DWP, INVESTMENT GAINS OFFSETTING UNDERWRITING DIFFICULTIES FOR MPL SPECIALTY WRITERS

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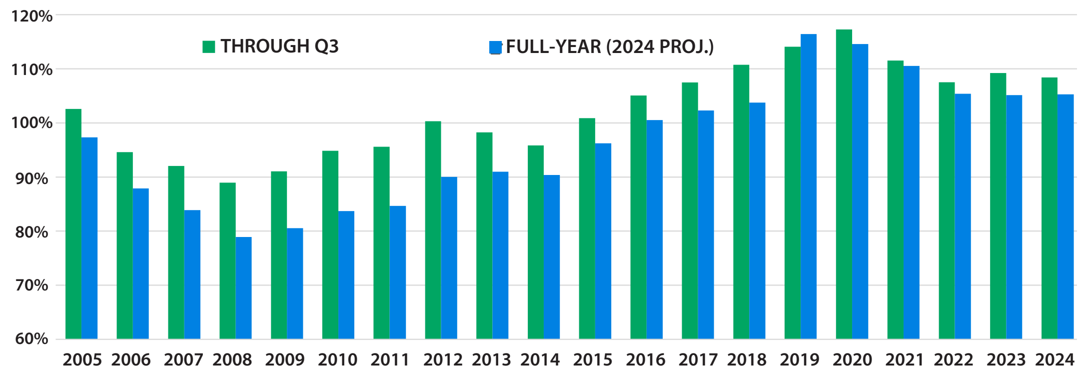
FIGURE 2 Combined Ratio (after PH Dividends) - 3rd Quarter vs Full-Year



This article provides a summary of key financial results for medical professional liability (MPL) specialty writers from the third quarter of 2024. It marks our 15th consecutive year tracking and publishing these results in Medical Liability Monitor. The trends observed earlier in the year persist, including strong investment performance and ongoing premium growth within the industry. These factors are helping to offset what would otherwise be a modest underwriting loss.

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 173 MPL specialty companies with total direct written premium (DWP) of nearly $6.7 billion in 2023.

Premium Growth Continues

Consistent with the trends observed in the first and second quarters of 2024, premiums continued to rise during the third quarter. As shown in Figure 1 (below), our composite's DWP increased by nearly 2% compared to the third quarter of 2023. While this growth is smaller than in recent years, it reflects a continued year-over-year upward trend in premium volumes.

Notably, this year's third-quarter premiums are the highest recorded in the 20-year history of the data. Those familiar with the industry over the decades recognize the factors that previously drove premium declines, including a reduction in lawsuits, shifts in the healthcare employment model and the growing prevalence of self-insurance among larger organizations. These industry-specific factors have often overshadowed the natural trend of premium growth over time. In fact, among the eight major lines of business reported in the Annual Statement, all have experienced greater premium growth than the MPL industry — with some achieving nearly three times the growth during the period it took MPL premiums to return to levels seen decades ago.

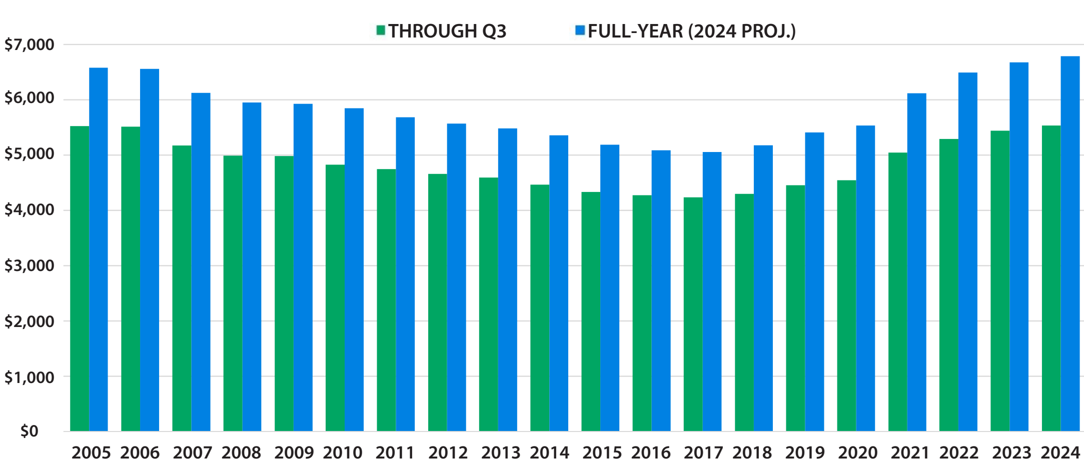
The full-year 2024 projection in Figure 1 anticipates that premium growth in the final quarter will align with the trends observed in the third quarter. In line with third-quarter performance, the projection suggests that the composite's full-year premiums will reach their highest level in 20 years — with DWP expected to total $6.8 billion.

Underwriting Losses Continue to Influence Combined Ratio Results

Our composite's combined ratio through the third quarter of 2024 was 108% (Figure 2, above), representing a one-percentage-point improvement compared to the third quarter of 2023. This decline was primarily driven by reductions in the loss and loss adjustment expense (LAE) ratio, with slight decreases also observed in the expense and policyholder dividend ratios. Looking back to the first-quarter combined ratio for 2024 reveals a four-point improvement by the third quarter, consistent with trends seen in other recent first-to-third-quarter combined ratio comparisons. The primary factor behind this improvement is policyholder dividends, which are typically issued in the first quarter and account for a disproportionate share of that quarter's combined ratio.

