

Seminar on Reinsurance

June 5–6, 2023

*Westin Philadelphia
Philadelphia, PA*

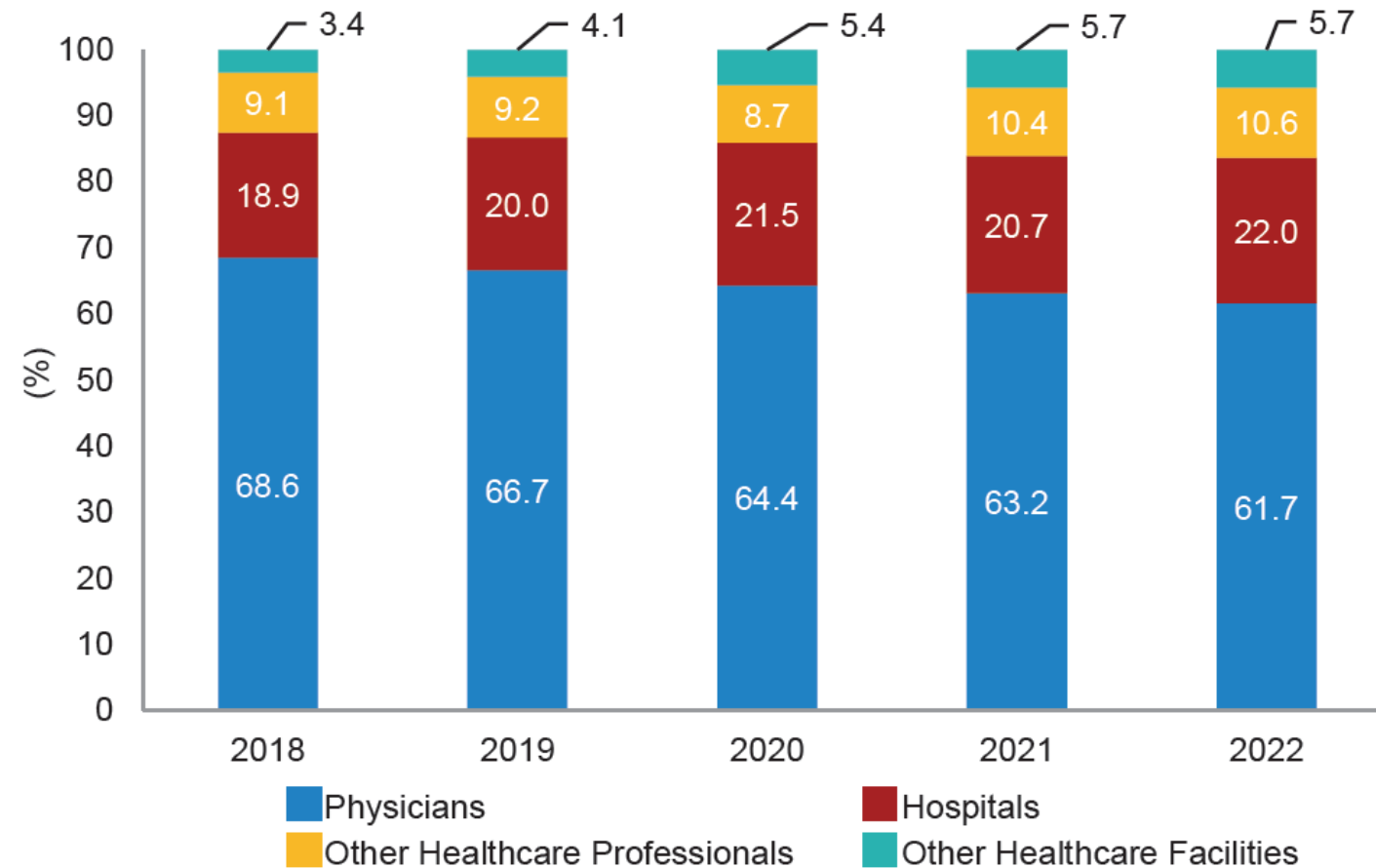
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Direct Written Premium by Type

