



MID-YEAR 2019 FINANCIAL RESULTS FOR MEDICAL PROFESSIONAL LIABILITY SPECIALTY WRITERS

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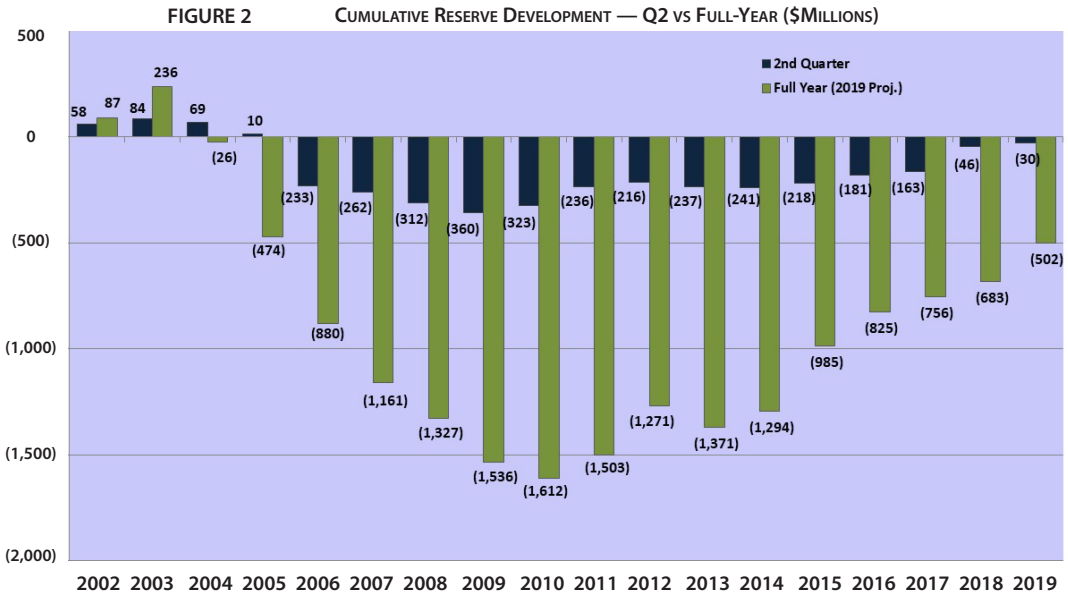
In the paragraphs and charts below, we summarize some key financial results for a composite of medical professional liability (MPL) specialty writers through the first six months of 2019. By comparing historical financial results as of the end of the second quarter to historical annual results and taking recent trends into consideration, we are afforded an indication of where 2019 annual financial results might fall.

Through six months, the composite's premium continues to rise, but not enough to offset the deteriorating losses and expenses that result in upward pressure on the composite's combined ratio. Reserve redundancies still exist, but continue to decline, and investment income remains consistently strong, leading to overall positive net income for the composite.

Our analysis is based on the collective financial results of a large group of insurers specializing in MPL coverage. The data used in our analysis dates back to 2002 and consists of aggregate statutory financial information compiled from S&P Global Market Intelligence. The current composite includes 177 MPL specialty companies with total direct written premium of approximately \$5.5 billion in 2018.

PREMIUMS ON THE RISE

Once again, the composite experienced growth in its direct written premium through the second quarter of 2019, increasing by 2.6 percent when compared to 2018 (See Figure 1). This is down from the 3.9-percent increase seen in 2018, but premiums now appear to be growing at a rate consistent with the rate of decline seen during the decade prior.



RESERVE STRENGTH DECLINING

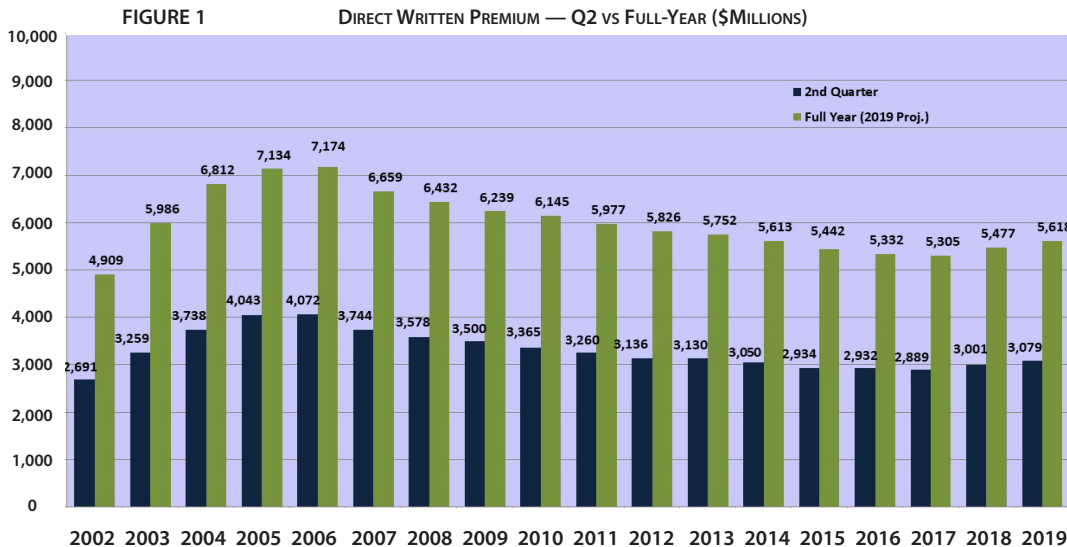
The composite's favorable reserve development through six months of 2019 is at its lowest point since 2005, dropping more than 35 percent from the same point in 2018 (See Figure 2). In 2018, however, the mid-year reserve development fell more than 70 percent when compared to 2017, but come year-end 2018 the difference was less than 10 percent relative to 2017. This just emphasizes that it is late-year, and typically fourth-quarter, reserve development that will ultimately reveal the composite's overall reserve strength.

