

**THE MEDICAL MALPRACTICE
INSURANCE CYCLE:
EVIDENCE, CAUSES, SOLUTIONS**

JAY ANGOFF
Of Counsel

Roger Brown & Associates
216 East McCarty Street
Jefferson City, Missouri 65101
(573) 634-8501
jay@angofflaw.com

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P/C Industry Results, 2004 and Q1 2005

- **2004 Profits--\$38.7 billion (all-time high)**
- **2004 Surplus--\$394 billion (new high)**
- **Q1 2005 Profits--\$17.3 billion (new high)**
- **Q1 2005 Surplus--\$402 billion (new high)**

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Cause No. 1: Changes in interest rates and stock market performance

- **Particularly significant for medical malpractice because of 6-year lag**
- **Particularly severe today because of both poor stock market performance and low interest rates**

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Cause No. 2: Changes in the cost of reinsurance

- Rates already rising before September 11
- September 11 and its aftermath made a bad situation much worse

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Cause No. 3: The insurance industry's unique accounting system

- “Incurred losses” are estimates of future losses, not actual payments
- “Incurred loss” estimates are always inaccurate
- Business reasons to overstate incurred losses:
 - Support rate increase
 - Reduce tax liability
- Business reasons to understate incurred losses:
 - Increase earnings
 - Increase surplus

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Cause No. 4: The insurance industry's antitrust exception

- **Allows insurers to act collectively to:**
 - **Overstate incurred losses**
 - **Raise premiums**
- **Allows ISO to publish “advisory” rates and
“advisory” loss costs**

CHART 1

Loss Ratios¹ 1991-2004: Iowa vs. Countrywide

<u>Year</u>	<u>Countrywide</u>	<u>Iowa</u>	<u>Iowa as a % of Countrywide</u>
1991	80.84	53.18	66%
1992	103.18	41.41	40%
1993	90.36	65.25	72%
1994	74.67	24.51	33%
1995	79.59	81.04	102%
1996	83.60	63.73	76%
1997	78.41	117.52	150%
1998	97.17	41.37	43%
1999	103.55	82.97	80%
2000	106.01	63.65	60%
2001	126.83	94.57	75%
2002	128.74	67.79	53%
2003	134.68	112.51	84%
2004	91.12	62.39	68%
Average 1991-2004:	98.48	69.42	70%

Source: National Assoc. of Ins. Commissioners, Countrywide Summary of Medical Malpractice Insurance 1991-2004, updated 6/27/05.

¹ Loss Ratio = estimated future claims and expense payments divided by premiums earned.

CHART 2

**Medical Malpractice, Iowa vs. Countrywide, 1994-2003:
Alternate Measures of Profitability**

<u>Profitability measure</u>	<u>Countrywide</u>	<u>Iowa</u>	<u>Iowa as a % of Countrywide</u>
Pure loss ratio: ¹	74.1	58.2	79%
Return on net worth:	5.8	11.7	202%

¹ Pure loss ratio = estimated future claims payments divided by premiums earned.

CHART 3

**Profitability of Iowa Medical Malpractice Insurance vs. Other Types
of Insurance in Iowa, 1994-2003**

<u>Type of Insurance</u>	<u>Loss ratio</u>	<u>RONW</u>
Private Passenger Auto Liability	64.4	9.0
Private Passenger Auto Physical	68.8	2.5
Private Passenger Auto Total	66.4	6.8
Commercial Auto Liability	66.3	8.0
Commercial Auto Physical	68.0	2.8
Commercial Auto Total	66.9	6.7
Homeowners Multiple Peril	82.6	(10.3)
Farmowners Multiple Peril	79.1	(2.7)
Commercial Multiple Peril	75.7	(0.3)
Fire	64.9	9.7
Allied Lines	68.8	11.6
Inland Marine	60.8	9.9
Medical Malpractice	58.2	11.7
Other Liability	43.7	18.4
Workers Compensation	68.0	9.1
<u>All Other</u>	<u>51.6</u>	<u>21.5</u>
Total All Lines	65.2	8.8
Medical Malpractice as % of All Lines:	89%	133%

Source: NAIC, Report on Profitability By Line By State in 2003 (2004).

CHART 4

2003 Premium¹

<u>Specialty</u>	<u>PIC Wisc.</u>	<u>ProNat¹</u>	<u>Midwest Medical</u>	<u>Avg. net compensation²</u>	<u>Midwest Medical premium as % of net compensation</u>
Internal Medicine	\$5,020	\$7,417	\$5,654	\$159,056	3.5%
General Surgery	\$20,638	\$18,283	\$20,469	\$310,515	6.6%
OB/GYN	\$33,467	\$27,332	\$41,073	\$275,431	14.9%

¹ Source: Medical Liability Monitor, 2003 Annual Rate Survey, Oct. 2003.

² American Medical Group Association, 2003 Medical Group Compensation and Productivity Survey (2003).

CHART 5

**Midwest Medical Insurance Company, Iowa Business, 2003-2004
(in \$ millions)**

	<u>2003</u>	<u>2004</u>
Earned premiums	\$26.3	\$34.9
Incurred losses	\$13.2	\$17.0
Ratio	50.2%	48.7%
Written premiums	\$28.5	\$36.0
Paid losses	\$11.3	\$11.2
Ratio	39.6%	31.1%

Source: Midwest Medical Insurance Company 2003 and 2004 Annual Statements, Schedule T.

CHART 6**Physicians Insurance Company of Wisconsin, Iowa Business, 2003-2004
(in \$ millions)**

	<u>2003</u>	<u>2004</u>
Earned premiums	\$16.3	\$19.5
Incurred losses	\$8.6	\$7.4
Ratio	52.8%	37.9%
Written premiums	\$19.0	\$19.8
Paid losses	\$.9	\$1.6
Ratio	4.7%	8.1%

Source: Physicians Insurance Company of Wisconsin 2003 and 2004 Annual Statements, Schedule T.

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**Proposed Solutions: Eliminate quirks in IA
law**

- **Permit consideration of investment income on surplus in ratemaking (515F.4(5))**
- **Make filings public when filed, not after they become effective (515F.5(1)(d))**

Proposed Solutions: Give commissioner more authority over proposed malpractice rate increases

- **Establish objective standards insurers must follow in setting rates**
- **Authorize commissioner to order refunds**
- **Require commissioner's approval for proposed rate increases**

Proposed Solutions: Give policyholders more power

- **Enable doctors to obtain malpractice quotes at DOI website**
- **Authorize AG, Public Advocate, and/or private parties to challenge rate increases**