US MPL Composite – DPW by Insured Type, 2018-2022

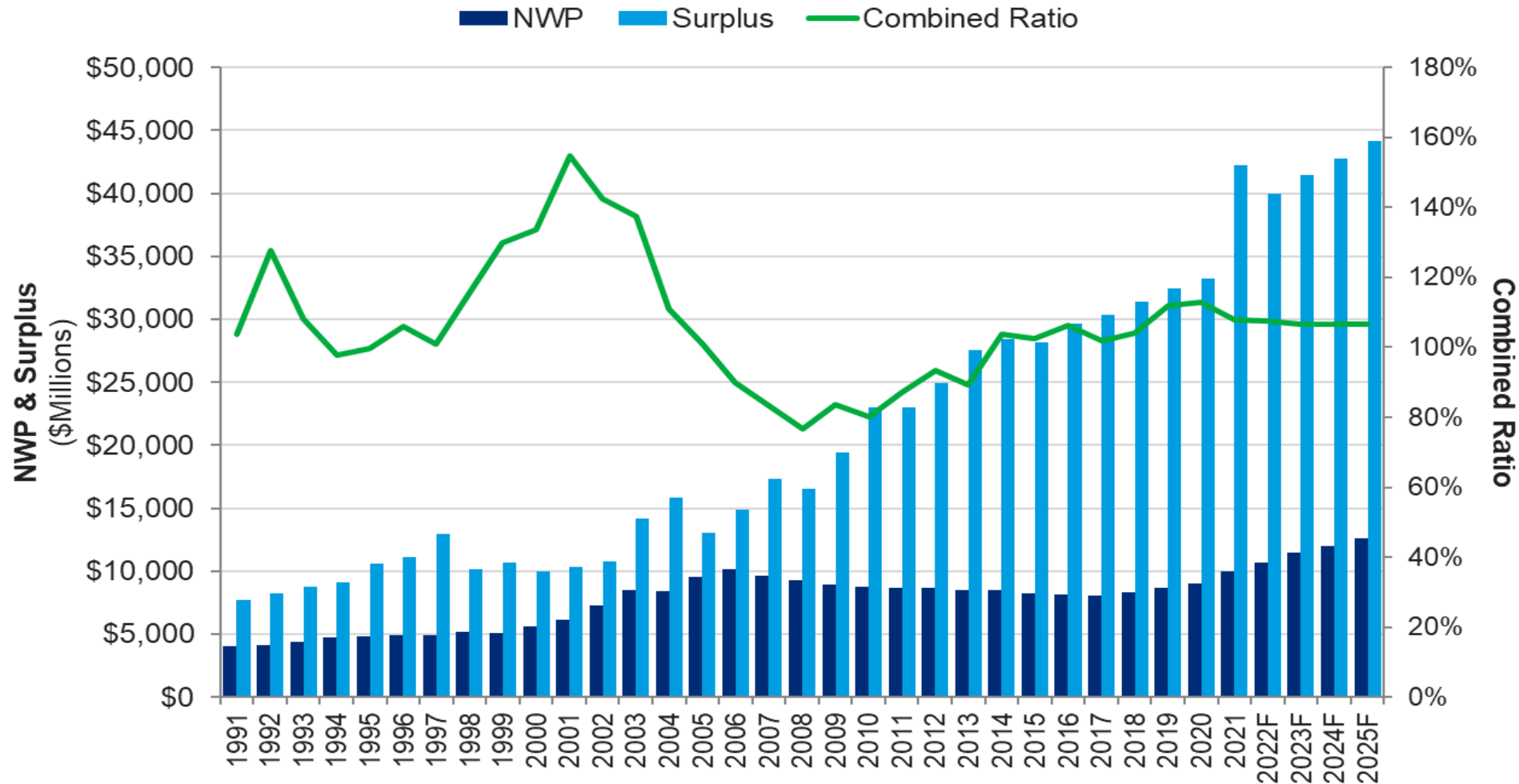


Source: 



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Historic Levels of Capital Subsidize MPL Underwriting Results



Source: Conning



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Industry Overview

- Wide variation in limits purchased
- Tort Reform measures
- XPL Claims
- Occurrence vs Claims Made / Tail
- Organization size ranges
 - Solo physician practice to consolidated healthcare systems
- Consolidation



