DIRECT WRITTEN PREMIUM CONTINUES RISING, EASING EXPENSE AND INDEMNITY PAYMENT PRESSURES FOR MPL SPECIALTY WRITERS

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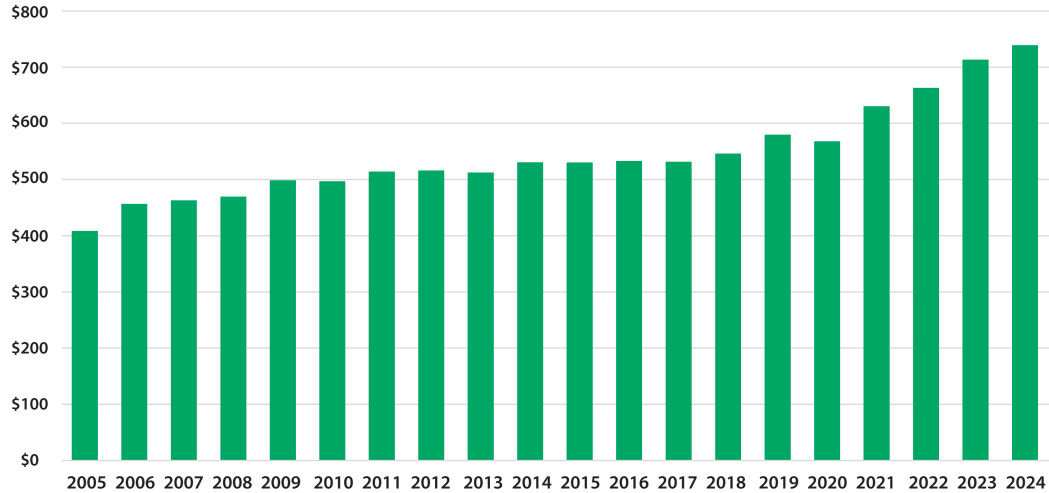
This article summarizes key financial results for medical professional liability (MPL) specialty writers from the second quarter of 2024 and continues our 15th consecutive year of tracking and publishing these results in Medical Liability Monitor. As in years past, this article compares historical second-quarter financial results to historical annual results to offer a glimpse at where 2024 annual financial results might be headed.

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 of more than $6.6 billion in 2023.

FIGURE 2 Underwriting Expenses ($Millions) through Second Quarter



Premium Growth Marches Forward

Mirroring the first quarter of 2024, premiums during the second quarter continued to grow. As Figure 1 demonstrates, the composite's direct written premium increased by 1.4% relative to the second quarter of 2023. Although this marks the composite's seventh consecutive year of premium growth, its second-quarter 2024 was a bit muted when compared to the previous three years. Yet while this year's second-quarter premiums fall short of the mid-year peak in 2005, they do represent the third-highest premiums in the data's 20-year history.

Figure 1's full-year projection for 2024 anticipates the remainder of this year will mimic the second quarter growth. Of note is that the composite's full-year projection is expected to reach its highest mark of the past 20 years, with direct written premiums of $6.7 billion.

