Medical Professional Liability:
State of the Market in 2017

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About Presenters

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  • 16 Years of MPL Experience
Agenda

- Financial Results
  - Balance Sheet
  - Risk Measures
  - Profitability
    - Losses
    - Expenses
- Emerging Financial Trends
  - Loss Development
  - Soft Market Pricing vs Favorable Operating Ratios
  - Loss Drivers
    - Frequency
    - Severity
    - Large Claim Trends
    - Claim Resolution Trends
- New Emerging Issues
Financial Results

- Calendar years 2007 through 2016
- Presented for a sample of PIAA companies
  - Almost all premium from physician medical professional liability
  - More than 10 years of experience
Surplus

Calendar Year Ending 12/31

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions</th>
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<tbody>
<tr>
<td>2007</td>
<td>$8.0</td>
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<tr>
<td>2008</td>
<td>$7.0</td>
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<tr>
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<td>2015</td>
<td>$14.0</td>
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<tr>
<td>2016</td>
<td>$15.0</td>
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</tbody>
</table>
Change in Surplus

2008 – 2011: +2.8B

2012 – 2016: +2.4B
Percentage Change in Surplus

Annual Change
2008 – 2011: 7.9%

Annual Change
2012 – 2016: 4.2%
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


0.00 0.10 0.20 0.30 0.40 0.50 0.60 0.70
Gross Written Premium by Component

[Diagram showing gross written premiums by component from 2007 to 2016, with net and ceded amounts.]
Profitability

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

Combined Ratio = \[
\frac{\text{Losses + UW Expenses + Dividends}}{\text{Premium}}
\]

Operating Ratio = \[
\frac{\text{Losses + UW Expenses + Dividends} - \text{Investment Gain}}{\text{Premium}}
\]
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 Written Premium. Based on AM Best data for sample companies.
UW Expense Ratio

Ratio to Net Written Premium. Based on AM Best data for sample companies.
Loss and UW 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 (Including PH Dividends)

Based on AM Best data for sample companies.
Combined Ratio (Including PH Dividends)

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

Calendar Year

Net Investment Income Earned
Net Realized Capital Gain / Loss

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

Based on AM Best data for sample companies.
Several Questions Determine What Happens Going Forward

• Will favorable loss development continue to decrease?
• Is soft market pricing ending?
• What are the consequences of higher combined and operating ratios?
  – Financial
  – Regulatory
• How significant are future loss costs increases (or decreases)?
Percentage Reductions in Ultimate Loss Estimates through 12/31/2016

Based on AM Best data of PIAA sample companies. Includes indemnity and DCC.
Net Premium Written – Has it Leveled Off?

Based on AM Best data of PIAA sample companies.
Operating Ratio – Less Income but Still Profitable

Based on AM Best data for sample companies.
Breakdown of Funds Available for Investment

Based on AM Best data of PIAA sample companies. Includes indemnity and DCC.
Based on AM Best data of PIAA sample companies.
Loss Drivers

- Frequency
- Severity
  - Indemnity claims
  - Expense-only claims
Trends in Indemnity Claim Frequency

Count of Patient Care Physicians

Count of Closed Indemnity Claims

Ratio of Indemnity Claims to 100 Doctors

Based on multiple editions of AMA’s Physicians Characteristics manual and the National Practitioner Data Bank.
Severity on Indemnity Claims

Based on PIAA Closed Claim Comparative.
ALAE Severity by Claim Type

Based on PIAA Closed Claim Comparative.
Large Claims are a Higher Percentage of Total Count

Based on PIAA Closed Claim Comparative.
Increasing Severity for Largest Claims

Based on PIAA Closed Claim Comparative.
Trends by Claim Resolution

Dropped, Dismissed, or Withdrawn

Settlements

Verdicts

Alternate Dispute Resolution

Based on PIAA Closed Claim Comparative.
Plaintiff Wins as % of Total Verdicts

Based on PIAA Closed Claim Comparative.
Is That the Best Way to Measure Plaintiff Success?

Based on PIAA Closed Claim Comparative.
Plaintiff Wins as % of Total Verdicts and Dismissals

Based on PIAA Closed Claim Comparative.
Plaintiff Wins as % of Total Verdicts and Dismissals

Based on PIAA Closed Claim Comparative.
Loss Driver Summary

• Favorable frequency
• Small changes in overall severity
• Large claims trends are a concern
  – Higher percent of total claims
  – Severity increases of biggest claims
  – Uptick in plaintiff wins
  – What will the graphs look like in a few years?
New Emerging Issues

• Electronic Medical Records
  – Frequency/Severity Dynamics
  – Metadata

• Health Care Law

• Legislation and Judicial Rulings
Questions
Join Us for the Next APEX Webinar

Causes of Recent Adverse Development

Join Erich Brandt, Greg Fears and guest presenter Kevin Ahlgrim as they analyze industry loss development, as well as how the industry performed this past year compared to the last several years.

Thursday, July 6
2:00 p.m. ET
Registration is Open
Final Notes

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

- For copies of this APEX presentation
  - Visit the Resource Knowledge Center at Pinnacleactuaries.com
Thank You for Your Time and Attention

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