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Consolidation

- Physicians
 - More than 100k physicians became employed 2019 – 2021
 - Groups of 50 or more increased to **17.2%** nationwide (AMA)
- Increased risk tolerance
- More customized coverage
- Increasing buyer sophistication

Inside Medical Liability, Q4, Strategies for Dealing with Healthcare Consolidation



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Emerging Issues in MPL

- Telemedicine
- Clinical use of AI
- COVID-19 effects on loss development patterns
- Social inflation
- Economic inflation



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MPL Reinsurance

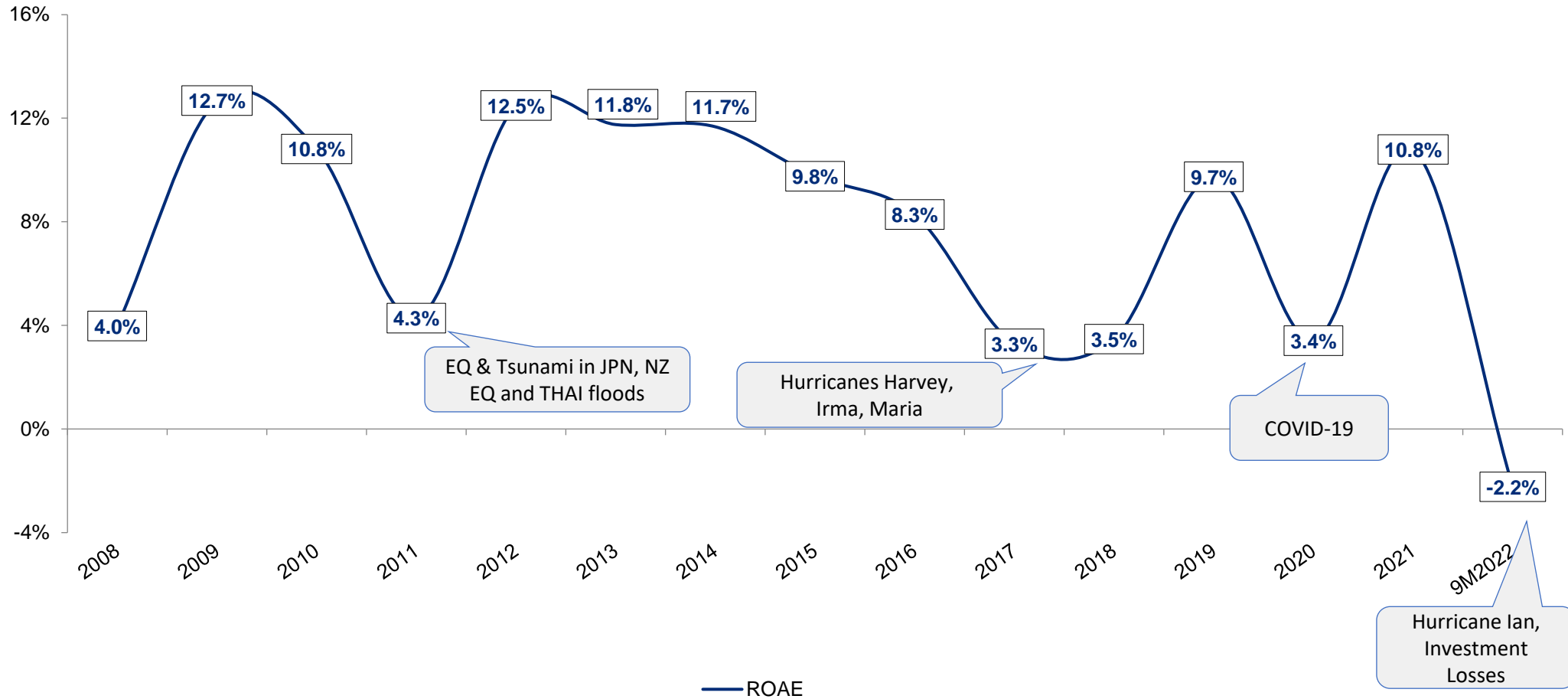
“In 50 years, I have never seen a market quite like this. The investor in whatever shape or size, whether it be private or public, have actually lost appetite in investing in the reinsurance balance sheet.”