Figure 2 also provides a comparison of the composite's historical third-quarter combined ratios with annual combined ratios, highlighting persistent underwriting losses within the MPL market. While both third-quarter and annual combined ratios have declined from their peak levels a few years ago, ratios above 100% continue to be the new normal and highlight the composite's reliance on investment income to cover the underwriting losses.

FIGURE 1 Direct Written Premium — Q3 vs Full-Year ($Millions)



Investment Income Continues Upward

Our composite's investment income through the third quarter of 2024 continued its upward trajectory and sits just below its peak in 2006. As shown in Figure 3, investment income more than doubled during the past two years, ris-

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-ing from $430 million in the third quarter of 2022 to $900 million in the third quarter of 2024. Given the torrid pace investment income is on, full-year 2024 investment income is projected to reach approximately $1.3 billion, which would mark its highest level in 20 years. This growth is driven, in part, by recent interest rate increases implemented by the Federal Reserve, which remain elevated and continue to bolster returns.

Dividend Levels Show Possible Improvement

Our composite's third-quarter 2024 policyholder and stockholder dividends were used to estimate annual dividend levels. Our analysis indicates that policyholder dividend ratios for 2024 will align closely with those of 2023. However, stockholder dividends for the third quarter of 2024 surged by 130% compared to the same period in 2023. As a result, annual stockholder dividends are on track to reach their highest level since 2018 (see Figure 4). The driving force behind this increase is that 90% of companies providing a stockholder dividend through the third quarter of 2024 had not done so by this time last year.

Policyholder Surplus Remains Strong

Our composite's policyholder surplus levels increased by 8% year-over-year for the third quarter of 2024 (see Figure 5), reaching approximately $17.9 billion. This growth continues a pattern of the policyholder surplus attaining new record highs each quarter in 2024.

Figure 5 also suggests that the composite's full-year 2024 surplus is projected to close at roughly $18 billion. This increase is driven by a combination of higher premiums collected from policyholders, as illustrated in Figure 1, and the rise in investment income noted in Figure 3. Together, these factors have pushed the composite's policyholder surplus to new highs.

Conclusion

Policyholder surplus and investment income remained strong during the third quarter of 2024, while premiums continued to rise. There was a rise in dividend payouts during the third quarter, though combined ratios remain elevated. As we move into the fourth quarter, it will be critical to observe whether the composite can continue to offset underwriting losses through investment income and rate increases, while also meeting stockholder expectations with dividend payouts.

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Figure 3 Investment Income - Q3 vs Full-Year ($Millions)

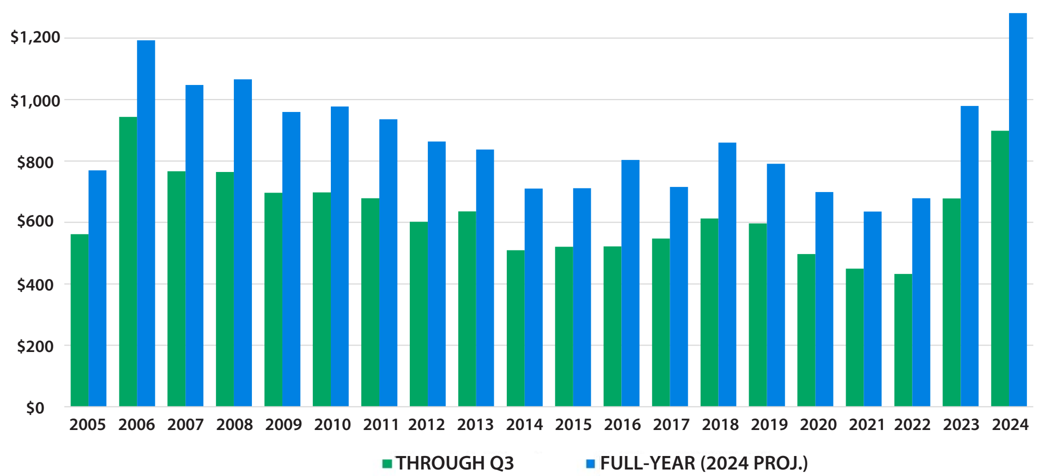

Figure 4 Declared Policyholder Dividends and Stockholder Dividends as % of NEP

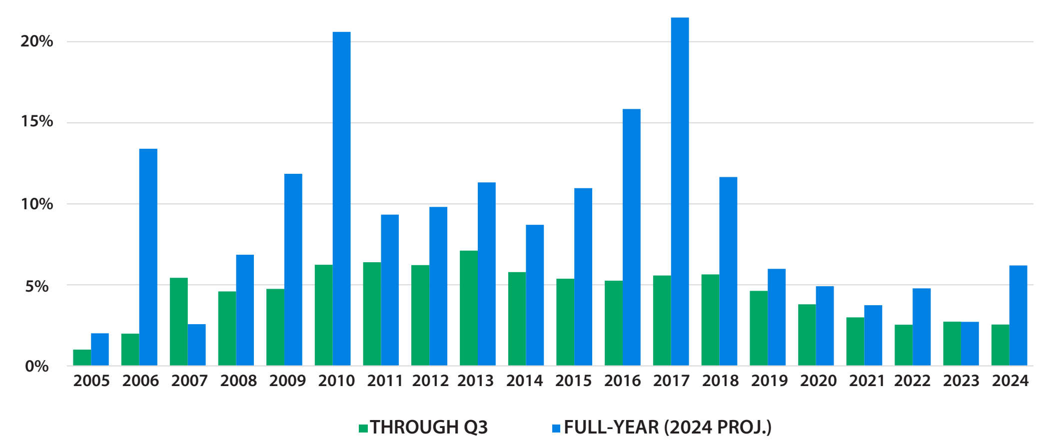

Figure 5 Policyholders Surplus - 3rd Quarter vs Full Year ($Billions)