

Medical Professional Liability – Financial Update

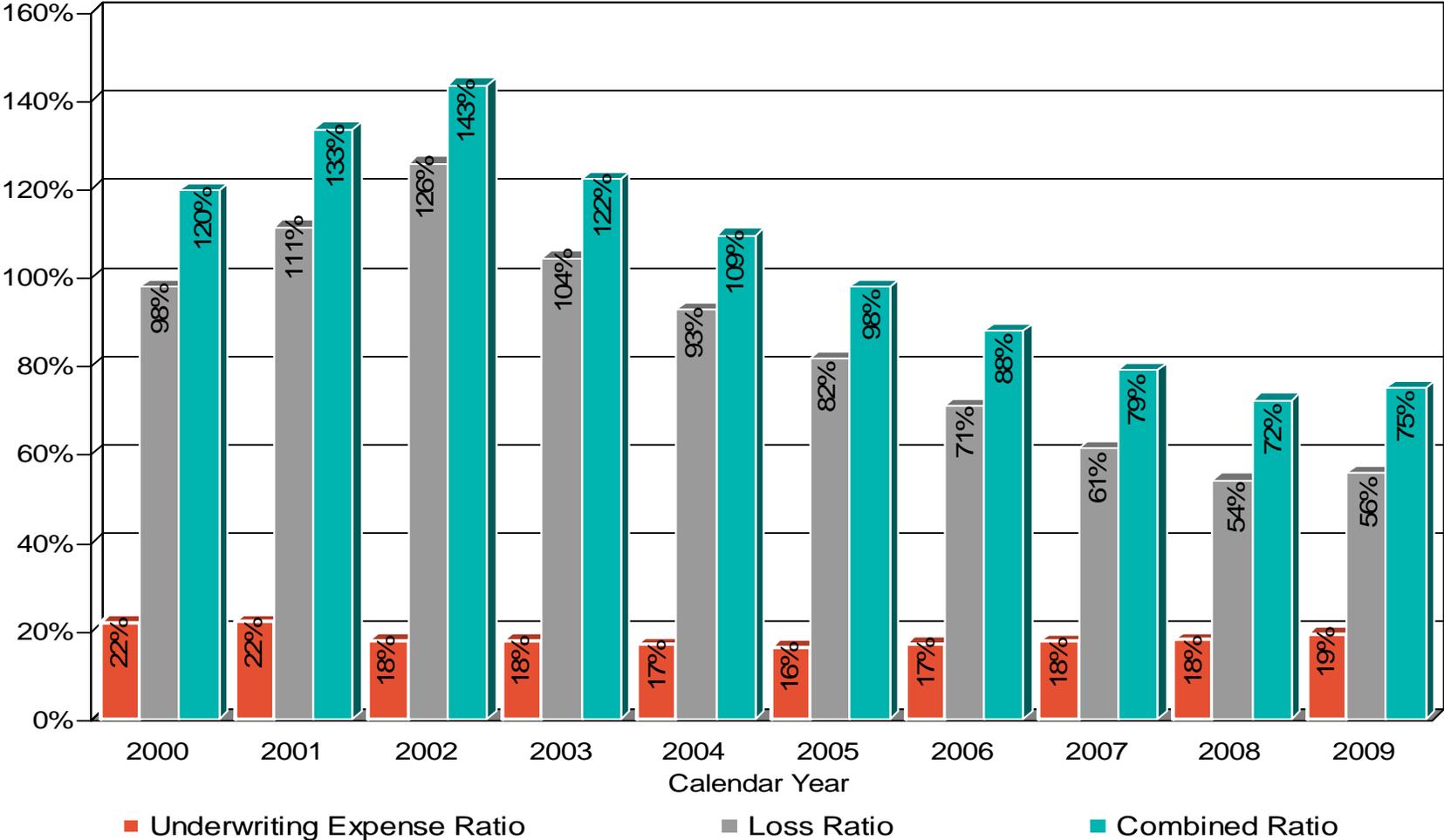
CASE Meeting
October 22, 2010

Jim Hurley

TOWERS WATSON 

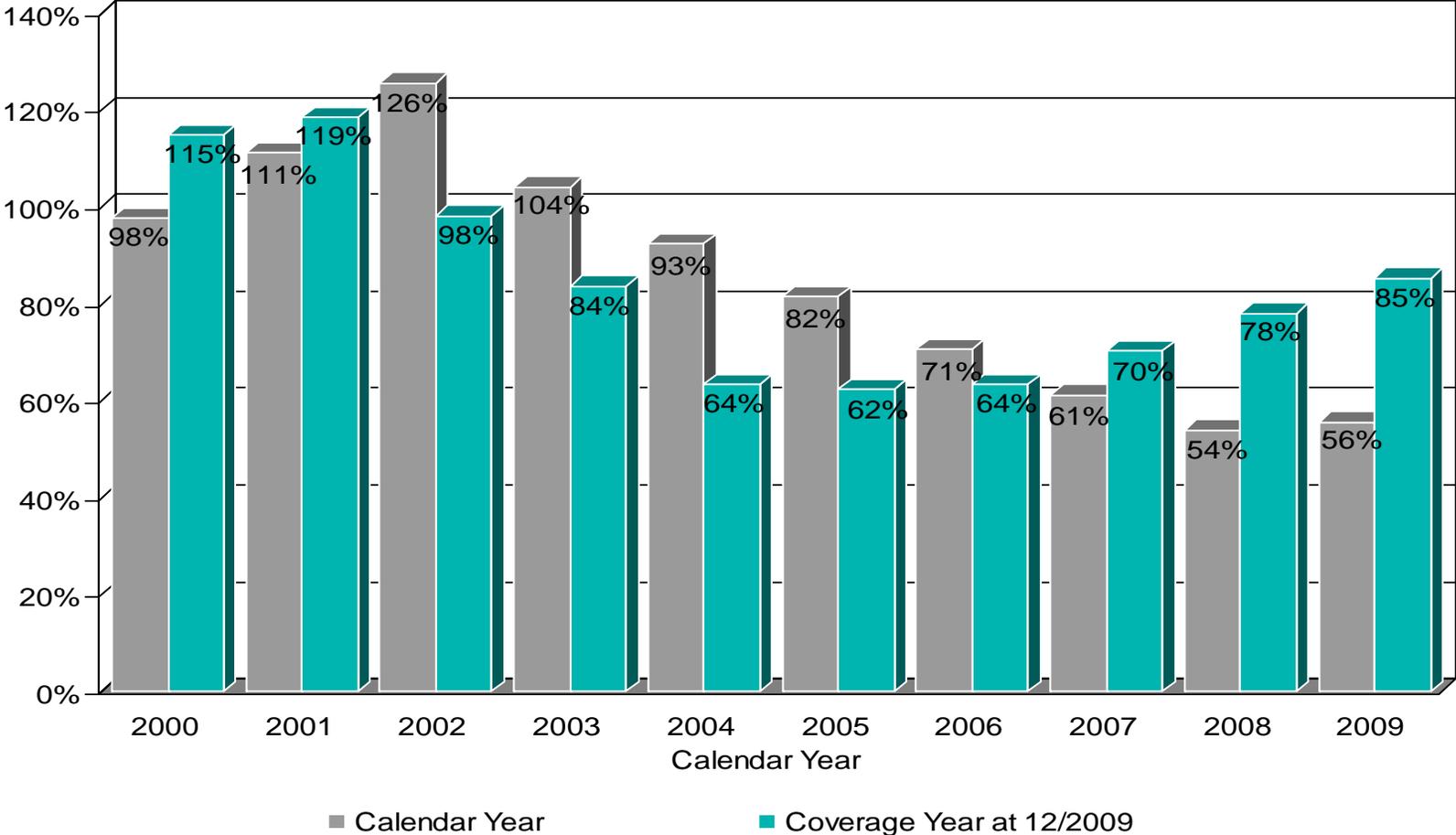
MPL – Financial Update

Loss & Total Expense Ratios to Net Premium Earned



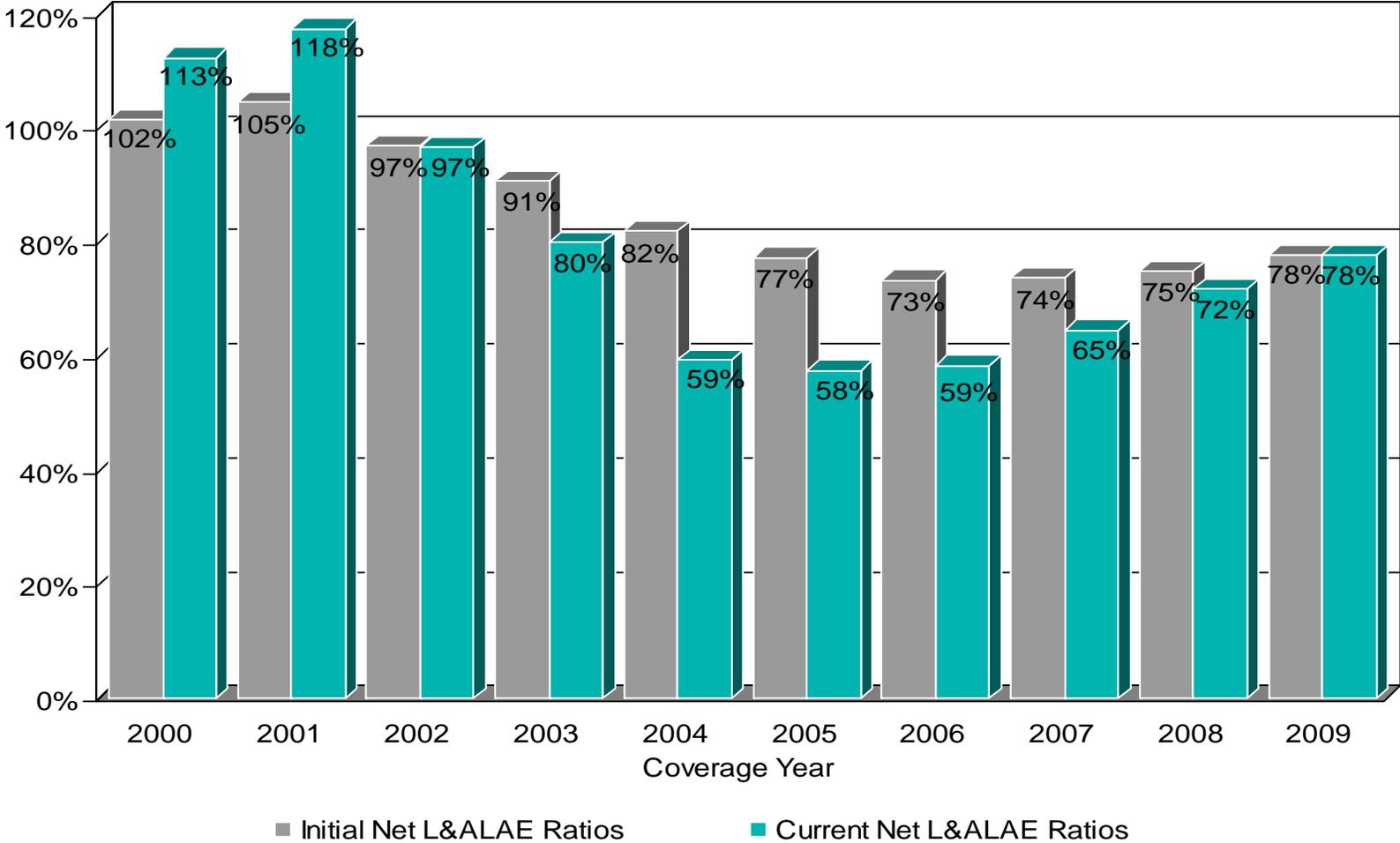
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Net Loss & LAE Ratios



