

MANAGING EXTREMES

Willis Re

THE ACA & MPL REINSURERS: OPPORTUNITY KNOCKS

CARE Seminar

June 6, 2013



Agenda

- MPL history and reinsurance usage
- ACA impacts on reinsurers
- How reinsurers can participate

MPL HISTORY & REINSURANCE USAGE

On the downslope...

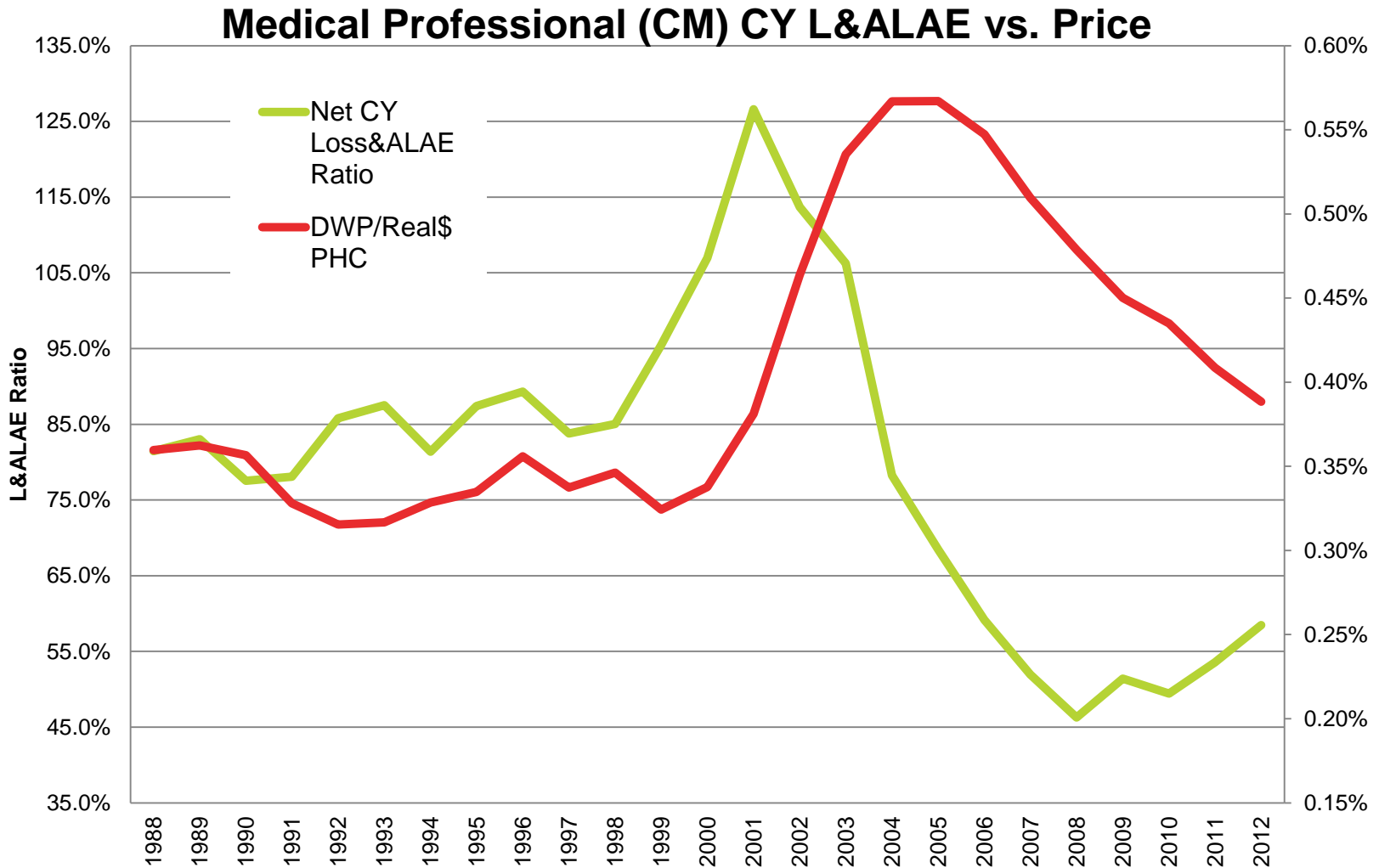


Hammurabi's Code



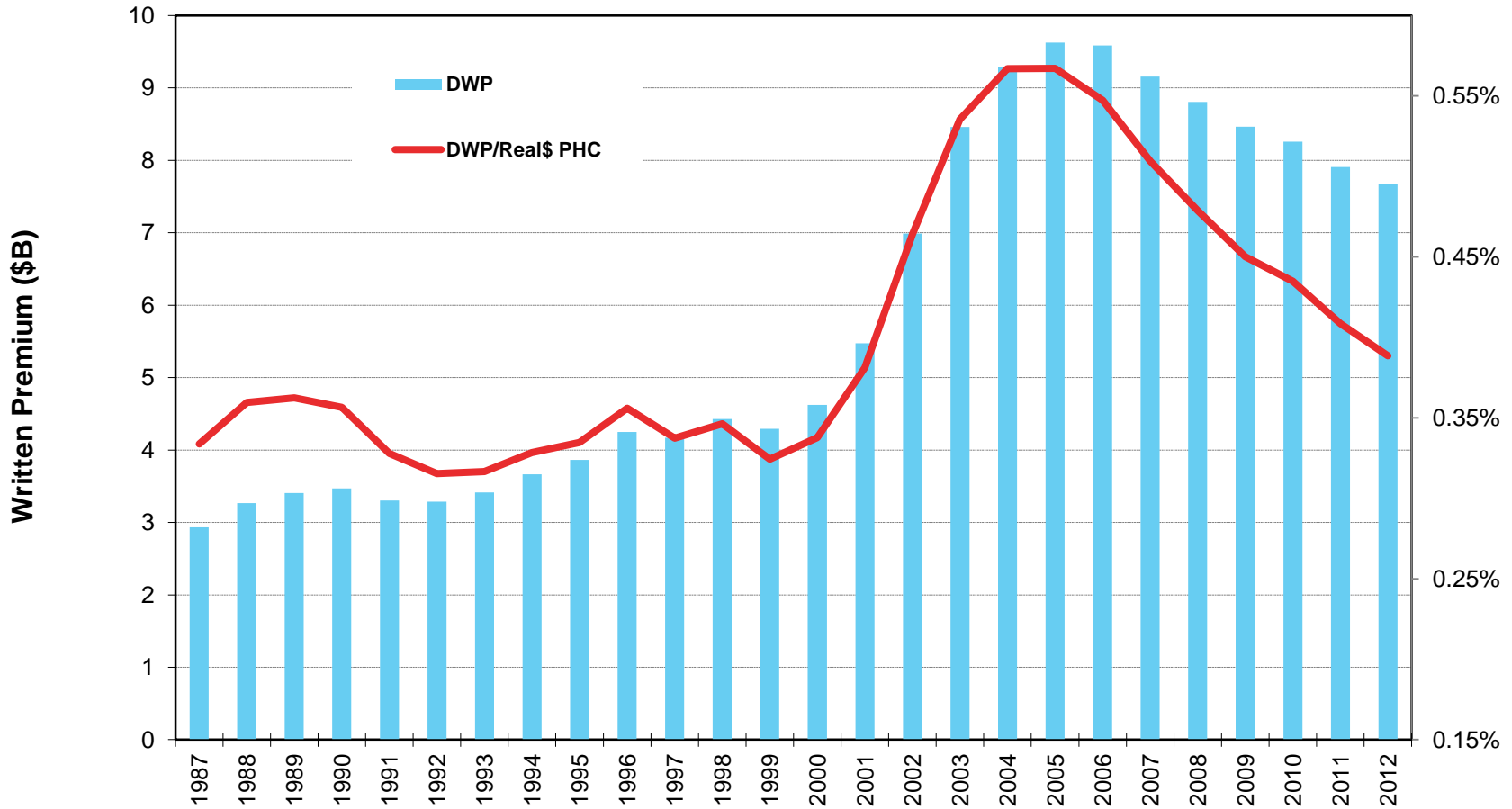
- “If a physician make a large incision with an operating knife and cure it, or if he open a tumor (over the eye) with an operating knife, and saves the eye, he shall receive ten shekels in money.”
- “If a physician make a large incision with the operating knife, and kill him, or open a tumor with the operating knife, and cut out the eye, his hands shall be cut off.”

