INFLATION'S DOUBLE-EDGED SWORD IMPACTS FIRST-QUARTER 2024 FINANCIAL RESULTS FOR MPL SPECIALTY WRITERS

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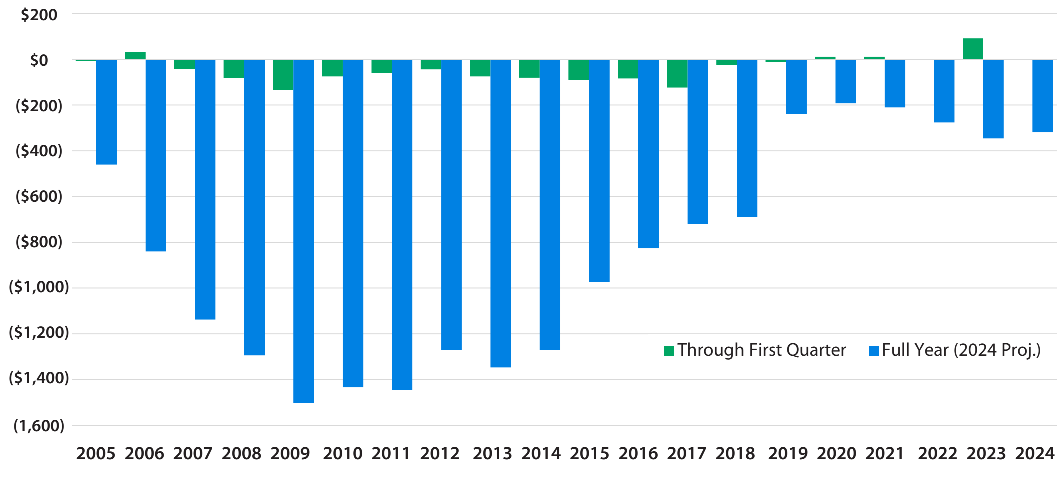
FIGURE 2 CUMULATIVE RESERVE DEVELOPMENT — Q1 VS FULL-YEAR ($MILLIONS)



This article summarizes key financial results for medical professional liability (MPL) specialty writers from the first quarter of 2024 and begins our 15th consecutive year of tracking and publishing these results in MEDICAL LIABILITY MONITOR. As in past years, this article compares historical first quarter financial results to historical annual results to offer a glimpse at where 2024 annual financial results might be headed.

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 covers 20 years and consists of aggregate statutory financial information compiled from S&P Global Market Intelligence. The current composite includes 179 MPL specialty companies with total direct written premium of nearly $6.9 billion in 2023.

PREMIUM CONTINUES SLOW ASCENT DURING Q1

For the seventh year in a row, first quarter premiums have grown. However, similar to 2023, first quarter growth this year was relatively muted. The composite's direct premiums written increased by less than 1% relative to the first quarter of 2023 (Figure 1). This year's first-quarter premiums continue the pattern of being the highest since 2006. Also shown in Figure 1 is a full-year projection for 2024, which anticipates the remainder of 2024 to generally mimic first quarter growth. In fact, historically, more premiums are written during the first quarter than any other, with more than one-third of annual premiums typically written during the first three months of the year.

