MODEST SLOWDOWN IN PREMIUM GROWTH DISTINGUISHES SECOND-QUARTER FINANCIAL RESULTS FOR MPL SPECIALTY INSURERS

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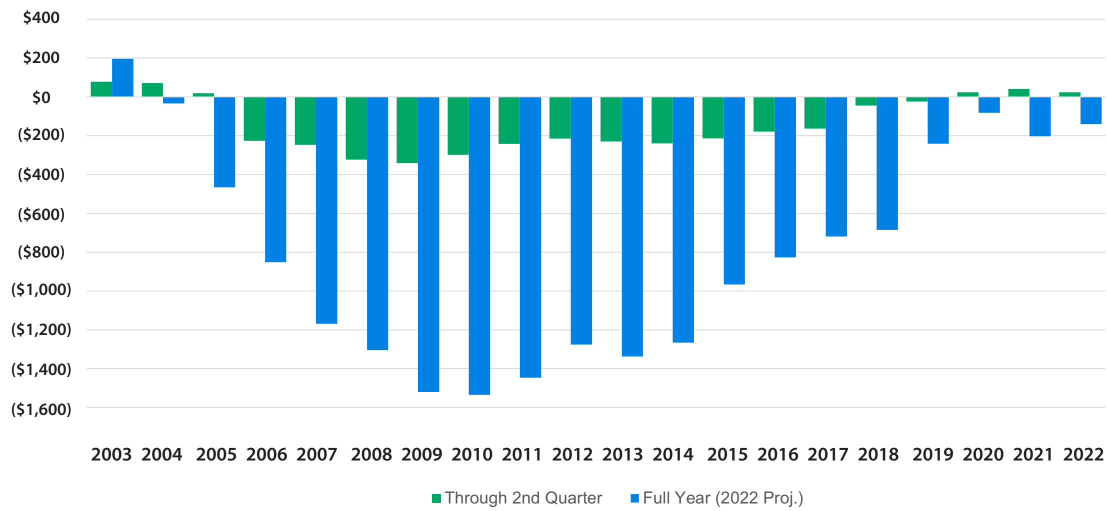
This article summarizes key financial results for medical professional liability (MPL) specialty writers from the second quarter of 2022 and continues our 13th-consecutive year of tracking and publishing these results in Medical Liability Monitor. As in past years, this article compares historical second-quarter financial results to historical annual results in order to offer a glimpse at where, perhaps, 2022 annual financial results might be headed.

Our analysis is based on the collective financial results of 175 MPL specialty companies with a total direct written premium of more than $6.5 billion in 2021. The data employed covers 20 years and consists of aggregate statutory financial information compiled from S&P Global Market Intelligence.

FIGURE 2 Cumulative Reserve Development — Q2 vs Full-Year ($Millions)



2022 Premium Growth Slows During Q2

In our analysis of 2022's first quarter (see MLM, July 2022), we discussed the increase in premium associated with MPL writers boosting rate levels in jurisdictions with poor underwriting results. This growth slowed modestly during the second quarter as premium growth (i.e., the premium written in second-quarter 2022 compared with that written in second-quarter 2021) decreased by 2%. However, the composite's direct written premium is still up 2.2% in aggregate, relative to the second quarter of 2021 (Figure 1), due to the strong first quarter in 2022. Despite the slowdown, the 2022 full-year premium still has a shot at challenging the composite's 2006 peak.

Flattening Reserve Development

Continuing a two-year trend, the composite reported cumulative adverse development through the second quarter of approximately $23 million (see Figure 2) on reserves related to prior years. This reflects a slight improvement relative to the same point in 2021 and is on-par with the 2020 development through the second quarter. The relatively small amounts of second-quarter adverse development in both 2020 and 2021 did not ultimately lead to adverse development for the full years. While we anticipate 2022's annual results will also reflect some reserve redundancy, how much is uncertain, given that, on average, two-thirds of annual reserve restatements typically occur during the fourth quarter.