CY results drive pricing



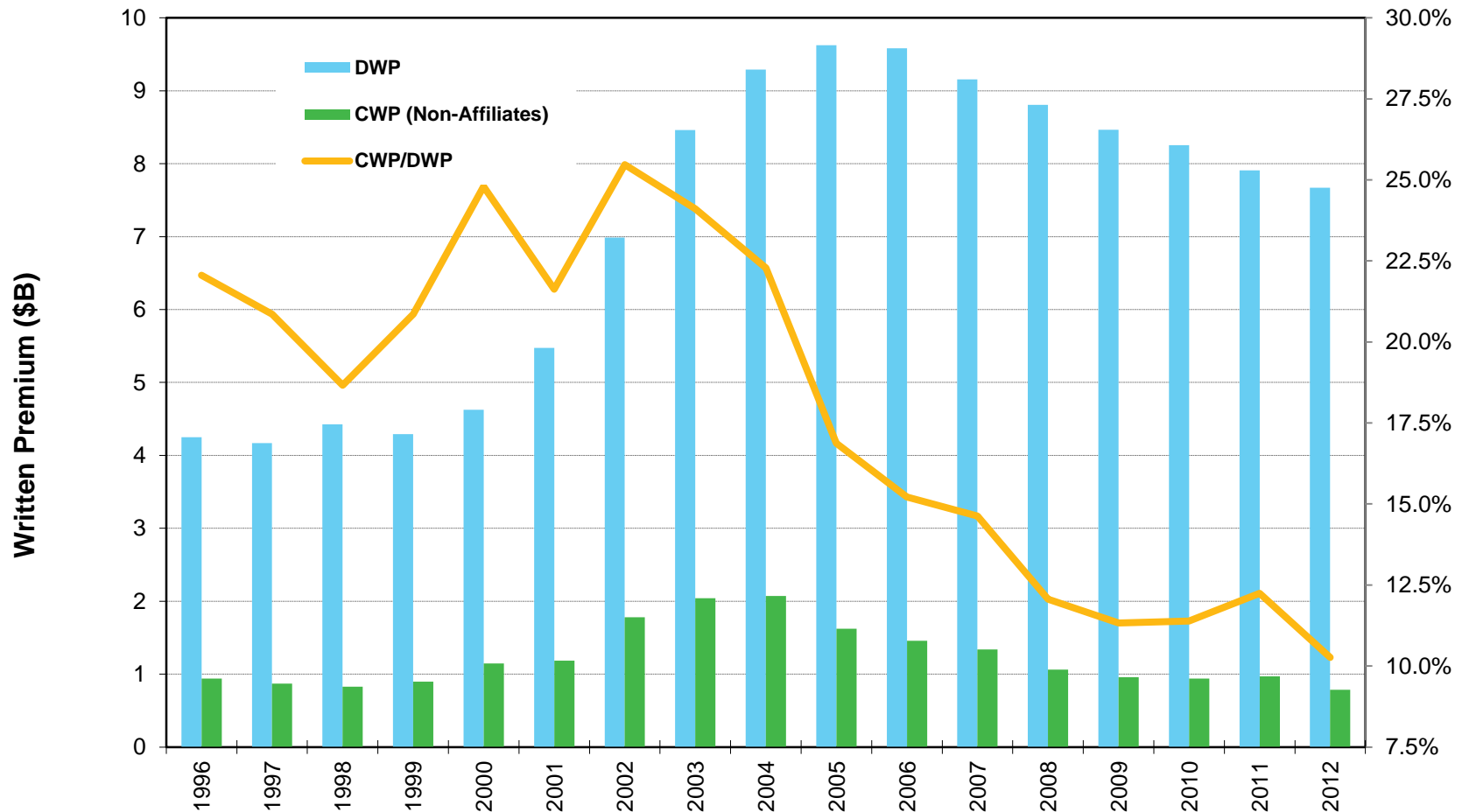
WP responds

Medical Professional (CM) WP and Price



Reinsurance: how low can we go?

