THIRD QUARTER 2019 FINANCIAL RESULTS FOR MEDICAL PROFESSIONAL LIABILITY SPECIALTY WRITERS

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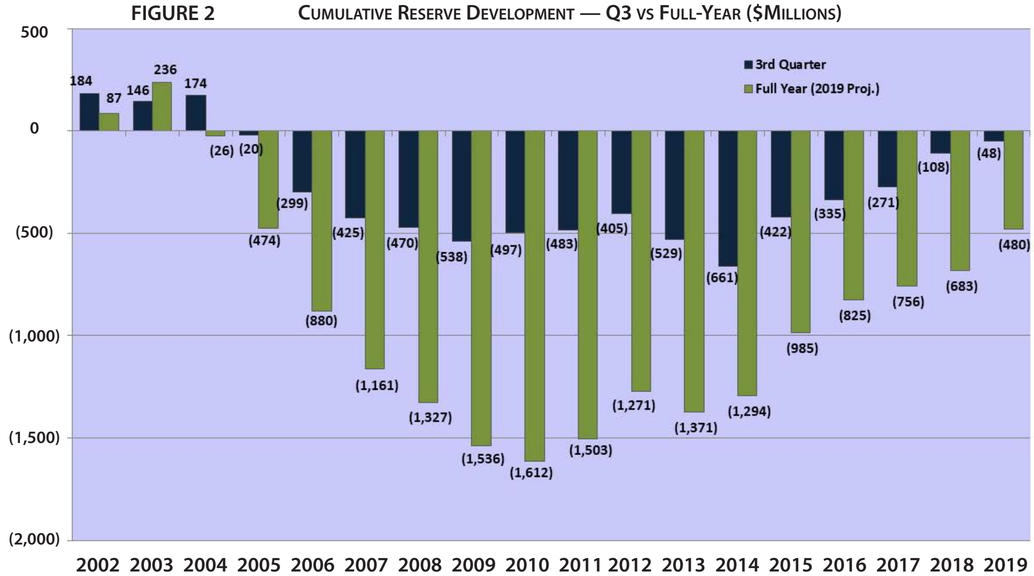
In the paragraphs and charts that follow, we summarize key financial results for a composite of medical professional liability (MPL) specialty writers through the first nine months of 2019. Third-quarter financial statements indicate that trends in the MPL market similar to those of the recent past will continue. Underwriting results continue to worsen despite rising premium levels, while investment performance remains strong. Reserve releases prior to fourth quarter have all but disappeared, though we expect reserve redundancies, albeit lower, to again be reflected in year-end financial statements. Overall net income remains positive as investment gain together with the persistent reserve redundancies more than offset underwriting losses.

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.

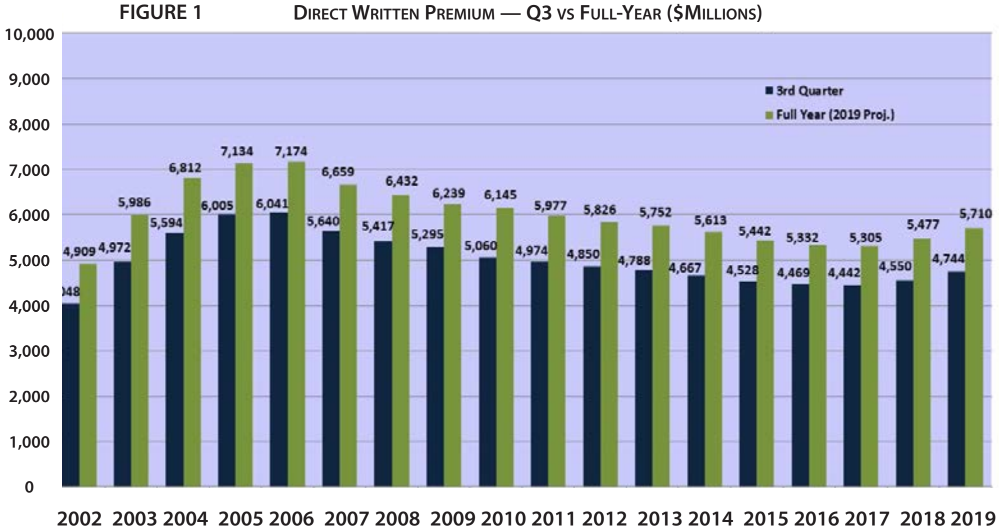
FIGURE 2 CUMULATIVE RESERVE DEVELOPMENT — Q3 VS FULL-YEAR ($MILLIONS)