Stephen Catlin (03/06/2023)

Executive Chairman of Convex

Reinsurers' Profits Declined Due to Investment Losses

RoE Heading into 1/1/23 Renewals




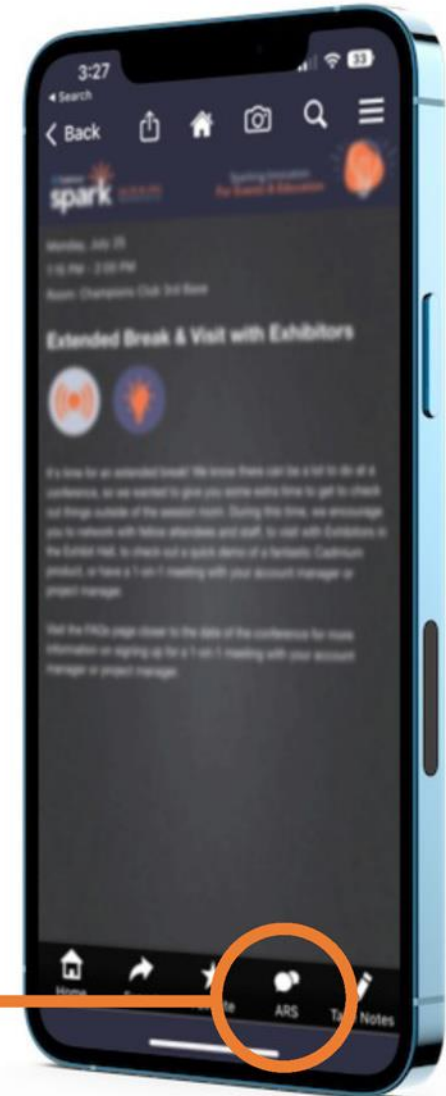
Source: Company Reports, Guy Carpenter Market Intelligence
Note: These results relate to Global Reinsurance composite companies only



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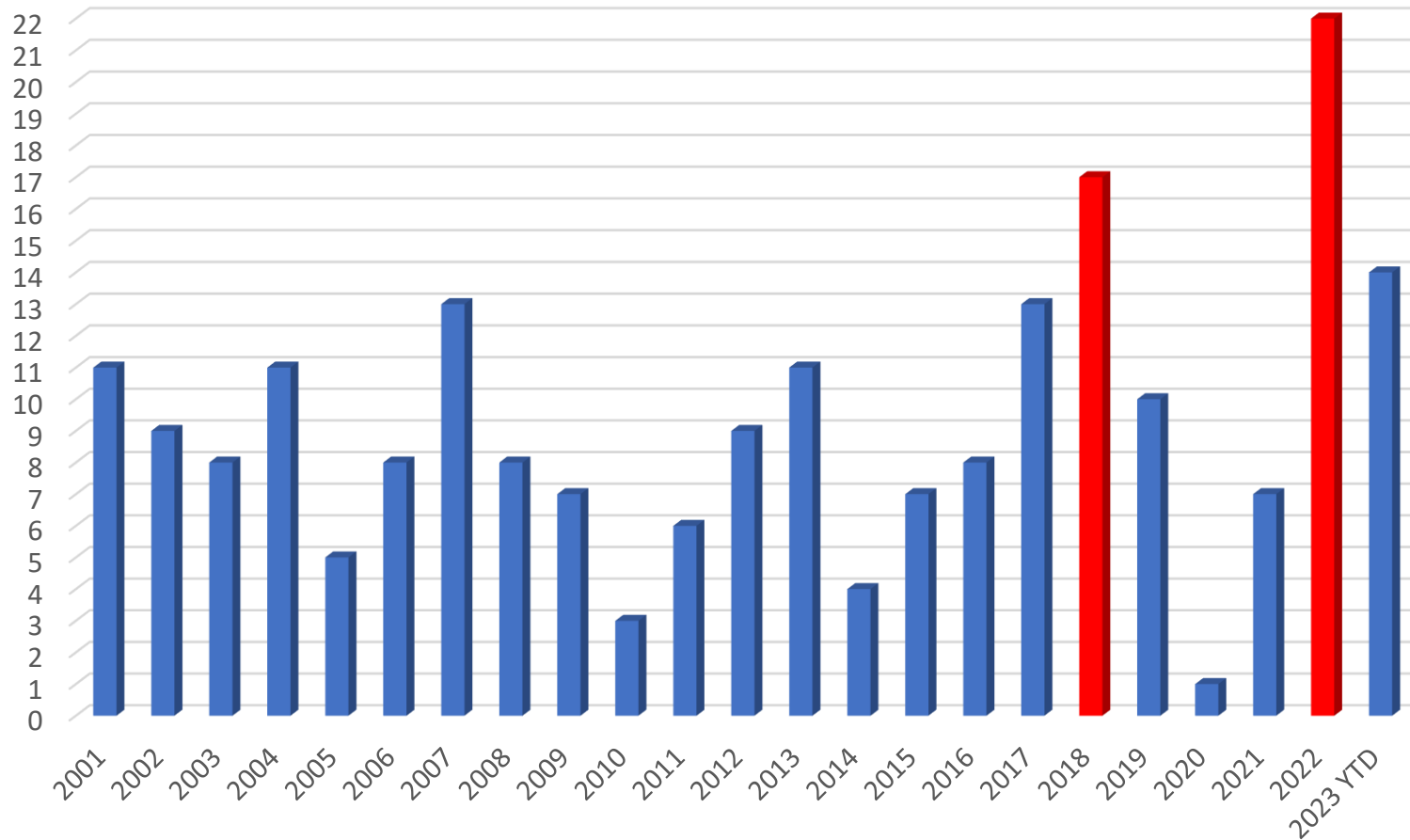
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Poll Key= ZEZUH

