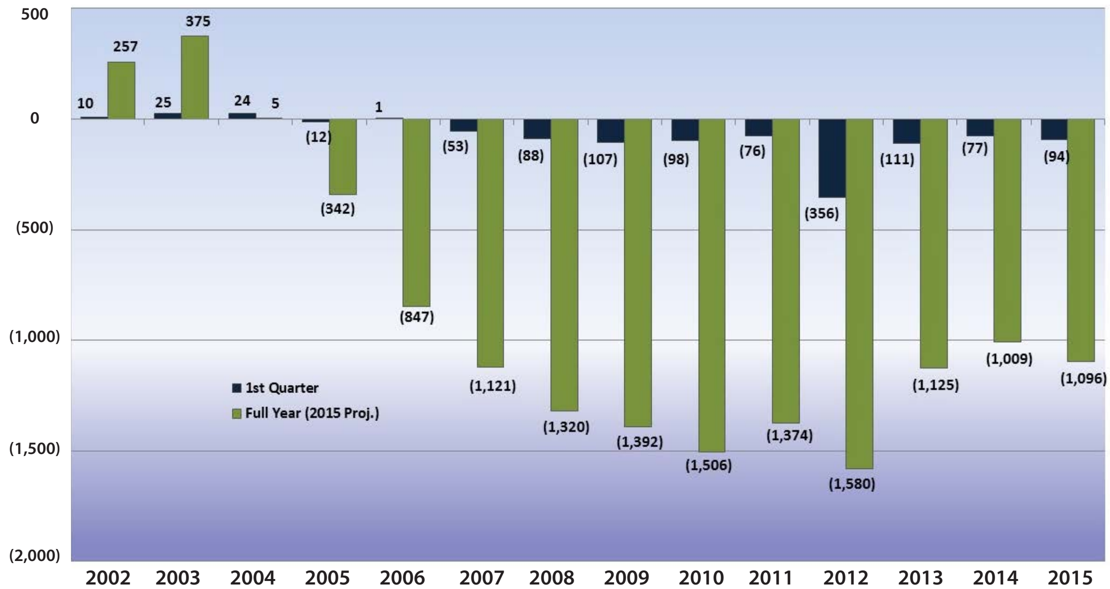
# FIRST QUARTER FINANCIAL RESULTS FOR MEDICAL PROFESSIONAL LIABILITY SPECIALTY WRITERS

***by Charles W. Mitchell, FCAS, MAAA and Brad J. Parker, ACAS, MAAA***

This article summarizes some key financial results for medical professional liability (MPL) specialty writers during the first quarter of 2015. It also begins our sixth year of tracking these results for the *Medical Liability Monitor*. As presented in the following paragraphs, the MPL specialty market opens 2015 with a continuation of the familiar trends experienced during the past decade—a period during which the market has maintained favorable calendar-year financial results in the face of declining premium volume and steadily increasing operating ratios. If the historical relationship between first-quarter and year-end financial results holds, MPL specialty writers should be in store for another profitable year.

FIGURE 2 Calendar-Year Reserve Development ($Millions)

