

2008 CAS Annual Meeting

What's Driving the Decline in Medical Malpractice Claim Frequency?

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State of the Med Mal Insurance Market

- Improving combined ratio over past 7 years
- Softening market over past 2 to 3 years
 - Soft market tends to lag improved underwriting results by 3 to 4 years
- Med mal claim frequency driving improved combined ratio
- Severity trends unaffected

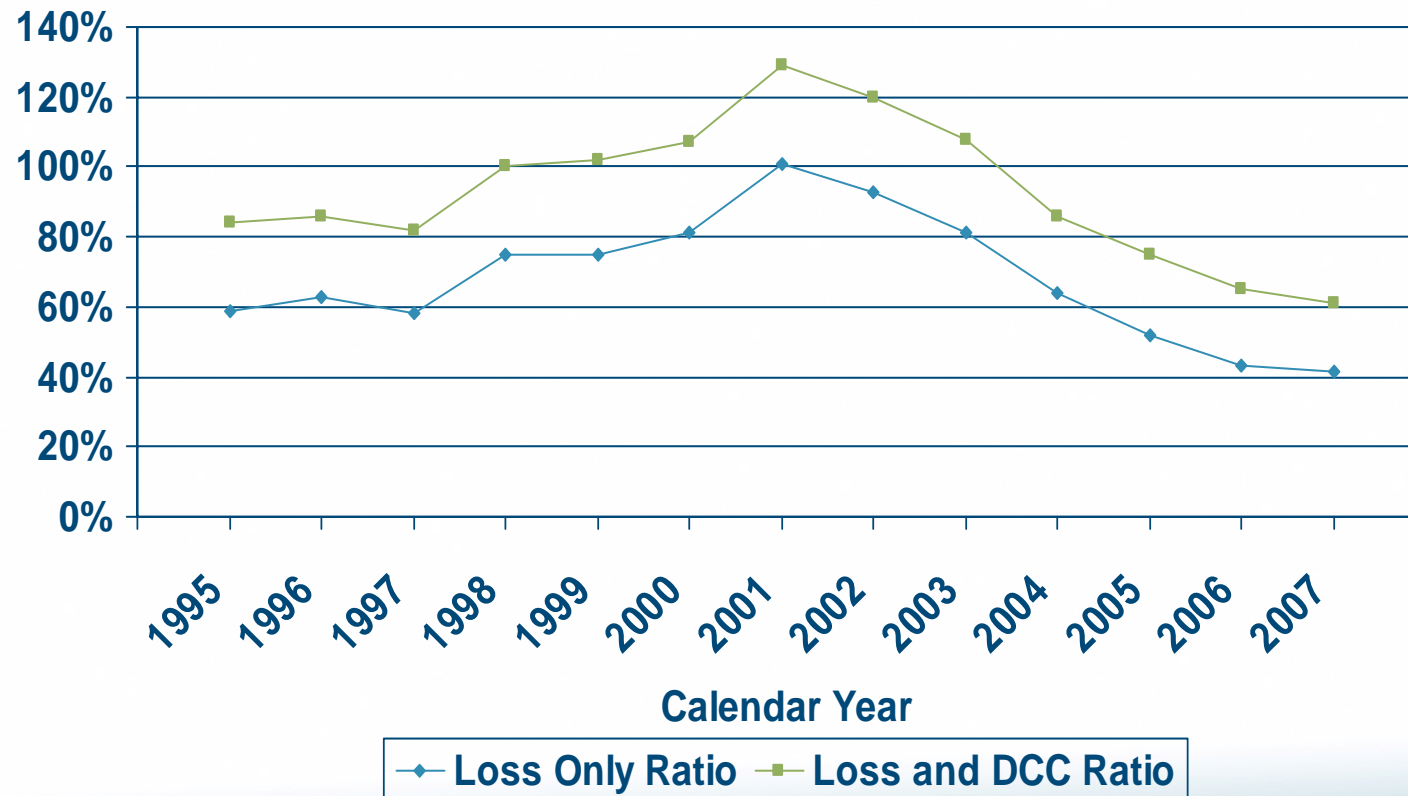
Frequency and Loss Ratios

Correlation between claim frequency and loss ratio

- Claim frequency drop results in increased profitability and a softening market
- Insurers discounting rates by as much as 20% due to competitive market
- Soft market has driven premiums down, but loss ratio continues to decline