From 2006 through 2017 the composite's favorable reserve development through six months was roughly 10 percent of its net earned premium at mid-year. This fell to 2.1 percent in 2018 and 1.3 percent in 2019. Looking at this same relationship at year-end, the average was roughly 24 percent from 2006 to 2017 and fell to 15 percent in 2018, indicating that reserve strength is declining at a faster rate than premium levels are increasing.

MORE UNDERWRITING LOSSES

Despite the rise in premium level, the composite's combined ratio continues to climb as the combined impact of increases in incurred loss and loss adjustment expenses (LAE) as well as underwriting expenses are outpacing the growth in premium. Figure 3 (see page seven) displays the composite's combined ratios through mid-year segmented into incurred loss and LAE, underwriting expense and dividend ratios.

While not yet approaching the high loss and LAE ratios of the most recent unprofitable years in 2002 and 2003, loss and LAE ratios (shown in blue) have



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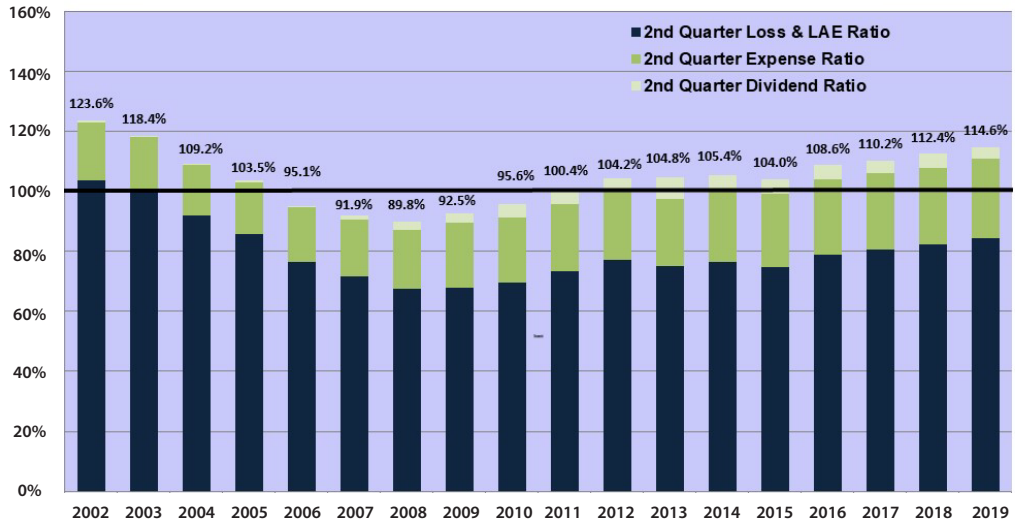


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steadily increased from approximately 68 percent in 2008 to the current year loss and LAE ratio of 84 percent. Note that the mid-year loss and LAE ratios in Figure 3 do not reflect the favorable reserve development typically seen toward year-end. As these reserve redundancies have receded, however, they provide less loss ratio relief each year. Underwriting expense ratios (shown in green) have also increased steadily from a low of 16.7 percent at mid-year 2004 to a high of 26.6 percent in 2019. While some of the increase in the loss and LAE ratios and underwriting ratios can be attributed to declining premiums in the majority of the years shown, the increasing ratios did not change course as the premium trends reversed in recent years.