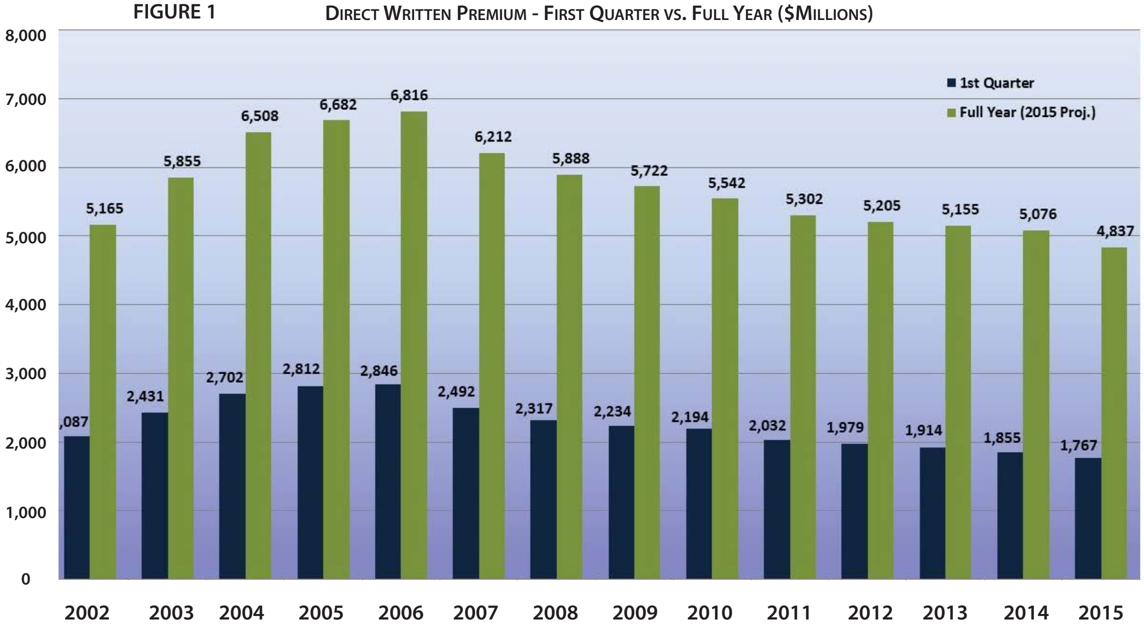



Our analysis was based on the collective financial results of a large group of insurers specializing in MPL coverage. The data used in our analysis dates back to 2002 and consists of aggregate statutory financial information compiled from SNL Financial. The current composite includes 81 MPL specialty companies with total direct-written premium of approximately $5.1 billion in 2014.

### Written Premium Levels Continue to Fall

As displayed in Figure 1, first-quarter direct-written premium declined for the ninth-consecutive year, falling to $1.8 billion for this composite. The 4.7-percent decline from first-quarter 2014 is the largest single-year percentage drop since 2011 and is a full-point higher than the average annual decline of 3.7 percent from 2006 through 2015. As such, we are projecting the composite's annual premium level to fall below $5 billion for the first time in our 14 years of collected history. If our projection holds, this would represent a 29-percent total decline from the high point in 2006 when this composite wrote more than $6.8 billion.

FIGURE 1 Direct Written Premium - First Quarter vs. Full Year ($Millions)




### Favorable Reserve Development Yielding Large Profits

In 2015, the composite showed favorable first-quarter reserve development for the ninth-consecutive year, and in each of those nine years, favorable reserve development for the year exceeded $1 billion. As shown in Figure 2, first-quarter reserve releases seem to provide an indication, though highly leveraged, of the expected reserve release for the entire year. First-quarter 2015 development fell in line with that of the past two years and would suggest yet again annual favorable reserve development in the ballpark of $1 billion to $1.1 billion for 2015.

### Combined Ratios Approach Breakeven Point

The composite's projected calendar-year combined ratio for 2015 inched closer to break-even underwriting—steadily increasing from its low in 2008 of 78 percent to an estimated ratio of nearly 97 percent for 2015. If this projection holds, 2015 will be

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the eleventh-consecutive year that the composite produces positive underwriting profit (see Figure 3). Steadily increasing loss and LAE ratios during the past five years have been a primary driver of the upward trend in combined ratios together with increasing policyholder dividend ratios reflecting the healthy bottom lines of the last decade.

### Improving Capital Position

The highly profitable decade-plus for MPL writers has led to consistent growth in policyholder surplus levels held in check perhaps only by declining investment yields during the same time period. This composite's surplus—as of first quarter 2015—increased 3.6 percent over first-quarter 2014, reaching $14.6 billion (see Figure 4).

**First-quarter direct-written premium declined for the ninth-consecutive year, falling to $1.8 billion for this composite. The 4.7-percent decline from first-quarter 2014 is the largest single-year percentage drop since 2011.**

If MPL specialty writers have any cause for lament over the past decade, it would be the historically low treasury yields brought on by the financial crisis of 2007 - 2008. Any expectation of increasing investment yields based simply on the belief that interest rates cannot stay this low forever have not yet materialized. The MPL composite's investment income through first-quarter 2015 remained relatively flat compared to recent years, and we project a modest decline for the year (see Figure 5). Any future increase in interest rates might help to extend the stable rate environment as higher investment yields can be considered in prospective pricing. This assumes, of course, that higher interest rates will not be accompanied by higher claim cost inflation.