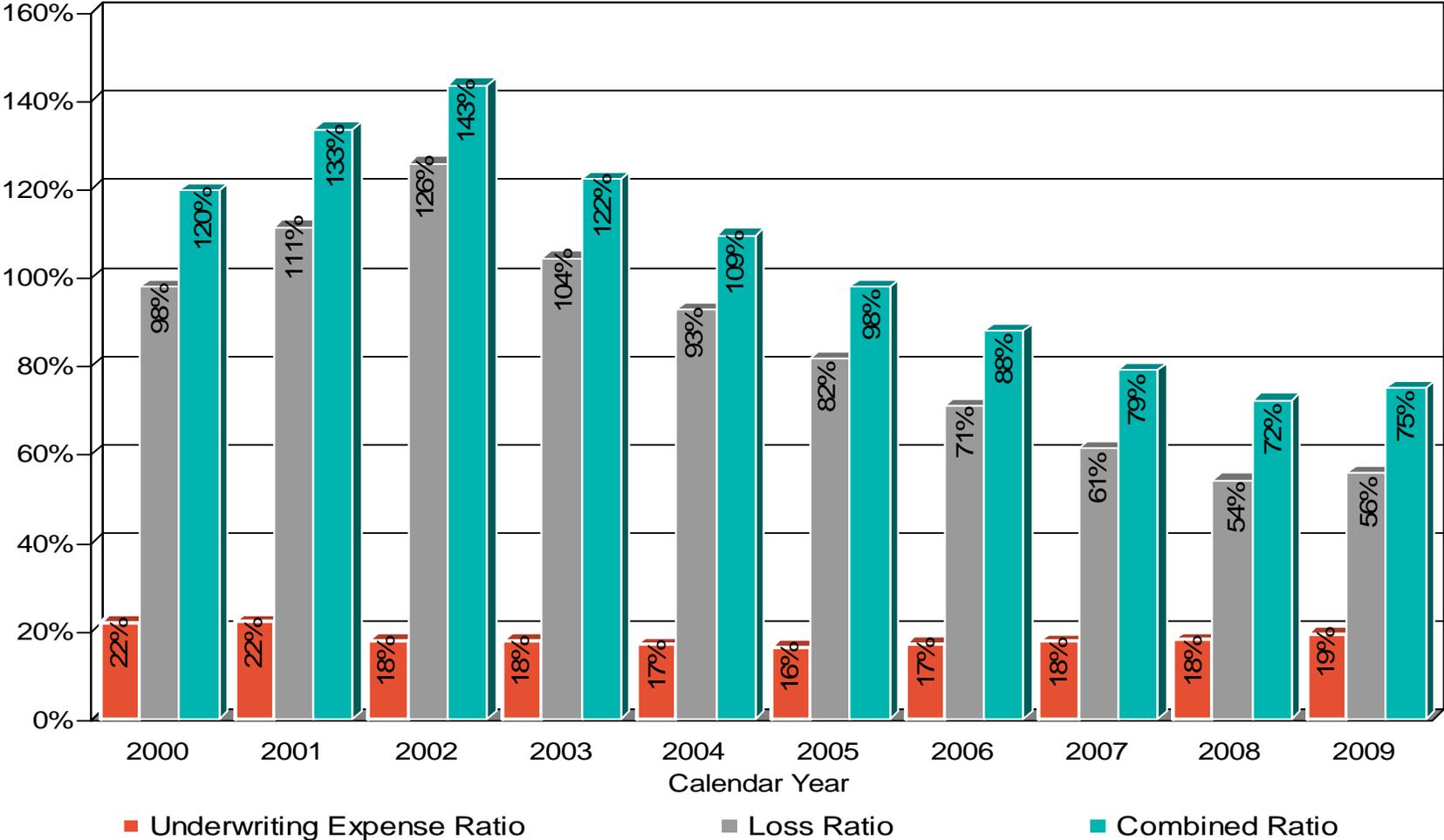
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Net Loss & ALAE Ratios



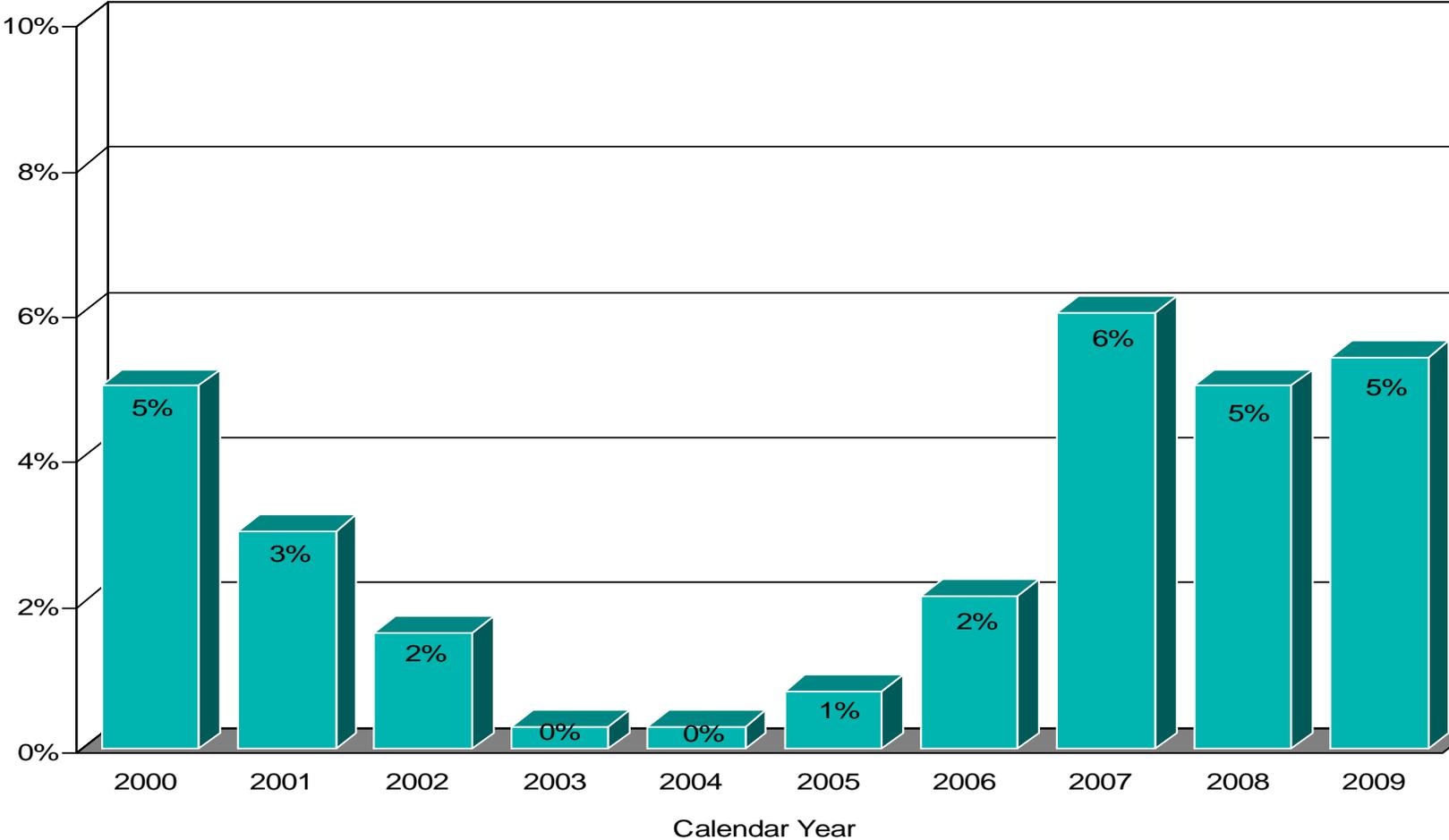
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Loss & Total Expense Ratios to Net Premium Earned



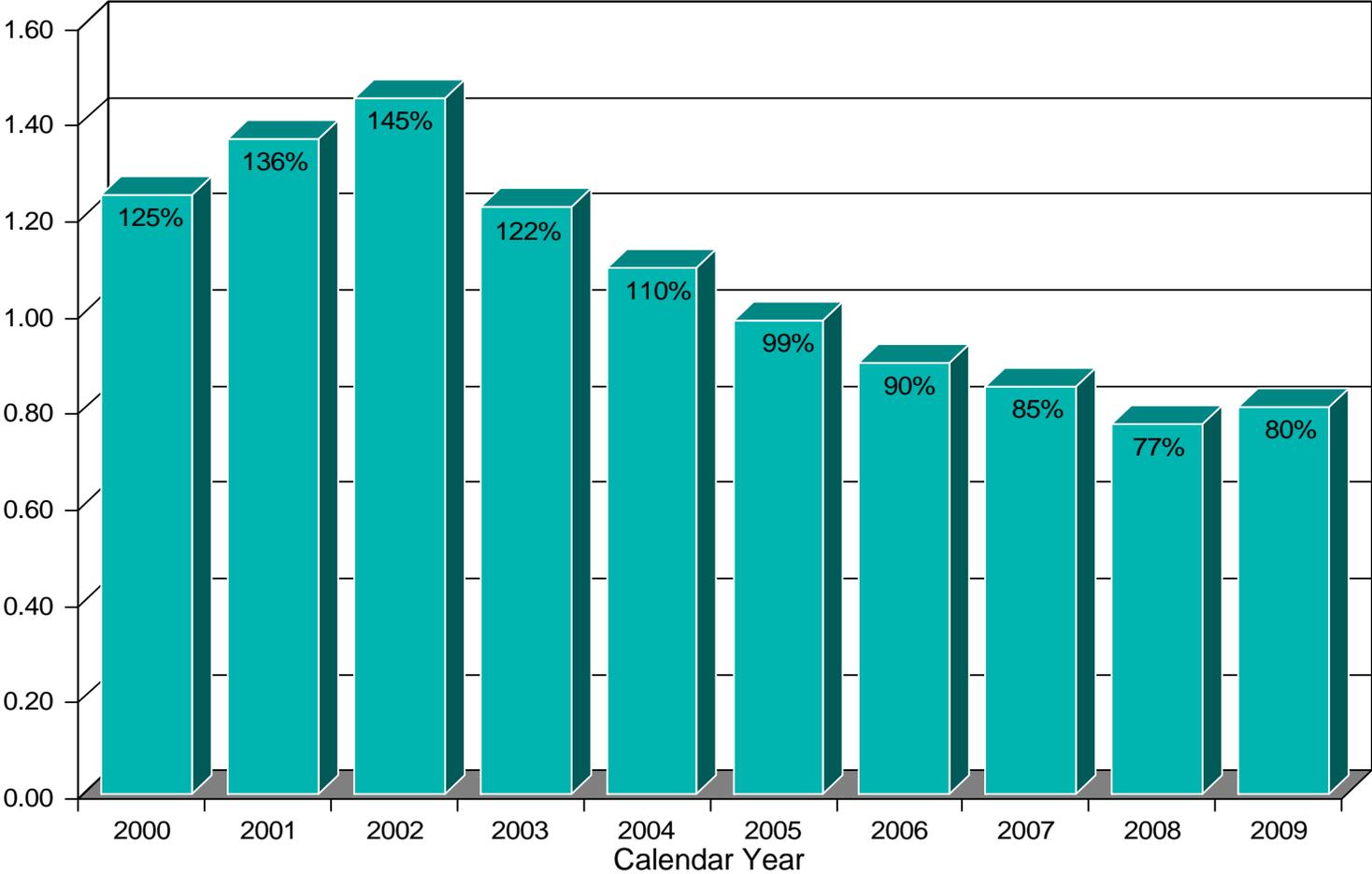
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Dividends as a Percent of Premiums



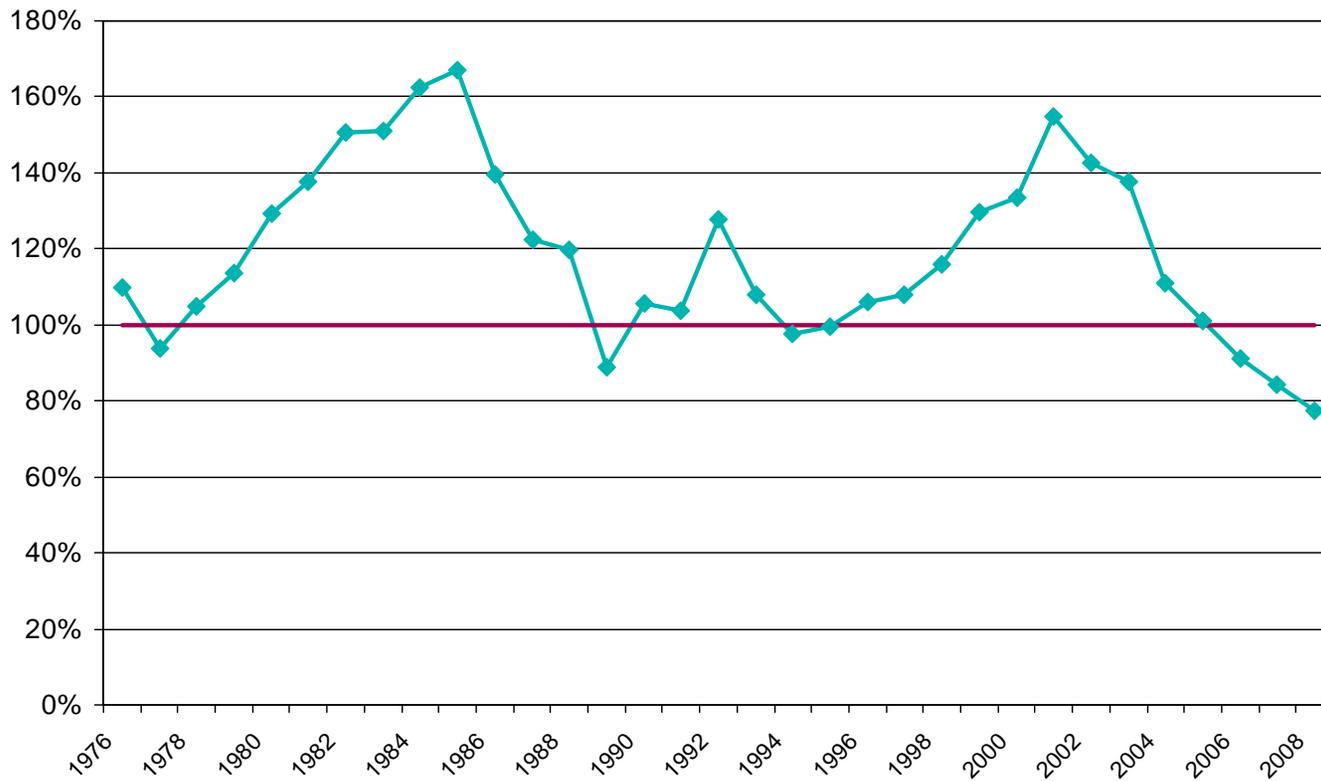
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Combined Ratio (Including Policyholder Dividends)



