

Medical Professional Liability
A Financial Overview and Reserve Considerations

Casualty Loss Reserve Seminar
Denver, Colorado
September 5-7, 2012


Charles W. Mitchell, FCAS, MAAA
Consulting Actuary
chuck.mitchell@milliman.com
(262) 796-3341

September 6, 2012




Overview of Presentation

- Ø Background Medical Professional Liability (MPL) Risk
- Ø Historical Overview of MPL Insurance Market
- Ø Statutory Insurance Market Financials
- Ø MPL Reserves
- Ø Current State of MPL
- Ø Impact of PPACA



2

Background on MPL Risk



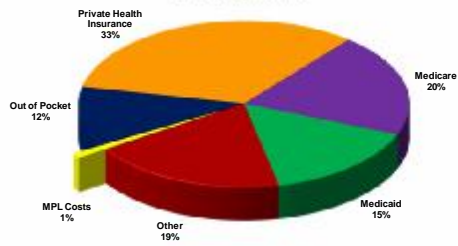
3

Overview of Presentation

- Ø Estimated U.S. Healthcare Costs - \$2.5 Trillion
- Ø Estimated U.S. MPL Costs - \$30 Billion
- Ø Cost of Defensive Medicine
 - Ø Lawyer funded studies - \$2.5 to \$5 Billion
 - Ø J. William Thomas, Muskie School of Public Policy - \$13 Billion
 - Ø Amitabh Chandra of Harvard University - \$60 billion
 - Ø Health provider funded studies - \$100 to \$300 Billion
 - Ø Jackson Healthcare - \$650 to \$850 Billion

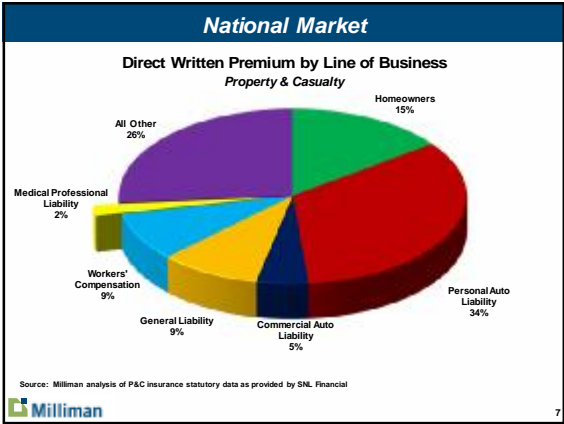
Distribution of Healthcare Spending

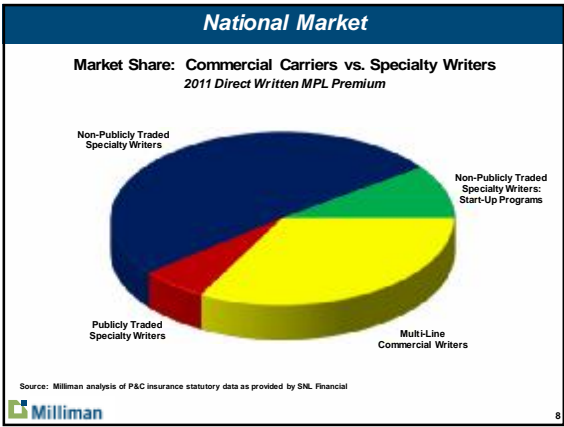
Total U.S. Expenditures

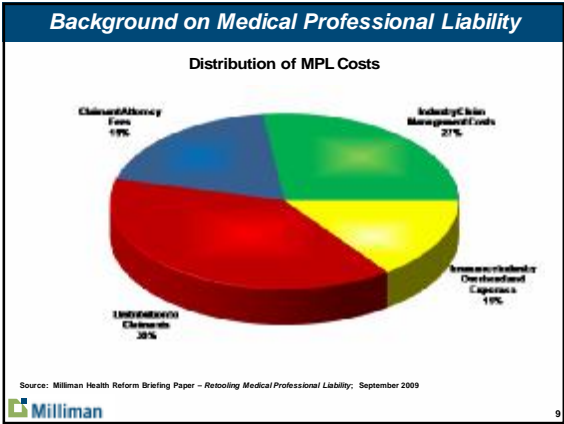


Sources: Milliman analysis of National Health Expenditures (cms.gov)
Milliman analysis of P&C insurance statutory data as provided by S&L Financial

