



# INVESTMENT PERFORMANCE HELPS SUSTAIN UNDERWRITING STALEMATE FOR THE MPL INDUSTRY

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This article summarizes the key financial results of medical professional liability (MPL) specialty writers for the year 2023 and completes our 14th consecutive year tracking and publishing these results in MEDICAL LIABILITY MONITOR.

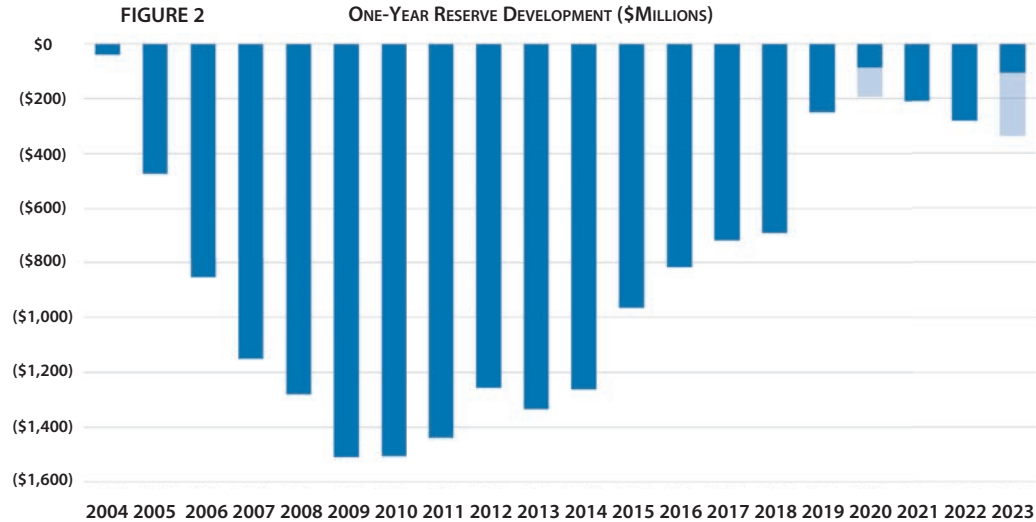
Our analysis is based on the collective financial results of a large group of insurers specializing in MPL coverage. The past 20 years of statutory financial data, as aggregated by S&P Global Market Intelligence, was analyzed by Milliman. We updated our composite of MPL specialty insurance companies, which for this analysis includes 169 insurers with a total direct written premium of nearly \$6.9 billion in 2023.

## PREMIUM GROWTH SLOWS

Our composite's total direct written premium increased by 3.4% in 2023 to \$6.9 billion, the highest level in the last 20 years (see Figure 1). The percentage increase was smaller than both 2021 and 2022 but is still a welcome sight after the premium decreases experienced in the early-to-mid 2010s. The growth was especially pronounced during the fourth quarter of 2023, which saw a year-over-year increase of nearly 17% when compared to 2022. The fourth quarter is becoming an increasingly important quarter for the composite. Since its 2017 premium nadir, the composite's percentage of premium written in the fourth quarter has grown from 16% to 21%, while the percentage of premium written in each of the other three quarters has declined during that time. Despite this trend, the first quarter still accounts for more than one third of premium written in 2023, while the third quarter remains in second place with more than one quarter of premium written.

## RESERVE RELEASES IMPROVE SLIGHTLY OVER 2022

As shown in Figure 2, the prior-year reserve release for all lines of our composite's business was slightly more than \$100 million in 2023, a decrease of more than 60% from the release taken in 2022.



