Medical Professional Liability:
State of the Market in 2018

Commitment Beyond Numbers

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About Presenters

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  • 17 Years of MPL Experience

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  • 13 Years of MPL Experience
Agenda

• Financial Results
  – Balance Sheet
  – Risk Measures
  – Profitability
    • Losses
    • Expenses
    • Investment Experience

• Questions on Future Profitability
Financial Results

• Calendar years 2008 through 2017
• Presented for a sample of Medical Professional Liability Association (MPLA) companies
  – Almost all premium from physician medical professional liability
  – More than 10 years of experience for the group
Surplus

Calendar Year Ending 12/31

Billions

Change in Surplus

2009 – 2013: +4.5B
2014 – 2017: +0.9B
Percentage Change in Surplus

Annual Change
2009 – 2013: 6.1%

Annual Change
2014 – 2017: 1.2%
Traditional Insurance Risks

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

Includes Indemnity and all LAE reserves

Calendar Year Ending 12/31

Includes Indemnity and all LAE reserves
Net Written Premium to Surplus

Calendar Year Ending 12/31
Assets by Class

Calendar Year Ending 12/31

Bonds  Equities  Cash & Short Term  Other

Gross Written Premium by Component

![Bar chart showing gross written premiums for different years with net and ceded amounts indicated.]
Profitability

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

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

Operating Ratio = \[ \frac{\text{Losses} + \text{UW Expenses} + \text{Dividends} - \text{Investment Gain}}{\text{Premium}} \]
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.
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.
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 are companies maintaining premium?

• Will severity trends drive future loss cost increases?
Percentage Reductions in Ultimate Loss Estimates through 12/31/2017

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

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Net Premium Written – Has it Leveled Off?

Based on AM Best data of MPLA sample companies.
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Diversification

- Diversification – what do we mean?
  - Actions MPL insurers are taking in reaction to the changing healthcare marketplace
  - Healthcare delivery system is changing, and changing MPL insurance landscape along with it
Diversification Strategies

• Acquisition
  – Medical professional liability 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
Diversification Strategies

• Alternative services
  – Loss Control
  – Underwriting
  – Claims administration
  – Captive management
  – Fronting

• Alternative vehicles
  – Risk retention groups (RRGs)
  – Protected cell captives
Case Study / Example: NORCAL Group

• Acquisitions:
  – 2016 – FD Insurance
  – 2017 – PPM Services / Preferred Physicians Medical RRG

• Geographic expansion:
  – 2016 – FL, GA, OK, SC, IN, MS, NC, OH, IA, WA, UT
  – 2017 – MI, NJ, WI, CO, MN, CT, NE, TN
  – 2018 – NM
Case Study / Example: TDC

• TDC Specialty Underwriters, Inc. – E&S lines in 40 states
• Geographic expansion – NY in 2018
• Chubb partnership – dental professional liability
• Service offerings beyond insurance
  – Patient safety assessments
  – Captive management
  – Benchmarking studies
Case Study / Example: MagMutual

• Joint ventures / partnerships
  – West Virginia Mutual Ins Co – focus on hospital and employed medical professionals in WV
  – Wolters Kluwer – evidence-based clinical content for clinicians

• Acquired Tift Area Captive Insurance Company (2018)

• Geographic expansion to Midwest in 2018
Financial Results of MPLA RRG Sample

• 14 RRG’s 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 Ins. Co. 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.
RRG Sample 1 Year Loss Development Decreases Compared to Sample 1 Year Loss Development Decreases

Based on AM Best data for sample companies.
RRG Sample 2 Year Loss Development Decreases Compared to Sample 2 Year Loss Development Decreases

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

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Severity Trends

- MPLA 2015 Closed Claims Comparative
- National Practitioner Data through 2016
Severity on Indemnity Claims – MPLA Study

Based on MPLA Closed Claim Comparative
Indemnity Severity - NPDB

National Practitioner Data Bank US Totals
Large Claims are a Higher Percentage of Total Count

Based on National Practitioner Data Bank US Totals
Increasing Severity for Largest Claims

Based on National Practitioner Data Bank US Totals
Plaintiff Wins as % of Total Verdicts – MPLA Study

Based on 2016 MPLA Closed Claim Comparative
How Long Before it Affects Settlement Decisions

Based on 2016 MPLA Closed Claim Comparative
Questions
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Causes of Recent Adverse Development

Wednesday, July 11
2:00 p.m. ET
Registration is Open
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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