Premium Growth

Figure 1 compares the composite's written premium through three quarters relative to total annual written premium. The graph shows a continuation of the upward trend in premium levels that we first observed towards the end of 2017 and into early 2018. Written premium thus far in 2019 ($4.7 billion) exceeds the comparable amount written in 2018 by 4.3 percent. Additionally, more than $1.6 billion of premium was written during the third quarter alone. This represents the most premium written during this quarter since 2012 and the largest year-over-year increase in written premium in the quarter (7.5 percent) since 2004.

FIGURE 1 DIRECT WRITTEN PREMIUM — Q3 VS FULL-YEAR ($MILLIONS)



Reserve Redundancies Weaken

Figure 2 illustrates both the continual decline in the amount of reserves released through three quarters as well as the large reserve releases that typically occur during the fourth quarter of each year in preparation for year-end financial statements. As we learned in 2018, the lack of favorable reserve development through three quarters does not necessarily predict the degree to which this favorable reserve development will decline during the final quarter of 2019.

Last year, the amount of favorable development through three quarters was down more than 60 percent relative to 2017, but by year-end had recovered to within 10 percent of total 2017 favorable reserve development. The $48 million dollars of favorable development through the third quarter of 2019 is the lowest since 2005, when the current run of redundancies in MPL loss reserves first appeared, and is again down more than 55 percent compared to 2018. Given both the unpredictability of the industry's fourth-quarter reserve action and the uncertainty regarding the overall remaining reserve redundancy, it is difficult to project the total year-end reserve release. However, it is apparent looking at recent history that favorable reserve development come year-end 2019 will remain and will decline yet again.

Combined Ratios Still Climbing

Figure 3 compares the composite's historical combined ratios (after policyholder dividends) through nine months to its combined ratio at year-end. The drop in the combined ratios between the third quarter and year-end reflects the favorable impact on the composite's annual underwriting results derived from fourth-quarter reserve releases. It also shows that, beginning in 2016, these reserve releases are no longer large enough to produce annual underwriting profits. Assuming an improvement in the composite's combined ratio during

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the fourth quarter of 2019 similar to that seen in recent years, the composite would still see its annual combined ratio climb to 108 percent, its' highest since 2003.

Investment Performance Key to Maintaining Operating Profit

Since reserve redundancies can no longer be relied on to rescue the composite's declining underwriting performance, the composite has relied on strong investment performance to keep operating margins above water. As market indices regularly reach record highs of late, the composite's 2019 investment performance has continued to improve.

Figure 4 shows the composite's investment gain (investment income plus realized capital gains) through three quarters versus year-end and illustrates the composite's steady increase since 2015. The composite's investment gain through the third quarter of 2019 grew by more than 5 percent relative to 2018 and is up nearly 60 percent since the current rally began in 2016.

After-Tax Net Income Down Slightly

Figure 5 shows the composite's after-tax net income through three quarters relative to year-end. In the case of our composite, the net income represents for the most part the extent to which its investment performance exceeds its underwriting losses. Note the overall downward trend since 2010 and, more notably, during the past several years as the reserve redundancies wane. Even with the consistently strong investment performance, the composite's overall profitability will likely continue declining until the underwriting performance levels off or begins to improve. The composite's net income after three quarters dropped more than 14 percent when compared to 2018. Nonetheless, the composite looks in position to turn a profit for the 16th-consecutive year.

