



MEDICAL
PROFESSIONAL
LIABILITY

**Market
Dynamics
2020**

After more than a decade of soft pricing, conditions in medical professional liability (MPL) insurance are changing.

Increased claim severity, largely due to excess jury awards, is pushing combined ratios above 100%, which puts pressure on rates. Excess verdicts drive up the cost of reinsurance, worsening combined ratios even further.

Financial pressures will cause experienced MPL insurance companies to evaluate responsible pricing and policy terms while nonspecialist commercial carriers have historically exited the MPL line of business.

"In 2019 our industry saw numerous, jaw-dropping malpractice verdicts well over \$10 million. Facing today's intense claim environment means staying disciplined and well-prepared.

Our insureds need to be confident in their coverage and understand the logic behind our pricing. We must continue to be responsible in our reserving."

Jeff Bowlby
Chief Marketing Officer
ProAssurance

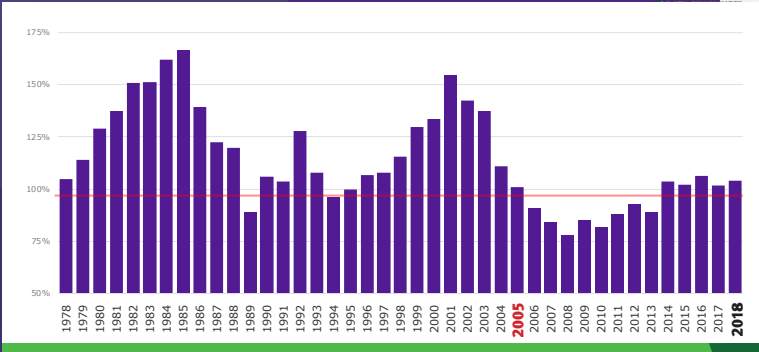
MPL Insurance is Cyclical

MPL insurance has been in a **SOFT MARKET CYCLE** since 2005—the longest soft market we've experienced. Coverage has been widely available, policy terms relaxed, and priced-based competition common.

In a **HARD MARKET CYCLE**, insurance becomes less available, policy conditions tighten, and premiums increase. Medical malpractice claims may take a decade to resolve, so the insurers' long-term financial health is of utmost importance to the insureds.

Many MPL specialty insurance companies, including ProAssurance, were founded in response to the medical liability crisis of the 1970s.

Nationwide MPL Combined Ratios



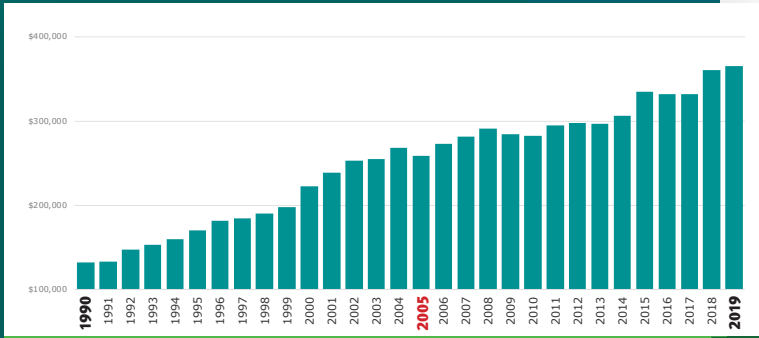
A.M. Best data shows combined ratios are rising for most carriers. When combined ratios exceed 100%, corrective actions must be taken to ensure stability.

Medical Malpractice Claim Severity is Increasing

The last hard market ended after claim frequency fell sharply in 2004/05. While MPL claim frequency remained flat, claim severity has been steadily ticking up, which compounds over time. In recent years, large jury verdicts have widely been seen as the primary driver of increasing claim severity.

Since the last hard market, the average indemnity payout has increased **41%** (2005-2019)

Nationwide Claim Severity (Average Paid Indemnity for MPL)



The National Practioner Data Bank indicates claim severity is on the rise.

"Adverse litigation trends, with an increased frequency of severe claims, piling atop years of poor market results, have brought the market to a tipping point, prompting carriers to address rate adequacy, where necessary."