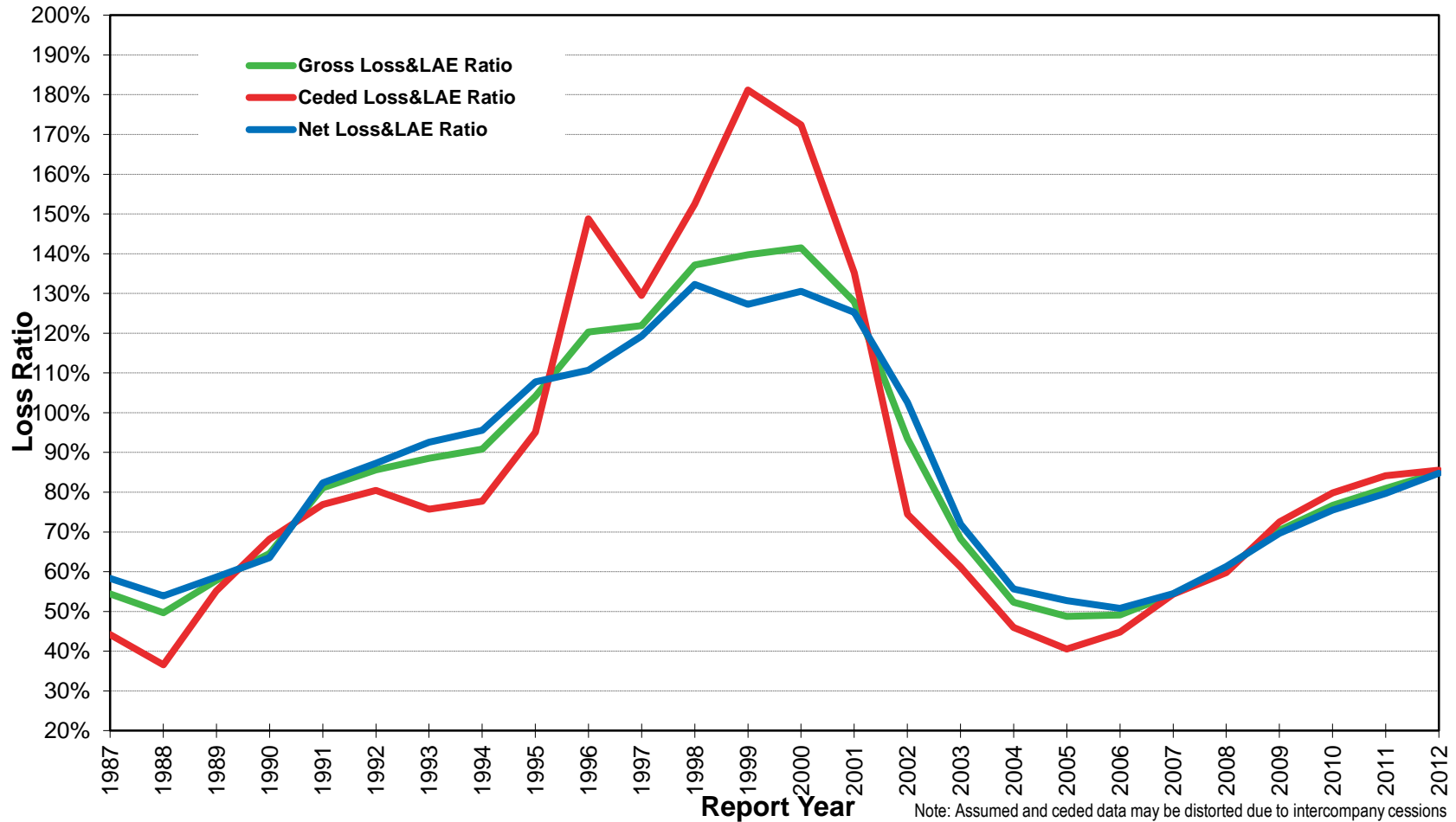
Medical Professional (CM) Reinsurance Utilization



