

Medical Malpractice

Presentation to House Judiciary Tort Reform Ad
Hoc Study Committee of South Carolina

Jim Hurley, ACAS, MAAA

Chairperson

Medical Malpractice Subcommittee



Medical Malpractice

- **Purpose — To Discuss**
 - Overview of financial results
 - Ratemaking
 - Tort reform

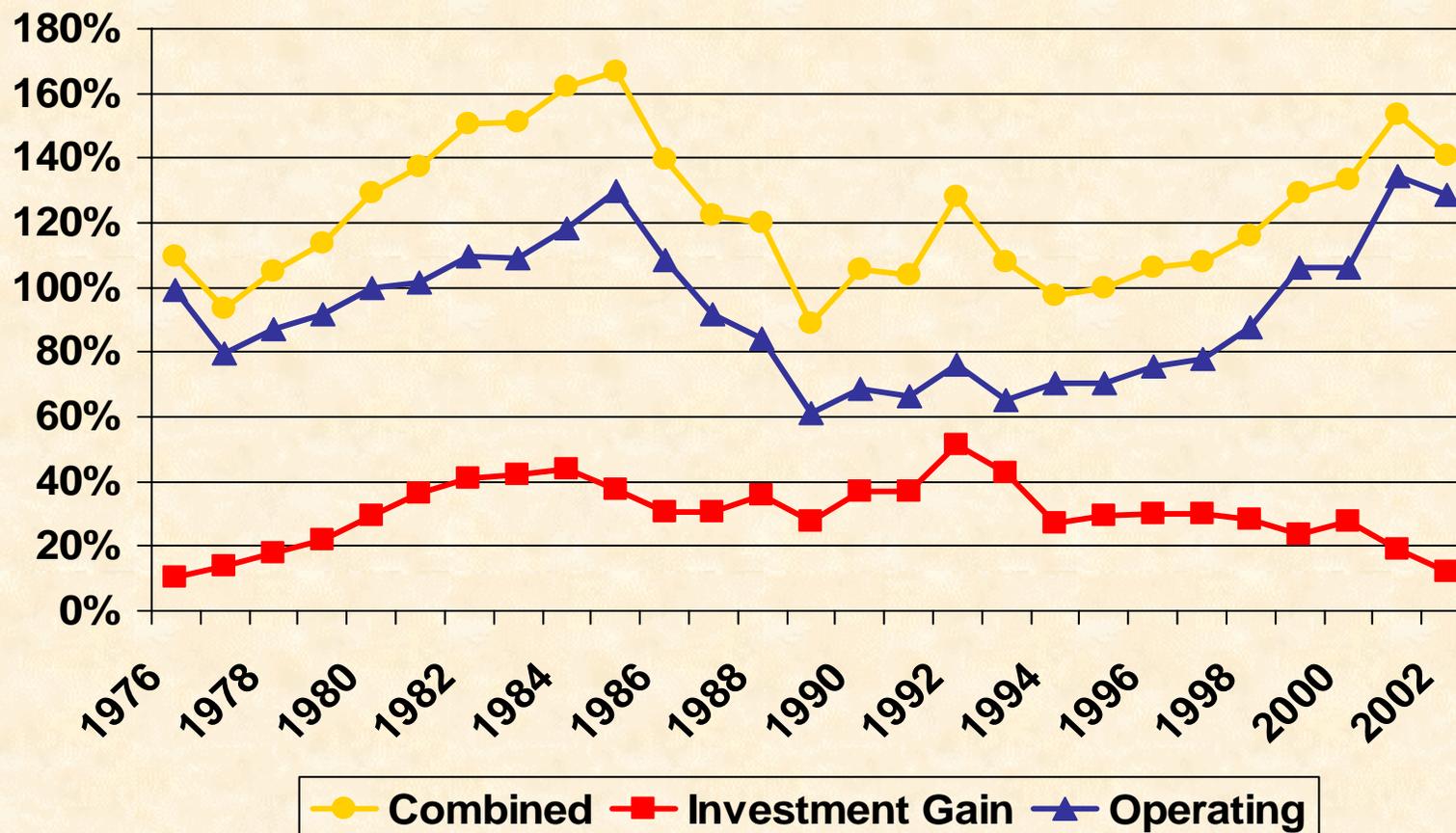


Medical Malpractice

- **Insurance Industry — A.M. Best**
 - Combined ratio: 130% → 153% → 141% (est)
 - Operating ratio: 106% → 134% → 128%
- **Industry Has Changed**
 - Significantly populated by “specialty” insurers
 - Many provider-owned/operated