Label = MPL Nuclear Verdicts

MPL Jury Verdict Severity

Number of Verdicts \$25M or Greater



- **2022** had the most verdicts of \$25M or greater of any year since 2001
- **2023:** 14 verdicts of \$25M+ as of 5/25/2023
- Many Reinsurers are looking at 10+ verdicts added to their portfolios in the past year alone
- 2018-2023 YTD combined for **9 verdicts over \$100M**



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January 1, 2023 Reinsurance Review



Capacity

- Capacity was sufficient but also strained in certain segments (i.e. LTC, HPL, etc.)
- Minimal oversubscription
- Strong market appetite for physician class of business
- Continued push by reinsurers to bring down treaty limits
 - Both occ and agg limits
- Less number of reinsurers writing the class today



Pricing

- Loss-free: flat to +5%
- Loss-impacted: +5% to 10+%
- Greater pricing ranges in HPL
- Reinsurers resistant to improved terms and conditions
- **Pricing variables:**
 - Treaty experience / pending verdicts
 - Underlying rate change
 - Policy and reinsurance limits
 - Venue







Execution

- 1/1/23 renewals were typically more orderly than prior 18 months
- Alternative structures sometimes cost prohibitive
- Co-participation usage increasing
- Non-concurrent terms still the exception



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Reinsurance Structures and Market Appetite

Contract Type	Market Appetite	Comments
Per claim		<ul style="list-style-type: none">• Provides policy limit capacity• Foundational reinsurance cover
Per occ / clash / Per Event		<ul style="list-style-type: none">• Traditionally covers ECO/XPL and multi-insured losses• Pressure to bring down supplemental limit
Awards Made / Common Loss		<ul style="list-style-type: none">• Provides coverage for excess verdicts and systemic losses• Market appetite waning in light of increased verdict activity
Quota Share		<ul style="list-style-type: none">• Provides surplus relief• Challenge can be obtaining ceding commission to cover expenses



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Considerations Moving Forward

Firm reinsurance market conditions expected to persist in 2023, but there are reasons for optimism moving forward:

- New market interest
- COVID less impactful than anticipated
- Approaching rate adequacy

- 1 **Firm Reinsurance Market** – reinsurers seeking to:
 - Continue upward pressure on rates
 - Reduce limits on unbalanced programs
 - Implement loss caps / treaty aggregate limits
 - Manage SAM exposure

