

Medical Professional Liability: Current Challenges, Future Opportunity



*Casualty Loss Reserve
Seminar – September 2019
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Overview of Medical Professional Liability Insurance

- MPL insurance is a function of the healthcare delivery and legal systems
- Healthcare delivery has, and continues to, evolve
 - Complexity of medical care
 - Cost containment
 - Healthcare spending ~18% of GDP and rising
 - Consolidation
- Medical practice is changing/has changed
 - Most physicians used to be independent but now the majority(?) are employees
 - Solo and small group practices make up ~30% vs. ~60% ten years ago
 - Medical groups that remain independent are getting larger
 - Small hospitals are becoming part of larger healthcare systems

Overview of Medical Professional Liability Insurance

- ▶ Legal system is generally state-driven
 - ▶ Various tort systems, some MPL-specific
 - ▶ Changes can have significant effect – implementation or removal of tort reform
 - ▶ Long-tail – report lag and disposition lag

- ▶ MPL coverage insures providers for negligence in the provision of professional services
 - ▶ Providers can be individuals or entities
 - ▶ Professional services are generally defined by licensure, but not always

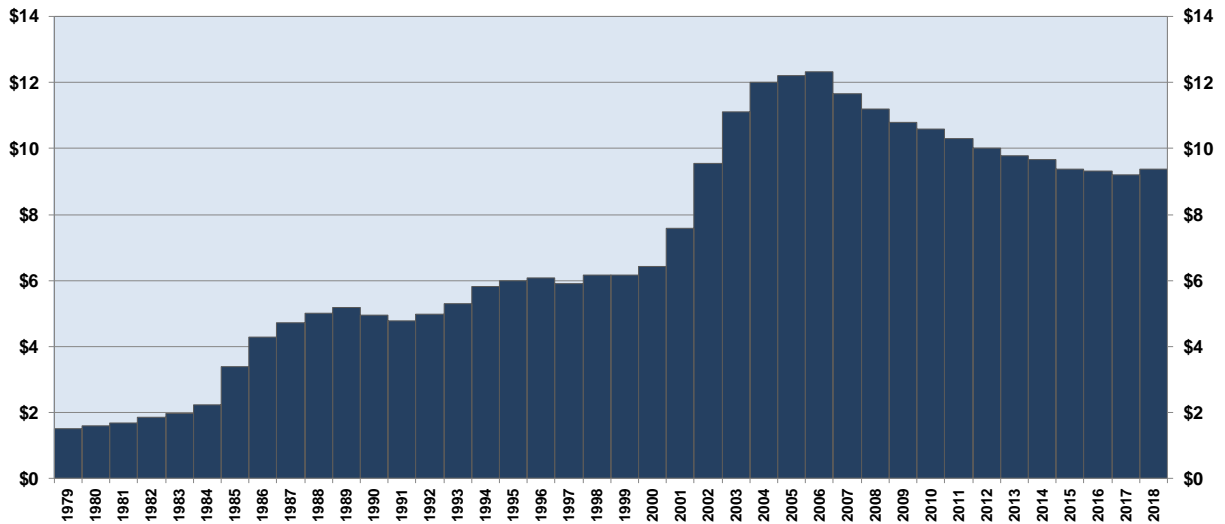
- ▶ Coverage is generally not required or specified by law, with some exceptions

Brief History of the MPL Line of Business

- ▶ Created as a separate Annual Statement line of business in 1976
- ▶ Historically (pre-1975) most HCPL was written by large commercial carriers as a sideline – Aetna, Hartford, Employers of Wausau, St. Paul, etc.
- ▶ Rapid increase in loss activity in the early-to-mid 1970s pushed these carriers out of the business
- ▶ Physicians and hospitals formed their own insurance companies out of necessity (over 60 companies at one point)
- ▶ Several “malpractice crises” – mid-1970s, mid-1980s, early 2000s – rapid rate increases, limited availability
- ▶ Consolidation began in the 1990s.