Combined Ratios Continue Turnaround in Q2 2022

The composite's combined ratio through the second quarter of 2022 was 109% (Figure 3, on page 7), a decrease of 5% from last year and the lowest mark since 2016. The decrease is largely driven by a decline in the loss and loss adjustment expense (LAE) ratio, with the expense and policyholder dividend ratios showing a minor decline compared to the same period in 2021. This implies that the impact of higher rate levels continues to have the desired effect.

Figure 3 also compares historical second-quarter combined ratios relative to annual combined ratios. The 2022 annual combined ratio is projected to be around 107%, which is an 8% decrease from the recent peak in 2019. While this represents the composite moving in the right direction, the projected improvement is still somewhat dependent on reserve redundancies, as previously mentioned. The combined ratios are likely still unsustainable over the long-term given the declining investment performance experienced

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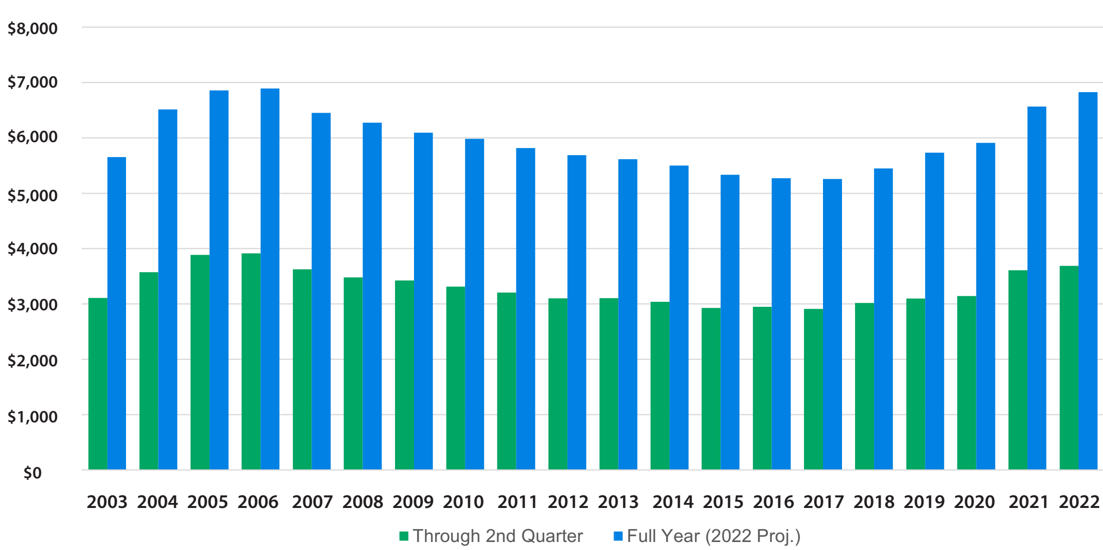
FIGURE 1 Direct Written Premium — Q2 vs Full-Year ($Millions)



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by the industry during the last decade.

Net Income Decreases

Net income for the second quarter of 2022 experienced a 44% decrease compared to the second quarter of 2021 (see Figure 4), but this is still a 63% increase from the second quarter of 2020. These fluctuations can be attributed to COVID-19 and the unprecedented market volatility and economic environment that followed. The decrease through second-quarter 2022 was influenced by a 41% decline in year-over-year investment gain, which indicates the MPL industry, like many others, is having difficulty navigating the current market. If investment performance continues to lag behind historical levels, the industry may be forced to take additional rate increases to stabilize operating ratios.

Dividend Levels Continue to Fall

The composite's policyholder and stockholder dividends through the second quarter of 2022 were at their lowest levels since 2007, with annual projections for both expected to also be at their lowest levels in quite some time (Figure 5). The decrease in dividend payouts highlights the downstream impact of the higher operating ratios. It also highlights the company-specific nature of the composite — with certain companies still poised to offer modest dividends.