MPL Insurance Market

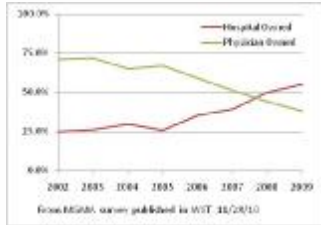






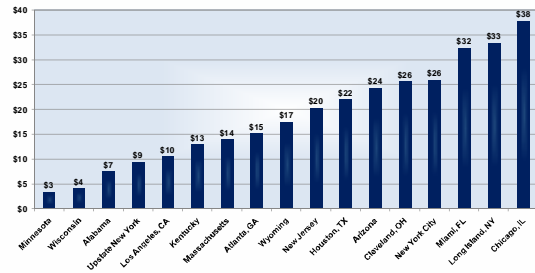
Background on Medical Professional Liability

- Ø Commercial Insurance or Self-Insurance
- Ø Shift from independent physician practice to health system employment



Background on Medical Professional Liability

Variability in MPL Insurance Rates
Example Internal Medicine Rates by Territory (\$000)



Source: Medical Liability Monitor's Annual Rate Survey Issue: October 2009
\$1 Million / \$5 Million Limits for Mature Claims-Made Coverage


Background on Medical Professional Liability

Variability in MPL Insurance Rates
Relativities by Specialty

Class	Example Specialties within Class	Relativity to 1C
1A	Dermatology - No Surgery	0.65
1B	Genetics - No Surgery	0.87
1C	Family/General Practice - No Surgery	1.00
2A	Internal Medicine - No Surgery	1.13
2B	Anesthesiology	1.26
2C	Family/General Practice - Minor Surgery	1.57
2D	Radiology Diagnostic - Minor Surgery	1.70
2E	Internal Medicine - Minor Surgery	1.71
3A	Gastroenterology Surgery	1.80
3B	Family/General Practice Surgery	1.88
4A	Emergency Medicine - No Major Surgery	2.31
4B	General Surgery	2.74
5A	Head and Neck Surgery	3.33
5B	Abdominal Surgery	3.91
6	OB/GYN Surgery	4.30
7	Traumatic Surgery	5.48
8	Neurology Surgery	6.26

Source: Medical Protective Company's January 1, 2008 Rate Filing in Ohio


Historical Overview of MPL Insurance Markets



13


Historical Overview of MPL Insurance Market

- Ø Deep Underwriting Cycles
- Ø Three Insurance Crises – Affordability/Availability
 - Ø 1970's crisis brought us the "bed-par" mutuals
 - Ø 1980's crisis brought us the claims-made coverage form
 - Ø 2000's crisis brought us explosion of RRG start-ups (mostly RRGs)
- Ø Expansion and Contraction of Commercial Market
 - Ø Insolvencies and M&A Activity
 - Ø St. Paul Withdrawal in 2001

