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A Conversation with David Spiegler, BMS Group Chief Actuary

BMS Group Chief Actuary David Spiegler takes a look at the latest financial numbers for the MPL industry, and offers some important insights based on what he's observed.

PI: What do the new data show us about frequency and severity—the number and the cost of claims?

Spiegler: They haven't changed a lot in the last couple of years. Frequency is still down, and severity is only modestly up. So loss ratios are staying relatively flat, despite the fact that premiums are going down.

PI: What sort of increase in severity is showing up? I've seen 3% to 4% in much of what I've read.

Spiegler: Yes, at BMS we're using about 4%, and the various client analyses that we conduct support that estimate.

PI: Are you seeing any trends in ALAE?

Spiegler: We are seeing that ALAE, both in aggregate dollars and as a percentage of loss, has been going up for several years now.

PI: Do you attribute that to any one factor, such as higher hourly rates for lawyers?

Spiegler: Certainly, higher hourly rates could contribute to this trend. However, it could be that MPL companies are fighting cases more aggressively now, so as a percentage of loss, the losses are going down but the expenses are going up—or some combination of these and other factors.

PI: Do you see any trends in states that have recently lost caps on non-economic damages?

Spiegler: Not yet. There's a bit of a lag between those things occur and it actually shows up in the data. It's certainly something that we would expect to happen in the next couple of years, though.

PI: Are there any trends emerging that you think might impact the way MPL companies do business?

Spiegler: The main ones we're seeing are related to the healthcare reform: for example, hospitals buying up physician practices. The effect on the MPL carriers is that some of their clients could potentially be going away, as they get pulled into the hospital programs.

PI: Is that showing up in the actual data yet?

Spiegler: We're still in the relatively early stages of this transition, so there is a lag before it shows up in the data. While there is a clear decrease in total premium for the PIAA companies each year since 2006, how much is related to rate decreases and how much may be related to former insureds moving under hospitals' umbrellas isn't clear.

PI: What about reserves releases? Did you notice a decrease?

Spiegler: Well, through the end of 2011, they kept going at a very strong pace. And it looks like there is still room for more releases, in 2012 and onward. The results keep coming in better than expected. We had done an analysis on a group of PIAA companies last year. And while we estimated that there was still a redundancy, based on the amount that was released during 2011, we would have estimated that the redundancy would have gone down quite a bit. But based on our updated analysis it didn't go down anywhere near as much as we would have thought. So there's still appears to be some fat in the reserves.

PI: Does this result from being very conservative about losses?

Spiegler: No, in fact our analysis attempts to project a best estimate of ultimate results, not trying to be optimistic or pessimistic. We were not trying to be conservative. Even on a relatively non-conservative basis, the results just keep coming in better than expected.

PI: And no one knows for sure the real basis for these results, right?

Spiegler: Right, no one really knows. It's largely speculation as to the causative factors involved. While frequency has clearly declined for an extended period of time, the reasons for this decline are not as clear. This trend has been going on for six or seven years now. Even though the rates have been coming down for a long time, the actual results continue to be profitable despite the declining rates.

PI: Sometimes I think that the MPL companies must be collectively holding their breath, with so many years of good results.

Spiegler: Yes, the more it goes on, the more you wait for the other shoe to drop, and the reverse to start to happen. But it's been going on for quite a while now.

PI: Is there anything in the data that your actuarial eye could discern, that might not be easy for spot for some other MPL professional?

Spiegler: Not really. My actuarial eye is just as surprised as that of any non-actuarial professional, at the way these results are coming in.

PI: Are there any cautionary words that you might use in advising a client?

Spiegler: What I would say is, don't be complacent, because these sorts of things do run in cycles. The industry tends to not react fast enough. So by the time losses start reversing themselves, and trends start going up, there tends to be a lag in reacting to that, and results will be bad for several years, just as they have been good for several years now.

PI: How have predictive models been working for MPL companies?

Spiegler: Not too many of the companies we see are actually using predictive models. And the ones that are doing predictive modeling aren't necessarily implementing what they see in the results.

PI: Is there some sort of disconnect here?

Spiegler: The companies have to exist in a marketplace, and what their modeling is telling them doesn't seem to make sense to them, so they tend to ignore it. Some of the bigger companies, though, are buying it, testing it, using it. But we don't see a lot of implementation, to date—in the MPL space, anyway.

PI: Is it that because the actuaries who use it are off some place separate from the rest of the company? Or is it some sort of cultural thing, or what?

Spiegler: I don't know that you could make any blanket statement about this. Each company has its own reasons for using or not using predictive modeling, how they use it and, when they do use it, whether they act on the results.

PI: Are there any case studies of companies that have used predictive modeling, and had better results?

Spiegler: I haven't seen actual, tangible proof of that. So I can't say for certain. To me, at the very least, it can help in the underwriting process, in terms of risk selection. Whether or not you change the way you structure and file rates, or anything of that nature, is a separate issue. Predictive modeling at minimum provides you with more information than you had before you used it.

PI: Do you have any last words for PI readers?

Spiegler: Just this: be careful, and make sure you react faster than the industry typically does, so that when things do change, you're prepared.

If you look at the numbers we produce, you'll see that the combined ratio has been going up for the last six years now. So what you ideally want to do is adjust your underwriting and your pricing, before it gets to that tipping point of unprofitability—as opposed to waiting till afterward.