To conclude, the initial 2015 financial results for MPL specialty writers do not appear to be straying from the script of recent years. Despite declining premium levels driving up underwriting ratios and a stagnant investment environment, there is no reason to believe that favorable reserve development will not again lead to strong financial results for the MPL market throughout the remainder of 2015.

*Charles Mitchell is a consulting actuary, and Brad Parker an associate actuary, at Milliman Inc., an independent actuarial and consulting firm.*

FIGURE 3 ANNUAL COMBINED RATIOS

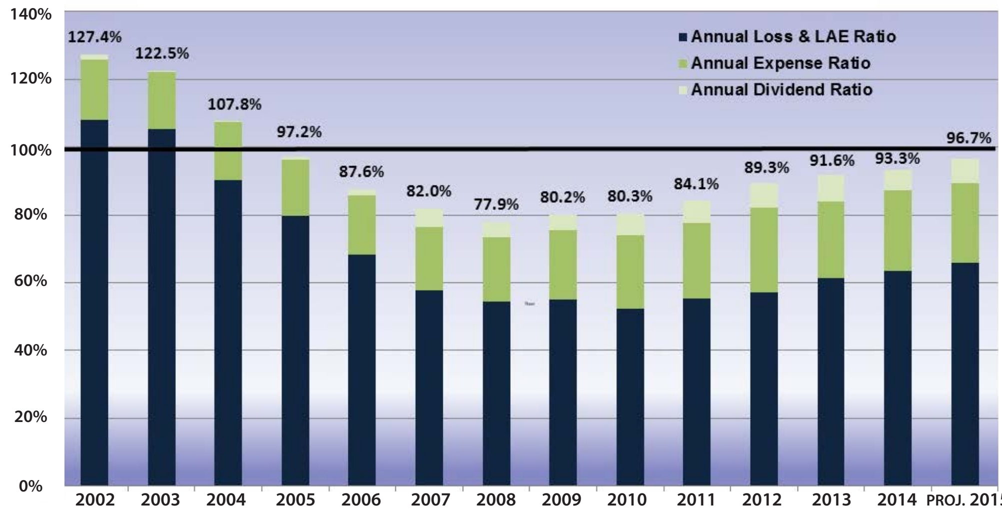


FIGURE 4 POLICYHOLDER SURPLUS - AS OF FIRST QUARTER ($MILLIONS)

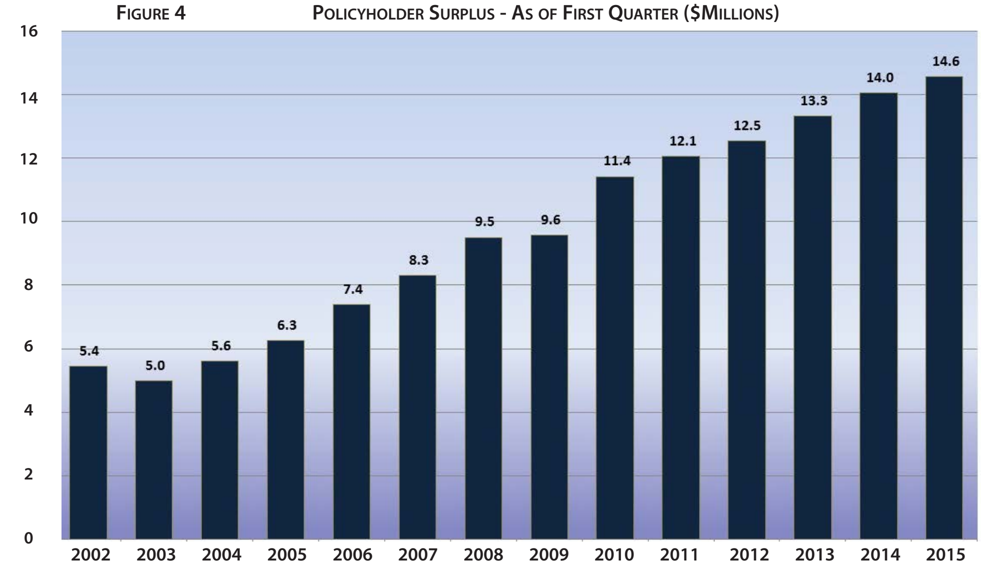


FIGURE 5 INVESTMENT INCOME - FIRST QUARTER VS FULL YEAR ($MILLIONS)