



PREMIUMS INCREASE IN 2021 Q2 FOR MPL SPECIALTY INSURERS AS THE NATION PREPARES FOR FOURTH COVID-19 WAVE

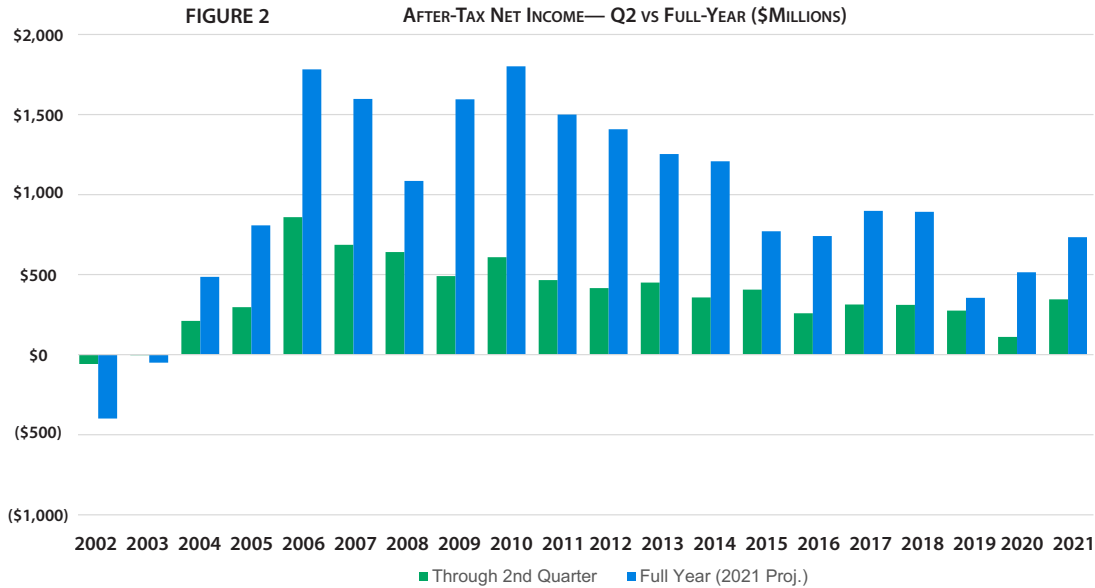
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This article summarizes key financial results for medical professional liability (MPL) specialty writers from the second quarter of 2021 and continues our 12th-consecutive year of tracking and publishing these results in MEDICAL LIABILITY MONITOR. As in past years, this article compares historical second-quarter financial results to historical annual results in order to offer a glimpse at where, perhaps, 2021 annual financial results might be headed. With the country — as well as the MPL industry — bracing for the fourth wave relating to the COVID-19 pandemic, we look back at the financial results for the second quarter of 2021.

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 dates to 2002 and consists of aggregate statutory financial information compiled from S&P Global Market Intelligence. The current composite includes 178 MPL specialty companies with total direct written premium of more than \$6 billion in 2020.

TOP-LINE PREMIUM GROWTH ACCELERATES

Last quarter we discussed the hardening market and its associated premium growth in the MPL market. This trend has not only continued, but accelerated. The composite's 2021 direct written premium increased by 10.7%, relative to the same point in 2020 (see Figure 1) as MPL writers continue to increase rate levels throughout much of the country. The acceleration is most evident looking at the incremental second quarter (April 1st – June 30th) change since 2020, which came in at a 24.6% increase. The full-year projection for 2021 is also shown in Figure 1 and reflects an average annual increase of



5.3% per annum since 2017.

NET INCOME IMPROVES

Net income for the second quarter of 2021 experienced more than a 200% increase, compared to the second quarter of 2020 (see Figure 2). This swing was perhaps expected given the unprecedented market volatility experienced in 2020 due to COVID-19. Coupled with the net income increase, the composite's overall investment gain was up nearly 50% from the second quarter of 2020, as markets continued to swell on a "return to normalcy." There is little doubt that the MPL industry will have to continue to rely on strong investment performance in the near future if it hopes to continue the trend of positive net-income, while simultaneously improving underwriting results.