Conclusion

Given the slow-to-evolve market trends in the MPL industry, the story surrounding MPL financial results does not typically change significantly from one quarter to the next, and that has held true in 2019.

Through nine months, the same trends we have been observing each quarter remain consistent. Underwriting performance remains the big concern as combined ratios are climbing despite increasing premium levels and as prior-year reserve redundancies disappear. Investment income remains the composite's saving grace as it has consistently led to overall profitability. This profitability, however, has been in steady decline for a decade.

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Figure 3 Combined Ratios (after dividends) — Q3 vs Full-Year

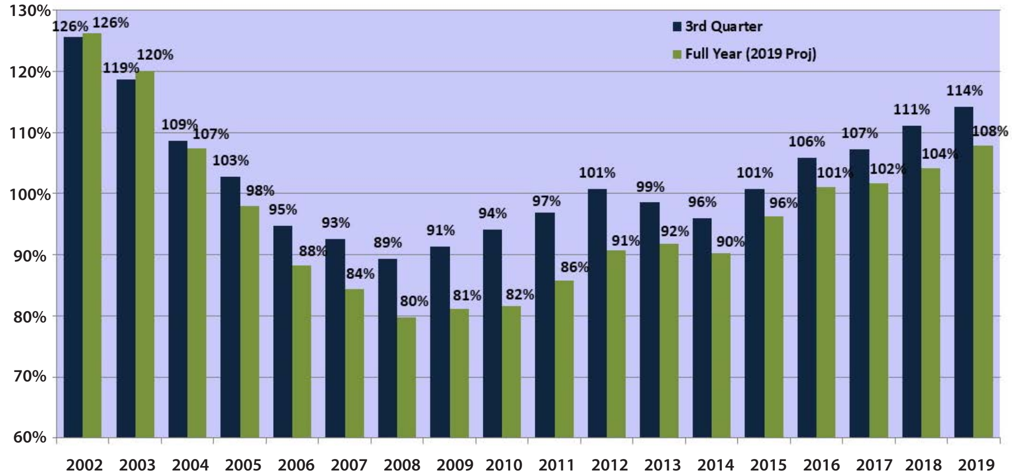

Figure 4 Investment Gain — Q3 vs Full-Year ($Millions)

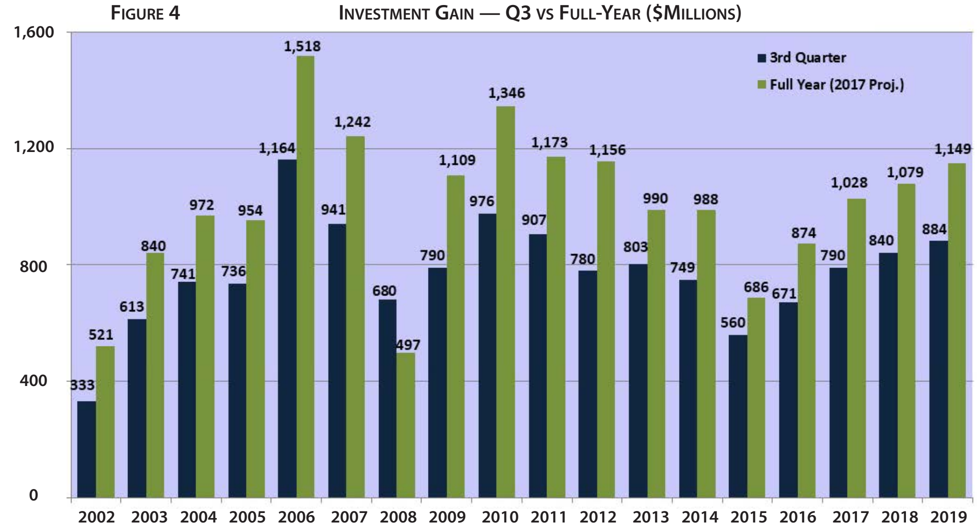

Figure 5 After-Tax Net Income — Q3 vs Full-Year ($Millions)