MPL Direct Written Premium

Countrywide (\$Billions)



Sources: Milliman analysis of A.M. Best Aggregates & Averages – P&C, multiple editions
Milliman analysis of P&C insurance statutory data as provided by S&P Global Market Intelligence

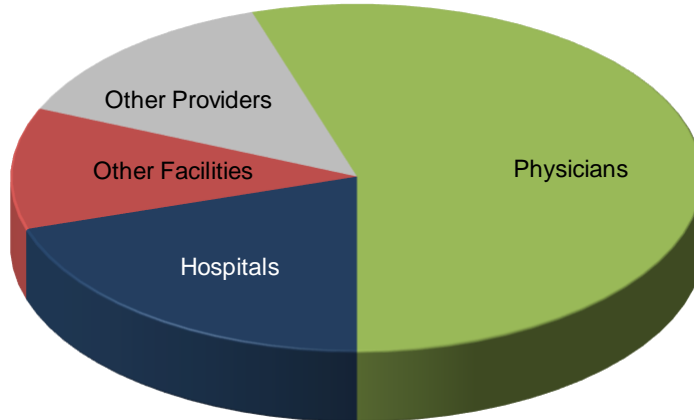
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Brief History of the MPL line of business

- ▶ Market structure and changes
 - ▶ Physician vs. hospital markets
 - ▶ Specialist vs. multiline carriers
 - ▶ Distribution - Direct vs. Agent/Broker
 - ▶ Capital adequacy
 - ▶ Regulation
 - ▶ Rating agencies

Distribution of MPL DWP by Sub-Line

Countrywide, 2018

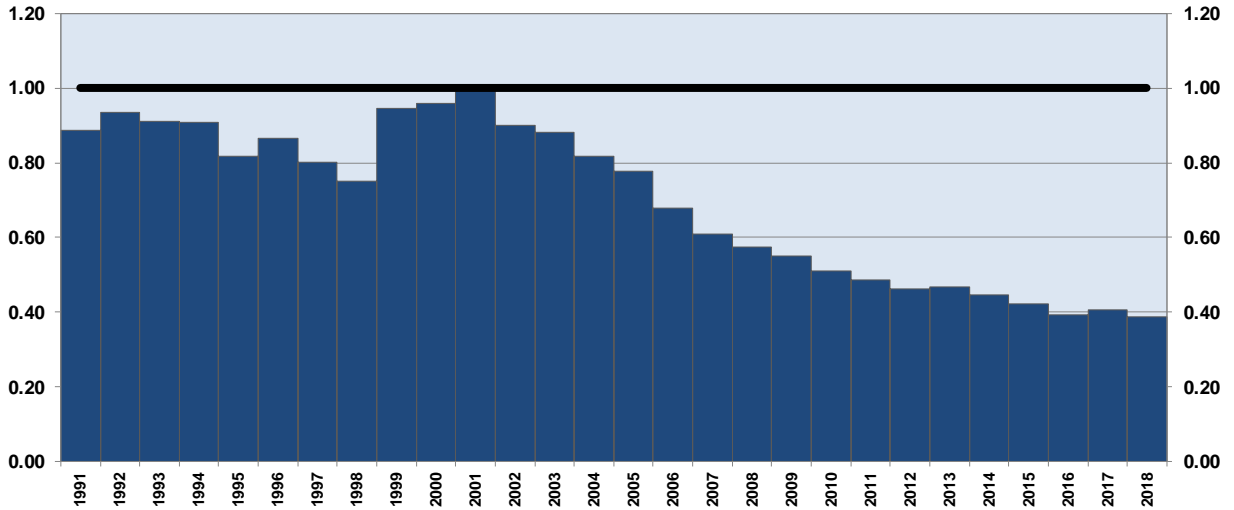


Recent, Current and Future(?) MPL Market Conditions

- Soft market since ~2006
 - Historically low frequency and moderate severity trends
- Recent indications of increased severity
 - Increasing number of very large (\$10M+) verdicts and settlements since 2016
 - Mega-verdicts of \$50M to \$200M+ against hospitals

