



***Issues and Trends in
Medical Professional Liability:
Update on PIAA Financial Results***

Prepared For: Casualty Loss Reserve Seminar

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Disclosures

- Content of presentation is based on 2nd Quarter 2009 edition of *The Physician Insurer*, trade publication of the Physician Insurers Association of America (PIAA); article entitled “Industry Update: Tilting Away from Further Improvement” by Kevin Atinsky and Chad Karls
- Source data based upon an analysis of a 49 PIAA member company compilation of year-end financial statements provided by National Underwriter Data Services from Highline Data



Overview of Presentation

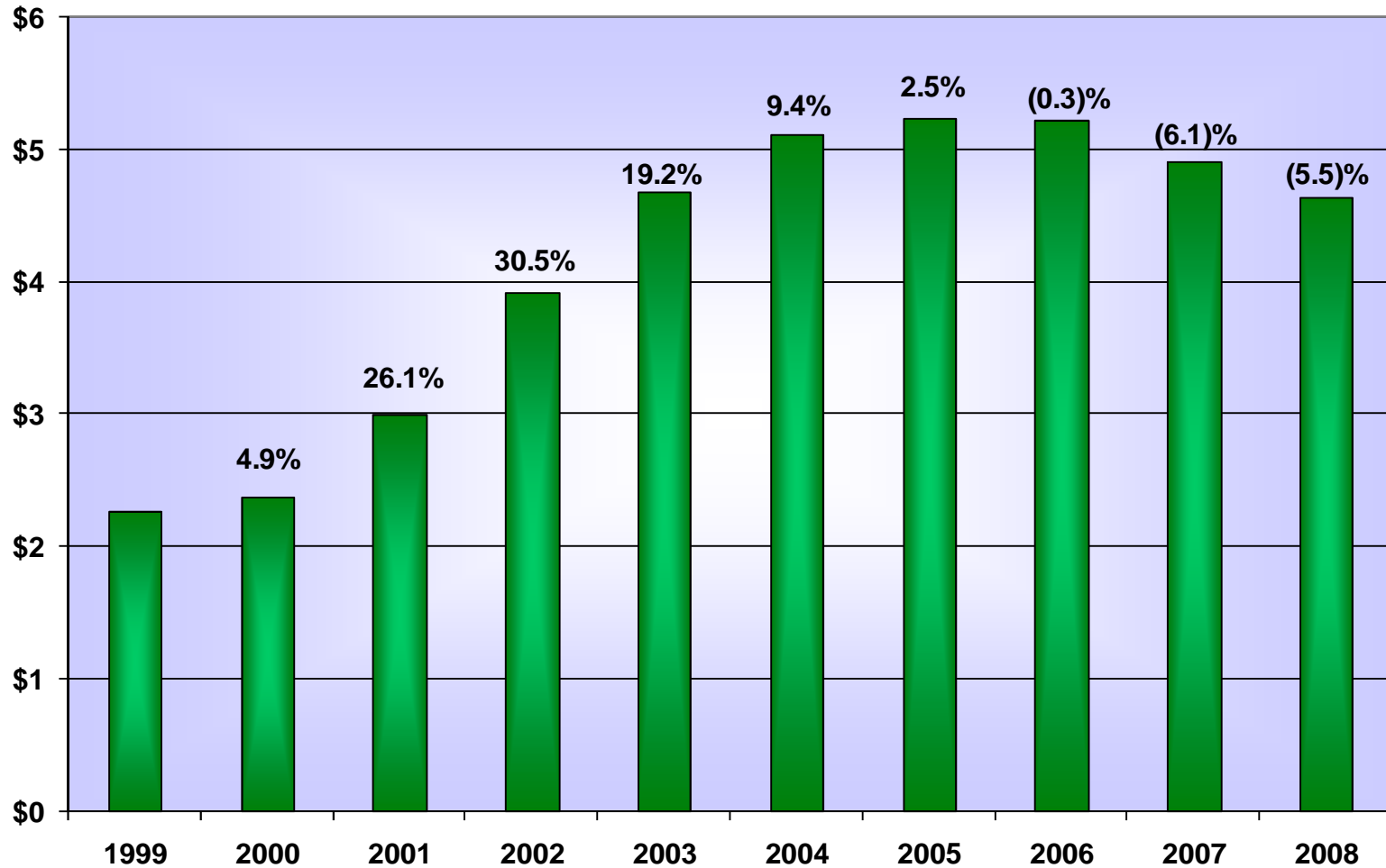
- Overview and highlights
- Update on PIAA financial results
 - Top-line premium growth
 - Operating performance
 - Capitalization levels
- Concluding thoughts