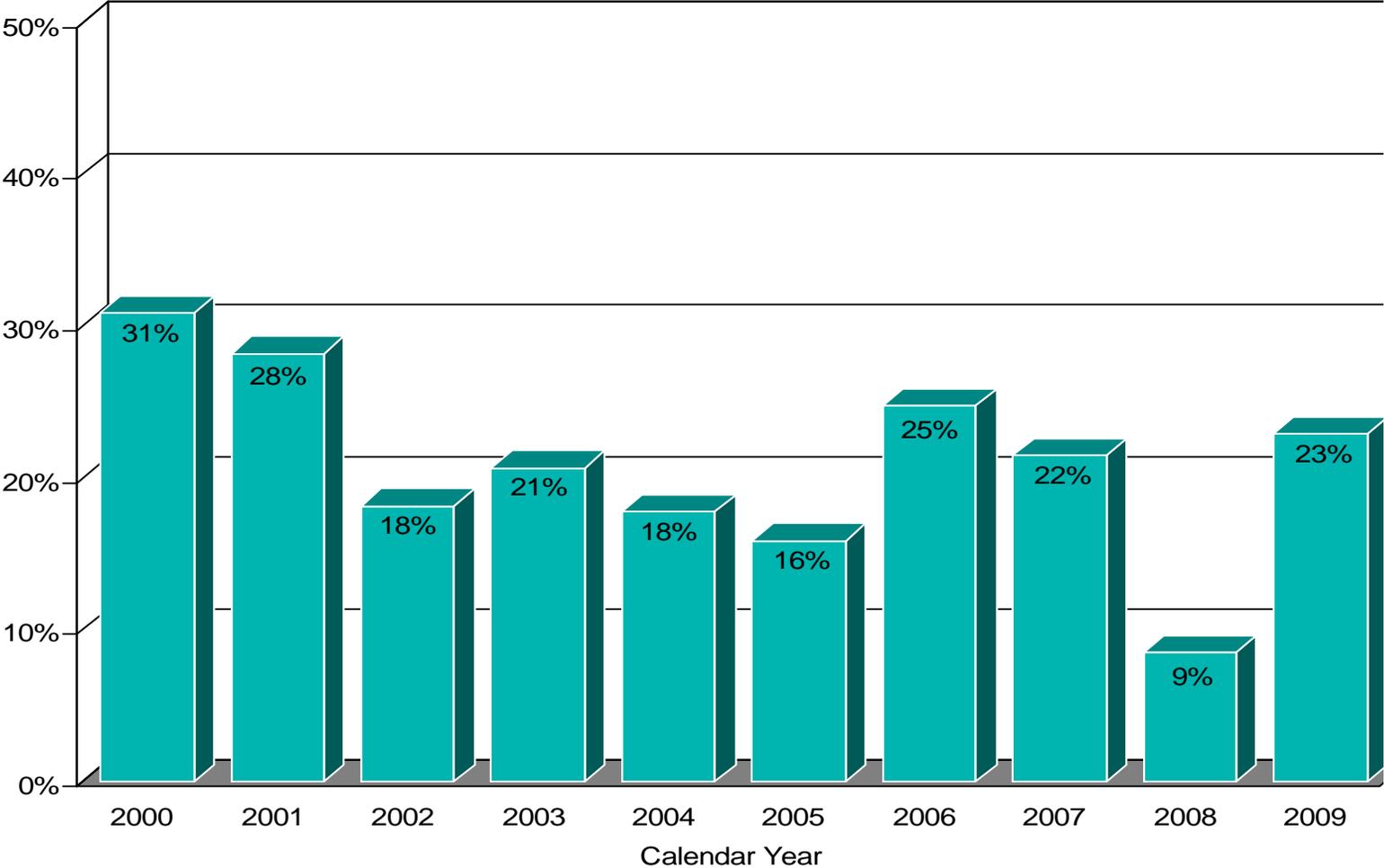
The Numbers

A.M. Best Combined Ratio



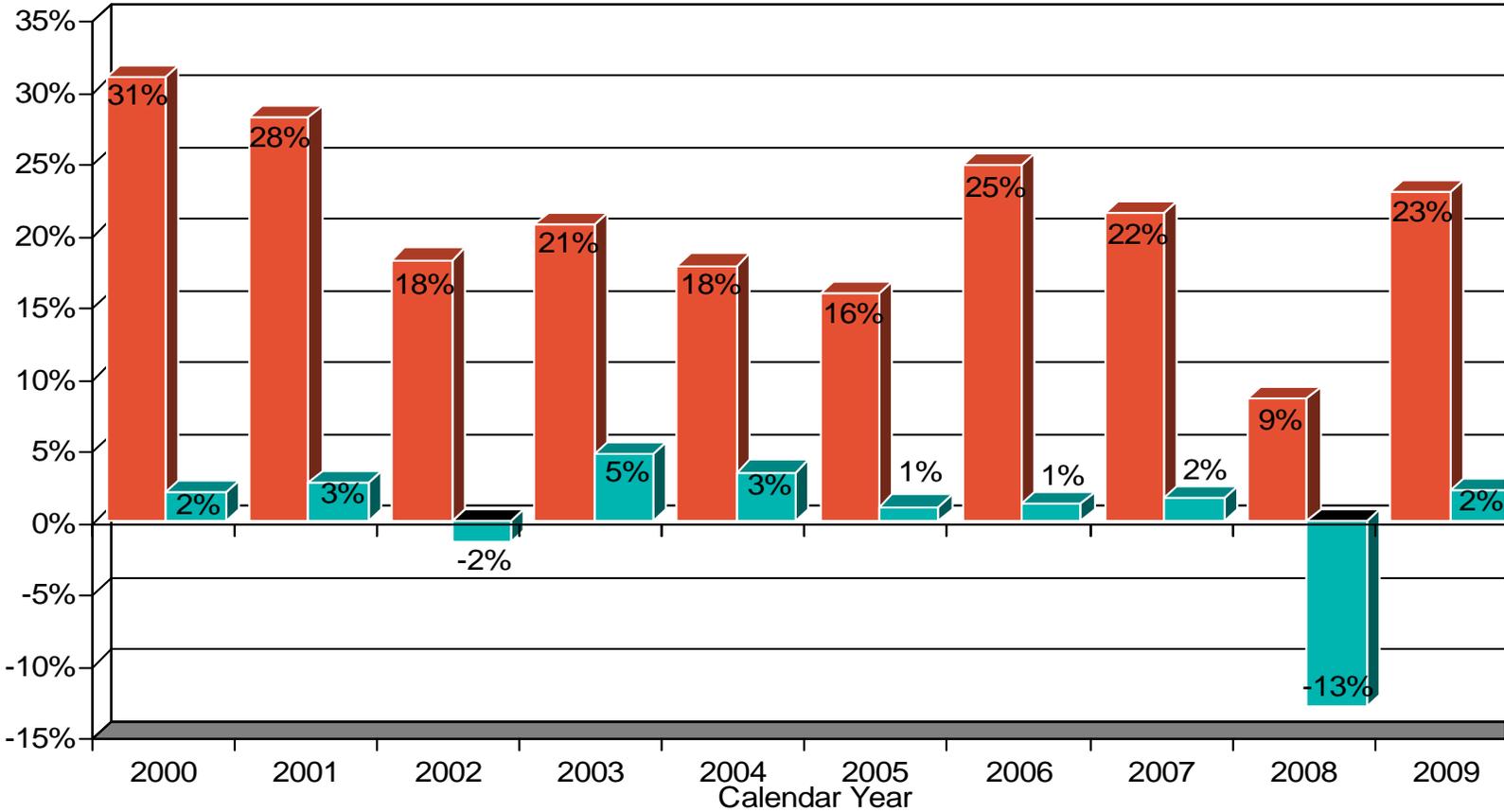
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Investment Income as a Percent of Premiums



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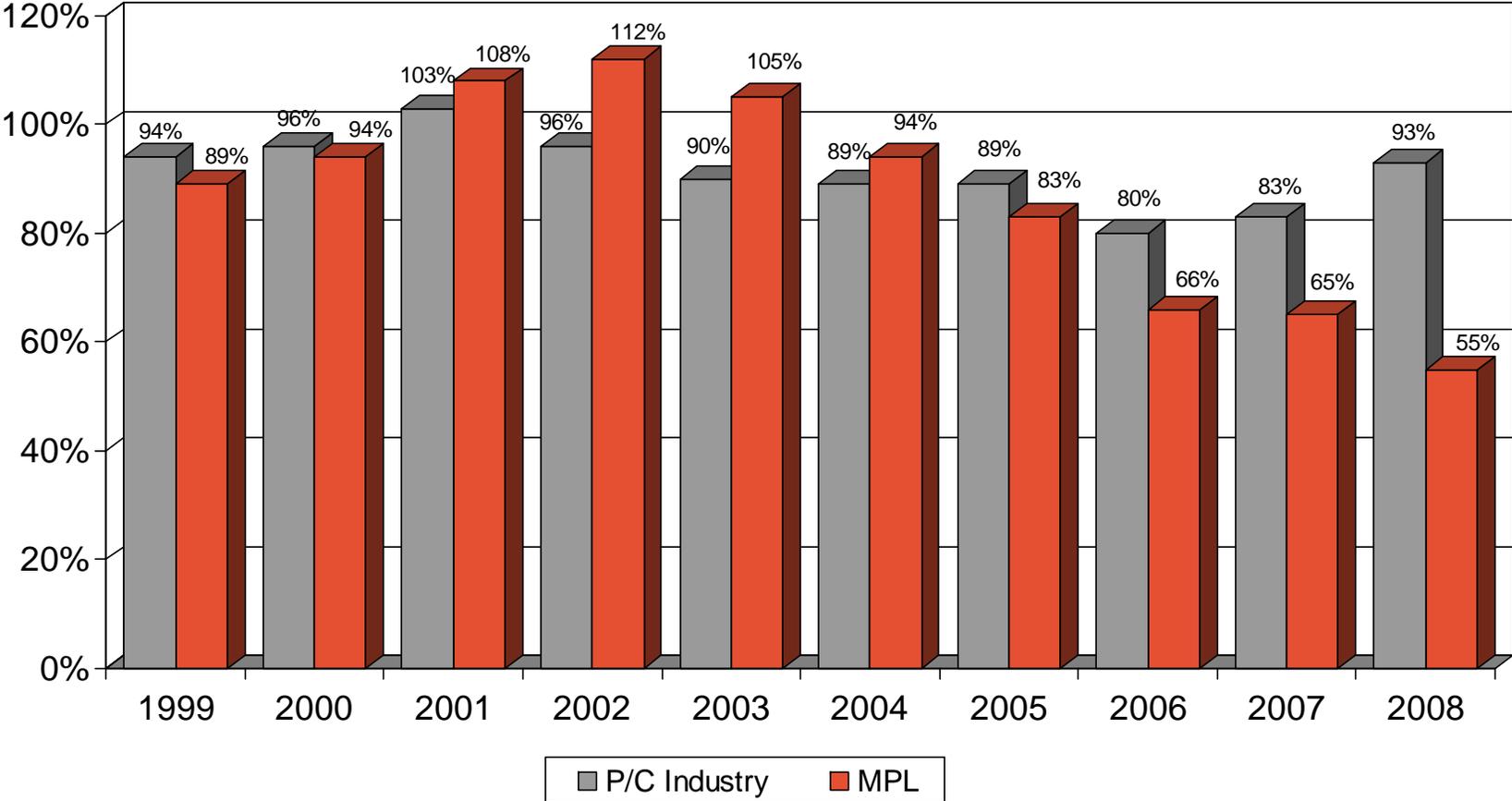
Net Investment Income and Realized Gain/Loss as a Percentage of Premiums



■ Net Investment Income Earned ■ Net Realized Capital Gain/(Loss)

