MPL YEAR-END OPERATING RESULTS REMAIN FAVORABLE DESPITE BELOW AVERAGE UNDERWRITING EXPERIENCE

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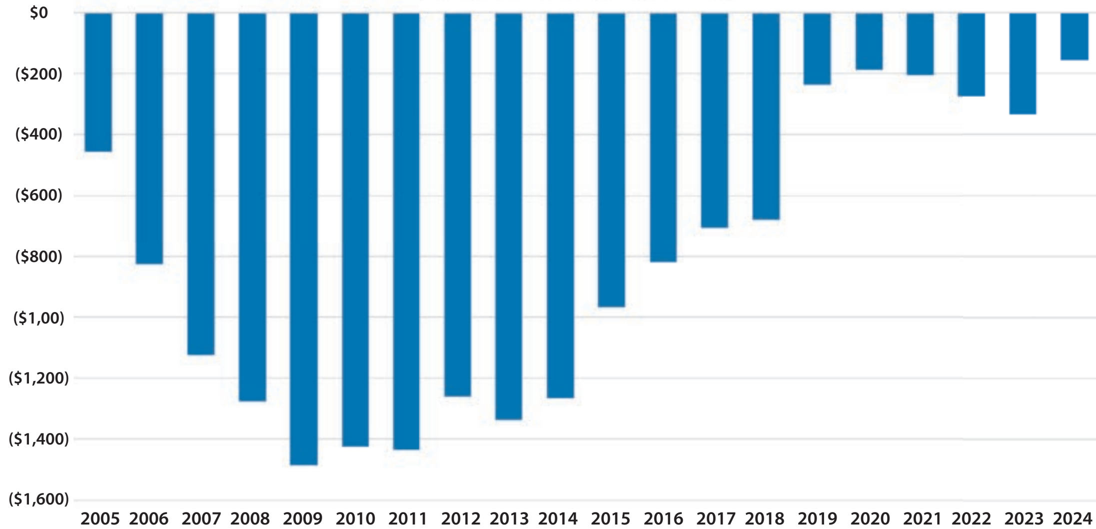
This article summarizes the key financial results for medical professional liability (MPL) specialty writers for the year 2024 and completes our 15th consecutive year tracking and publishing these results in Medical Liability Monitor.

Our analysis is based on the collective financial results of a large group of insurers specializing in MPL coverage. Milliman analyzed 20 years of statutory financial data aggregated by S&P Global Market Intelligence. The current composite includes 169 MPL specialty companies with total direct written premium (DWP) exceeding $6.9 billion in 2024.