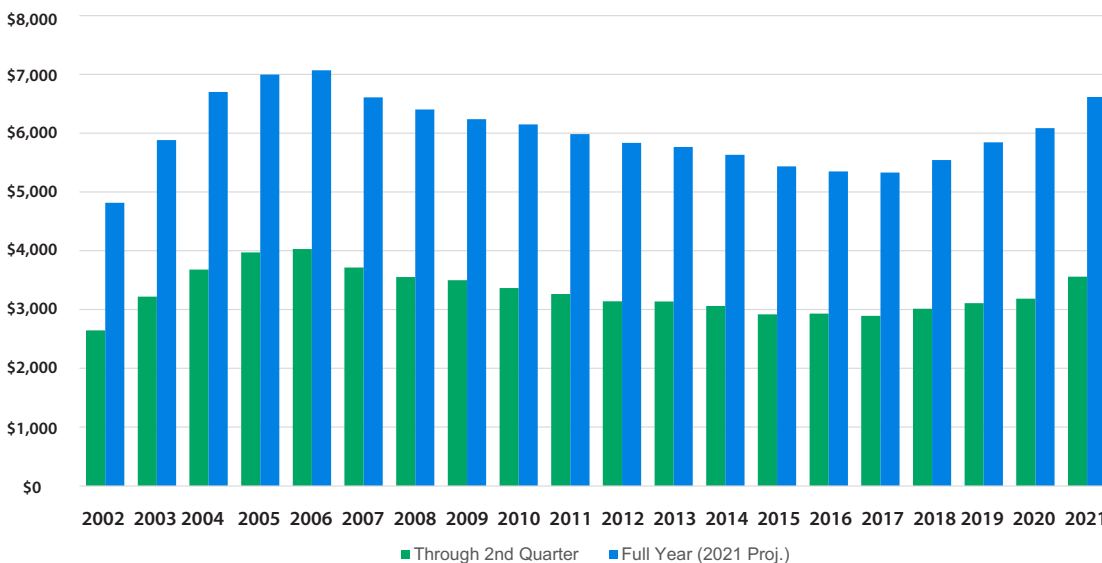
RESERVE REDUNDANCIES CONTINUE TO WANE

Continuing last year's trend, the composite reported cumulative adverse development through second quarter of approximately \$40 million (see Figure 3) on reserves related to prior years. Although this level of adverse development through second quarter has not been seen since 2004, it is difficult to draw annual conclusions from the second-quarter results. The majority of prior-year reserve revisions occur during the fourth quarter based on the timing of many actuarial reserve analyses. However, like the second quarter results, annual reserve redundancies have been trending downward for more than a decade.

In the end, 2020 was somewhat favorable, and we still consider it likely that the 2021 annual financial

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FIGURE 1 DIRECT WRITTEN PREMIUM — Q2 VS FULL-YEAR (\$MILLIONS)





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results will reflect some reserve redundancy as well.

COMBINED RATIO SEES TURNAROUND

The composite's combined ratio through the second quarter of 2021 is nearly 114% (see Figure 4), which is five percentage-points lower than the same period in 2020. Most of this difference is driven by a decline in the loss & loss adjustment expense (LAE) ratio, with the expense ratio and policyholder dividend ratio remaining consistent with second quarter 2020 levels. This implies that the premium level increases that have been taken over the last couple of years are having their desired effect.

Figure 4 also provides a comparison of the composite's historical second-quarter combined ratios relative to annual combined ratios. The 2021 annual combined ratio is projected to land around 110%, which reflects nearly a seven-percentage-point drop from its recent peak in 2019. While this represents an improvement, there is more work to be done for the composite's overall underwriting performance.

INVESTMENT INCOME DIMINISHES

With interest rates still very low, the composite's investment income through mid-2021 remains stunted. As Figure 5 shows, investment income through the second quarter of 2021 is about \$300 million. This marks the lowest mid-year point over the last two decades. Similarly, we project the full year investment income to reach roughly \$610 million, about half of what this figure was at its peak in 2006. As the nation prepares for the fourth wave in the COVID-19 pandemic, it is likely that interest rates will continue to remain low — impacting the composite's path to overall profitability.

With the rise of the delta variant, the COVID-19 pandemic presents new uncertainties. Top line revenue has been growing at a rate not seen since the early 2000s and overall net income is improving. However, as reserve releases continue to diminish, additional pressure will be placed on current year loss & LAE ratios, expense ratios, and investment yields. It remains undetermined how the economy and the MPL market will react to another outbreak as we look forward to the third-quarter results.

FIGURE 3 CUMULATIVE RESERVE DEVELOPMENT — Q2 VS FULL-YEAR (\$MILLIONS)