Medical Malpractice



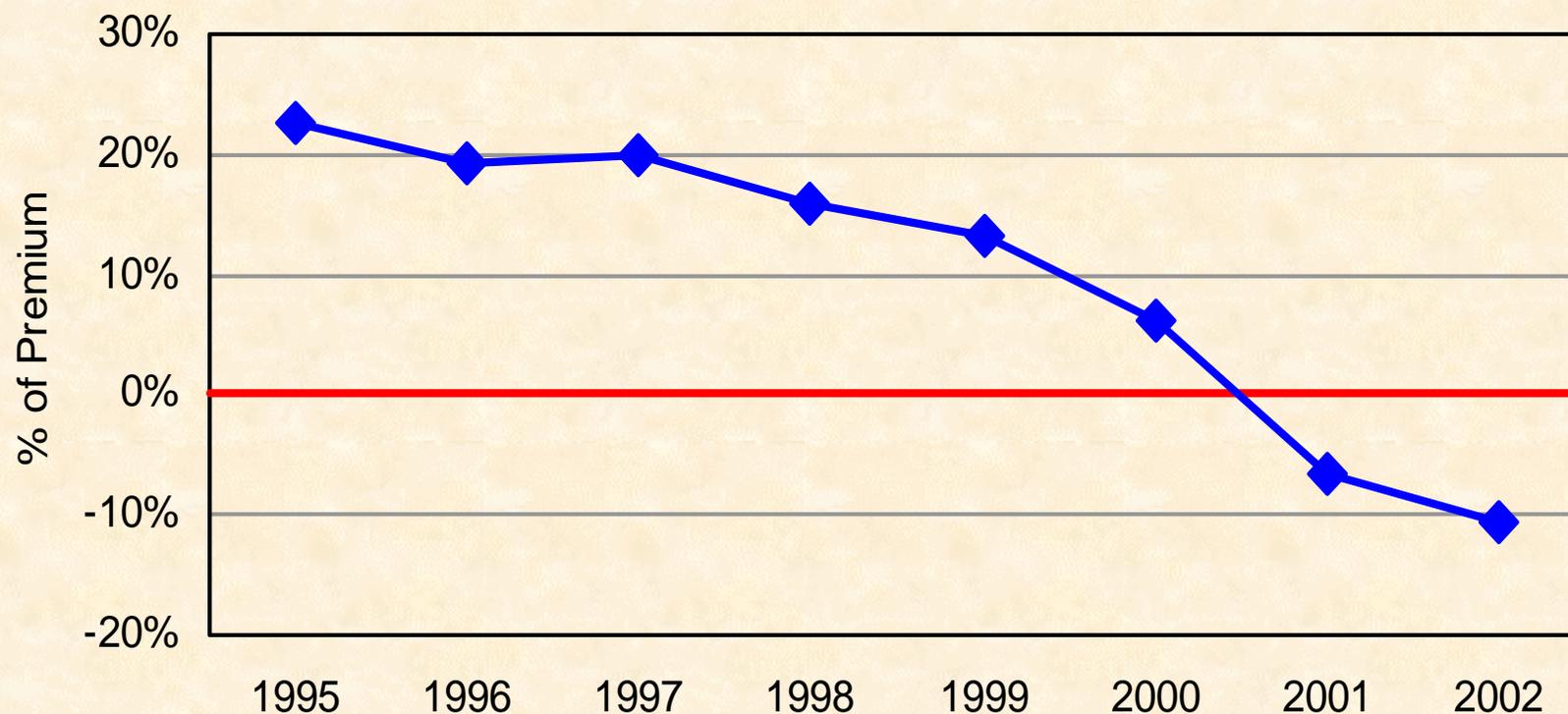
Medical Malpractice

- **Recent Financial Results (29 companies)**
 - Drivers
 - How did it happen?