Overview and Highlights

- Last year we posed, “Is this as good as it gets?”
 - With one more year of unfolding, now seems probably so
- 2008 reflected record underwriting results
- Offset to some degree by investment fallout caused by impairment in financial markets
- Maintained strong capitalization levels
 - Caution that investment risk has increased
 - Impacts “required” capital and thus relative adequacy
- Declaration of \$200 million in policyholder dividends in 2008 over \$450 million past two years
- AIG warrants attention due to vast market presence

Direct Written Premium Growth

(\$Billions)

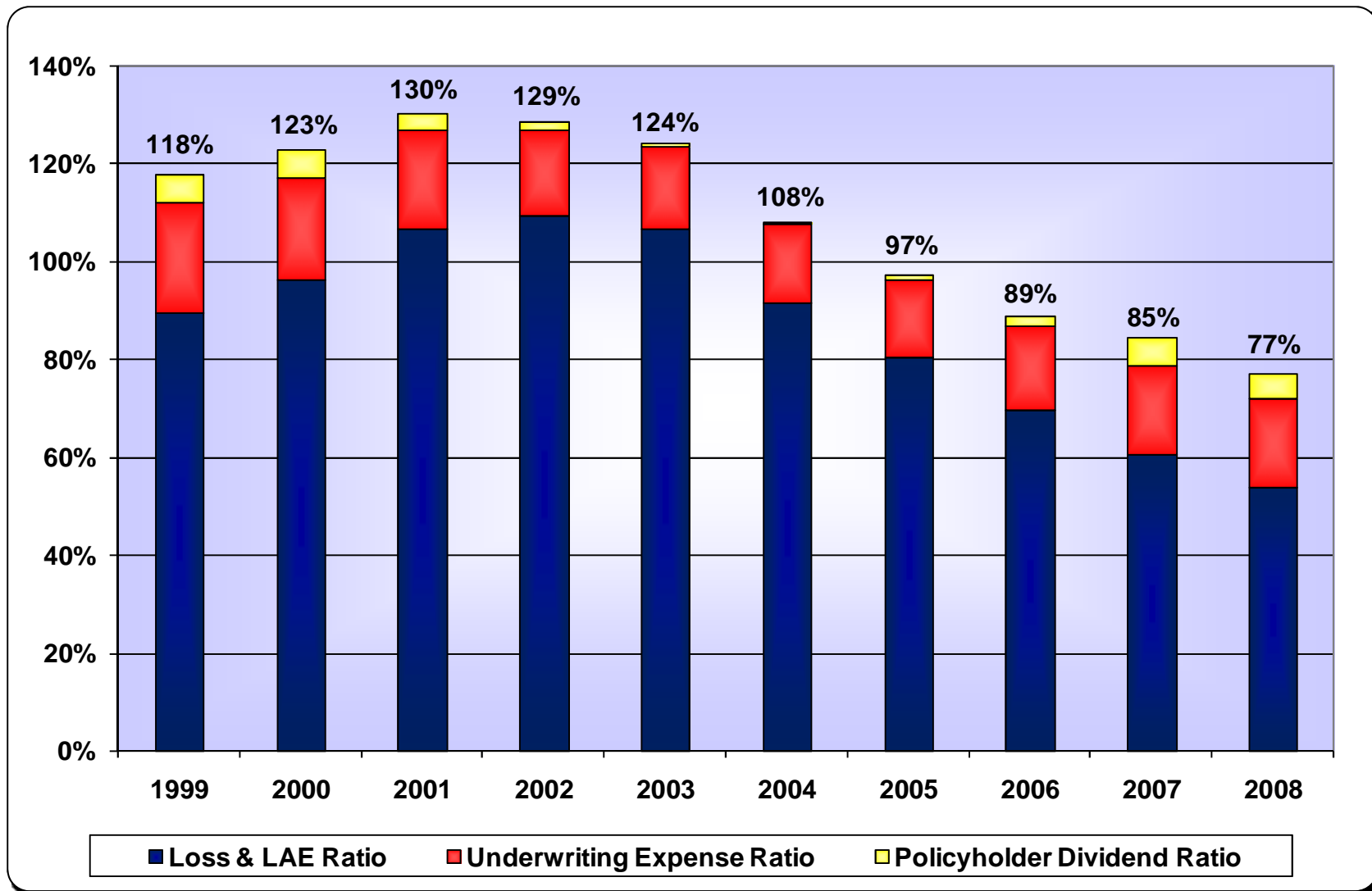


Direct Written Premium Growth

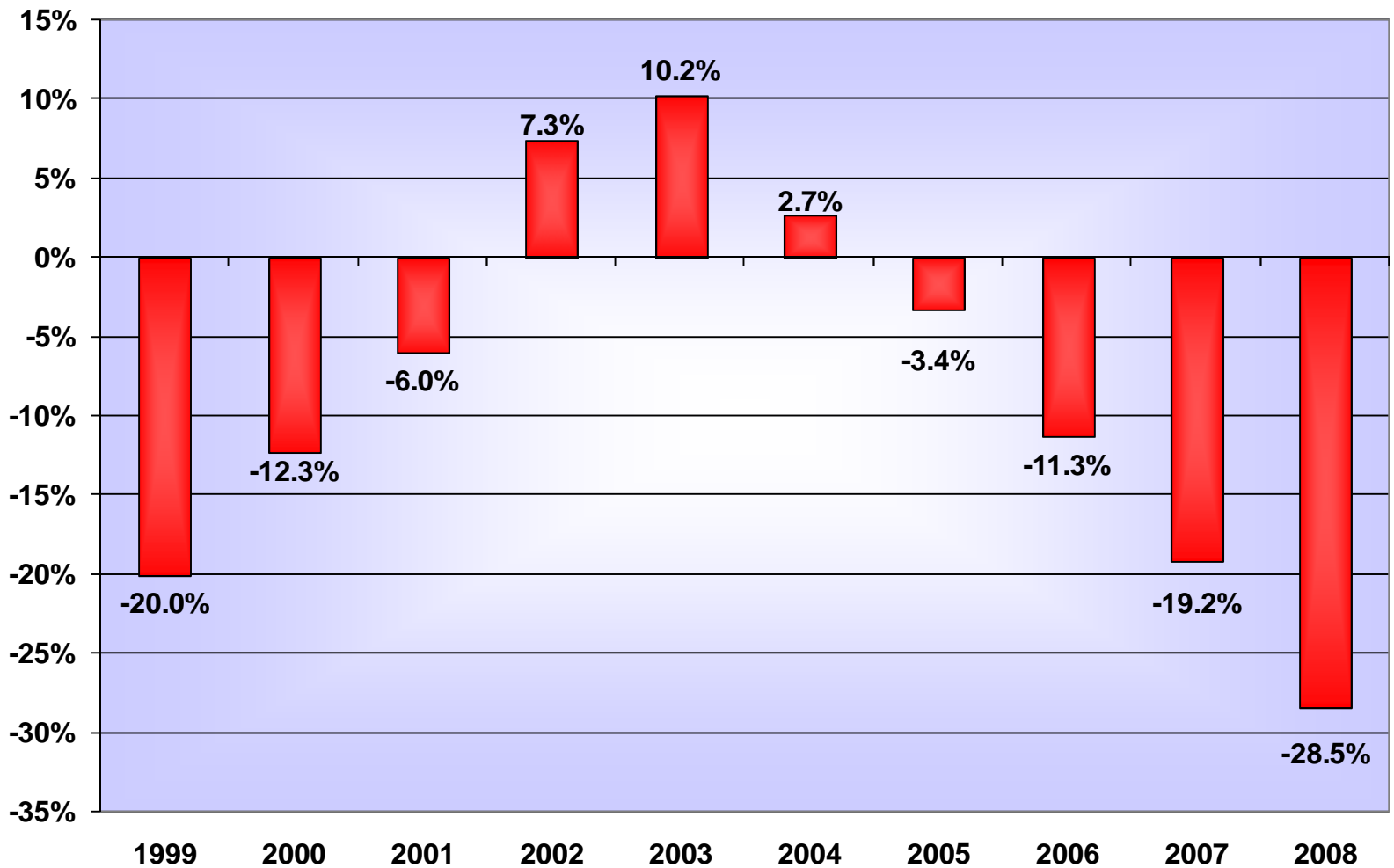
Notable Observations

- Last two years represent fairly sizable reductions
 - 11% drop is largest two-year reduction in tracked history
 - 7.5% reduction during 1990 and 1991
 - 2.5% reduction during 1996 and 1997
 - Modest rate reductions and increased use of credits
 - Combined revenue impact of \$600 million
- Notable that underwriting results have continued to improve during this period
 - Driven by favorable reserve development and continuation of reduced claims frequency