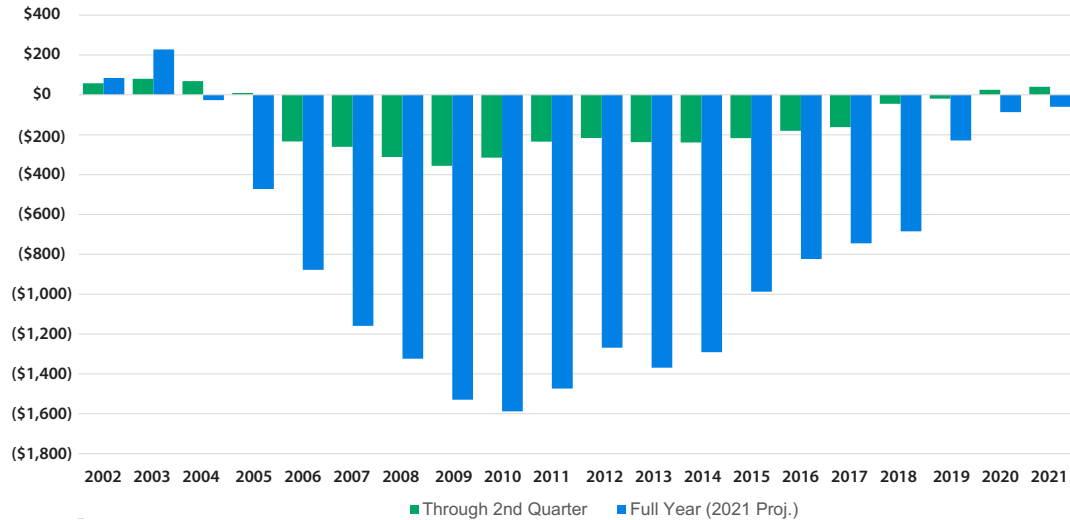


FIGURE 4 COMBINED RATIO (AFTER PH DIVIDENDS) — Q2 VS FULL-YEAR (\$MILLIONS)

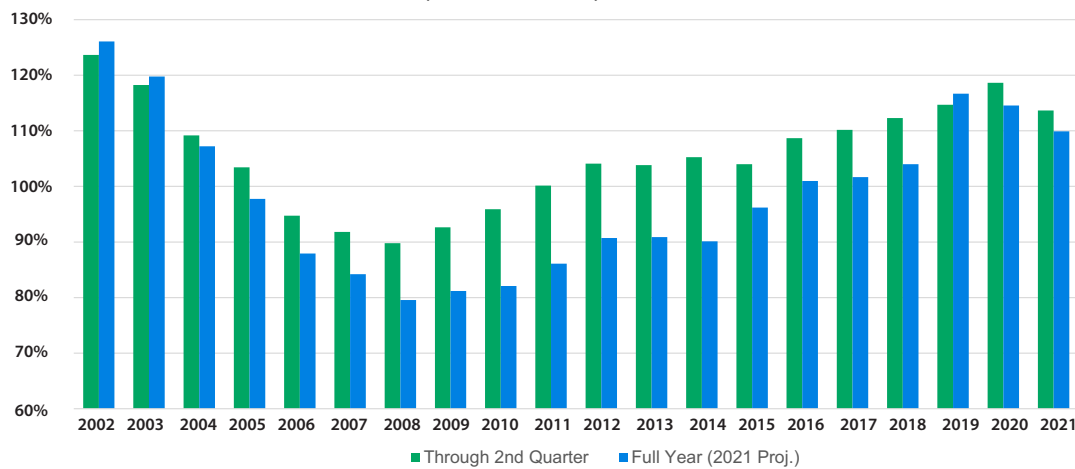
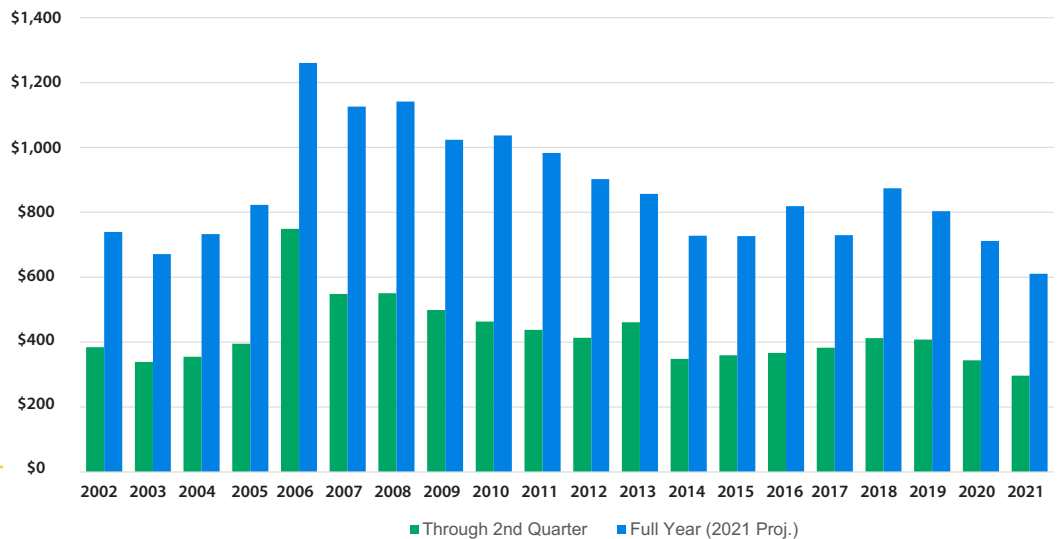


FIGURE 5 INVESTMENT INCOME — Q2 VS FULL-YEAR (\$MILLIONS)



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