Ascending Underwriting Expenses Persist

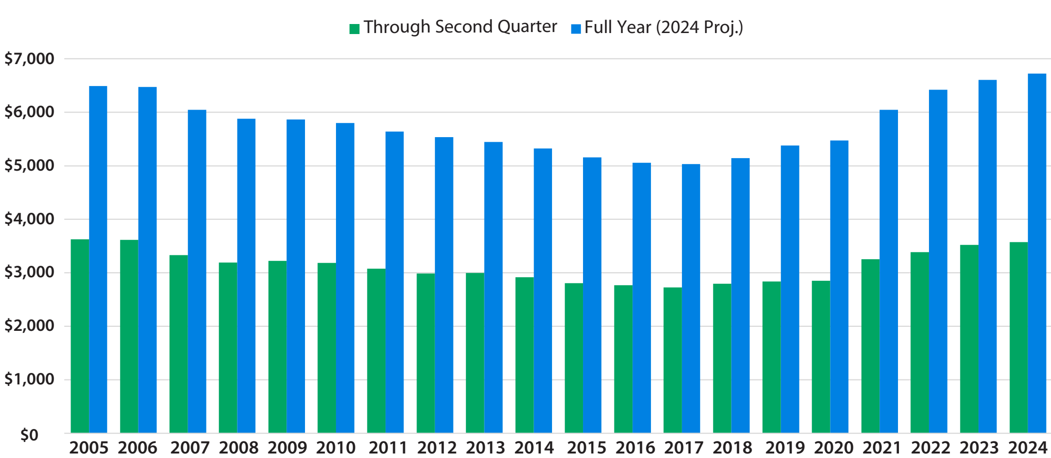
The composite's underwriting expenses continue to swell. As shown in Figure 2, its second-quarter 2024 results experienced a year-over-year increase of more than 3.5%. Underwriting expenses came in at $739 million, which is more than 40% higher than the steady $500 to $550 million range experienced during the decade between 2009 and 2018. As one might expect, there is a strong positive correlation between inflation and underwriting expenses. Typically, high inflation rates drive up the costs associated with salaries and other underwriting costs, leading to higher underwriting expenses.

The revenue that insurers generate via premium is often the benchmark against which expenses are measured. As such, the underwriting expense ratio takes underwriting expenses relative to net earned premium to measure the percentage of premium that is allocated to underwriting expenses in a given period. As previously stated, the composite's premium has been on the rise since 2017. Consequently, the expense ratio has not seen the same levels of staggering growth during the past decade as the pure dollar amount of underwriting expenses. The underwriting expense ratio for the second quarter of 2024 is 25.9%, slightly higher than the 25% average underwriting expense ratio of the last 10 years.

Investment Income Continues to Surge

The composite's investment income through the second quarter of 2024 rose to levels not seen since the early 2000s. As Figure 3 (on page 7) illustrates, investment income more than doubled during the last two years, jumping from $255 million in the second quarter of 2022 to $526 million in the second quarter of 2024. At this pace, full-year 2024 investment income should rise to 2006 through 2008 levels, coming in around $1.1 million. These metrics are driven by the interest rate increases implemented by the Federal Reserve, which was discussed in our previous article published in the July edition of Medical Liability Monitor.

FIGURE 1 Direct Written Premium — Second Quarter vs Full Year ($Millions)



Indemnity Payments on the Rise

Indemnity payments for the MPL industry have continued to rise through the second

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DWP CONTINUES RISING, EASING EXPENSE AND INDEMNITY PAYMENT PRESSURES

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quarter of 2024. As shown in Figure 4, our composite experienced a prolonged slowdown in indemnity payments in 2020 and 2021, creating a substantial "hole" from the COVID-19 court closures. These indemnity payments appear to not only have rebounded but surged in 2022 and 2023. Further, the first two quarters of 2024 are showing payments nearly as high as the first two quarters of 2023 and more than 50% higher than 2021.

The MPL industry should continue to be concerned about a variety of items that can contribute to rising severity costs, such as larger settlement values, inflation in healthcare costs, rising defense costs, and changes in judicial and legislative environments. It's likely our composite will continue to experience outsized levels of indemnity payments during the short term, even while improving their loss prevention strategies. As such, the industry needs to closely monitor its financial stability and frequently reevaluate its pricing strategies to manage these higher indemnity costs.

Policyholder Surplus Remains Strong

Our composite's policyholder surplus levels increased by more than 5% year-over-year for the second quarter of 2024 (see Figure 5), coming in at around $17.6 billion, its highest point to date. This is roughly 2.75-times larger than 2005's second-quarter surplus, the earliest point in our 20-year historical review.

Figure 5 also hints that the composite's full-year 2024 surplus will close even higher, at roughly $17.9 billion. The increased premiums being collected from policyholders noted in Figure 1 combined with the investment income noted in Figure 3 appear to be lifting the composite's policyholder surplus to new highs.