Risk & Insurance



Shock Verdicts Fuel Social Inflation

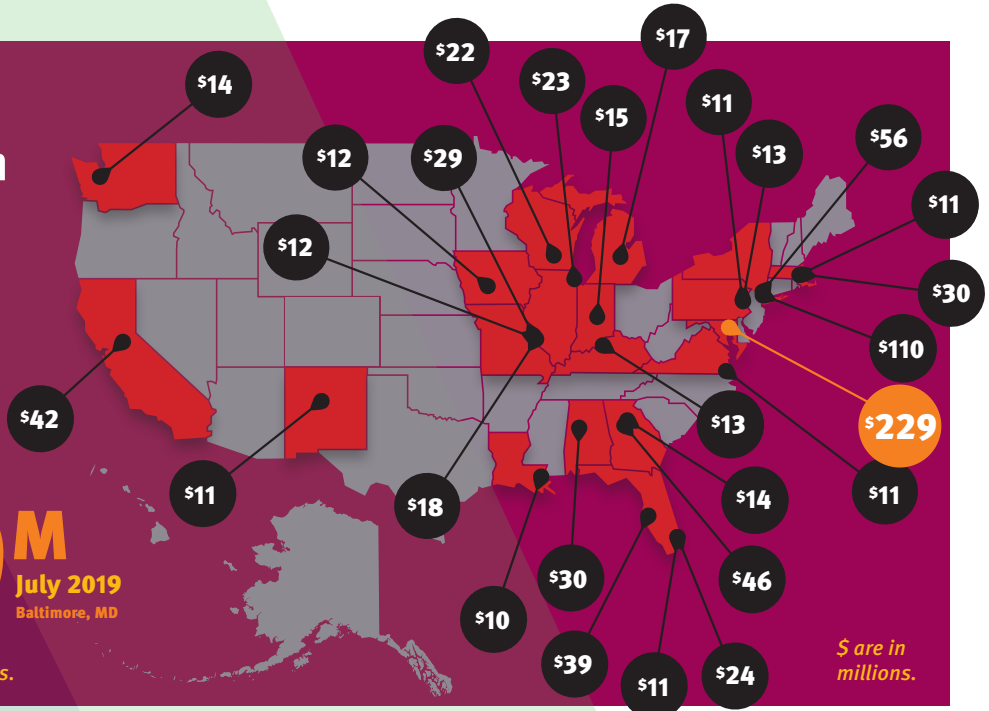
2019 saw numerous medical malpractice jury verdicts and settlements in excess of \$10 million.

Due to increasing media reports of shock verdicts and other societal factors, the public's assumptions and expectations about what a jury award should be continue to rise. This is called **SOcial INFLATION**.

The largest medical malpractice verdict ever awarded in the United States...

\$229M
July 2019
Baltimore, MD

Click the numbers on the map to read the articles.



\$ are in millions.

Reinsurance Costs are Driven up by Excess Verdicts

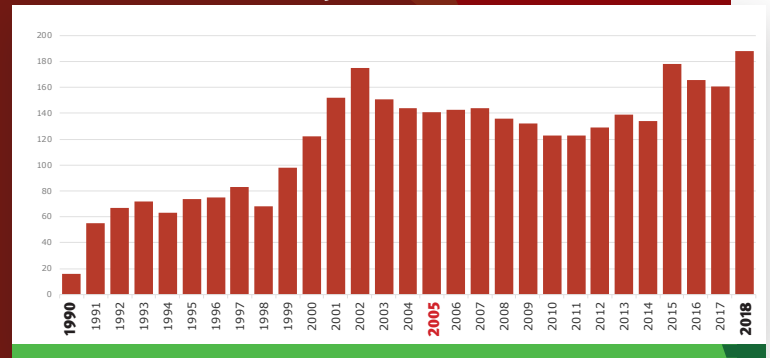
To provide protection against excess/catastrophic losses, insurance companies enter contracts with reinsurers.

The primary carrier retains financial responsibility up to a specified limit per claim (\$1 million is common for MPL carriers). The reinsurer becomes responsible for losses above the set limit. As the cost of excess verdicts increase, reinsurance companies respond by raising their premiums, further pressuring the balance sheets of the primary carrier.

The Mid-Year 2019 Market Report from EPIC stated:

"...most, if not all, of the MPL insurance and reinsurance carriers sought rate increases due to high severity claims impacting the industry."

Nationwide Med-Mal Payments Over \$2 Million



According to the National Practitioner Data Bank, medical malpractice indemnity payments are above historic high points on a national scale.

"Malpractice claim severity is increasing, and reinsurers are seeing losses in excess of \$10 million more frequently than in years past. At ProAssurance, we've received rate increases of 7-10% within our reinsurance programs. This level of increase is equal to or below what many other carriers are suggesting."