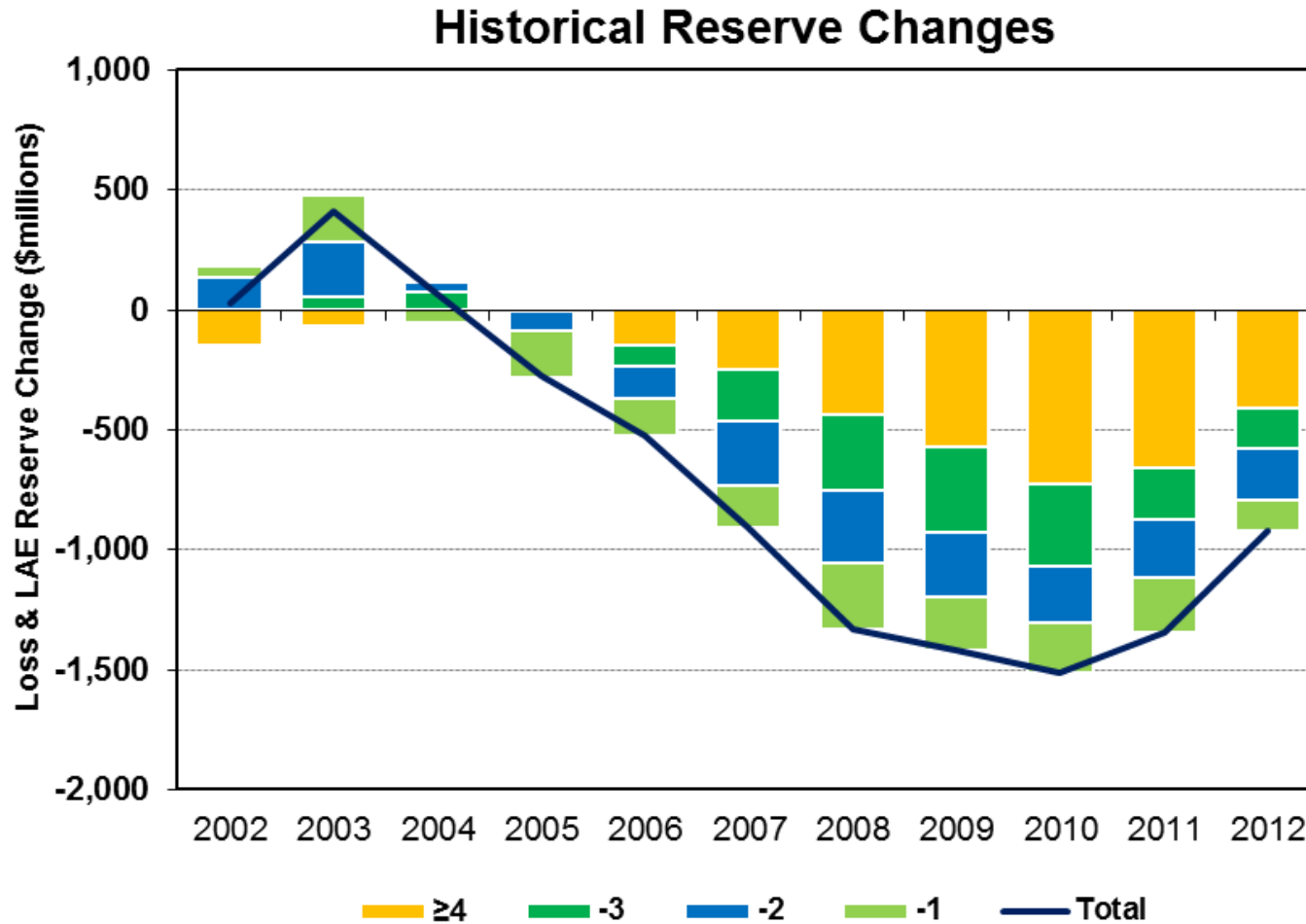
Note: Assumed and ceded data may be distorted due to intercompany cessions

MPL CM reinsurance results

Medical Professional (CM) Gross Ceded Net



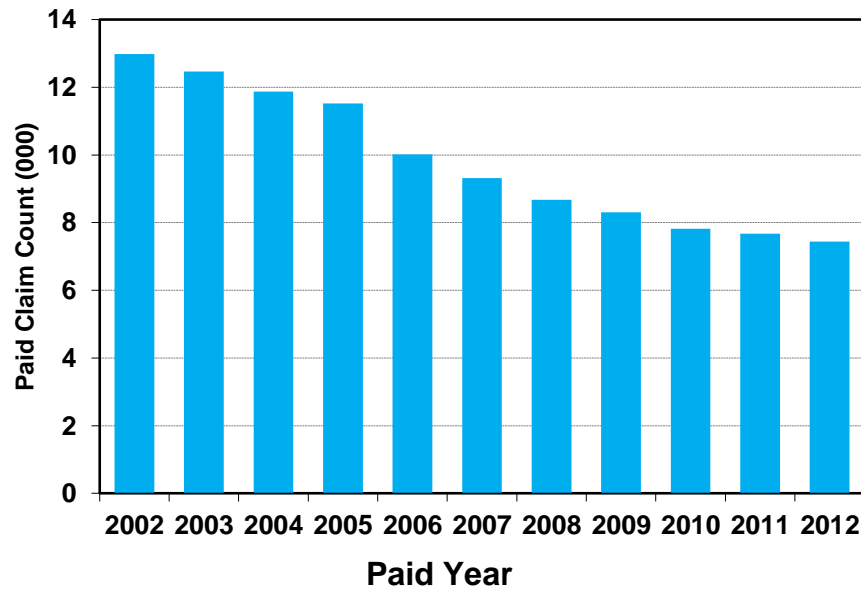
Favorable CY UW results driven by reserve releases