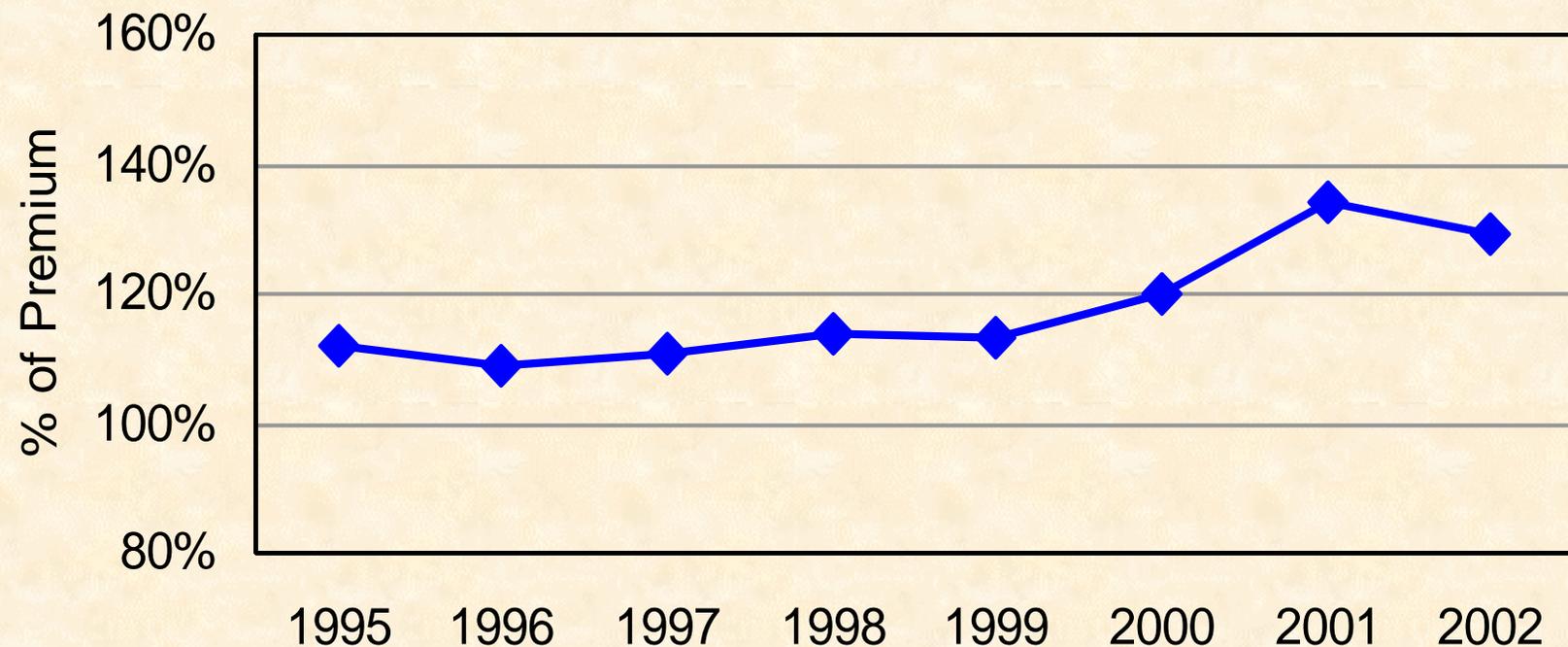
Medical Malpractice

- Calendar Year Operating Results Turn Negative



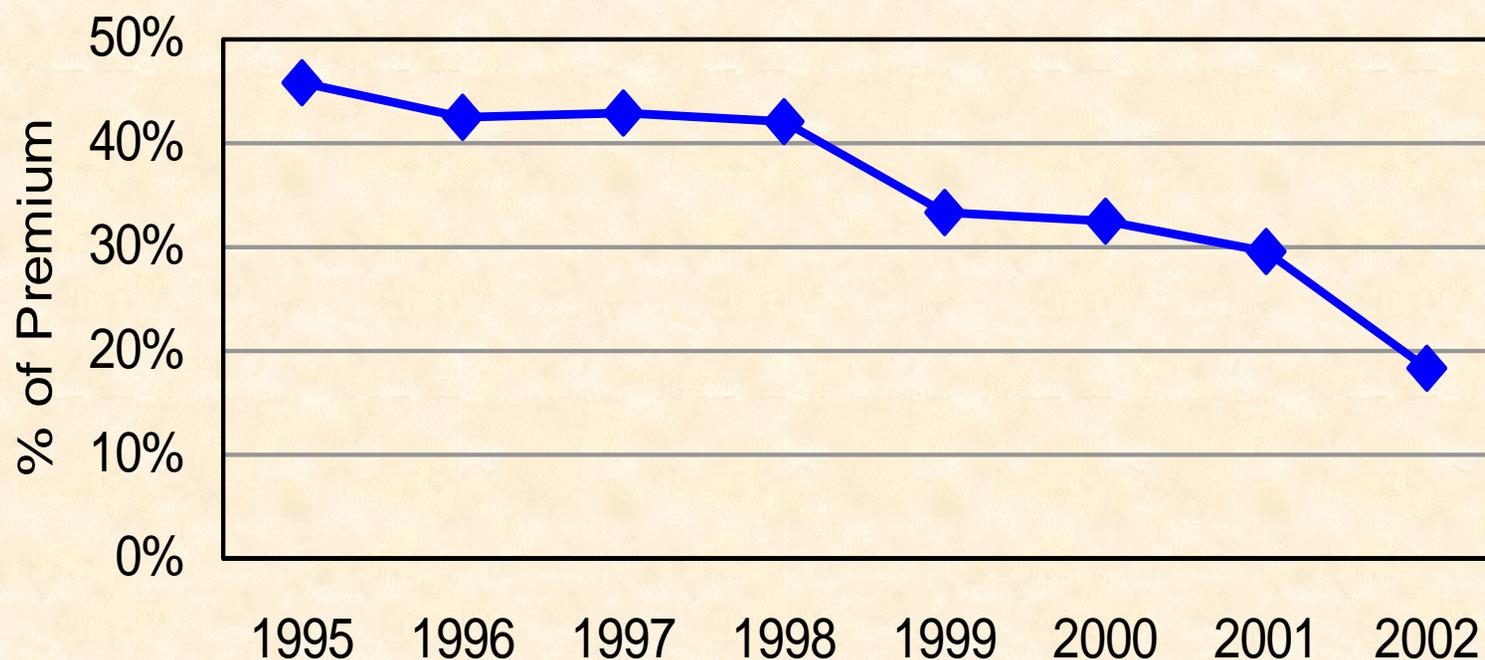
Medical Malpractice

■ Driver #1 - Combined Ratio



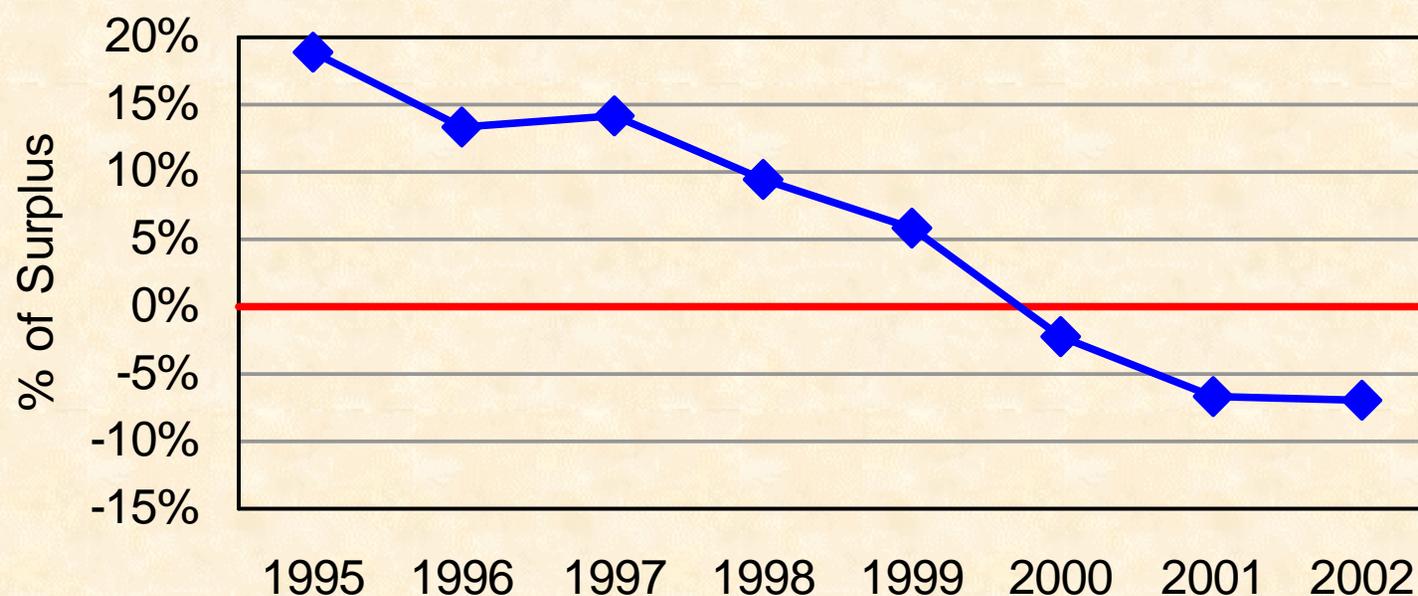
Medical Malpractice

- Driver #2 - Investment Income Declines



Medical Malpractice

- Capacity - Surplus Change Turns Negative



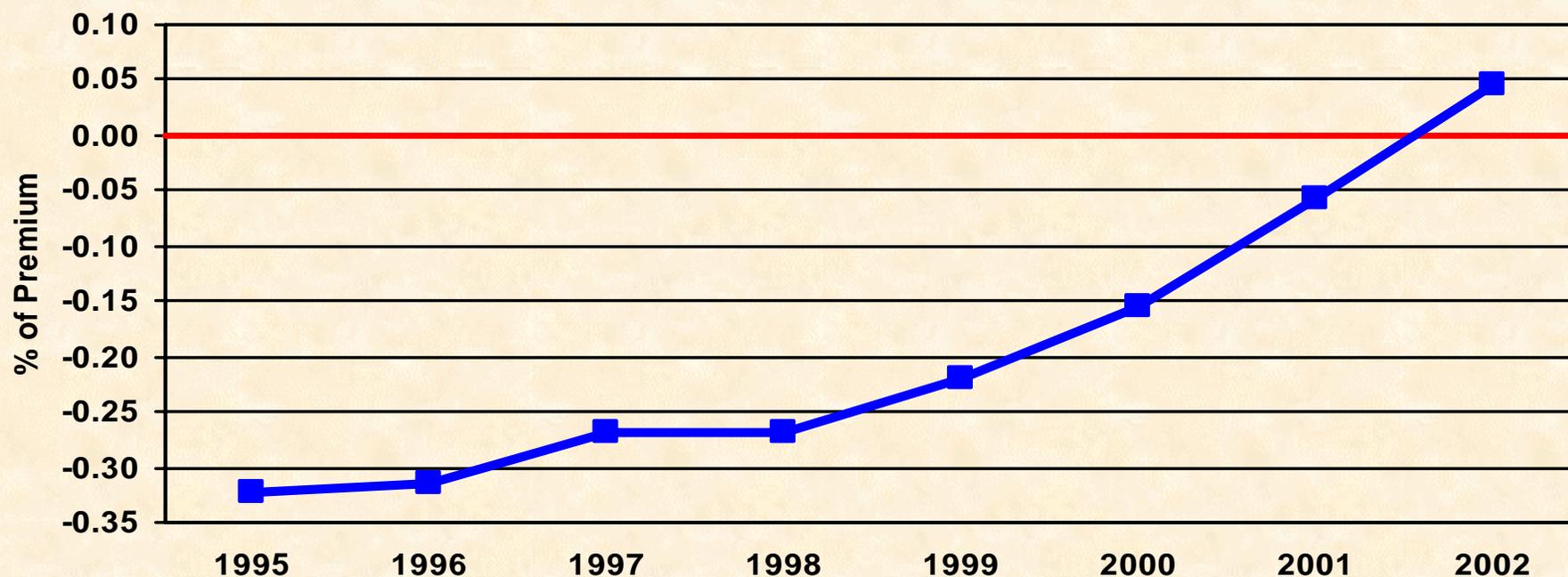
Medical Malpractice

- How...?
 - Flat rates during the 1990s
 - Low loss cost trends
 - Favorable reserve development (see graph next page)
 - Spread in bond yields vs. inflation, equities
 - Compete/expand (mid 90s)
 - Trends pick up (late 90s)
 - Reserve development turns negative (2000+) (see graph next page)
 - Bond yields/equities fall
 - Reinsurance



Medical Malpractice

- Reserve development from favorable to unfavorable



Medical Malpractice

- What About Rates?
 - Loss driven
 - Prospective
 - No recoupment
 - Impact of investment income



Medical Malpractice

- Tort Reform — Academy 1996 Study
 - Coordinated package
 - Keys: Non-economic cap (low enough) and mandatory collateral source
 - Caveats
 - immediate rate reduction
 - mitigate rate increases
 - make loss environment more predictable
 - poor reforms could cause increases



Medical Malpractice

- Questions ??



American Academy of Actuaries

- The American Academy of Actuaries is the public policy organization for actuaries of all specialties within the United States. In addition to setting qualification standards and standards of actuarial practice, a major purpose of the Academy is to act as the public information organization for the profession. The Academy is nonpartisan and assists the public policy process through the presentation of clear actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal and state elected officials, regulators and congressional staff, comments on proposed federal and state regulations and legislation, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualifications and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