FIGURE 3 2ND QUARTER COMBINED RATIOS

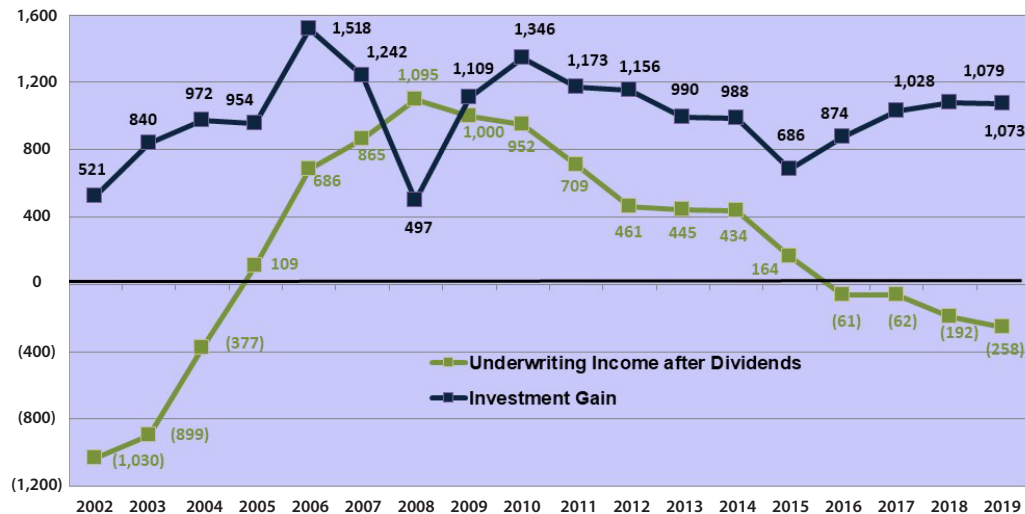


INVESTMENT GAINS OFFSET UNDERWRITING LOSSES

Figure 4 tracks the composite's underwriting performance (in terms of dollars) relative to its investment performance over time. While the composite's investment gain (investment income plus net realized capital gains) has remained relatively consistent since the financial crisis, the composite's underwriting performance has rapidly declined over the same time period (also evident from Figure 3).

However, Figure 4 also shows that the investment gain has more than made up for the underwriting losses the composite has experienced in recent years and healthy operating margins persist. Figure 5 confirms that these healthy operating margins translate to profits as mid-year 2019 after-tax net income at mid-year is down slightly, yet still comparable to recent years.

FIGURE 4 UNDERWRITING INCOME VS INVESTMENT GAIN (\$MILLIONS)

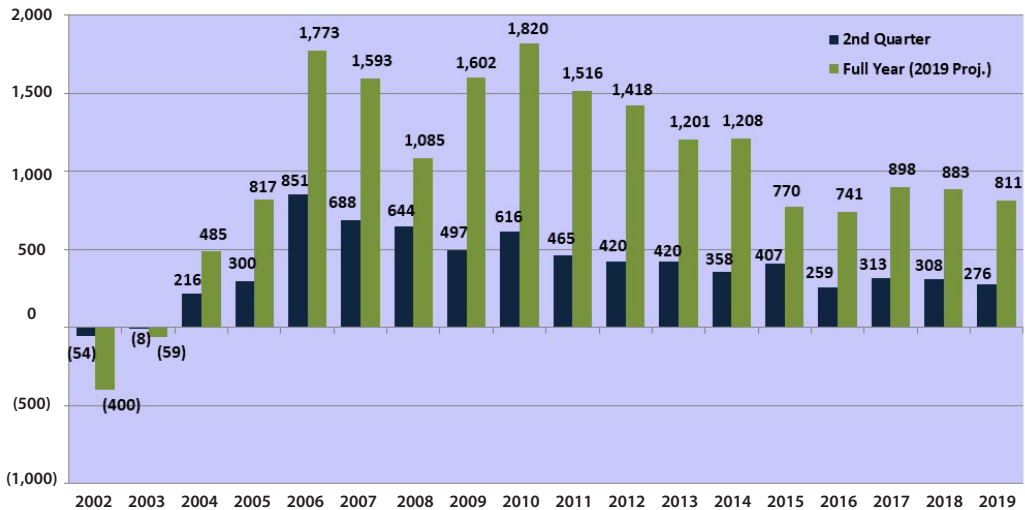


CONCLUSION

The MPL market, as with most markets, typically takes time to transition, and therefore, as we enter the second half of 2019, there is no breaking news to report in terms of financial results.

The MPL market was slow in taking rate action in the face of declining underwriting results and this was perhaps wise for competitive reasons given the consistent favorable investment performance. The market's receding reserve redundancies remain something to watch closely and volatility in the capital markets as well as some overall economic indicators are a concern, but six months into 2019, it appears to be yet another profitable year for MPL specialty writers.

FIGURE 5 AFTER-TAX NET INCOME — 2ND QUARTER VS FULL YEAR (\$MILLIONS)



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