Medical Professional Liability: State of the Market in 2020
About Our Presenters

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Agenda

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

• Questions on Future Profitability

• COVID Thoughts
Financial Results

• Calendar years 2005 through 2019
• 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

2005: $5.9
2006: $6.8
2007: $7.8
2008: $7.9
2009: $9.3
2010: $10.4
2011: $10.6
2012: $11.6
2013: $12.5
2014: $12.7
2015: $12.9
2016: $13.4
2017: $12.8
2018: $13.2
2019: $13.2
Change in Surplus

2006 – 2012: +$5.8B

2013 – 2019: +$1.5B

Calendar Year

Billions

$0.9 $1.0 $1.3 $1.1 $1.0 $0.8 $0.3 $0.3 $0.2 $0.4 $0.4

Percentage Change in Surplus

Annual Change
2006 – 2012: 10.3%

Annual Change
2013 – 2019: 1.8%
Traditional Insurance Risks

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

Calendar Year Ending 12/31


2.09 1.89 1.65 1.58 1.33 1.15 1.07 0.93 0.83 0.79 0.76 0.74 0.71 0.74 0.75

Includes indemnity and all LAE reserves
Net Written Premium to Surplus
Assets by Class

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

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<th>Year</th>
<th>Net</th>
<th>Ceded</th>
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<tr>
<td>2019</td>
<td>$3.8</td>
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</tr>
</tbody>
</table>

Billions
Net Ceded
**Profitability**

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

**Combined Ratio** = \[rac{\text{Losses} + \text{U/W Expenses} + \text{PH Dividends}}{\text{Premium}}\]

**Operating Ratio** = \[rac{\text{Losses} + \text{U/W Expenses} + \text{PH Dividends} - \text{Investment Gain}}{\text{Premium}}\]
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

• How consistent are the financial results across companies?

• Will favorable loss developments continue to decrease?

• Is soft market pricing ending?

• How will severity trends affect profitability?
Calendar Year Net Loss & LAE Ratio

Ratio to Net Earned Premium. Based on AM Best data for sample companies.
Plot of 2018 and 2019 Loss & LAE Ratios – MPLA Sample

Based on AM Best data for sample companies. Only includes companies with over $30 million of premium in 2019.
Combined Ratio

Based on AM Best data for sample companies.
Plot of 2018 and 2019 Combined Ratios

Based on AM Best data for sample companies. Only includes companies with over $30 million of premium in 2019.
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Percentage Decrease in Ultimate Loss Estimates through 12/31/2019

Based on AM Best data of MPLA sample companies. Includes indemnity and DCC.
Net Ultimate Loss & DCC Ratio Development for Accident Years 2010 – 2015 through 12/31/2019

Ratio to Net Earned Premium. Based on AM Best data for sample companies.
Net Ultimate Loss & DCC Ratio Development for Accident Years 2016 – 2019 through 12/31/2019

Ratio to Net Earned Premium. Based on AM Best data for sample companies.
Components of Reserves

• Case reserves
  – Set on an individual claim basis
  – Established by company claims team

• IBNR reserves
  – Set on an aggregate basis
  – Includes reserves for upward development of case reserves
  – Also includes reserves for unreported claims
  – Estimated by company’s actuarial team
  – Management has ultimate decision on reserves
IBNR to Case Ratio

Based on AM Best data of MPLA sample companies. Includes indemnity and DCC.

Reserves on Years 2014 and Prior evaluated as of 12/31/2014

Reserves on Years 2019 and Prior evaluated as of 12/31/2019

Calendar Year Ending 12/31
IBNR to Case Ratio – Most Recent Coverage Year

Reserves on the 2014 Year evaluated as of 12/31/2014

Reserves on the 2019 Year evaluated as of 12/31/2019

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

• How consistent are the financial results across companies?

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Net Premium Written – Forming an Upward Trend?

Based on AM Best data of MPLA sample companies.

Calendar Year Ending 12/31


Billions

$4.9 $4.9 $4.6 $4.4 $4.3 $4.2 $4.0 $3.3 $3.7 $3.5 $3.3 $3.5 $3.5 $3.7 $3.8

$0.0 $1.0 $2.0 $3.0 $4.0 $5.0 $6.0
Sample of MPL Filings

- Top writers of physician insurance based on direct written premium in state
- Sample of 96 filings across 39 states
- Filings effective 1/1/2018 or later
Count of Filings by Indicated Rate Change

Based on sample of filings
Comparison of Selected to Indicated by Range

Based on sample of filings
Trends in the Count of Filings by Indicated Rate Change

Based on sample of filings
Trends in Selected to Indicated by Range

Based on sample of filings
Several Questions Determine Scenarios for Future Profitability

• How consistent are the financial results across companies?
• Will favorable loss developments continue to decrease?
• Is soft market pricing ending?
• How will severity trends affect profitability?
Severity Trends

- Based on two MPLA publications
  - 2016 Closed Claim Comparative
    - Closed Years 2006 – 2015
  - 2019 DSP Snapshot
    - Closed Years 2016-2018
Severity on Indemnity Claims

Based on MPLA 2016 Closed Claim Comparative and 2019 DSP Snapshot.
ALAE Severity by Claim Type

Based on MPLA 2016 Closed Claim Comparative and 2019 DSP Snapshot.
Large Claims are a Higher Percentage of Total Count

Based on MPLA 2016 Closed Claim Comparative and 2019 DSP Snapshot.
Average Indemnity by Resolution 2016 - 2018

Based on MPLA 2019 DSP Snapshot.
Trends by Claim Resolution

Based on MPLA 2016 Closed Claim Comparative and 2019 DSP Snapshot.
Plaintiff Wins as % of Total Verdicts

Based on MPLA 2016 Closed Claim Comparative and 2019 DSP Snapshot.
(At Least) Three Big Balancing Acts for MPL Insurers

• Charge adequate rates but compete for premium

• Ensure reserves are adequate but show positive income

• Avoid the big plaintiff verdicts but don’t be a target
Thoughts on COVID’s Impact on Loss Costs

Higher

• Conditions could be more severe after delayed treatment
• Claims around determination of non-essential surgeries
• Bad outcomes create exposure particularly for hospitals and long-term care facilities
• Fatigue for healthcare workers

Lower

• Reduced volumes
• Healthcare workers’ heroism reflected in jury attitudes
• Immunity statutes/orders

• Be aware of issues around premium refunds
• And expect to learn much more about telemedicine claims
Questions
Join Us for the Next APEX Webinar

Thursday, June 25
2:00 p.m. ET
Registration is Open

Presented by:
Christina Negley
Anna Krylova
Linda Syth

Effective Communication Between Actuaries and Stakeholders
Final Notes

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

• For copies of this APEX presentation
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Thank You for Your Time and Attention

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