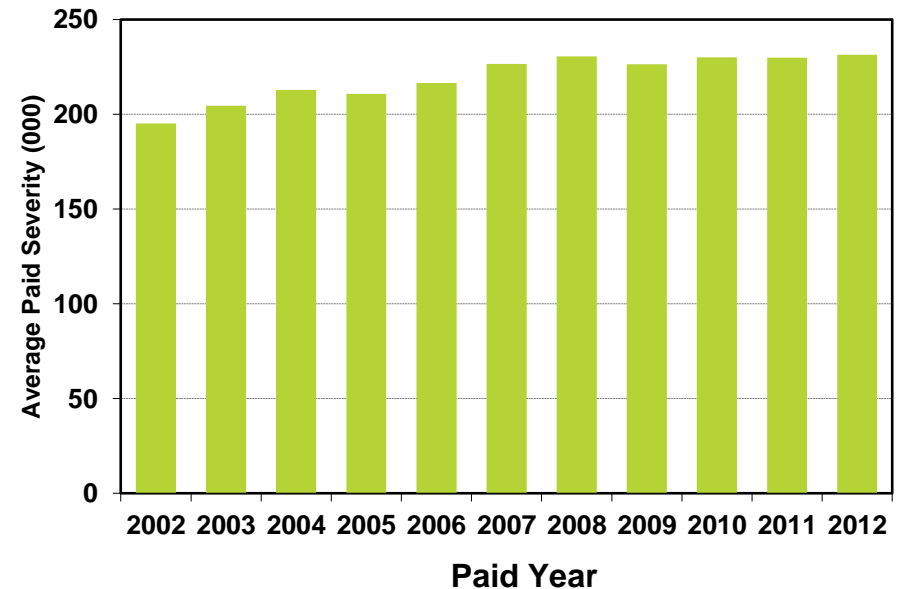
Source: SNL Financial, MPL Specialty Group MPL ≥ 80% of DWP