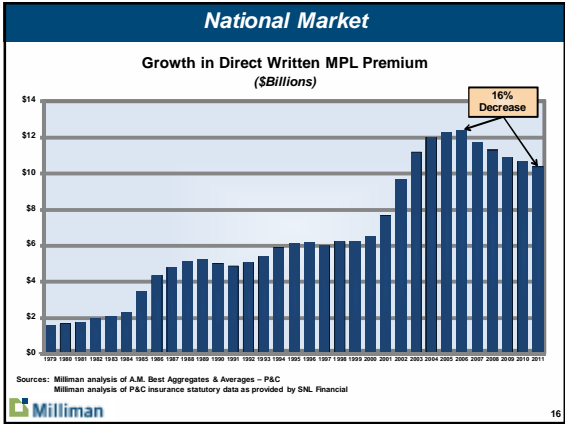


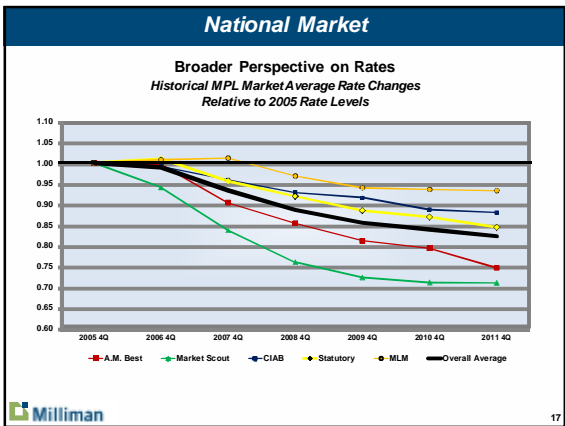
14

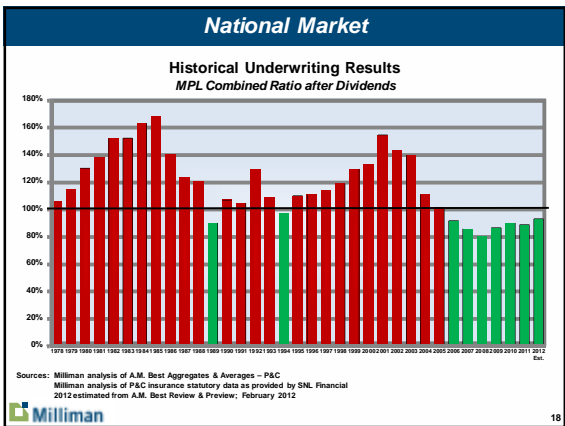
Statutory MPL Insurance Financials



15

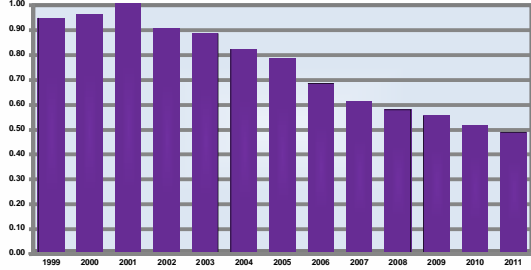






MPL Specialty Writers

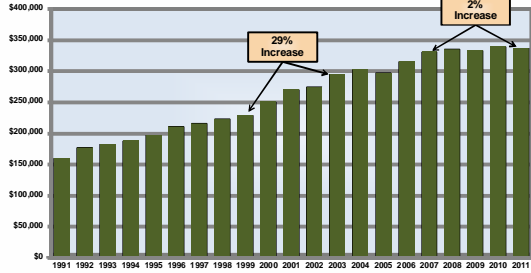
Closed Claim Frequency per Physician
Countrywide, Base Year 2001



Sources: Milliman analysis of AMA Physician Characteristics and Distribution in the U.S., multiple editions
Milliman analysis of National Practitioner Data Bank Public Use Data File, December 31, 2011

MPL Specialty Writers

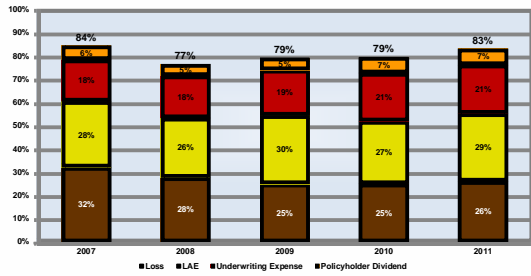
Closed Claim Severities
Countrywide



Source: Milliman analysis of National Practitioner Data Bank Public Use Data File, December 31, 2011

MPL Specialty Writers

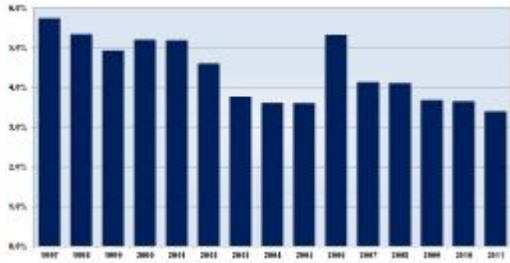
Combined Ratio after Dividends



Source: Milliman analysis of P&C insurance statutory data as provided by SNL Financial

MPL Specialty Writers

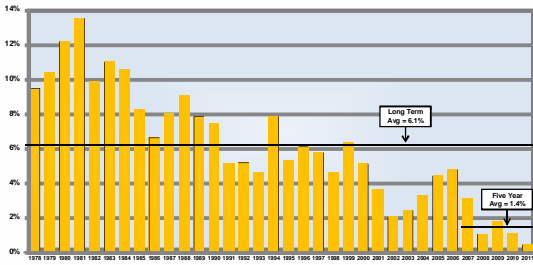
Net Investment Income to Average Invested Assets



Source: Milliman analysis of P&C insurance statutory data as provided by S&P Financial