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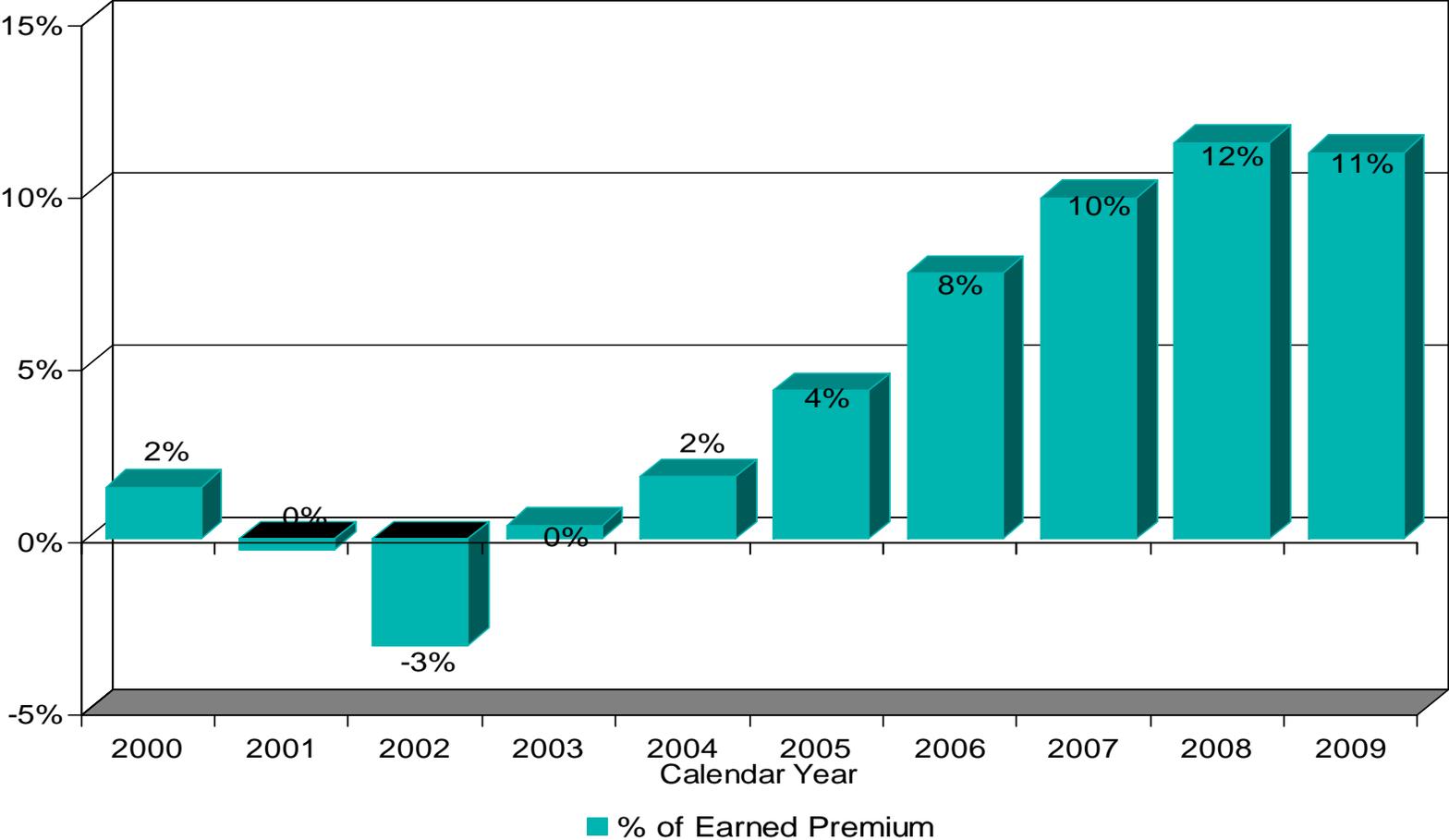
Operating Ratio



Source: Highline Data and AM Best's Aggregates and Averages

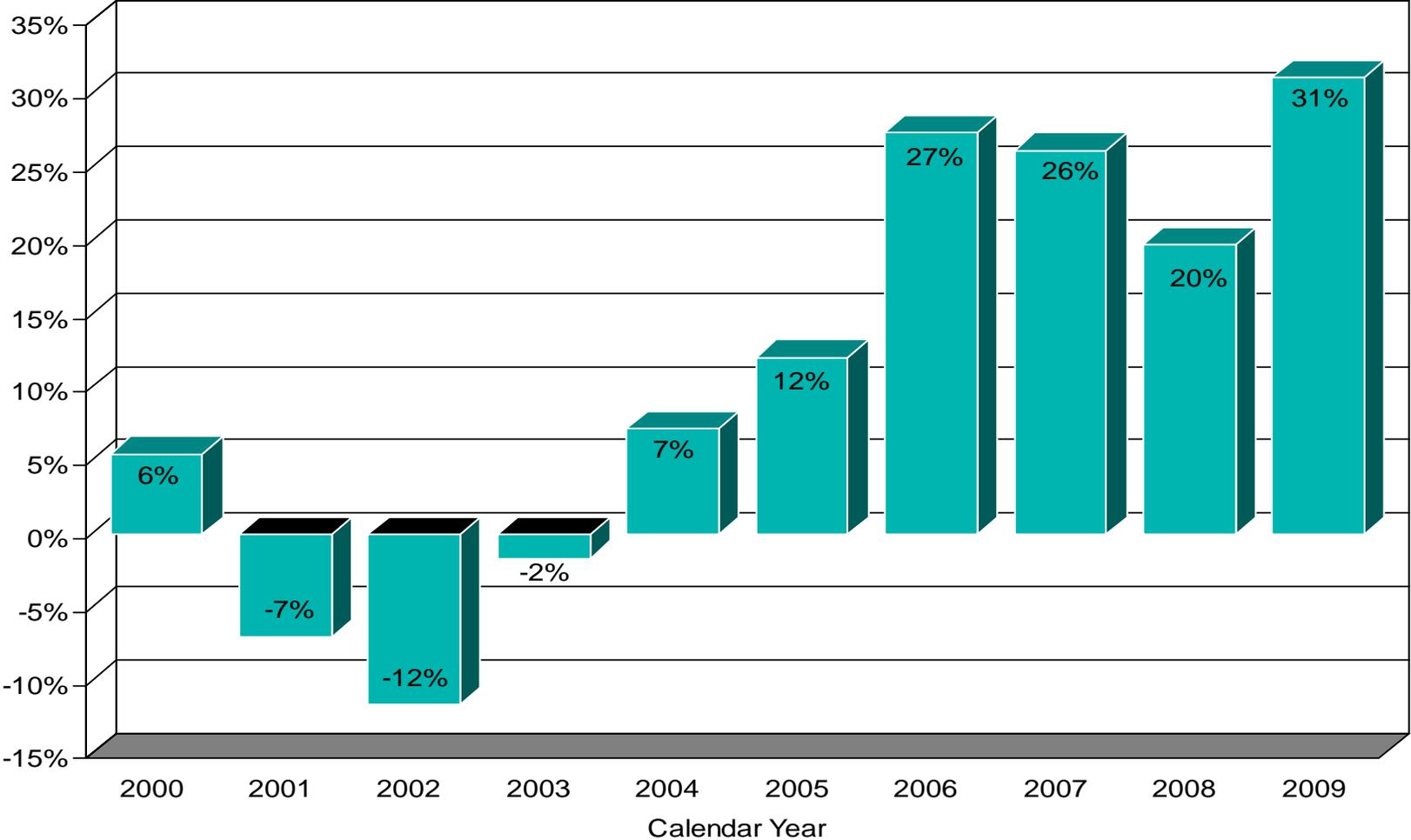
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FIT as a Percentage of Premiums



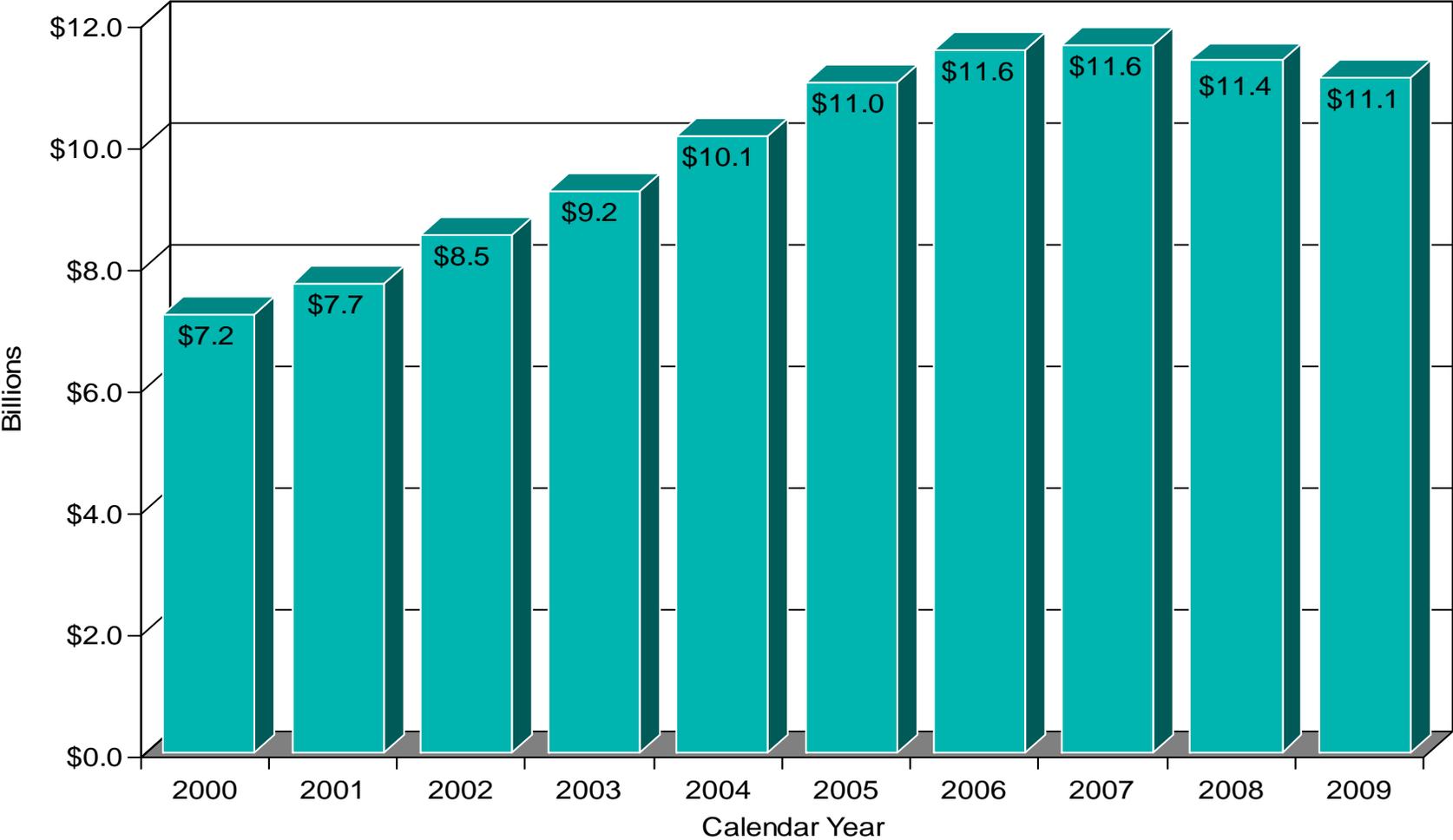
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Net Income as a Percent of Premiums