Closed Claim Frequency

Countrywide, Relative to 2001

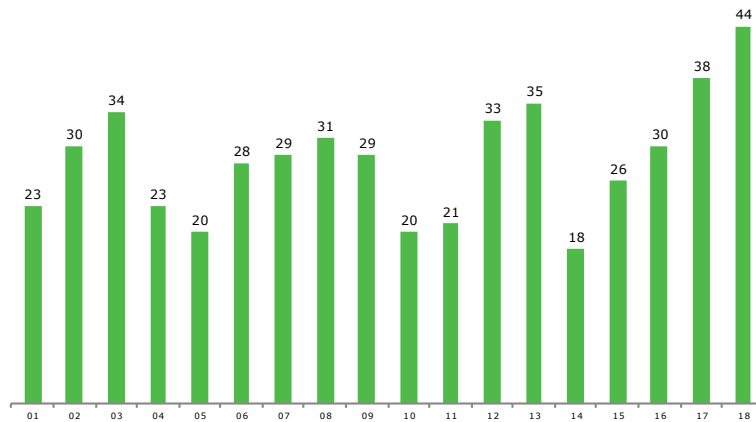


Sources: Milliman analysis of physician workforce data provided by the Association of American Medical Colleges; multiple editions
Milliman analysis of AMA Physician Characteristics and Distribution in the U.S.; multiple editions
Milliman analysis of National Practitioner Data Bank Public Use File; December 31, 2018

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Severity – A Frequency of Large Verdicts

MPL Verdicts At or Above \$10 Million – 2001 to 2018
(Source: TransatlanticRe)

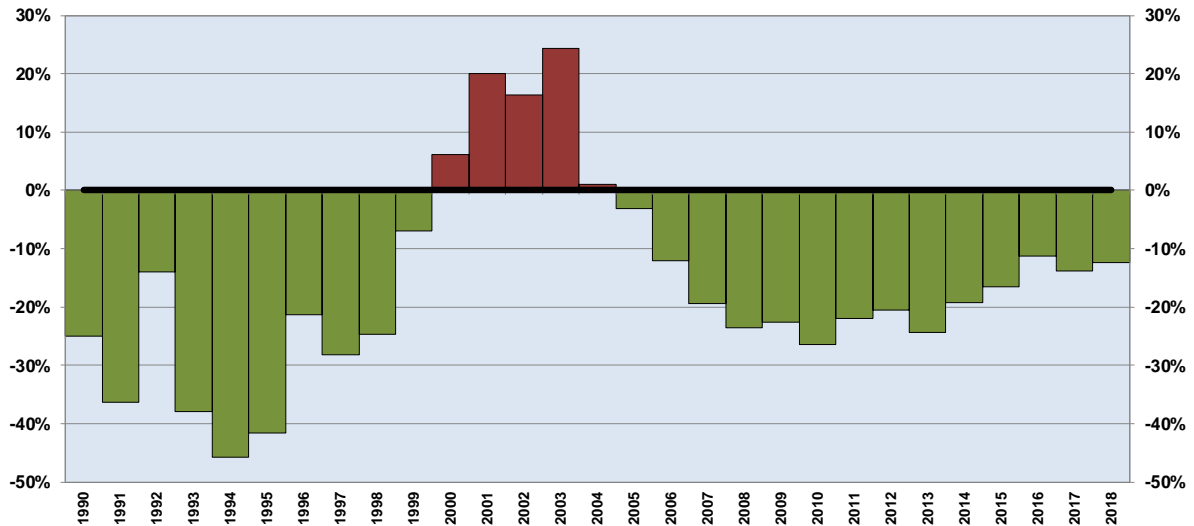


Drivers of Current Market Environment

- ▶ Flat frequency + increasing severity + price competition
= deteriorating results
- ▶ Underlying risk exposure – larger accounts, higher limits
- ▶ Increasing cost of litigation
- ▶ Use of analytics, both for risk selection and claims handling
- ▶ Capital position of market participants
- ▶ Healthcare consolidation
- ▶ Other?