Frequency and Loss Ratios

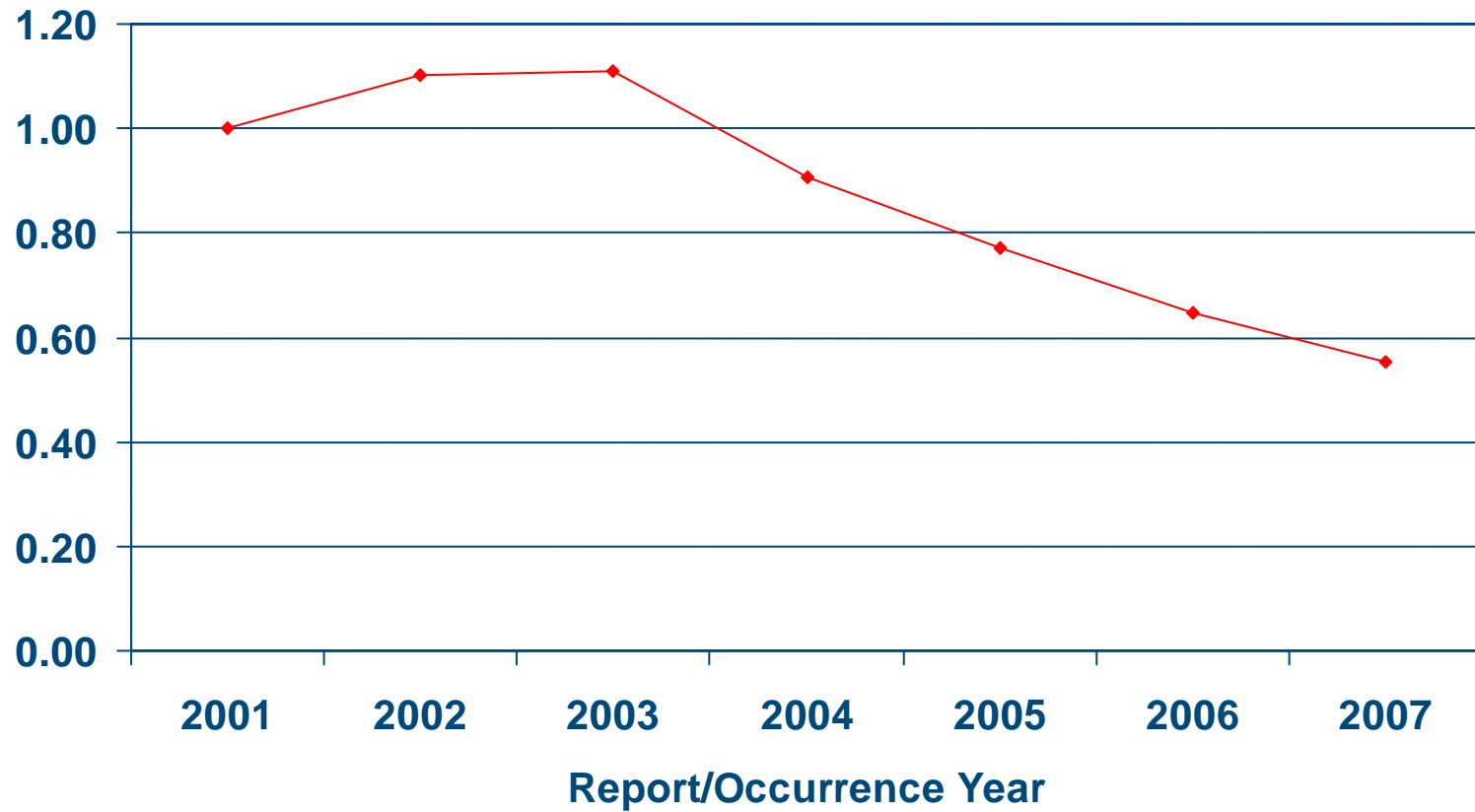
Medical Malpractice Industry Loss Ratios