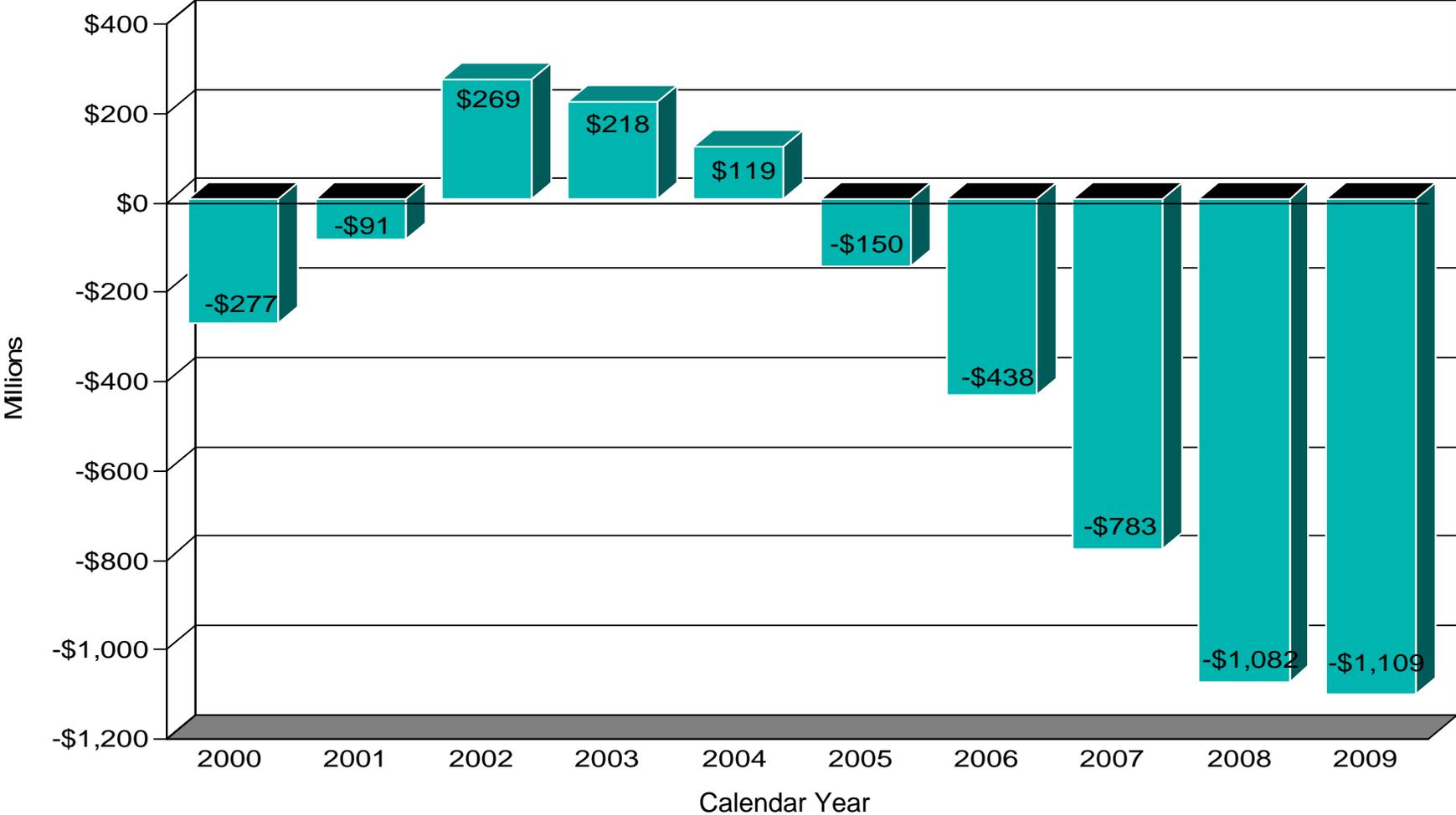
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Total Loss Reserves



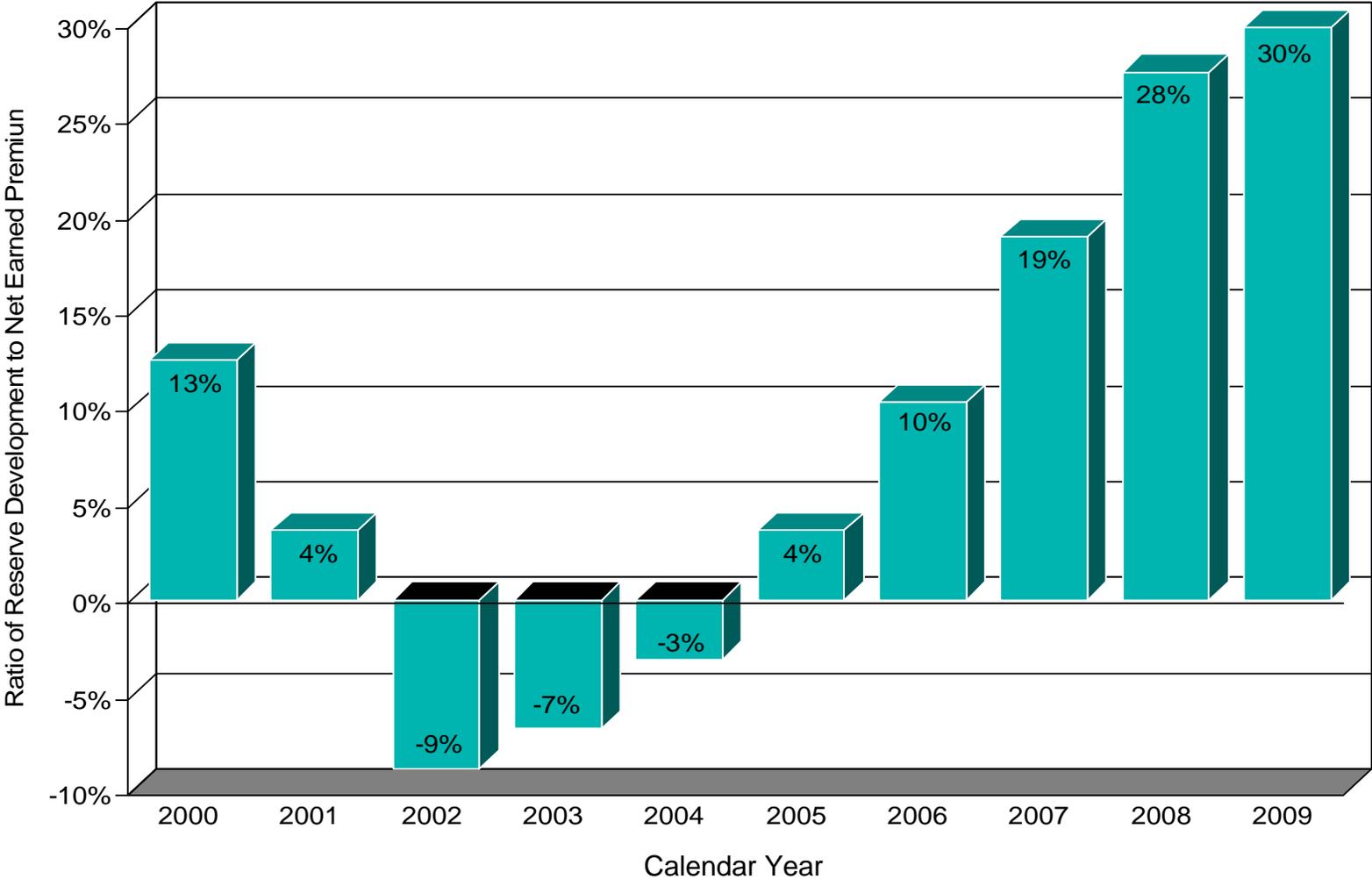
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One Year Loss Reserve Development



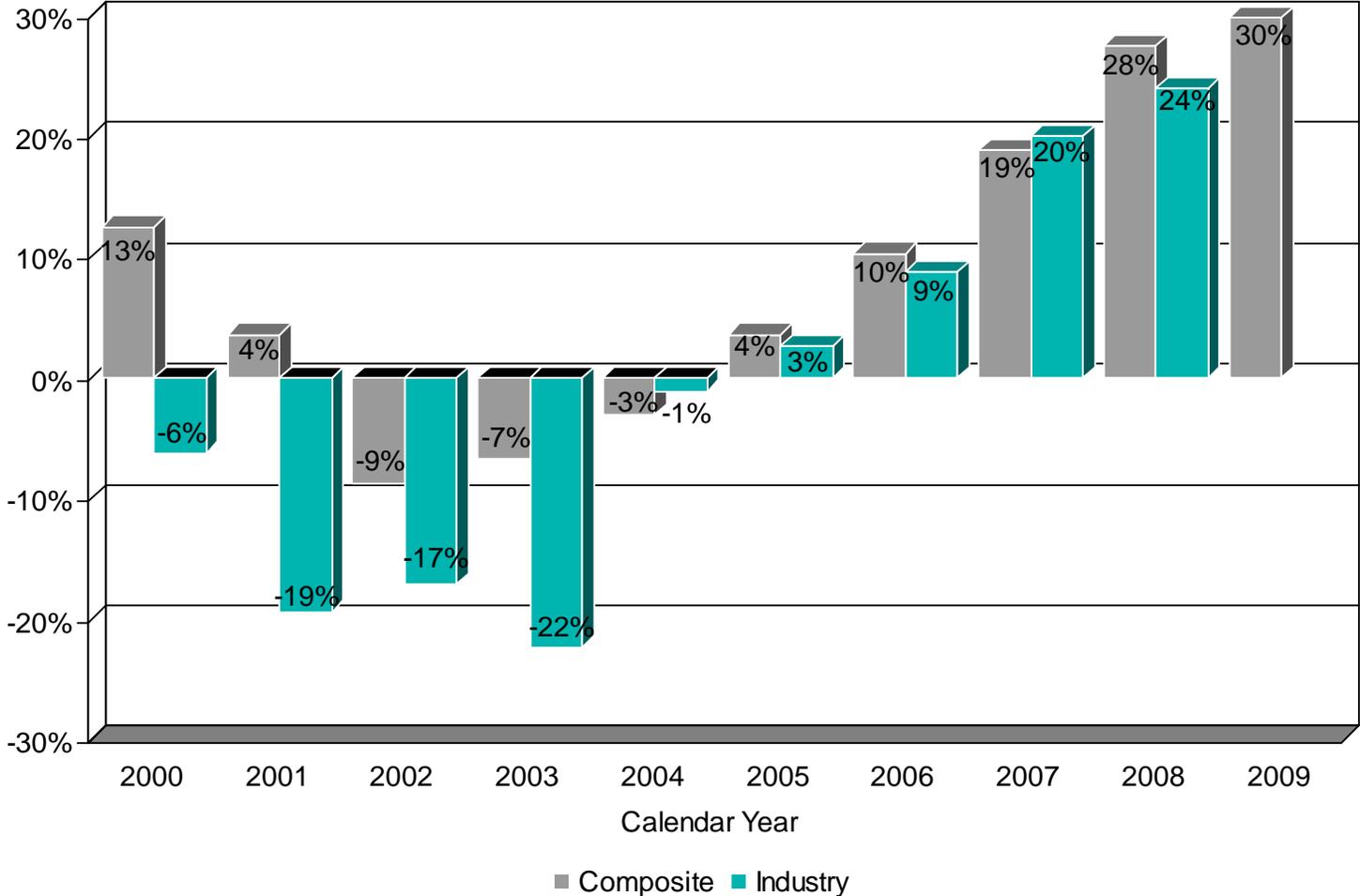
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One Year Loss Reserve Development to Premium



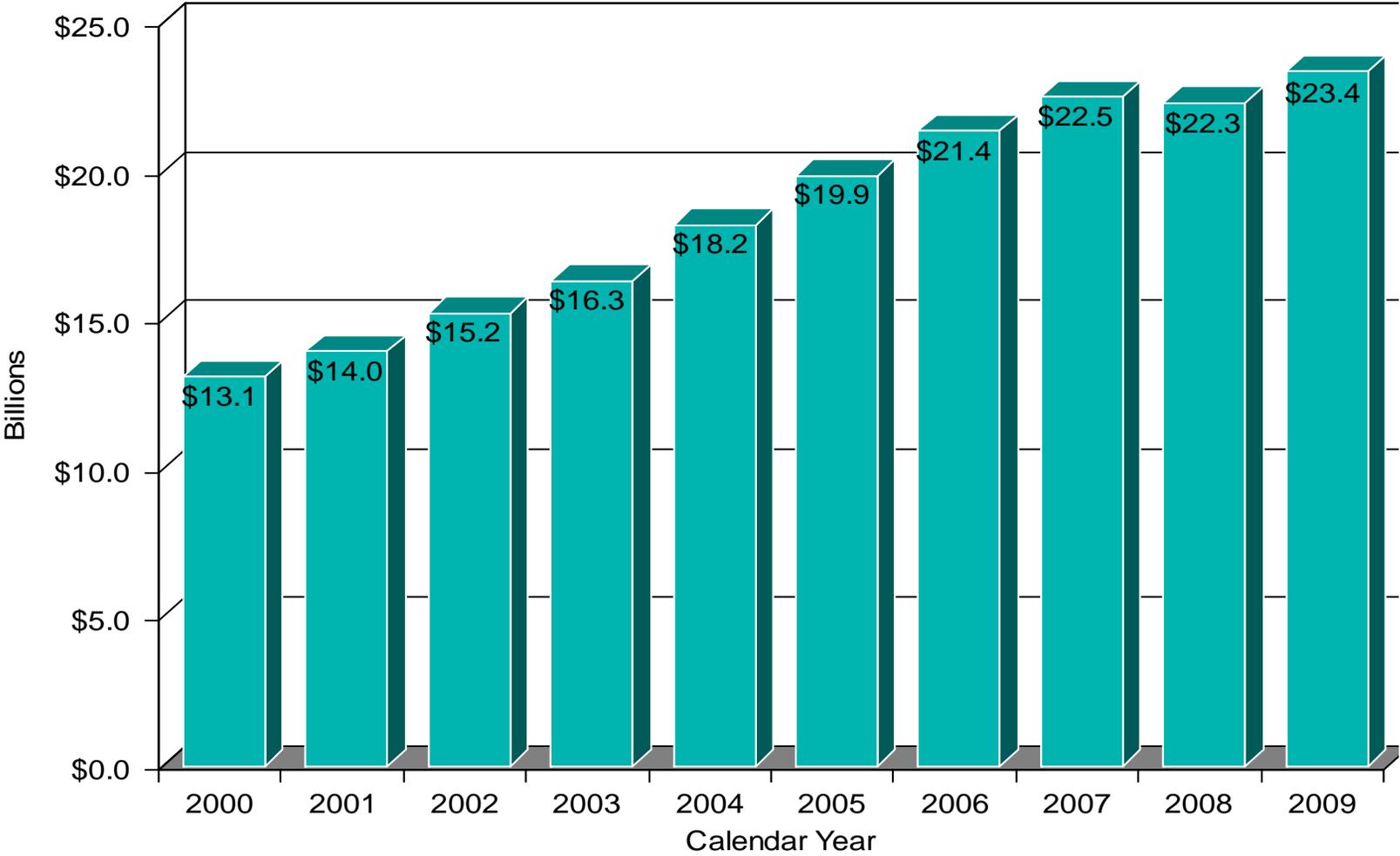
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One Year Loss Reserve Development to Premium Composite vs. Industry