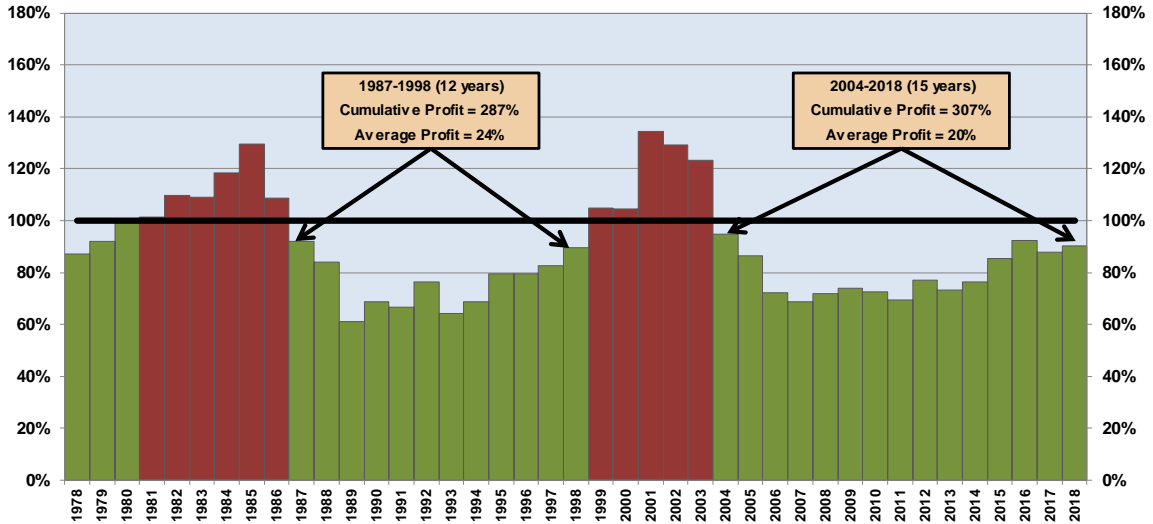
Net Reserve Development Ratio

Industry Aggregate, Relative to Net Earned Premium



MPL Operating Ratio

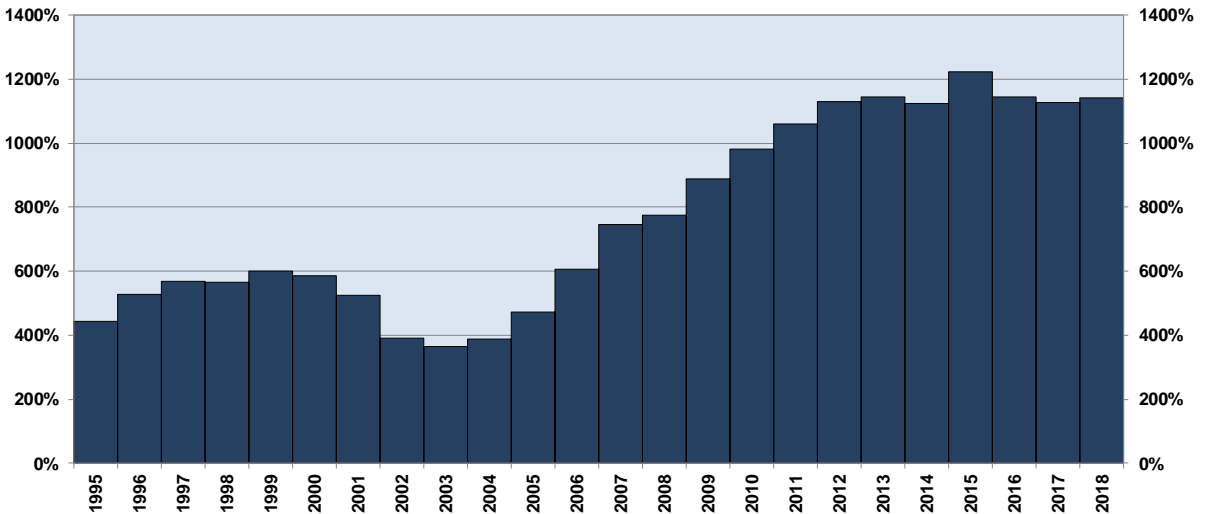
Industry Aggregate



Sources: Milliman analysis of A.M. Best Aggregates & Averages – P&C, multiple editions
Milliman analysis of P&C insurance statutory data as provided by S&P Global Market Intelligence

Risk-Based Capital (RBC) Ratio

MPL Specialty Companies



Source: Milliman analysis of P&C insurance statutory data as provided by S&P Global Market Intelligence
Chart represents results of 33 MPL specialty companies

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