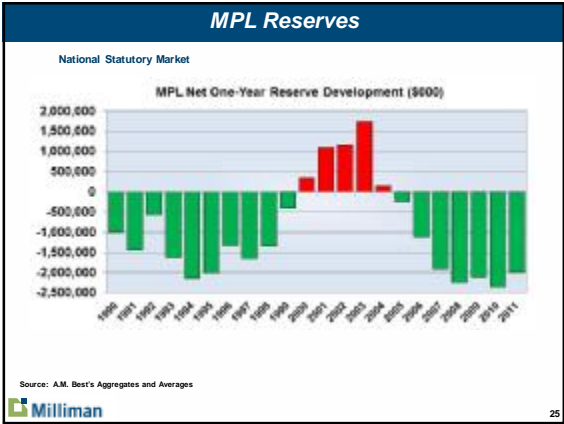
MPL Specialty Writers

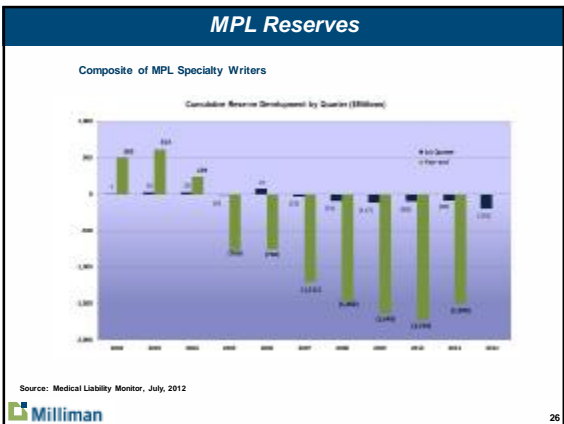
3-Year Treasury Yield Curve Rates
as of December 31



Source: Daily Treasury Yield Curve Rates as published by the U.S. Treasury

MPL Reserves



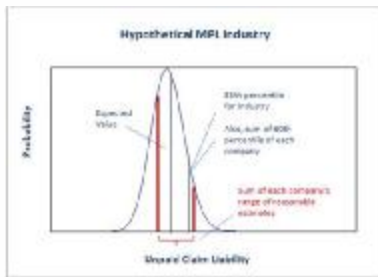


- ### MPL Reserves
- Ø Continued sizable favorable reserve development
 - Ø Attracting attention of IRS
 - Ø Fair and reasonable standard
 - Ø Suggestion that median is appropriate target
 - Ø Courts – one reasonable estimate is not more reasonable than another reasonable estimate
 - Ø Explicit risk margins not allowed
-
- 27

MPL Reserves



MPL Reserves



Current State of MPL

Current State of MPL

- Ø Strong calendar year underwriting results of late
 - § 2011 is sixth consecutive year of underwriting profit.
- Ø Pricing and coverage year results deteriorating
- Ø Investment results will continue to be modest
- Ø Strong capitalization levels
 - Ø Increased competition
 - Ø Policyholder dividends
 - Ø Continued M&A activity

Current State of MPL

- Ø Modest signs of claim frequency increases
- Ø ALAE costs have exceeded loss costs last three years

Impact of PPACA on MPL

- Ø Possibly Adverse
 - Ø More demand for healthcare services
 - Ø Perhaps higher expectation on the part of patients
 - Ø Mid-levels / Physician extenders
 - Ø Vicarious liability
 - Ø Electronic Medical Records (new causes of action)
 - Ø More co-defendants, clash claims, shock losses, limits of coverage
 - Ø Will pressure on providers reimbursement exacerbate physician shortage

Impact of PPACA on MPL

Ø Possibly Favorable

- Ø More preventative care / Less acute care
- Ø Holistic approach / Coordinated care
- Ø Electronic Medical Records
- Ø Greater focus on results (quality versus quantity of care)

Ø Other Impacts

- Ø Shift of exposure from specialists to primary care
- Ø Changes in claims litigation (new causes of action or defense strategies)
- Ø Never Events

Other Considerations

Other Considerations

Accompanying Oral Discussion

n This document is not complete without the accompanying oral discussion and explanation of the underlying information and concepts as well as any interpretational limitations.

Limited Distribution

n This document should not be distributed, disclosed or otherwise furnished, in whole or in part, without the express written consent of Milliman.

Data Reliance

n We have relied upon data and other background information prepared by others, as documented throughout this presentation, without audit or independent verification. We have performed a limited review of the data for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.