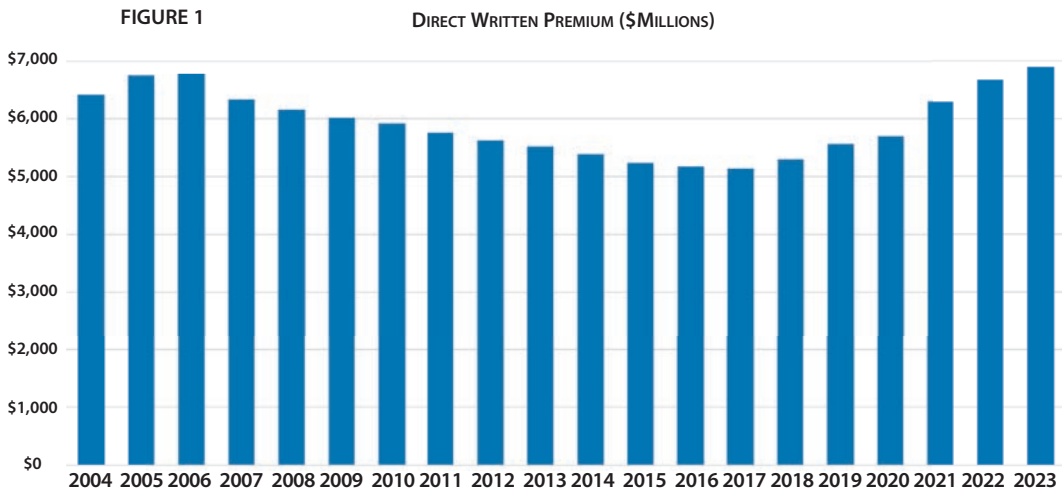
Large acquisitions occurred within our composite in calendar years 2020 and 2023, and the accounting treatment of these transactions distorted the prior-year reserve release, as noted in Schedule P – Part 2. Excluding the adverse reserve development from these transactions, our composite experienced a prior-year reserve release of approximately \$340 million, represented as the light blue portion of the bars in Figure 2. Furthermore, the COVID-19 pandemic has continued to impact our composite by slowing down the claim adjudication process. Reported claim frequency has remained below historical averages since the pandemic began. This, coupled with rising premiums in recent years, has led to an initial booked coverage year loss and LAE ratio averaging approximately 85% for each of the last three years in Schedule P. In contrast, the 2014 through 2020 initial booked coverage year loss and LAE ratios averaged nearly 90%. The lower initial booked coverage year loss and LAE ratios for the years 2021 through 2023 may prolong the slowdown in prior-year reserve releases if severities continue to rise, causing the loss and LAE to align with premium levels.

## IMPROVING UNDERWRITING RESULTS ON PAUSE

Our composite posted a combined ratio of approximately 105% in 2023, extending its streak of unprofitable underwriting that began in 2016. As Figure 3 shows, the calendar year loss and LAE ratio improved by 1-point from the previous year. However, slight deteriorations in both the underwriting expense ratio and policyholder dividend ratio meant the combined ratio remained largely unchanged compared to 2022.

General inflationary concerns continued to put pressure on underwriting expenses during 2023, while social inflation and mega verdicts remain near the top of virtually every company's list of worries. These con-

→ CONTINUED ON PAGE 7





# INVESTMENT PERFORMANCE HELPS SUSTAIN MPL UNDERWRITING STALEMATE

→ CONTINUED FROM PAGE 5

cerns are sure to continue into 2024 as the inventory of open claims remains older than it has historically, due to the legacy impact of court delays from the last several years. With many of these claims likely to be closed in 2024, the potential severity of those claims will be front and center. Given these issues, it will be important for the industry to look for additional avenues through which to improve underwriting results going forward.

## NET INCOME NEARLY DOUBLES DURING 2023

After-tax net income for our composite increased from slightly more than \$400 million in 2022 to approximately \$720 million in 2023, an increase of almost 75% (Figure 4). While underwriting results remained relatively flat in 2023, our composite's investment income was buoyed by interest rate hikes implemented by the Federal Reserve, which increased to nearly \$1 billion and was the highest level of investment income since 2010. While inflation remains near the top of everyone's mind, for our composite, inflation's impact to date has resulted in a larger increase in investment gains than underwriting expenses.

## SURPLUS RECOVERS AFTER 2022 DIP

As Figure 5 shows, our composite's policyholder surplus increased by 5.5% in 2023, representing the largest increase on both a dollar-basis and percentage-basis since 2013. The decrease in 2022 was primarily driven by \$1.3 billion of unrealized capital losses. However, during 2023 (as mentioned previously) net income for our composite increased by approximately \$320 million (from \$400 million to \$720 million), while the change in unrealized capital gains accounted for an additional \$280 million increase in policyholder surplus.