One-Year Reserve Development ($Millions) FIGURE 2



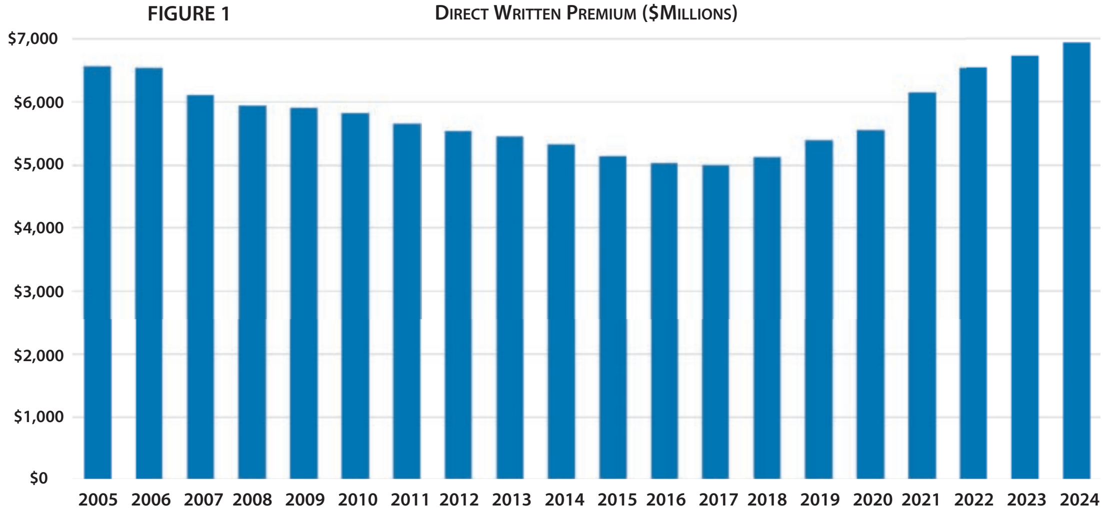
Modest Premium Growth in 2024

Our composite's total DWP increased by 3.1% in 2024 to slightly more than $6.9 billion (see Figure 1, below). This percentage increase was roughly similar to 2023 but smaller than increases observed in both 2021 and 2022. Although the first quarter continues to generate the majority of DWP each year (just over one-third of 2024 DWP came from Q1), the average growth rate for fourth-quarter DWP has significantly outpaced growth during the first three quarters since 2022. As noted in previous editions of this article, MPL premium growth in recent years has generally been slower compared to other lines of business. Several factors likely influence this trend, including consolidation of healthcare systems driving providers out of standard markets into the self-insured space, stronger capitalization across the MPL sector and ongoing competition preventing the emergence of a true hard market.

Reserve Releases Shrink

As shown in Figure 2 (above), the prior-year reserve release for our composite was slightly more than $150 million in 2024, roughly half the amount released in 2023 after adjusting for accounting treatment related to a large acquisition within the composite that year. Although the overall reserve release for our composite was lower compared to 2023, this decline was not widespread among most companies. Rather, a handful of companies experienced disproportionate adverse development compared to the rest of our composite. The slower claim adjudication process during the early stages of the COVID-19 pandemic continues to impact claim payments across the industry. While reported claim frequency remains generally below historical averages, claim severity continues to be the primary concern. Total MPL payments for our composite during the fourth quarter, as measured by Supplement A to Schedule T, reached nearly $1 billion — the highest observed in at least eight years and more than 13% higher than any other quarter within that period. When examining reserve development by coverage year in Schedule P, ultimate loss and LAE ratios have developed favorably for seven of the last nine coverage years relative to the initially booked ultimate loss and LAE ratios. However, coverage years 2018 and 2019 have both experienced adverse development for our composite. Additionally, initial booked coverage-year loss and LAE ratios have steadily decreased in recent years, with 2024 coming in at approximately 81%. These lower initial coverage-year loss and LAE ratios leave less room for future prior-year reserve releases.

FIGURE 1 Direct Written Premium ($Millions)



Underwriting Improvement Stalls

Our composite recorded its ninth consecutive year of underwriting loss in 2024, posting a combined ratio of approximately 106.5%. As Figure 3 (on page 7) illustrates, the calendar-year loss and LAE ratio deteriorated by one point compared to 2023, while the underwriting expense ratio and policyholder dividend ratio remained virtually unchanged. Although general inflation

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concerns appeared to ease somewhat during 2024, social inflation and megaverdicts continue to cause concern throughout much of the insurance industry. These issues will likely persist into 2025 and beyond, as open claims remain active for longer periods, largely due to court delays stemming from the pandemic. As has been true for the past nine years, it is imperative MPL specialty companies identify additional ways to improve underwriting performance.

Net Income Reaches Highest Level Since 2014

After-tax net income for our composite increased approximately 21% in 2024, reaching just under $870 million (Figure 4). Although underwriting results deteriorated slightly in 2024, our composite's investment income rose by 22%, and net realized capital gains increased nearly 40%. Both investment income and total investment gain in 2024 were the second-highest results recorded by our composite in the past 20 years.

Surplus Continues to Climb

As shown in Figure 5, our composite's policyholder surplus grew by another 4.5% in 2024, reaching approximately $18 billion and representing another all-time high. During 2024, as mentioned previously, net income for our composite increased by roughly $150 million to nearly $870 million. Changes in unrealized capital gains contributed an additional $170 million. And our composite's ratio of total adjusted capital to authorized control level risk-based capital rose from approximately 820% in 2023 to 920% in 2024, indicating a significantly stronger capital position relative to the threshold for regulatory action.

Conclusion

The MPL industry will likely need to continue working toward improved underwriting results. For now, however, the industry's underwriting losses remain offset by investment returns. Meanwhile, capitalization continues to exceed that of other business lines, particularly relative to regulatory required thresholds. Additionally, our composite's operating margin was 16.6% in 2024. However, financial markets have experienced a tumultuous start to 2025, making it important to closely monitor investment returns throughout the year, as these will likely play a significant role in our composite's 2025 operating results. We look forward to continuing our analysis of MPL industry results and trends as 2025 progresses.

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