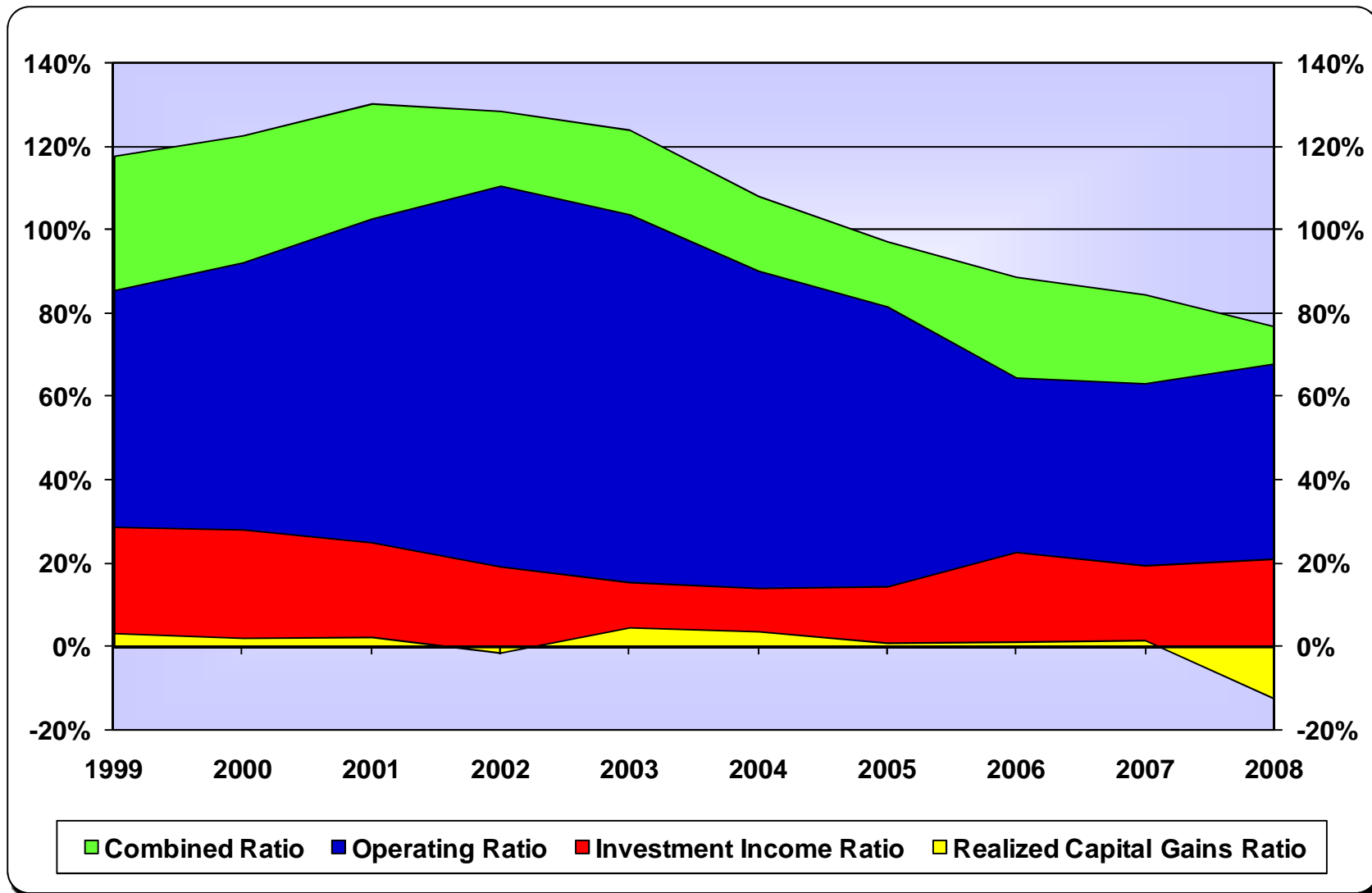
Combined Ratio Components



One-Year Reserve Development to NEP



Operating Ratio Components





Operating Performance

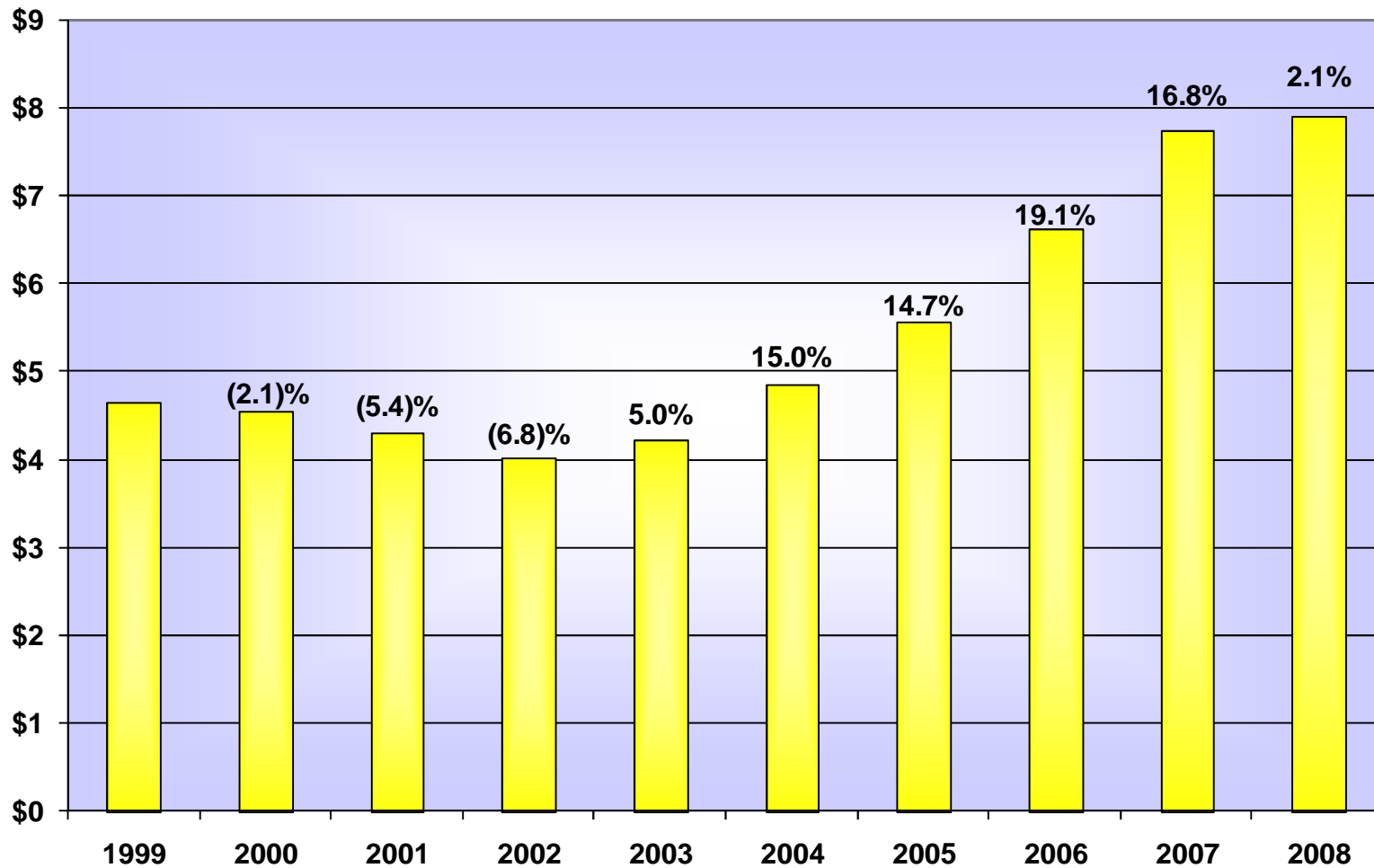
Notable Observations

- 2008 underwriting results one of best ever
 - Key contributor was favorable reserve development
 - Highlights importance of assessing reserve position
- Investments suffered from broader economic turmoil
 - Investment gain ratio (to NEP) of 9% in 2008 compares to recent historical results in the 20% to 25% range
- Despite poor investment results, the 2008 operating results were nearly as good as 2007