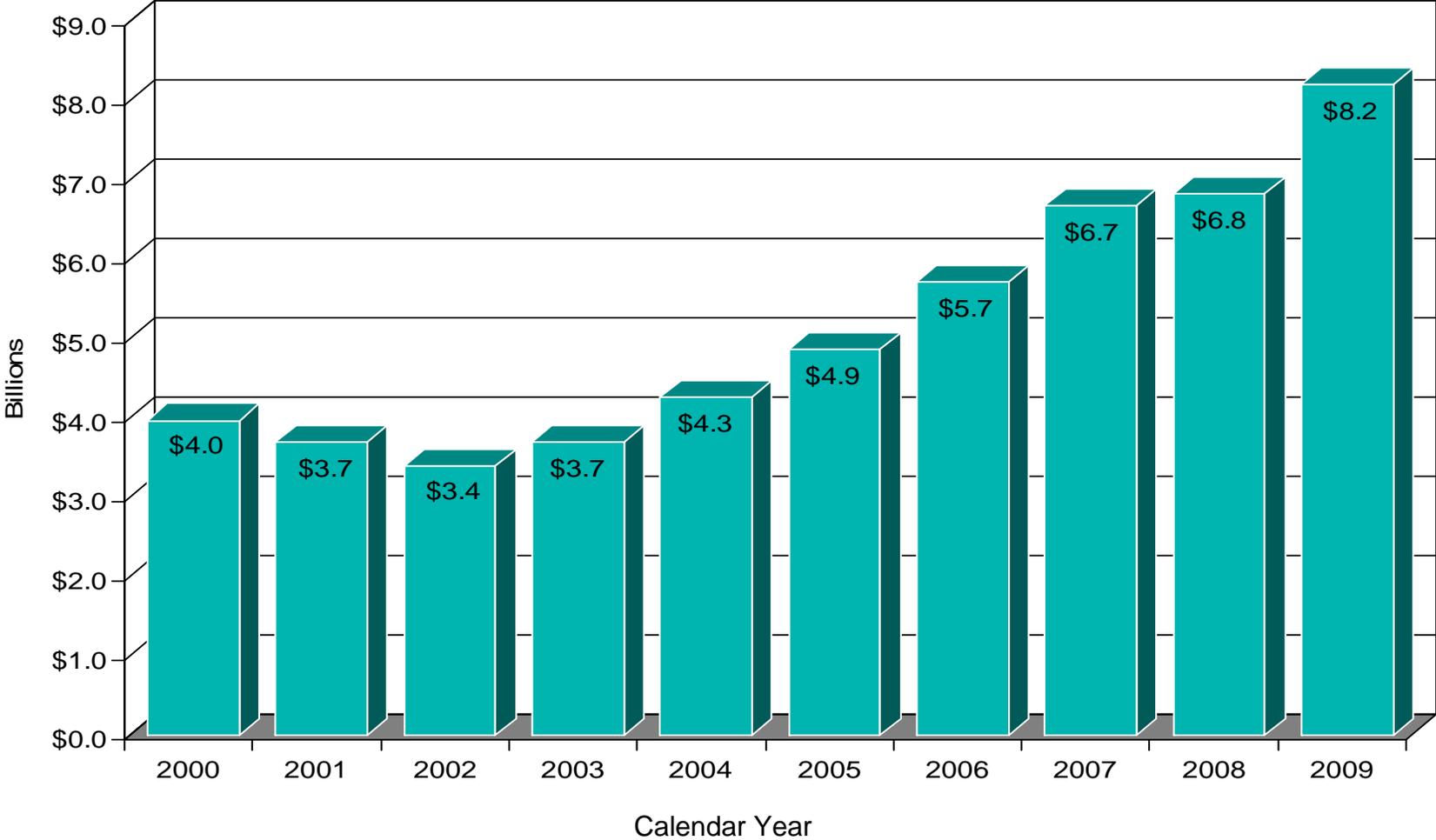
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Total Assets



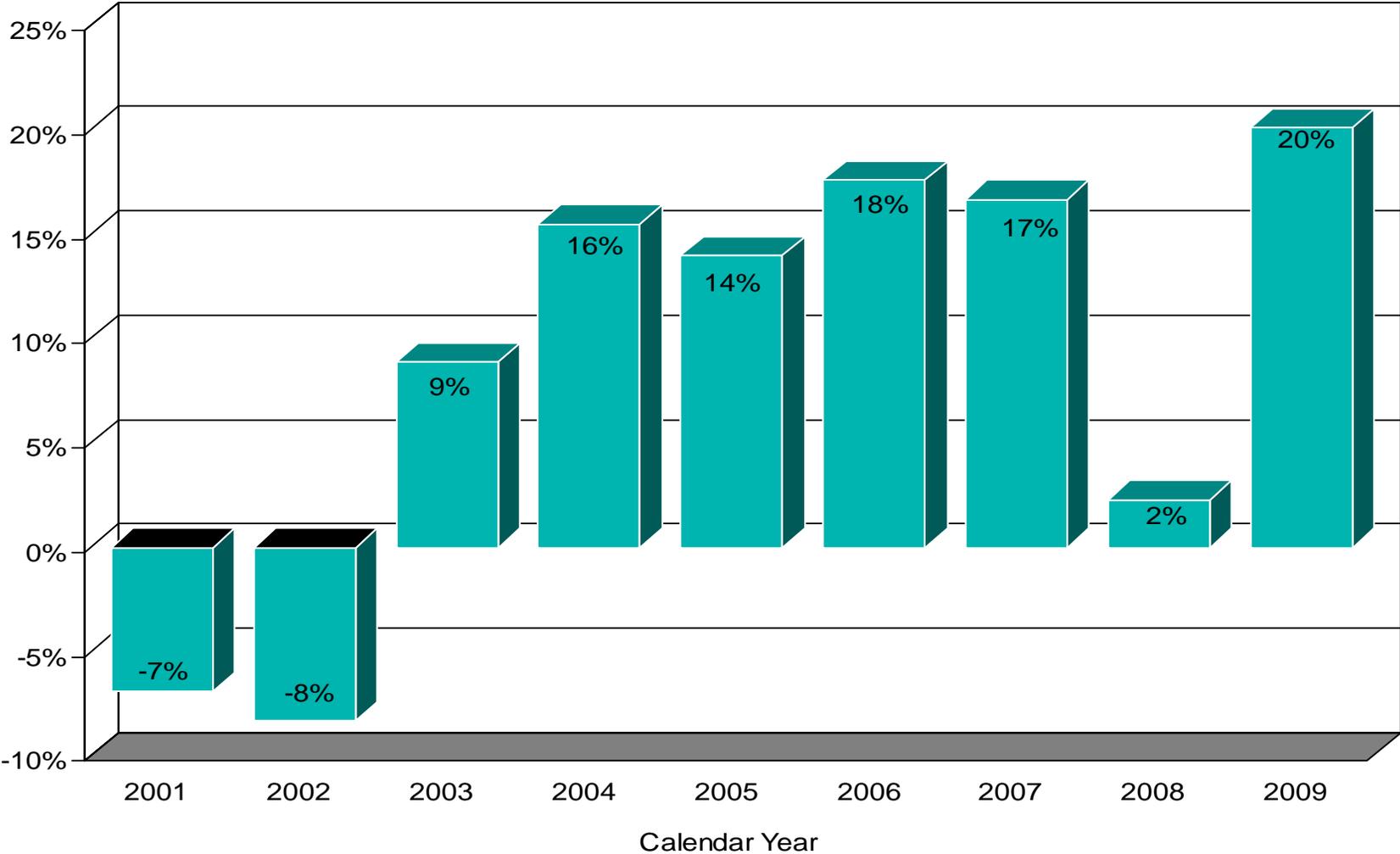
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Surplus



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Percentage Change in Surplus



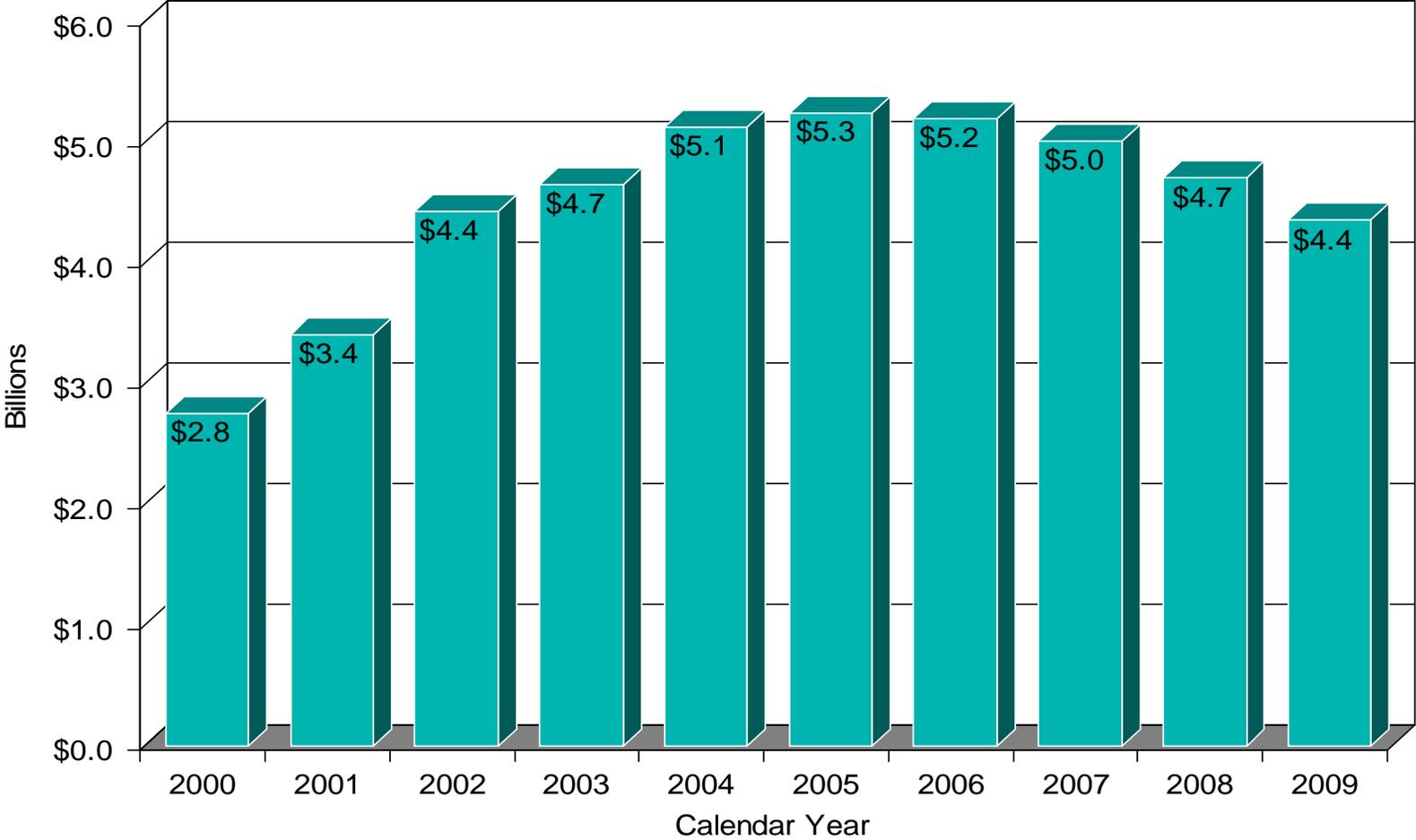
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Change in Policyholders Surplus (\$ millions)

	<u>2008</u>	<u>2009</u>
Beginning Surplus	\$6,714	\$6,839
Net Income	757	1,135
Unrealized Gains/(Losses)	(232)	414
Stockholder Dividends	(282)	(286)
Change in Deferred Tax	84	(71)
Change in Non-Admitted Assets	(192)	167
Surplus Paid In	24	15
Surplus Notes Repaid	(19)	(10)
Change in Accounting Principles	0	12
Other	(16)	(3)
Net Change in Surplus	\$125	\$1,373
Ending Surplus	\$6,839	\$8,212