Rob Francis
Executive Vice President,
Underwriting and Operations
ProAssurance

The average medical malpractice claim cost has increased **50%** since 2009
Beazley Group

PROASSURANCE
Treated Fairly

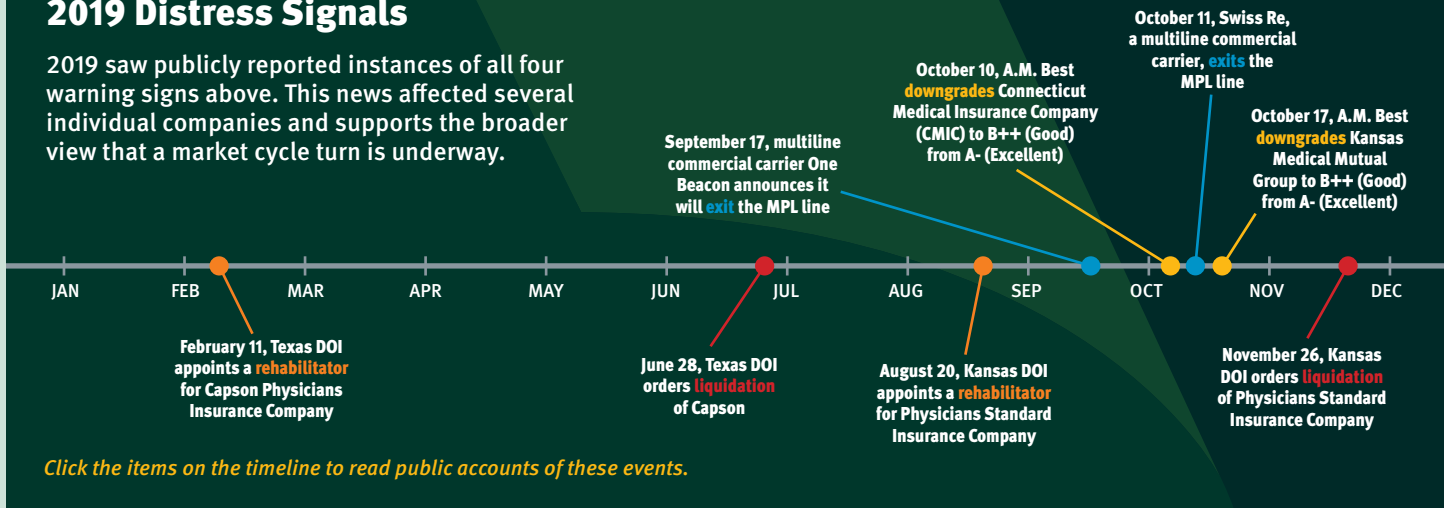
Warning Signs Indicate a Market Turn

Financial stress in the MPL insurance industry will affect individual carriers in different ways depending on their underwriting discipline over the previous 3-5 years. In past market cycle transitions, notable events signaling market distress included:

 <p>downgrade</p>	 <p>rehab</p>	 <p>liquidate</p>	 <p>exit</p>
<p>Ratings agencies such as A.M. Best issue downgrades. Companies whose ratings fall below A- often withdraw from being rated.</p>	<p>Companies are placed in receivership by their state Department of Insurance (DOI) for attempted rehabilitation.</p>	<p>Companies in receivership are liquidated by the DOI when rehabilitation or recapitalization fails.</p>	<p>Commercial/non-MPL-specialty carriers exit the MPL line when it becomes unprofitable.</p>

2019 Distress Signals

2019 saw publicly reported instances of all four warning signs above. This news affected several individual companies and supports the broader view that a market cycle turn is underway.



Click the items on the timeline to read public accounts of these events.

Expect Responsible Pricing and Disciplined Underwriting as a Top 2020 Industry Trend

Well-capitalized MPL specialists constantly analyze industry trends and take responsible, corrective actions to historical warning signs. Experienced carriers are positioned to manage market cycle turns in a manner that will protect the long-term interests of their clients.

ProAssurance is ahead of the market cycle correction curve and is prepared to assist our insureds and agent partners with industry knowledge and communication tools.

If you have questions or suggestions regarding market cycle dynamics, please contact your ProAssurance market manager.

“The MPL claim environment is evolving and our way forward centers on disciplined underwriting.

It is our responsibility and privilege to be good stewards of the trust our customers place in us and that means being appropriately cautious as we consider these emerging trends.”

**Ned Rand
President & CEO
ProAssurance**