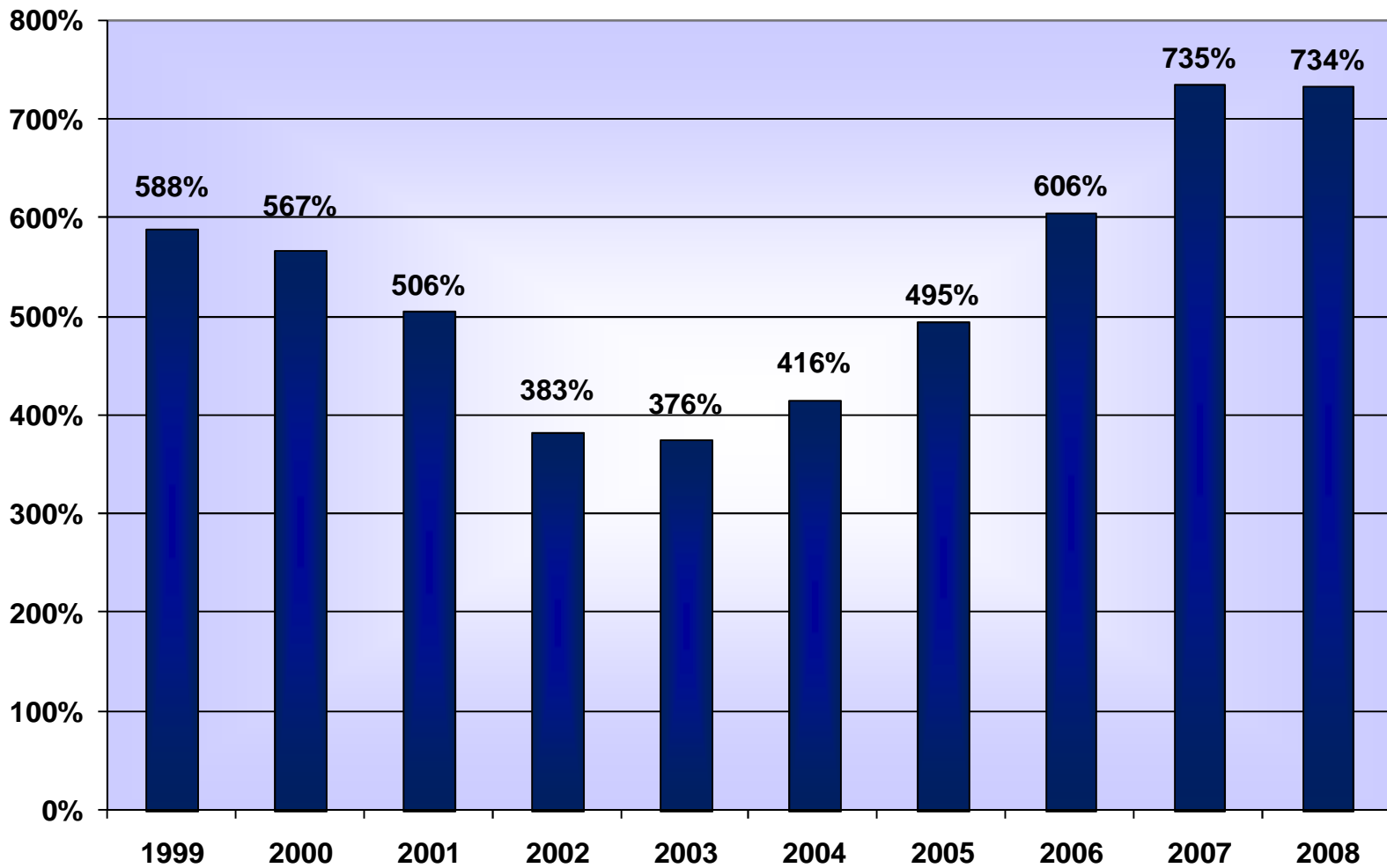


Policyholder Surplus Growth

(\$Billions)



NAIC RBC Ratio





Capitalization Levels

Notable Observations

- Following several years of double-digit growth, surplus levels relatively flat during 2008
 - Impacted by unrealized losses and stockholder dividends
- RBC, which normalizes for underlying risk, and is used by regulators, was flat after large advancements
- In light of historical underwriting volatility, and recent increase in investment risk, it seems as if the strengthened capital levels are essential





Concluding Thoughts

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- Future financial results largely pinned on reserve adequacy and sustainability of claims frequency
 - In 2008, reserve releases totaled \$1.2 billion
- Another critical area to monitor is investments
 - Uncharacteristic to this industry
- 2009 will reveal important indicators as to the future results in areas of reserve adequacy, claims frequency and investment outlook
- Forces skewed more towards deterioration, and thus, tilting away from further improvement