Foresight

In the Fourth Quarter 2011 Physician Insurer, we asked two actuaries from BMS Group, Michael D. Larson and David Spiegler, to give us some insights on the interplay between the financial markets, medical professional liability (MPL) insurance companies' rates, and reserves. In our last issue, we heard Michael Larson's take on the various asset classes in the portfolios of MPL insurers. Now, in this issue, David Spiegler talks about what showed up in BMS Group's analysis of the 2011 data reported for the PIAA group of member companies.

David Spiegler

PI: Were you surprised by the 2011 results for the PIAA member companies?

Spiegler: I was. At the end of 2010, we estimated that they had approximately $1.8 billion redundancy remaining in their reserves. And then, they took down another $1.3 billion in 2011. We would have expected about $500 million of redundancy remaining. But it's actually higher than that. BMS's numbers are still preliminary, but it looks like a significant redundancy still existed at the end of 2011 despite another year of large reserve releases. In total, they've released $7.4 billion since 2005.

PI: Was that a result of sustained low levels of losses?

Spiegler: What we are seeing in the numbers is that, compared with the amount of losses we would've expected to be reported for 2011, the actual amount was lower.

PI: Do your data sources impute any causal relationships for what happened? Or it is just numbers?

Spiegler: At this point, it's just numbers. We're looking at aggregate figures for the PIAA companies, overall.

PI: So: there is still extra reserve strength left over, at this point?

Spiegler: Yes, there are redundant reserves, though we are still working on quantifying the exact magnitude. The PIAA companies are well positioned. The booked reserve amounts still look like they are conservative.

The combined ratios look like they are going up a little bit. But it is still very profitable. The expense ratio has kicked up a little bit, because the premium volume is down.

PI: What do you see happening with losses?

Spiegler: Losses for PIAA member companies in 2011 are still coming in favorably.

PI: We hear a lot about "softening rates." Do you have any specific numbers on that?

Spiegler: I don't have hard numbers, but you can look at the premium volume for this group of companies. The peak of the hard market was in 2006. This group had $6.7 billion in aggregate premium then. It's dropped every year since then, and it's down to about $5.6 billion for 2011. While there may also be some exposure decreases underlying the drop in premiums, the rate levels have been declining for several years now.

But a lot of what we're seeing is happening because loss experience is better than expected. In a typical soft market, every company is just trying to keep market share.

> **"The market in general really hasn't been anywhere close to the "point of pain," where they might have had to take corrective rate action."**

Premiums are dropping, regardless of the actual exposure. Here, they're also dropping because the loss experience appears to indicate that they should be dropping.

PI: No signs of a hard market, then?

Spiegler: I don't expect to see a hard market for at least two to three years. Of course, it depends on what happens in those two to three years, particularly with new trends in healthcare: with reforms, with larger companies swallowing up the smaller ones, and so on. It's very hard to tell what the impact might be. An unexpected development in one of these could trigger a harder market.

But right now, that is just speculation.

PI: What's happening with provider consolidation—hospitals buying physician practices that are currently insured by PIAA companies—and using self-insurance programs of captives instead?

Spiegler: We've asked all of our PIAA clients what concerns them at this point. They typically say that the prospect of their current insureds being absorbed by larger organizations does concern them. But at this point in time, the evidence is largely anecdotal.

However, you could certainly speculate that part of the drop in total premium for the PIAA companies is happening because these companies are losing clients to other organizations.

> **"Yes. It's definitely true that any impact of a rollback in tort reform happens slowly."**

PI: Do you think that every doctor really wants to work in medicine as a salaried employee?

Spiegler: Probably not. But a big wild card will be in how the Supreme Court rules on the healthcare law. Because some doctors may be holding back, saying, yeah, I'd rather work in my own practice. If the healthcare law is not going to go forward, with accountable care organizations and other provisions, maybe I can just wait it out a while, and I won't have to be acquired. Again, this is speculative.

PI: Advocating for tort reform is an important part of what we do here at the PIAA. But sometimes, as in Georgia and Illinois, gains in tort reform are lost. Do you see an impact in the data?

Spiegler: The impact of a rollback in tort reform in these states hasn't shown up in the results yet. And it's had only a minimal impact on reserves.

If you look at the data on MPL companies, you'll see that this business has been doing well for a period of time now. So, while tort reform may be a future issue—and it certainly has been in the past—right now, things look good for this business.

PI: Even when there is a rollback in tort reform, you can't help but wonder—if it's in place long enough, it might work to change the litigious culture in a state.

Spiegler: Yes. It's definitely true that any impact of a rollback happens slowly. It's not as if they just flip a switch, and all of a sudden everything is changed overnight. It takes years to filter through the system.

PI: Have your clients seen any moderation in indemnity increases?

Spiegler: Yes. They are telling us that they're seeing indemnity trends in the 3% range, rather than the 5% to 6% increases they experienced just a couple of years ago. But of course, that could change, too.

PI: Do your clients mention lowering trends in defense costs?

Spiegler: No, they say that the lower trends in indemnity don't necessarily transfer over to defense costs. They don't complain that they're going through the roof, but it's definitely something that they have to be concerned about, because it's a big component of their loss costs.

PI: In conclusion, do you have any overall concerns about PIAA companies?

Spiegler: The market still looks good right now. But I would be cautious, because the longer it looks good, the more likely it is that companies may start to underprice their product—and reverse all of the good things that have happened over the last few years. PIAA

> **"Lower trends in indemnity don't necessarily transfer over to defense costs."**