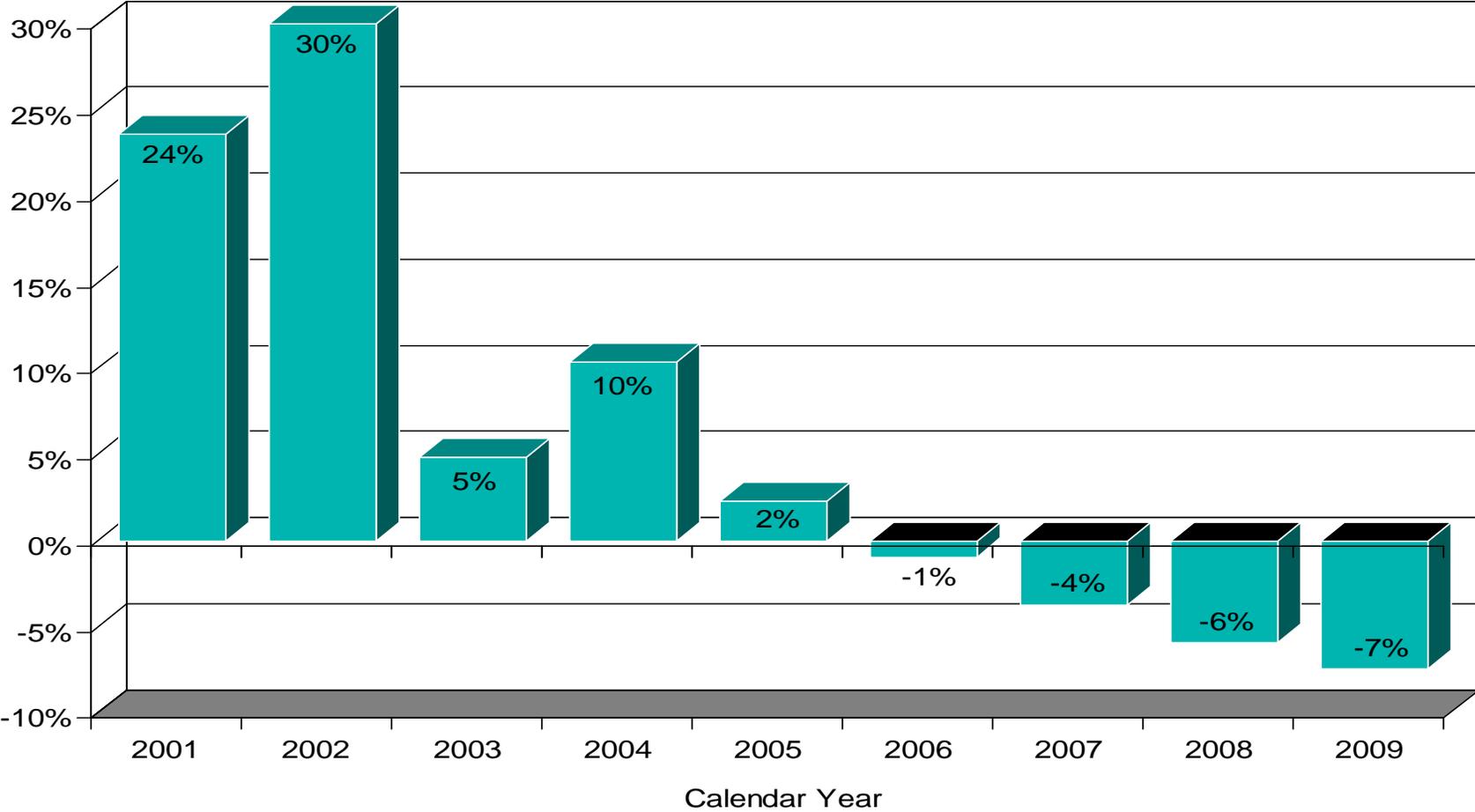
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Gross Premiums Written



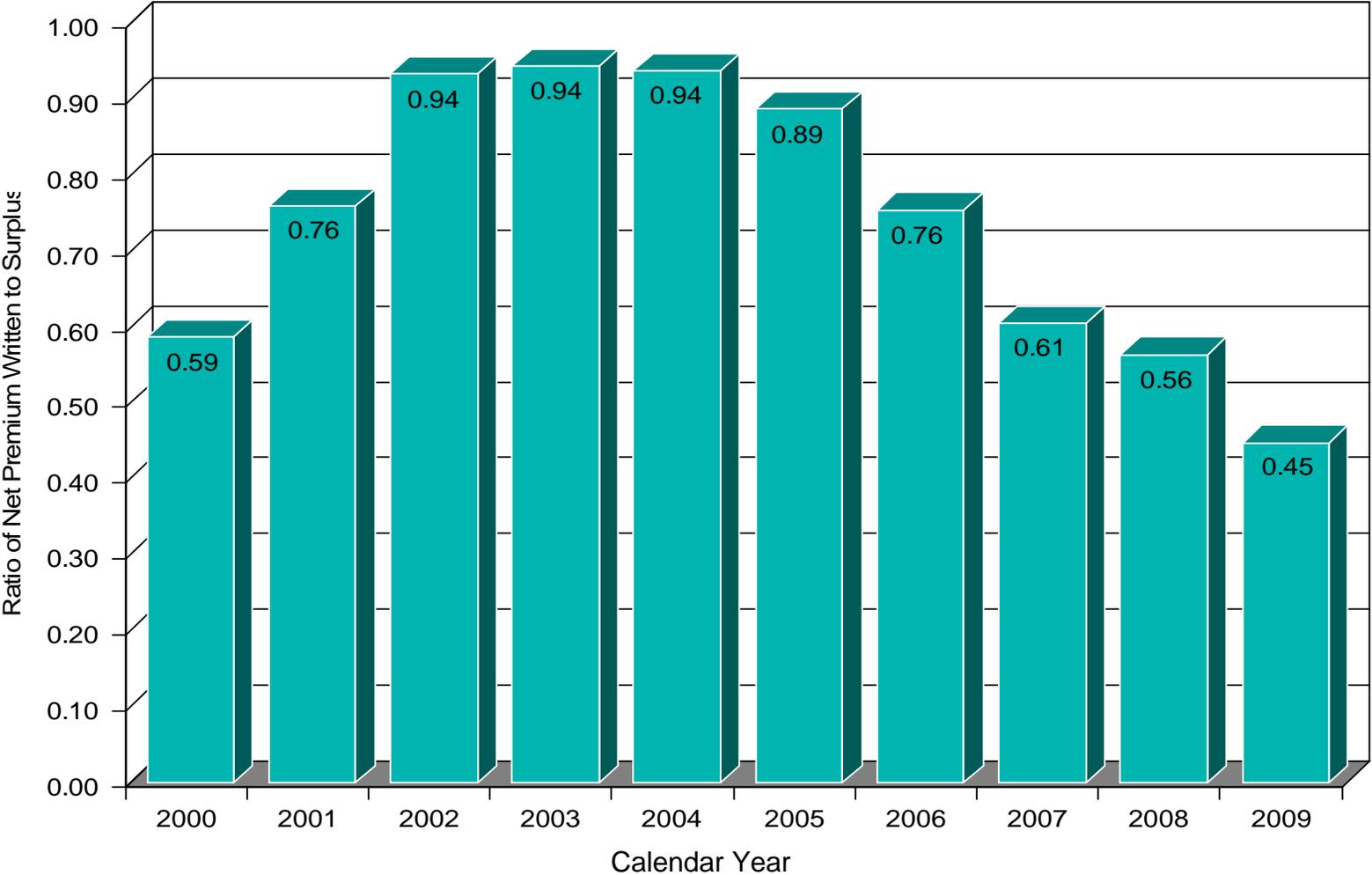
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Percentage Change in Gross Premiums Written



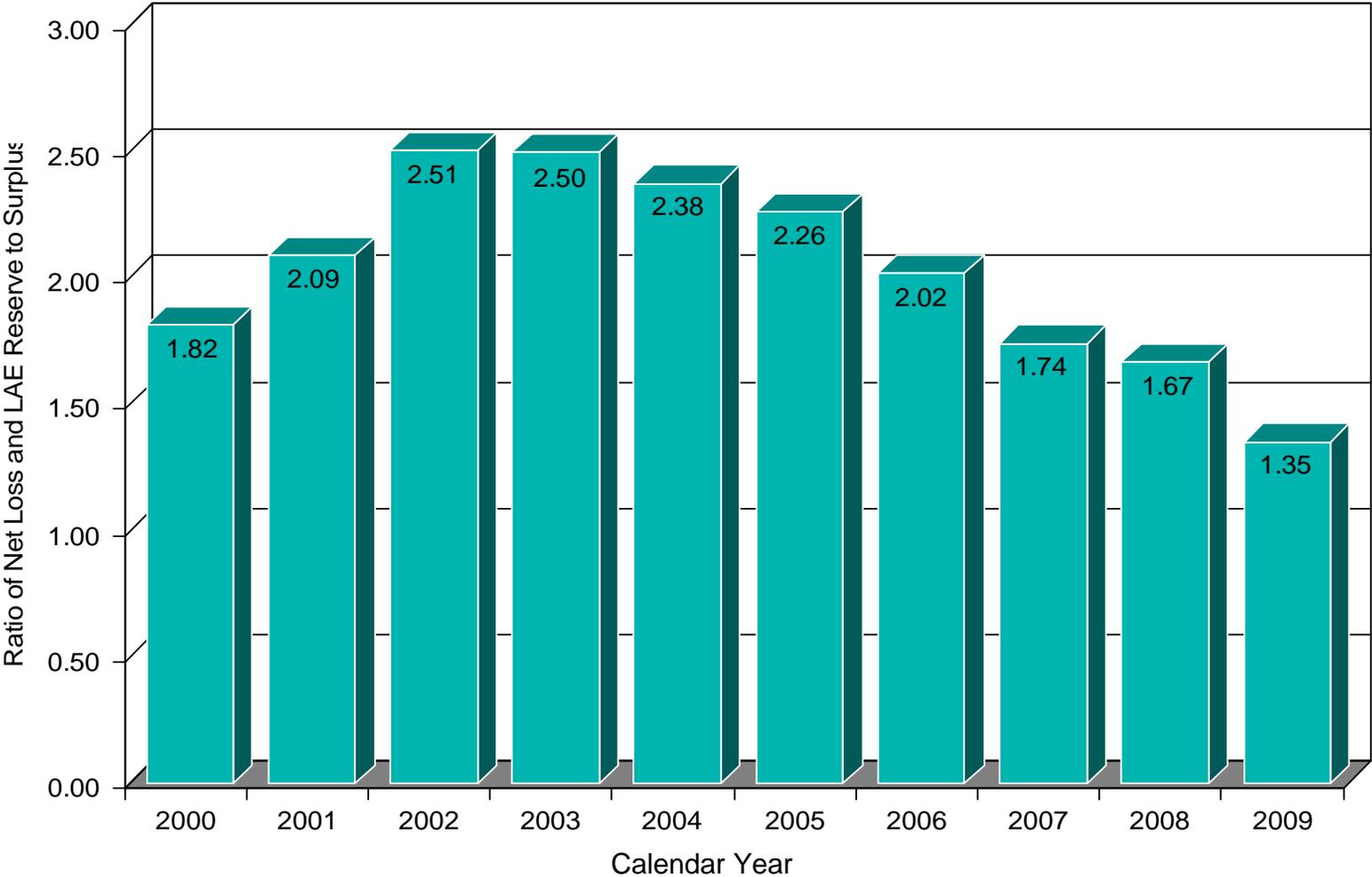
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Net Premium Written to Surplus



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Net Loss and LAE Reserve to Surplus



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Financial Ratios to Net Premiums Earned

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Loss & LAE	98%	111%	126%	104%	93%	81%	71%	61%	54%	56%
Underwriting Expense	22%	22%	18%	18%	17%	16%	17%	18%	18%	19%
Combined Underwriting	120%	133%	143%	122%	109%	98%	88%	79%	72%	75%
Policy Holder Dividends	5%	3%	2%	0%	0%	1%	2%	6%	5%	5%
Adjusted Combined	125%	136%	145%	122%	110%	99%	90%	85%	77%	80%
Net Investment Income	31%	28%	18%	21%	18%	16%	25%	21%	8%	23%
FIT	2%	0%	-3%	0%	2%	4%	8%	10%	12%	11%
Net Income	6%	-7%	-12%	-2%	7%	12%	27%	26%	20%	31%

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Financial Ratios to Net Premiums Earned