Conclusion

Premiums continued to rise for the MPL industry during the second quarter of 2024. And policyholder surplus remained strong, while investment income surged. However, rising underwriting expenses and large MPL indemnity payments also continued. To combat inflationary pressures, insurers are seeking rate increases, enhancing their underwriting practices and managing discretionary crediting. As we look to third quarter, we will see how the composite faces these challenges while continuing to provide service to their policyholders.

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

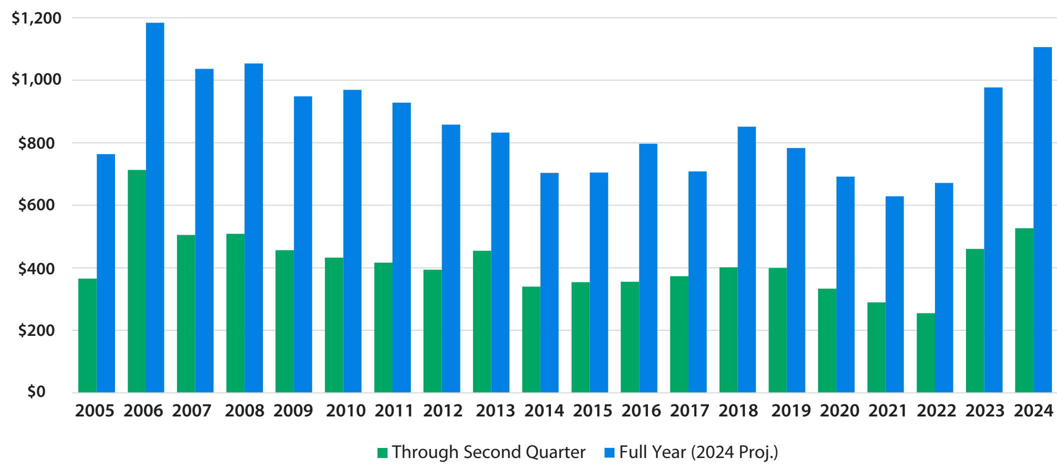

Figure 4 MPL Direct Paid Losses ($Millions)

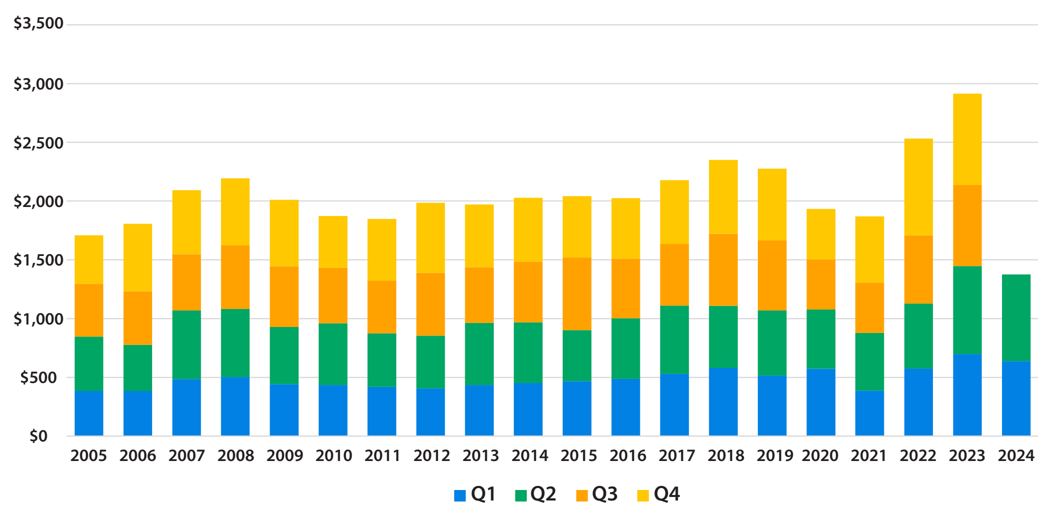

Figure 5 Policyholders Surplus - Second Quarter vs Full Year ($Billions)