Conclusion

Top-line revenue for the composite continues to grow and may soon reach an all-time high. Insurers continue to seek additional rate increases to help counter the economic uncertainty brought about by macroeconomic and social inflationary pressures. Continued emphasis will be placed on keeping loss and LAE ratios stable as reserve redundancies disappear, improving investment income performance and ultimately ensuring that the industry remains in a financial position to protect the healthcare providers they insure. But external uncertainties, like inflation, the financial markets and the continued evolution of COVID-19 variants, will make meeting these challenges challenging.

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Figure 3 Combined Ratio (After PH Dividends) — Q2 vs Full-Year ($Millions)

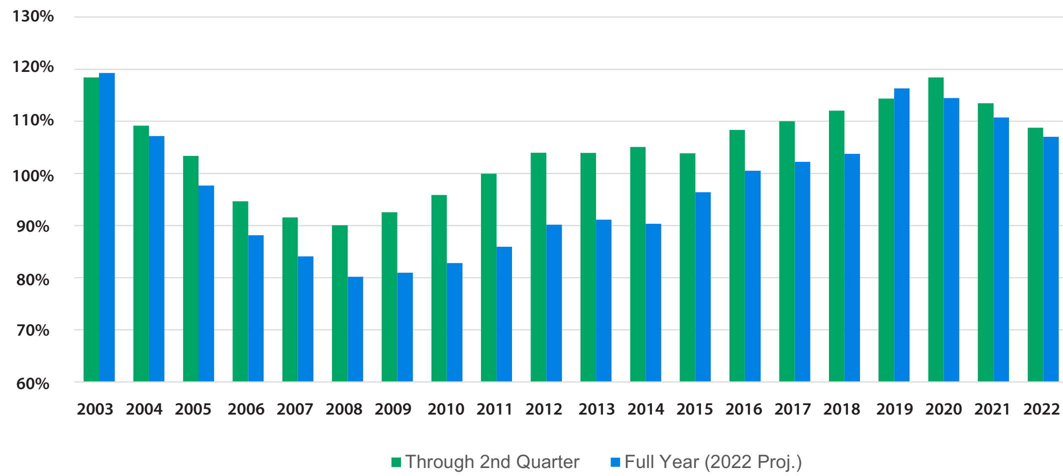

Figure 4 After-Tax Net Income — Q2 vs Full-Year ($Millions)

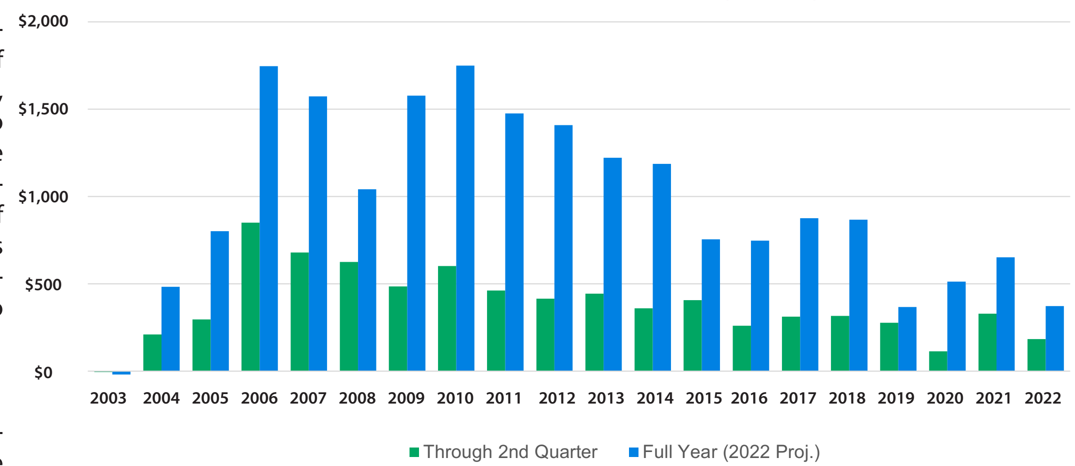

Figure 5 Declared Policyholder Dividends and Stockholder Dividends as % of NEP