NATIONAL MEDICAL MALPRACTICE TRENDS: 2015

Overview
- Positive and Negative Medical Malpractice Trends
- Medical Malpractice Insurance Trends
- Medical Malpractice Claim Trends
- The Future: Health Care Reform Liability
NATIONAL MEDICAL MALPRACTICE TRENDS: POSITIVES AND NEGATIVES
NATIONAL MEDICAL MALPRACTICE TRENDS

2015: The National Medical Malpractice Environment

The Positives

- Claims counts/frequency still down markedly
- Severity rising but not drastically
- Much competition in the insurance market makes for favorable pricing across all health care professional liability segments
- Improvement in obstetric claims seen across a number of databases: Unprecedented?
- MICRA laws upheld in California by overwhelming public vote last November
- Industry Combined Ratio improved: HPL is profitable
NATIONAL MEDICAL MALPRACTICE TRENDS

2015: The National Medical Malpractice Environment

The Negatives

- Claims costs rising due to medical costs and legal expenses
- The number of jumbo verdicts have increased but are not a problem (yet). No affect on premiums
- The numbers of large verdicts is increasing nationally
MEDICAL MALPRACTICE INSURANCE TRENDS: 2015
# Medical Malpractice Insurance Trends

## Medical Professional Liability Combined Ratio 2008 - 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Combined Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>77.4</td>
</tr>
<tr>
<td>2009</td>
<td>83.4</td>
</tr>
<tr>
<td>2010</td>
<td>80.6</td>
</tr>
<tr>
<td>2011</td>
<td>87.9</td>
</tr>
<tr>
<td>2012</td>
<td>93.8</td>
</tr>
<tr>
<td>2013</td>
<td>92.5</td>
</tr>
</tbody>
</table>

*Source: A.M. Best 2014*
Medical malpractice continues as the most profitable line of P&C insurance.

Fierce competition and rate decreases continue across all segments: hospitals, physicians, long term care, managed care, facilities.

Market consolidation by acquisition continues and likely to continue.

Reinsurance market has been favorable; more capital coming in.

Continued growth of captives/RRGs: 253 Cayman health care captives; 100 Vermont captives.
## Top Ten Medical Professional Liability Insurers - 2013

<table>
<thead>
<tr>
<th>2013 Rank</th>
<th>Company</th>
<th>Net Premiums Written</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Berkshire Hathaway</td>
<td>$825.5M</td>
</tr>
<tr>
<td>2</td>
<td>Doctors Company</td>
<td>736.1</td>
</tr>
<tr>
<td>3</td>
<td>MLMIC (NY)</td>
<td>542.0</td>
</tr>
<tr>
<td>4</td>
<td>ProAssurance</td>
<td>494.9</td>
</tr>
<tr>
<td>5</td>
<td>CNA</td>
<td>477.2</td>
</tr>
<tr>
<td>6</td>
<td>PRI (NY)</td>
<td>373.2</td>
</tr>
<tr>
<td>7</td>
<td>AIG</td>
<td>351.5</td>
</tr>
<tr>
<td>8</td>
<td>Coverys</td>
<td>346.2</td>
</tr>
<tr>
<td>9</td>
<td>NORCAL</td>
<td>285.2</td>
</tr>
<tr>
<td>10</td>
<td>ISMIE Mutual (Illinois)</td>
<td>243.2</td>
</tr>
</tbody>
</table>

*Source: AM Best 2014*
## M&A Transactions Involving Medical Professional Liability Carriers

<table>
<thead>
<tr>
<th>BUYER</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2014 TRANSACTIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Coverys</td>
<td>PPIC</td>
</tr>
<tr>
<td><strong>2013 TRANSACTIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Coverys</td>
<td>OHAIS</td>
</tr>
<tr>
<td>MAG Mutual</td>
<td>South Carolina Physician Assurance Co.</td>
</tr>
<tr>
<td>MMIC</td>
<td>Utah Medical Insurance Association</td>
</tr>
<tr>
<td><strong>2012 TRANSACTIONS</strong></td>
<td></td>
</tr>
<tr>
<td>ProAssurance Corporation</td>
<td>Medmarc Insurance Group</td>
</tr>
<tr>
<td>ProAssurance Corporation</td>
<td>Independent Nevada Doctors Insurance Exchange</td>
</tr>
</tbody>
</table>
NATIONAL MEDICAL MALPRACTICE CLAIM TRENDS
Top Medical Specialties by Average Indemnity (2008-2012)

- **Ob/Gyn**: $425
- **Neurosurgery**: $421
- **Pediatrics**: $398
- **Neurology**: $395
- **Anesthesiology**: $378
- **Radiology**: $370
- **Pathology**: $346
- **Emergency Medicine**: $346
- **Urologic Surgery**: $337
- **Internal Medicine**: $336
- **CT Surgery**: $335
- **Gastroenterology**: $335
- **All Specialties**: $329

$0 $75 $150 $225 $300 $375 $450

Thousands
Top Chief Medical Factors (2008-2012)

Diagnostic Error second by number of closed claims; highest by average indemnity payment.
## Trends of Note - 5 year intervals (2003-2007) and (2008-2012)

<table>
<thead>
<tr>
<th>Classification</th>
<th>% Paid-to-Closed</th>
<th>Average Indemnity</th>
<th>Average ALAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>OB/Gyn</td>
<td>Decreased 2%</td>
<td>Decreased</td>
<td>Increased</td>
</tr>
<tr>
<td>Radiology</td>
<td>Increased 1%</td>
<td>Increased</td>
<td>Decreased</td>
</tr>
<tr>
<td>Medication Errors</td>
<td>Increased 10%</td>
<td>Increased</td>
<td>Increased</td>
</tr>
</tbody>
</table>
Hospital Claims for High-Risk Services Generate over Half of Total Liability Dollars

Source: BerkleyMed, 2015
Obstetrics Claims – Metrics

Hospitals

- About one out of every 3,711 births results in a medical malpractice claim with indemnity
- The average value of these cases, including defense, is about $1.1M
- The cost per delivery to cover liability is, on average, $296

Source: BerkleyMed, 2015
Hospital Claim Trends

Zurich Annual Benchmark Report

- Issued October 2013
- Overall trends reported for AY 1999 - 2009
- Over 315,000 claims and about $27 billion in estimated ultimate losses
  - Zurich claims and underwriting data submitted to Zurich
  - 2010 was the cut off year to allow for maturation of claims
Zurich 2014 Claims Analysis: Key Findings

- Claim frequency: “very stable”
- Severity trending up. Rose 6% per year from 2006 to 2011
  - IL, NY, PA lead in severity
- Frequency of large claims continues to rise
  - Pctg >$1M and those >$5M but moving at the same pace
- Children’s hospitals had the highest severity followed by teaching hospitals. These two types of facilities had much higher severity than others.
- Early resolution programs had little impact on expense and indemnity
Loss Cost Per OBE
Zurich Claims
Claim Severity by Facility Type: Zurich
Zurich: Facility Dashboards
Frequency, Severity, Loss Cost
National MPL Trends 2015: Conclusion

- Integration/Reform has yet to notably impact MPL risk
- Cost for plaintiff’s to pursue malpractice cases is a huge barrier
- Telemedicine: Very few cases
- Frequency remains at historic lows; severity is predictable
- The public’s perception of hospitals and the health care industry must be closely watched, especially with consolidation
- Managing patient expectations is crucial in a time of transition