RESERVE DEVELOPMENT REMAINS RELATIVELY FLAT

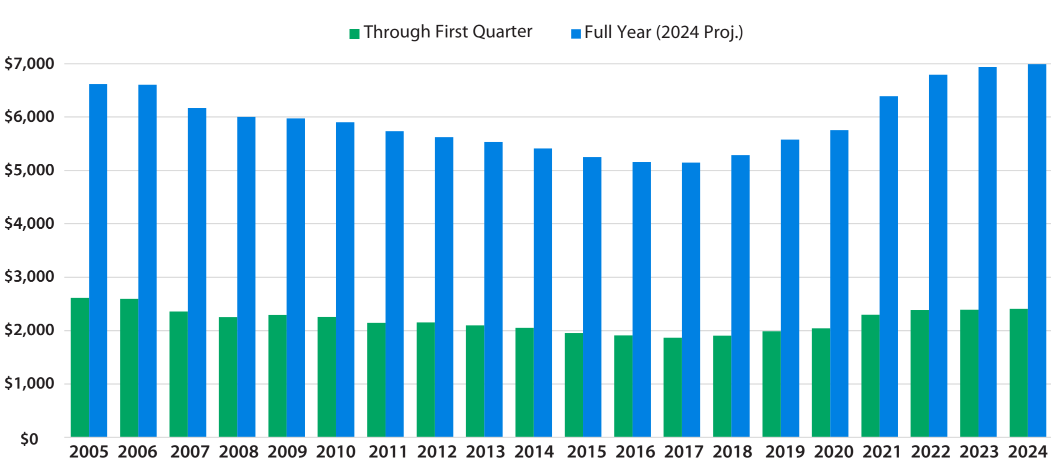
After four years of modest adverse development during the first quarter, we saw small releases from the composite during the first quarter of 2024 with a $4 million decrease. As displayed in Figure 2, cumulative reserve development was generally small during the last 6 years when compared to historical development. In years past, the slight adverse development in the first quarter did not have a large negative impact on annual reserve development. We anticipate this pattern to persist through the full year and ultimately see favorable development in 2024.

COMBINED RATIO RESULTS CONTINUE TO SHOW UNDERWRITING LOSSES

The composite's combined ratio through the first quarter of 2024 was 113% (Figure 3, on page 7), a decrease of 1% from the first quarter of 2023. The decline was driven by the loss and LAE ratio, which decreased one-and-a-half points relative to the first quarter of 2023. The decrease is slightly offset by an increasing fixed-expense ratio, which may be struggling to keep up with the United States' improved but persistent macroeconomic inflation.

Figure 3 also compares historical first-quarter combined ratios to annual combined ratios, illustrating the continued concern for the MPL market's underwriting performance. For those less than well-versed in how combined ratios change during the course of a year in the MPL industry, reserve development has historically had a large (and recently favorable) impact on the composite's combined ratio. Since the lion's share of annual reserve development occurs during the fourth quarter, this is the primary driver of the difference between the green and blue bars in Figure 3.

FIGURE 1 DIRECT WRITTEN PREMIUM — Q1 VS FULL-YEAR ($MILLIONS)



UNDERWRITING EXPENSES CONTINUE TO SURGE

The composite's underwriting expenses continue to rise, with the first quarter of 2024 experiencing a year-over-year increase of more than 5% (Figure 4, on page 7). This continues the growth that began ramping up in 2019. Growth is generally expected for expense categories such as this, even during times of normal inflation. The elevated inflation during the last few years is evident in the higher-than-average expense growth in 2023 and 2024. In fact, 2023 saw the most significant first-quarter underwriting expense growth since 2005, and 2024 trails only 2019 and

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FIRST-QUARTER FINANCIAL RESULTS FOR MPL SPECIALTY WRITERS

CONTINUED FROM PAGE 5

2023 during that same period. The sting of this expense growth has been mitigated by the composite's premium growth since 2018. Despite the historic expense growth during these last two years, expense ratios (related to net earned premium) have declined by more than one point since the high of 2019. That said, underwriting expenses grew at a faster rate than net earned premium in both 2023 and 2024, causing the expense ratio to tick back up again.

Investment Gains Continue to Offset Underwriting Losses

Figure 5 tracks the composite's underwriting performance (in terms of dollars) relative to its investment performance over time. As investment yields have risen alongside inflation, the composite's investment gain continues to benefit. Furthermore, the composite has historically achieved better returns than the five-year Treasury Bond would offer, which hasn't been true the last two years as Treasury yields have soared. Given that it takes time to churn through a bond portfolio while still managing other metrics, such as duration matching, it is certainly plausible that the composite's yield will take another step forward in 2024.

Underwriting income, on the other hand, has been negative each year since 2016. And with continued increases in underwriting expenses (Figure 4) and incurred losses, the projected result for 2024 indicates that underwriting losses will continue. Figure 5 illustrates that investment gains have more than compensated for the composite's underwriting losses in recent years. However, for those companies looking to achieve underwriting profitability, ongoing underwriting losses remain concerning, especially as underwriting expenses continue to increase year over year.

