

Arizona Department of Insurance

2014 Market Monitoring

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Medical Professional Liability

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I. Rate System:

Arizona's "open competition" law, applicable to medical professional liability ("MPL") insurance, prohibits insurers from charging excessive, inadequate or unfairly discriminatory rates, or rates that will destroy competition, or establish a monopoly. By statute, a rate is not excessive if "a reasonable degree of price competition" ("RDPC") exists. A competitive market is presumed to exist unless the Director of the Arizona Department of Insurance ("ADOI"), after a hearing, determines that a RDPC does not exist. In determining whether a RDPC exists, the Director is required to consider relevant tests of competition pertaining to market structure, performance, and conduct, including:

- The number of insurers actively engaged in the class;
- Insurers' market share and market share changes;
- The existence of rate differentials in a particular class; and,
- The ease of entry and latent competition of insurers capable of easy entry.

II. Market Monitoring Methodology:

The ADOI relies upon insurers' rate filings, annual statements, responses to an annual survey, current trade press, various studies published by interested parties, and, A.M. Best data to monitor the market. The annual statements provide the per-company, state-specific losses and premiums. Survey responses provide insurers' input about their activity in, and their perception of, the market. ADOI collects and compiles the data and statistics, analyzes all information, identifies trends, and summarizes its findings.

III. Annual Statement ("AS") Data:

On Line 11 of their AS "Exhibit of Premiums and Losses," insurers report Arizona MPL writings for the calendar year. Line 11, MPL, embraces all categories of MPL including, but not limited to: MPL for dentists, hospitals, nursing homes, physicians, etc. The compiled AS data for all these MPL segments evidence that overall in 2013:

- Premiums decreased and incurred losses increased.
- Sixty insurers reported some MPL written premium in their annual statements.
- Only 12 insurers wrote more than 1% of the market and 41 wrote \$100,000 or more.
- The number of insurers exiting and entering the market remained relatively stable.

Historical Experience (All Insurers Line 11, Annual Statement Data, Year Ending December 31)

	1	2	3
CY	Written Premium	Earned Premium	Paid Losses
2013	\$178,144,454	\$179,685,838	\$59,467,083
2012	\$180,686,775	\$184,479,144	\$64,310,967
2011	\$187,194,481	\$189,936,283	\$65,224,652
2010	\$203,441,319	\$207,692,788	\$61,359,239
	4	5	
CY	Incurred Losses	Incurred Loss Ratio (Col 4/ Col 2)	
2013	\$50,479,114	28.1%	
2012	\$39,430,172	21.4%	
2011	\$29,408,941	15.5%	
2010	\$48,147,416	23.2%	

The information above includes all MPL segments, although this summary focuses on Physicians and Surgeons ("PS") and Hospitals ("HOSP") segments, which constitute 76.7% of the reported premium in Line 11.

IV. Survey Responses:

Thirty-three insurers, with 100% of the market, responded to the 2014 survey. While the level of competition increased slightly in the PS market, competition in the HOSP market is extremely limited. The insurers reported the following information:

Table A: Historical Physicians and Surgeons Experience

1	2	3	4	5	6	7	8	9	10
CY	Written Premium	Policy Count for Active Insurers	Average Premium (Col 2/Col 3)	Paid Losses	# of Paid Losses	Average \$ Paid Claim Col 5/6	Incurred Losses	Incurred Loss Ratio	Combined Ratio
2013	\$135,552,582	8,309	\$16,314	\$45,935,804	178	\$258,066	\$42,747,558	31.1%	89.4%
2012	\$135,882,243	8,354	\$16,266	\$51,896,904	210	\$247,128	\$31,682,630	22.7%	68.5%
2011	\$143,819,901	8,301	\$17,326	\$51,589,592	185	\$278,863	\$22,383,041	7.6%	43.3%
2010	\$157,077,554	7,444	\$21,101	\$47,918,190	195	\$245,734	\$39,429,262	24.5%	74.2%
2009	\$162,609,256	7,038	\$23,104	\$53,474,034	152	\$351,803	\$83,587,384	51.7%	93.5%

Table B: Historical Hospital Professional Experience

1	2	3	4	5	6	7	8	9	10
CY	Written Premium	Policy Count for Active Insurers	Average Premium (Col 2/Col 3)	Paid Losses	# of Paid Losses	Average \$ Paid Claim Col 5/6	Incurred Losses	Incurred Loss Ratio	Combined Ratio
2013	\$1,036,115	2	\$518,058	\$1,460,219	5	\$292,044	-\$1,190,220	-120.1%	-47.5%
2012	\$986,705	8	\$123,338	\$1,275,764	5	\$255,153	\$1,370,346	134.6%	264.7%
2011	\$1,272,541	5	\$254,508	\$1,491,960	5	\$298,392	-\$526,035	-41.9%	-1.1%
2010	\$1,231,424	6	\$205,237	\$2,609,250	6	\$434,875	-\$3,871,795	-311.1%	-285.6%
2009	\$1,094,314	3	\$364,771	\$1,718,750	6	\$286,458	-\$3,914,451	-356.2%	-334.0%

Other survey results:

- **The majority of surveyed insurers said that:**
 - Price remains about the same in 2014 when compared to 2013.
 - PS and HOSP coverage availability remains about the same in 2014 when compared to 2013.
- **The majority of the surveyed insurers said that their particular company:**
 - Is not actively seeking new business (i.e., they may write it if it comes to them, but they will not seek it).
 - Did not increase the number of declinations or nonrenewals in 2013 as compared to 2012.
 - Has, historically, had neither high nor low underwriting profitability in MPL in Arizona.
 - Does not find obtaining reinsurance to be problematic.