MPL frequency continues to decline with severity flattening post 2007

Nationwide Avg Paid Claim Count



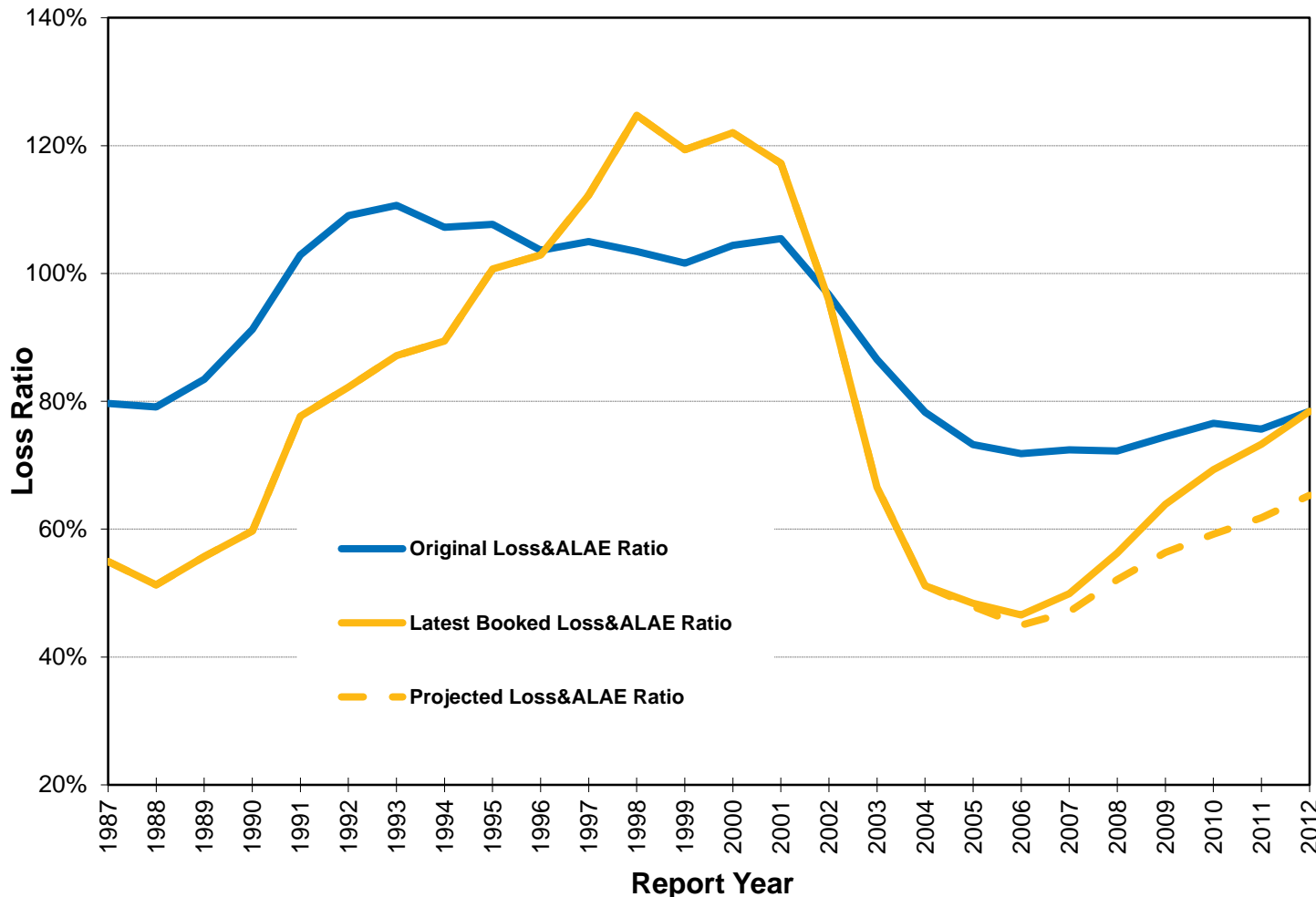
Nationwide Avg Paid Claim Severity (000)



- Reserve releases have been driven by reductions in claim frequency as well as severity coming in far below initial expectations

MPL CM projected

Medical Professional (CM) Ultimate vs Original



- Appears more redundancy to be harvested
- Freq decline continues
- Recession tempered severity

MPL reinsurance marketplace observations

- Reinsurers' role in MPL is diminished
- Despite primary rate decreases, favorable trends driving continued profitability
- MPL primary carriers surplus growth unabated
- Reinsurance capacity adequate
 - Six new entrants in last five years

ACA IMPACTS ON MPL REINSURERS

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MANAGING EXTREMES



Sense of the Senate

Subtitle I—Sense of the Senate Regarding Medical Malpractice

SEC. 6801. SENSE OF THE SENATE REGARDING MEDICAL MALPRACTICE.