Conclusion

Three months into 2024, the MPL industry continues to feel the effects of — and the macroeconomic responses to — the economy's elevated levels of inflation. While underwriting expenses appear to be the most directly impacted inflationary cost, the composite is seeing offsetting impact in the form of increasing investment gains based in part on the Federal Reserve's reaction to inflationary concerns. In the background, general inflation doesn't appear to be having a significant impact on loss costs, although social inflation concerns continue to be present.

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FIGURE 3 COMBINED RATIO (AFTER PH DIVIDENDS) - Q1 VS FULL-YEAR ($MILLIONS)

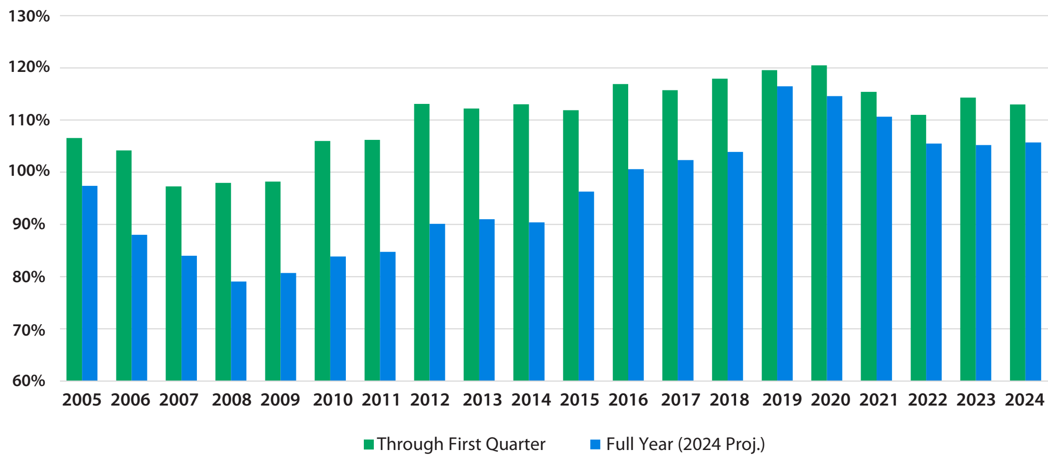

FIGURE 4 UNDERWRITING EXPENSES ($MILLIONS) THROUGH Q1

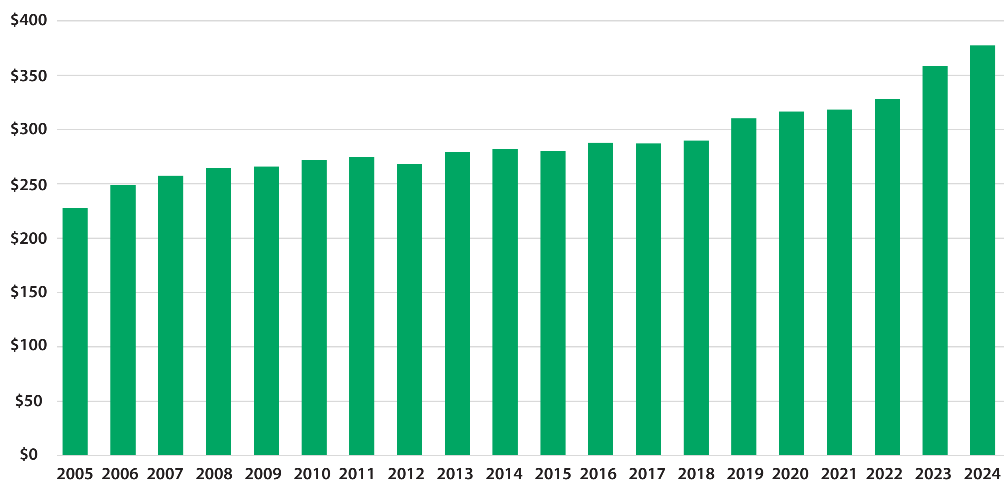

FIGURE 5 UNDERWRITING INCOME VS INVESTMENT INCOME ($MILLIONS)