## CONCLUSION

The MPL industry, as represented by our composite, experienced decent, but not spectacular, financial results in 2023. The combined ratio may have reached a stalemate without taking additional underwriting actions. However, the industry's unprofitable underwriting was offset by a significant increase in investment gains when compared to 2022. Additionally, despite our composite continuing to experience elevated payments during 2023, the operating margin was still 14.1%, the highest operating margin since 2018. We look forward to continuing to monitor the results of the MPL industry and investigate trends as the calendar turns to 2024.

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FIGURE 3 ANNUAL COMBINED RATIOS

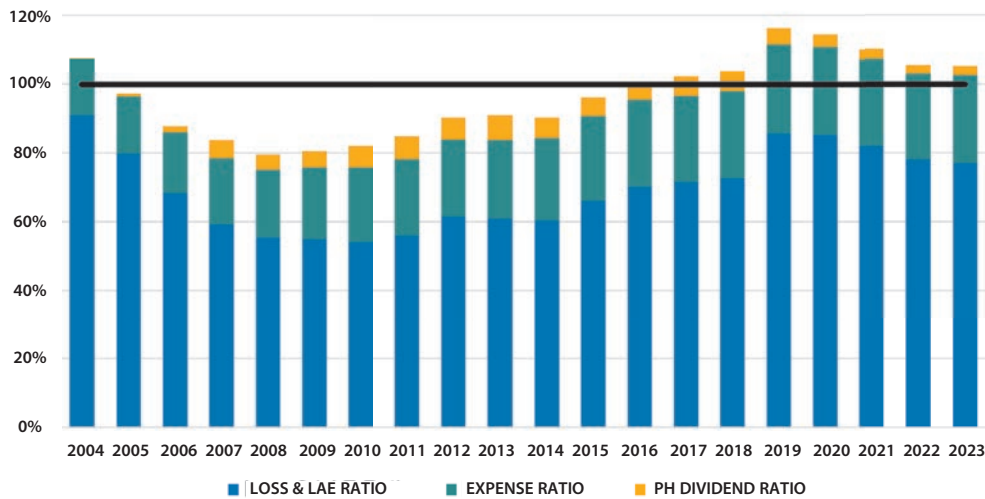


FIGURE 4 ANNUAL NET INCOME (\$MILLIONS)

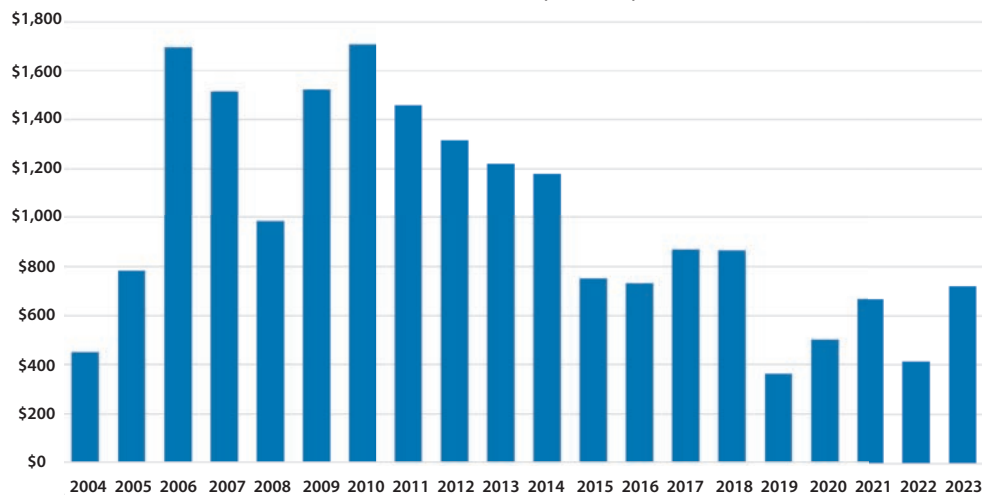


FIGURE 5 POLICYHOLDER SURPLUS (\$BILLIONS)