It is the sense of the Senate that—

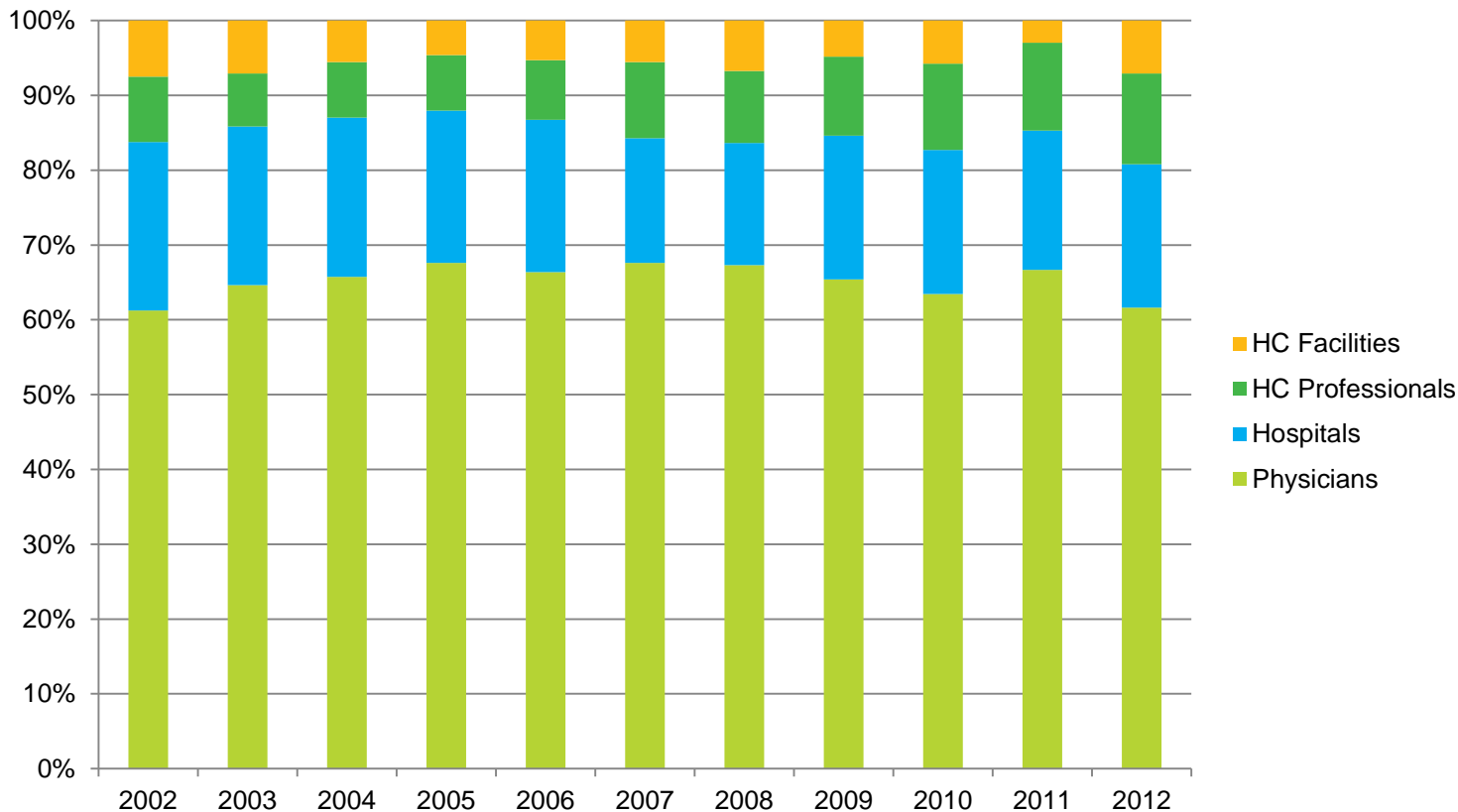
- (1) health care reform presents an opportunity to address issues related to medical malpractice and medical liability insurance;
- (2) States should be encouraged to develop and test alternatives to the existing civil litigation system as a way of improving patient safety, reducing medical errors, encouraging the efficient resolution of disputes, increasing the availability of prompt and fair resolution of disputes, and improving access to liability insurance, while preserving an individual's right to seek redress in court; and
- (3) Congress should consider establishing a State demonstration program to evaluate alternatives to the existing civil litigation system with respect to the resolution of medical malpractice claims.

ACA impacts

- Healthcare industry consolidation
- New exposures due to delivery system changes
- Potential frequency increase

Consolidation potential

MPL Premium Distribution



- More than 70% of hospital exposure self insured
- Potential smaller pie for reinsurers, excess capacity for carriers

Delivery system related

- ACOs and bundled payments
 - Mass torts as result of provider incentives
 - Have to show harm to numerous patients
- Significant unknown

Frequency increase?

- More patients in the system
 - But not for high severity classes like ob/gyn
- Boomer doctors retiring
- Misdiagnosis risk goes up

- Reinsurer solutions
 - Aggregate stop loss or annual aggregate deductible structure
 - Multi-year structure

ACA impacts on MPL reinsurers

- Uncertainty of ACA impact makes reinsurance more valuable
- For reinsurers opportunity to tap brakes on MPL reinsurance declines
 - Offering structures that address frequency
- Uncertainty around ACA is symmetrical

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