V. MPL Market Trends:

Trend # 1: The market is extremely concentrated. The PS market is concentrated in the Mutual Insurance Company of Arizona ("MICA"). MICA's 2013 PS market share was 84.2% (85.2% in 2012). The Medical Protective Company ("MPC") lost market share (4.9%, 2013; 5.1%, 2012). Medicus Insurance Company ("MIC") gained market share (3.9%, 2013; 3.3%, 2012). Capson Physicians Insurance Company ("CPIC") also gained market share (0.5%, 2013; 0.4%, 2012). ProAssurance Indemnity Company ("PIC") entered the PS market in 2013. One CNA company, the Continental Casualty Company ("CCC") is the only admitted insurer that wrote HOSP policies in 2013. In 2013, five insurers controlled 97.7% (97.9% in 2012) of the PS market segment and one controlled 100% of the HOSP segment. With the exception of MICA, MPC, MIC, CPIC, PIC, and CCC other insurers only write certain classes of the market (e.g., only podiatrists; only hospice facilities, etc.).

Trend # 2. Rates remain stable. Between 1/1/13 and 6/30/14, insurers filed PS rate changes averaging -0.9% compared to -4.7% in the previous 18 month period. There were no HOSP rate changes filed in during the same period of time.

Trend #3. Overall incurred loss ratios increased. The 2013 all-company Arizona all-segment MPL incurred loss ratio of 28.1% is higher than 2012's 21.4%. Specifically, the incurred loss ratio of the PS segment was 31.1% up from 22.7% in 2012 and HOSP was -120.1% down from 134.6% in 2012. Due to an extremely small data base, the HOSP incurred loss ratio has very limited credibility. Severity continues to influence losses. Based on insurers' responses to the ADOI's survey, the average 2013 PS paid claim was \$258,066 (\$247,128, 2012) and \$292,044 (\$255,153 in 2012) for HOSP. PS frequency decreased (178, 2013; 210, 2012), while HOSP frequency was flat.

Trend # 4. Combined ratios ("CR") increased. CR is the total of the incurred loss ratio, loss adjustment expense ratio and the underwriting expense ratio and determines underwriting profitability. The 2013 PS CR of 89.4% is up from 68.5% in 2012, while the 2013 HOSP CR of -47.5% is down from 264.7% in 2012. Evaluation of this trend requires considering the limited HOSP data base and the long-tail nature of the MPL line of insurance.

Trend # 5: Insurers continue to restrict writings. In 2013, the majority of insurers reported that they will

remain relatively conservative in their MPL underwriting approach and limit writings accordingly. This response is the same as given in previous surveys. This is not to say, however, that these same insurers could not immediately chose to begin writing. They remain licensed in the state and most of them have forms and rates on file with the ADOI that could be used without delay.

Trend # 6: Coverage availability is limited. PS and HOSP coverage is generally still available, but only through a limited number of insurers. MICA, MPC, MIC, CPIC, and PIC will write PS business, and six other insurers limit their writings to one or two specialties. CCC is the only admitted insurer positioned to write new HOSP business.

Trend # 7: The number of insurers exiting the market remains stable. Eleven insurers had PS written premium in 2013, down from 12 in 2012. Of these 11 insurers, the Top Five remained the same for the past four years, and they remained in the same market position order in 2012 and 2013. Fair American Insurance and Reinsurance Company and PIC entered the PS market in 2013, while National Union Fire Insurance Company of Pittsburgh, PA, Anesthesiologists Professional Assurance Company and American Casualty Company of Reading PA exited. Exits can involve merely curtailing new business writings and/or nonrenewing existing business. Therefore, "exits" are, in fact, self-imposed moratoriums. The reason(s) for the moratorium is particular to each insurer and cover a range of causes (e.g., mergers, acquisitions, losses, changes in business philosophy, etc.).

One insurer (CCC) wrote HOSP risks in both 2012 and 2013.

VI. Conclusions:

Both the PS and HOSP segments are markets with limited competition, concentrated in a few insurers and rates that have stabilized. While PS loss ratios deteriorated, HOSP loss ratios improved. While HOSP loss ratios improved, limited credibility can be given to this trend due to the extremely limited data base. Only a few insurers are writing new business without limitations in all classes and types of risks. Coverage is available on a limited basis as most insurers continue to restrict their writings. The number of insurers exiting the market remained stable and PS coverage remains more available than HOSP coverage. Most insurers are not changing their PS and HOSP rates.