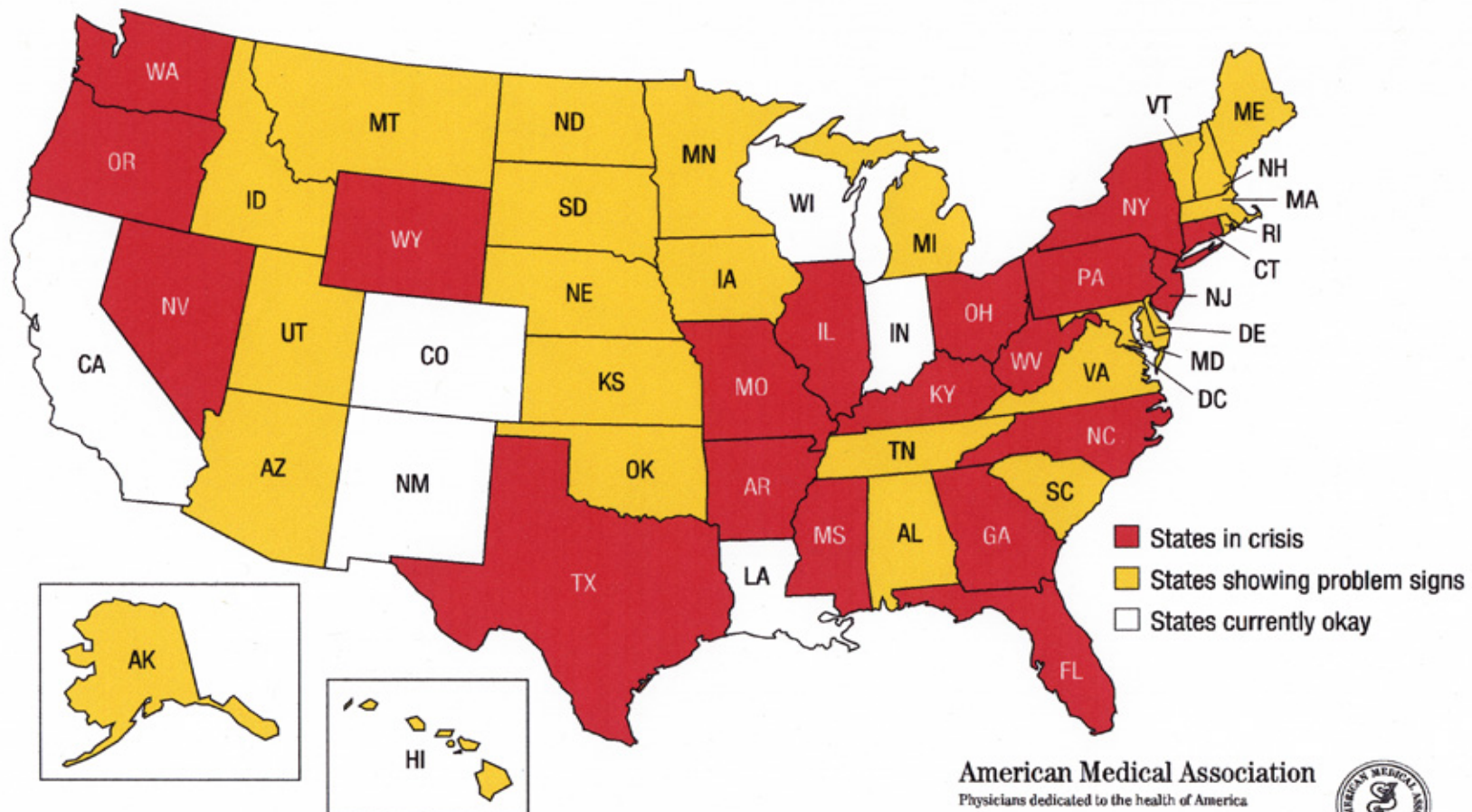
Total Med Mal Net Earned Premium



Relative Claim Frequency – 6% Severity Trend Assumption

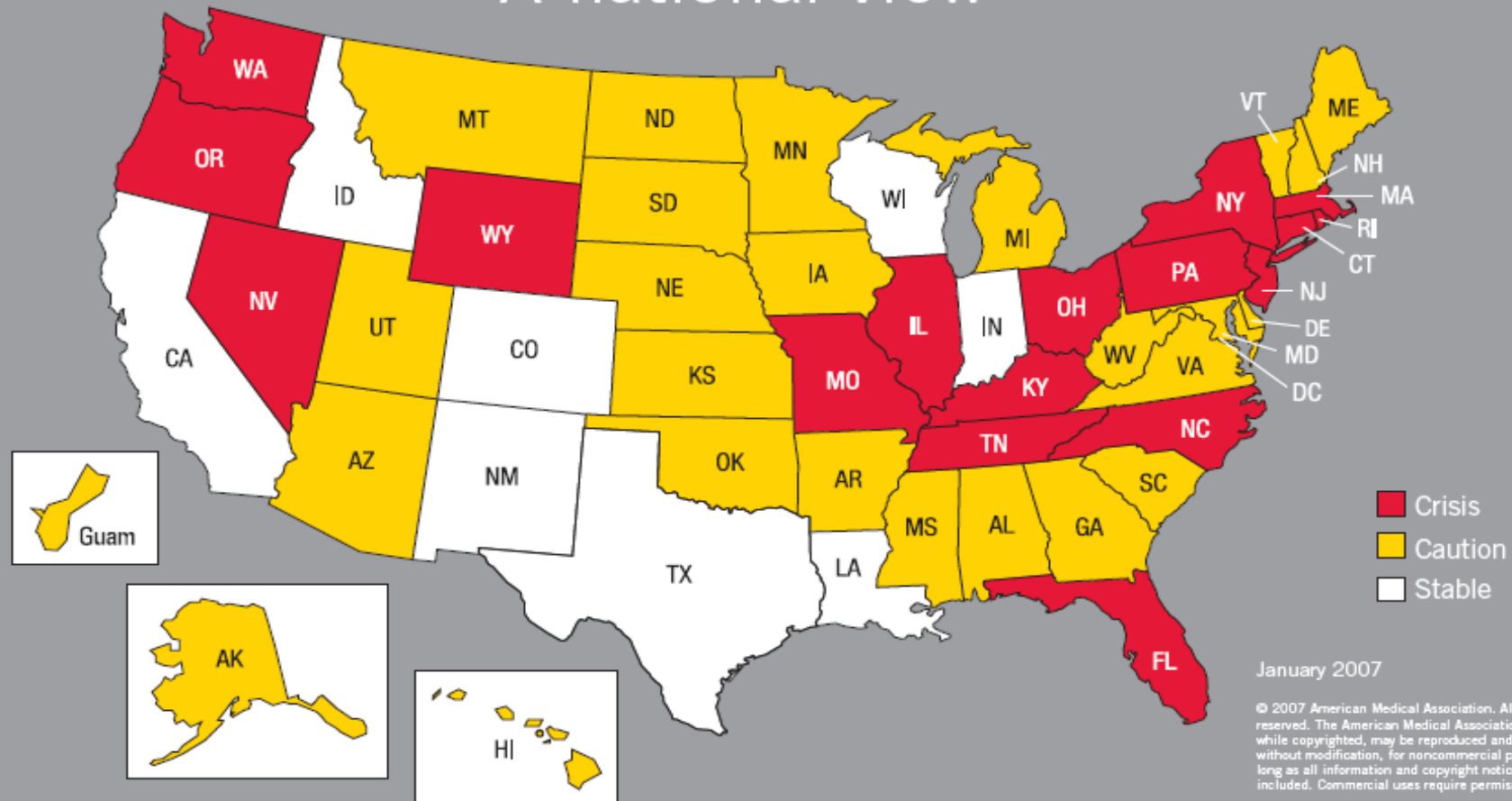


America's Medical Liability Crisis: A National View



America's medical liability crisis

A national view



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Recent Events

- Claim Frequency and Severity Trends
- Soft Insurance Market
- Texas Tort Reform
- TDC/SCPIE Acquisition
- AIG Rating Downgrade
- Use of Alternative Market

TDC/SCPIE Acquisition

- Required to file rates
- Generally believed discounts in 10% to 20% range
- TDC files 18% rate decrease

Texas

- Major tort reform in 2003
- TMLT rates down 35% post-reform
- 2009 rates 4.7% decrease and 22.5% dividend
 - Total cost to physician less than half that of 2003

AI&G and Excess Markets

- AI&G Ratings Downgrade
- P/C Business believed sound, but still causing insurers to shop around
- Potential for Sale of Insurance Assets
 - Will not reduce capacity in and of itself
- Reinsurance market still competitive
 - Primary insurers retaining more risk in 2008
- More likely that property claims will reduce capacity
- Less reinsurance capacity could reduce duration of soft market

Alternative Market

- Alternative market increases in hard market
 - In terms of both number of formations and utilization of existing captives
- RRG premium
 - 2006: +7.7%
 - 2007: -3.0%
 - 2008 est.: +2.5%
 - Note, healthcare RRG premiums in 2002 an 2003 increased 70% annually!

Claim Frequency Drivers

- Public Awareness of Bad Doctors
- Patient Safety Programs
- Tort Reform
- Venue Shopping

Claim Frequency Impacts on Soft Market

- Fewer Claims have increased industry profitability
- Increased profits drive increased competition
- Lower rates may also be indicative of lower costs rather than destructive competition

Claim Frequency–Have we seen the Bottom?

- Frequency still on the decline, but increasing sense we have hit the bottom
 - TDC claims cumulative claims down 34% through 2008
- Claims up in Florida
- Change in Medicare/Medicaid reimbursements for wrong-site surgeries and other hospital-acquired conditions could put the spotlight on these types of claims and affect public opinion
- Claim severity trending up, could be severe “multiplied effect” if claim frequency trends turn positive



Thank You