premium. Based on AM Best data for sample companies.
Combined Ratio

Based on AM Best data for sample companies.
Investment Gain by Component (Ratio to Premium)

Based on AM Best data for sample companies.
Investment Gain as a Percent of Premium

Based on AM Best data for sample companies.
Operating Ratio = Combined - Investment Gain

Based on AM Best data for sample companies.
Several Questions Determine Scenarios for Future Profitability

• Will favorable loss developments continue to decrease?

• Is soft market pricing ending?

• How will future loss cost trends affect profitability?
Percentage Reductions in Ultimate Loss Estimates through 12/31/2018

Based on AM Best data of MPLA sample companies. Includes indemnity and DCC.
IBNR to Case Ratio

Reserves on Years 2018 and Prior evaluated as of 12/31/2018

Reserves on Years 2013 and Prior evaluated as of 12/31/2013

Based on AM Best data of MPLA sample companies. Includes indemnity and DCC.
IBNR to Case Ratio – Most Recent Coverage Year

Based on AM Best data of MPLA sample companies. Includes indemnity and DCC.
IBNR to Case Ratio – Prior Coverage Years

Based on AM Best data of MPLA sample companies. Includes indemnity and DCC.
Several Questions Determine Scenarios for Future Profitability

• Will favorable loss developments continue to decrease?

• Is soft market pricing ending?

• How will future loss cost trends affect profitability?
Net Premium Written – Forming an Upward Trend?

Based on AM Best data of MPLA sample companies.

Calendar Year Ending 12/31

2009: $4.3
2010: $4.2
2011: $4.0
2012: $3.3
2013: $3.7
2014: $3.5
2015: $3.3
2016: $3.5
2017: $3.5
2018: $3.7

Billions

Based on AM Best data of MPLA sample companies.
Sample of MPL Filings

- Top writers of physician insurance based on direct written premium in state
- Sample of 43 filings across 30 states
- Filings effective 1/1/2018 or later
Comparison of Selected to Indicated by Range

Based on sample of filings

Average Indicated Average Selected

-3.5% -2.7%
2.4% 2.2%
11.5% 5.1%
28.8% 5.0%
Several Questions Determine Scenarios for Future Profitability

• Will favorable loss developments continue to decrease?

• Is soft market pricing ending?

• How will future loss cost trends affect profitability?
Frequency/Severity Trends

- Based on CRICO 2018 CBS* Report
  - Closed Years 2007 – 2016
  - More than 123,000 claims

- CBS Data
  - 18 MPL insurers
  - >30% of MPL cases

*Comparative Benchmarking System
Claim Frequency Per 100 Physicians

From CRICO 2018 CBS Benchmarking Report
Average Severity on Indemnity Cases

From CRICO 2018 CBS Benchmarking Report
Average Severity on Indemnity Cases – By Case Size

From CRICO 2018 CBS Benchmarking Report
Indemnity Cases - Percent in Higher Layers

From CRICO 2018 CBS Benchmarking Report
Average Expense Per Case

From CRICO 2018 CBS Benchmarking Report
Average Expense Per Case – By Layer

From CRICO 2018 CBS Benchmarking Report
Avenues for Growth

• Competition for physicians
• Acquisition
  – MPL companies
  – Other insurance lines companies (WC, lawyers, products)
  – Complimentary service providers
• New lines & products
  – WC
  – Other liability (E&O, D&O, HIPAA, cyber)
• Geographic expansion
• Assumed reinsurance
Financial Results of MPLA RRG Sample

• 14 RRGs sponsored by MPLA companies
• Characterized by simple reinsurance programs
  – No assumed reinsurance
  – Cessions generally to only the sponsoring MPLA company
Sample RRG Company List

- Academic Medical RRG
- BeaconHarbor Mutual RRG
- COPIC RRG
- Coverys RRG
- CMIC RRG
- Doctors Company RRG
- LAMMICO RRG
- MedChoice RRG
- MMIC RRG
- National Guardian RRG
- OASIS Reciprocal RRG
- OrthoForum Insurance Company RRG
- ProAssurance American Mutual RRG
- SCRUBS Mutual Assurance Company RRG
Net and Ceded Premium for RRG Sample

Based on AM Best data for sample companies.
RRG Gross Loss Ratio Compared to Sample’s Net Loss Ratio

Based on AM Best data for sample companies. Includes indemnity and LAE.
RRG Sample 1 Year Loss Development Decreases Compared to Sample 1 Year Loss Development Decreases

Based on AM Best data for sample companies. Includes indemnity and DCC.
Questions
Final Notes

• We’d like your feedback and suggestions
  • Please complete our survey

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Thank You for Your Time and Attention

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