- 2 **MPL Segment Competing for Reinsurance Capital Allocation**

- 3 **Diminished Reinsurer Appetite for Certain MPL Classes**


- 4 **Inflation (Core / Social) Impacting Reinsurance Pricing**

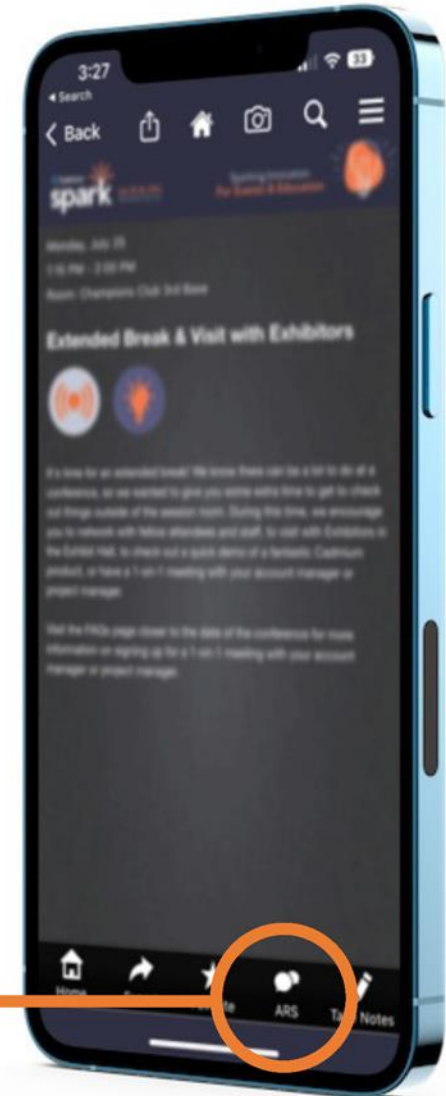
- 5 **Legislative Changes**



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Poll Key= TWATX

Label = Pricing Uncertainty

Claims Severity – The Factors Involved

Factor	Potential Result
Jury demographics	Longstanding defense strategies may no longer be effective
Core inflation	Elevated CPI leads to increased medical inflation
Life care plans	Ever-increasing valuations lead to higher payouts
Hospital financials	Could reduce resources allocated to risk management / patient safety
Reptile theory	Continued use by plaintiff attorneys can manipulate jury decisions
Third-party funding	Plaintiff attorneys may be emboldened to strategize for higher verdicts

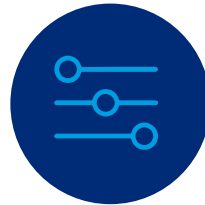


How We Pick Trends



Data Sources

- Client ground-up data
- Client actuarial report
- Industry data limitations



Difficulties

- Jurisdictional differences
- Differences by specialty
- Varying limits by specialty



Other Considerations

- Current economic inflation environment
- Recent large verdicts
- Years included in selection

Beginning	Indemnity Trend			
	End			
	2018	2019	2020	2021
2006	0.8%	1.1%	1.2%	2.6%
2007	0.6%	0.9%	1.1%	2.7%
2008	0.5%	0.8%	1.0%	2.8%
2009	0.0%	0.5%	0.8%	2.9%
2010	0.0%	0.6%	1.0%	3.4%
2011	0.0%	0.8%	1.1%	4.0%
2012	0.7%	1.5%	1.7%	5.1%
2013	2.6%	3.1%	3.1%	6.9%
2014	4.1%	4.3%	3.9%	8.5%
2015	4.9%	4.8%	4.1%	10.1%
2016	3.1%	3.8%	3.2%	11.5%
2017	9.1%	6.3%	4.1%	15.6%



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Rate Change

Rate change is becoming harder to quantify in the current market



Changes in the use of Debits / Credits to achieve overall rate change goal

Changing structures by accounts makes the rate change calculation more difficult

As-If analysis for exposures that are no longer written. What is the impact on rate change?

Consolidation of insureds and the calculation of rate change for the combined entity



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Do We Need a Wider Range of ILFs?



Currently most companies have multiple tiers



Differences in underlying trends by jurisdiction and facility type



Actuarial considerations of credibility and homogeneity would come into play when considering additional ILF tiers



Lack of industry data sources would limit ability to implement additional ILF tiers

While changes to ILF tiers may be challenging, it could provide an improvement in overall pricing



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