	Then	Now	
	1995-1997	2008	2009
Loss and LAE	94%	54%	56%
[Reserve Development]	[30%]	[28%]	[30%]
Underwriting Expense	17%	18%	19%
Loss & Total Expense	111%	72%	75%
Policyholder Dividends	9%	5%	5%
Combined (Incl. P/H Div.)	120%	77%	80%
Net Investment Income	44%	9%	23%
FIT	6%	12%	11%
Net Income	20%	20%	31%

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Leverage

	<u>Then</u>	<u>Now</u>	
	<u>1995-1997</u>	<u>2008</u>	<u>2009</u>
DPW/Surplus	.65	.69	.53
NPW/Surplus	.53	.56	.45
Reserves/Surplus	2.08	1.67	1.35
% Change in Surplus	15%	2%	20%

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“Then” versus “Now” –

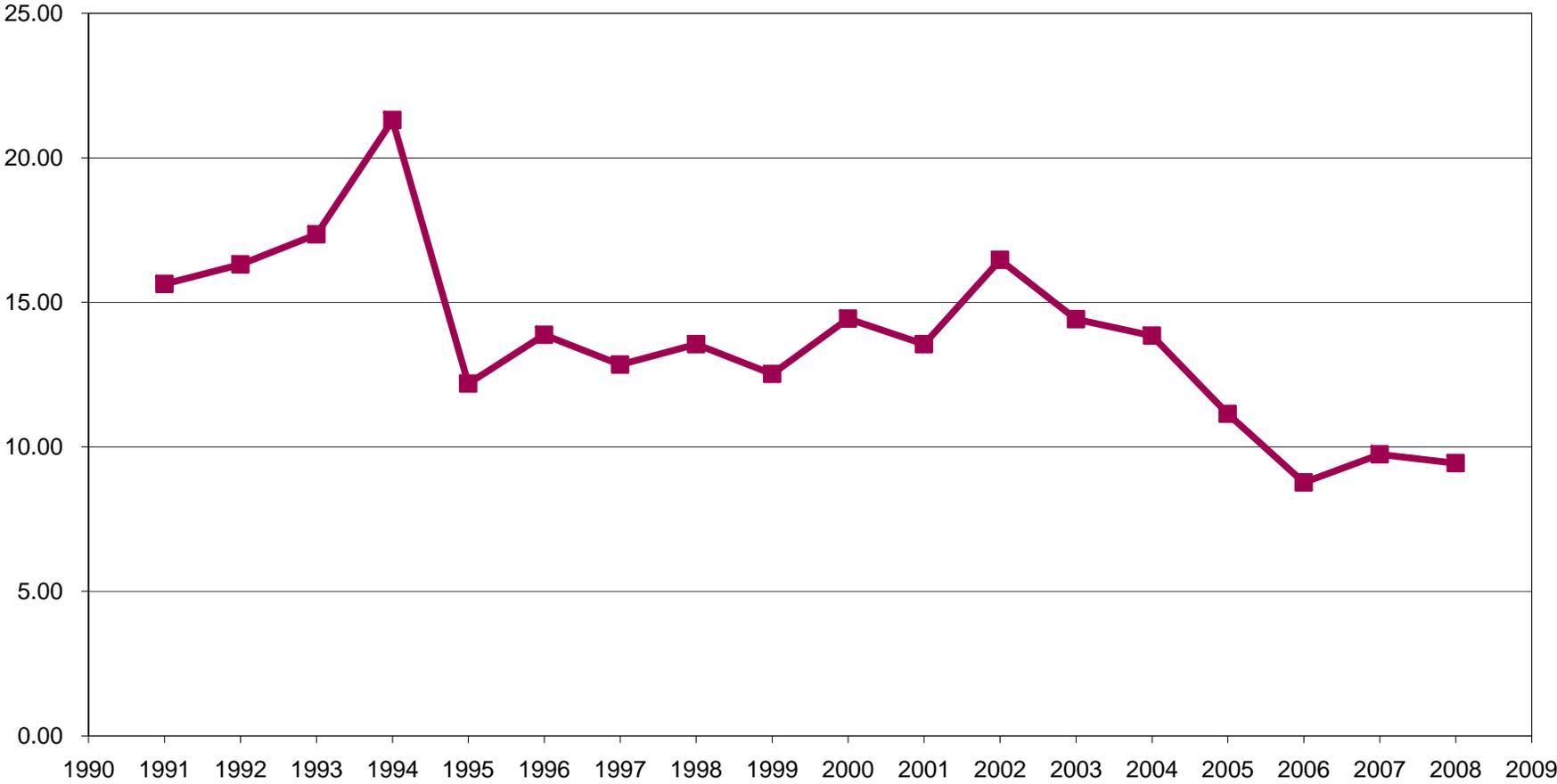
- Reported results reflect ‘similar’ profitability
 - loss ratios much lower
 - lower investment income despite rebound
- Policyholder dividends hover at the 5% level
- Underwriting leverage ratios below mid-90’s (low) levels

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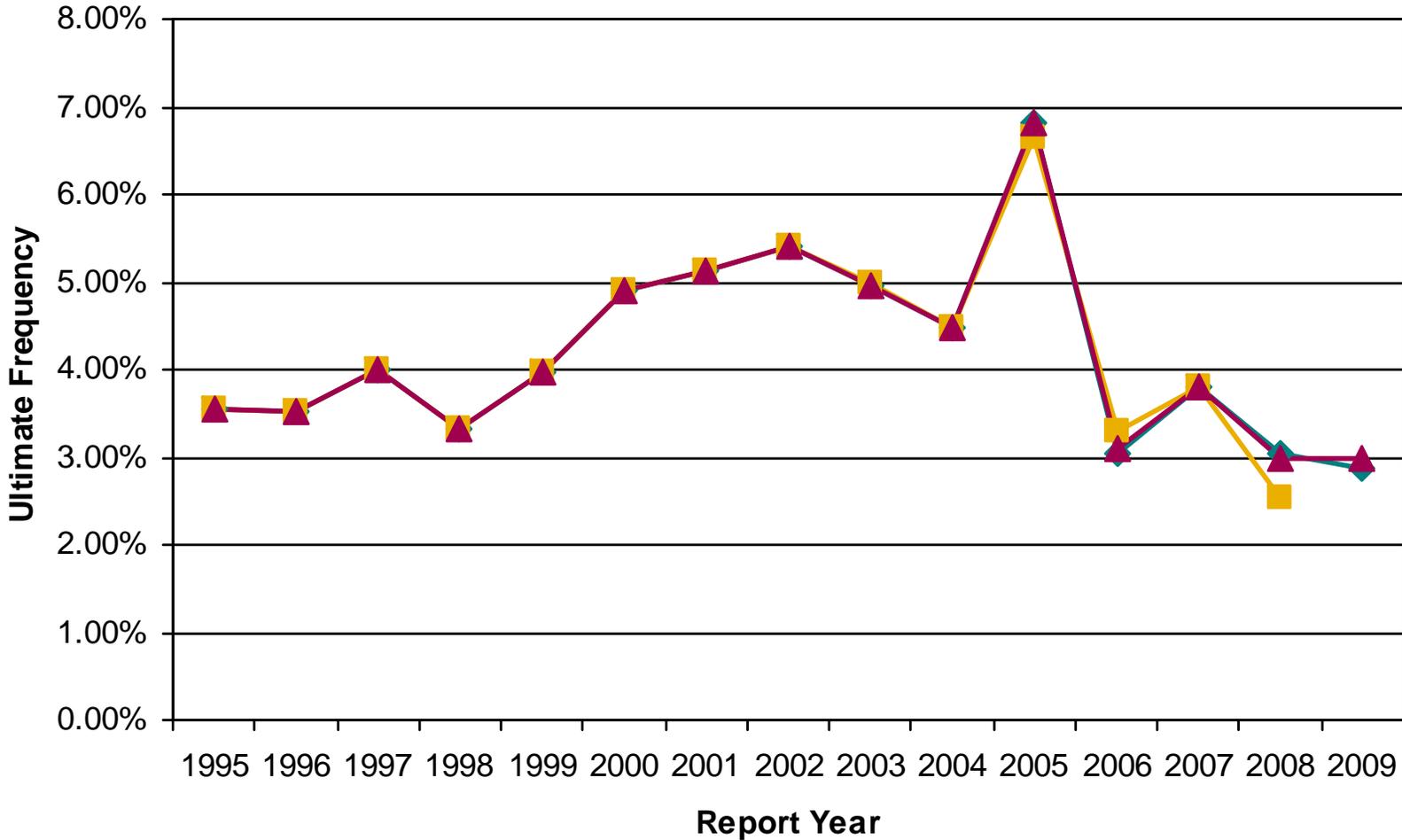
...so, what's next?

- Underwriting
 - Declining volume – pricing/exposure
 - New competition
 - Trends moderate; frequency flattens

Sample Close with Cost Frequency

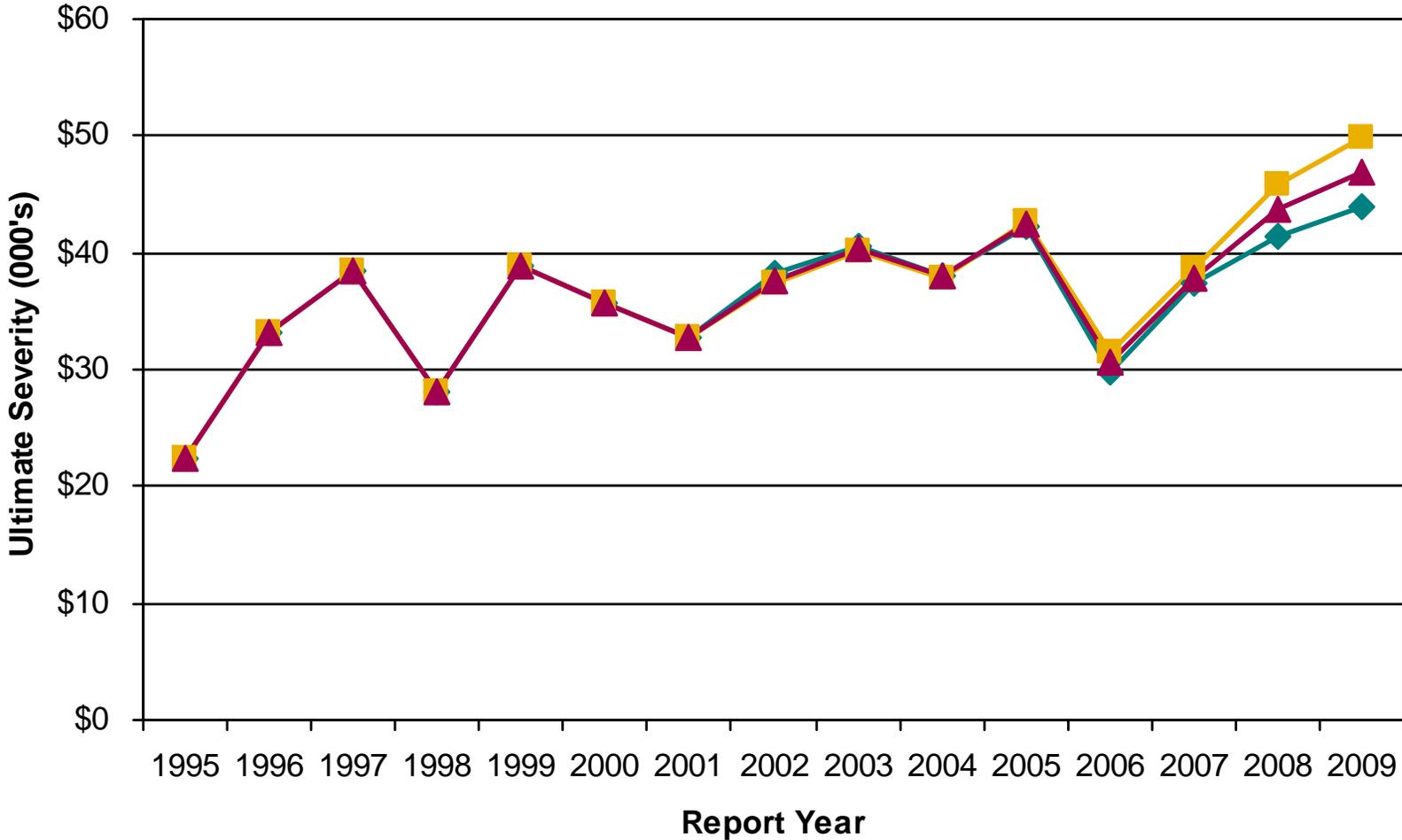


Sample Ultimate Close w/Cost Frequency



◆ Based on Reported ■ Based on CWP ▲ Selected

Sample Ultimate Severity \$200,000 Limits



◆ Based on Reported ■ Based on Paid ▲ Selected

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...so, what's next?

- Underwriting
 - Declining volume – pricing/exposure
 - New competition
 - Trends moderate; frequency flattens
 - Reforms largely untested
- Investment income
 - No short term help; longer term?
 - Predictable?
- ...and then, of course, there's Healthcare Reform!