

Fast Facts Contributing to a Difficult Liability Environment

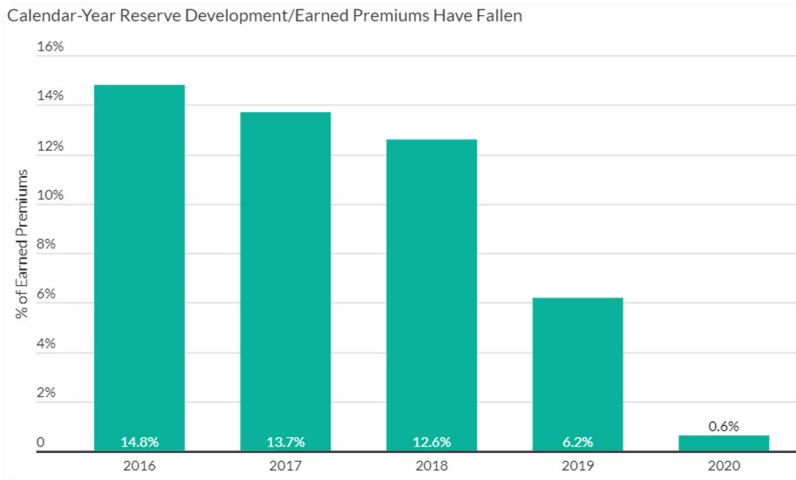


ILLUSTRATION 1: Source: Fitch Ratings, July 20, 2021

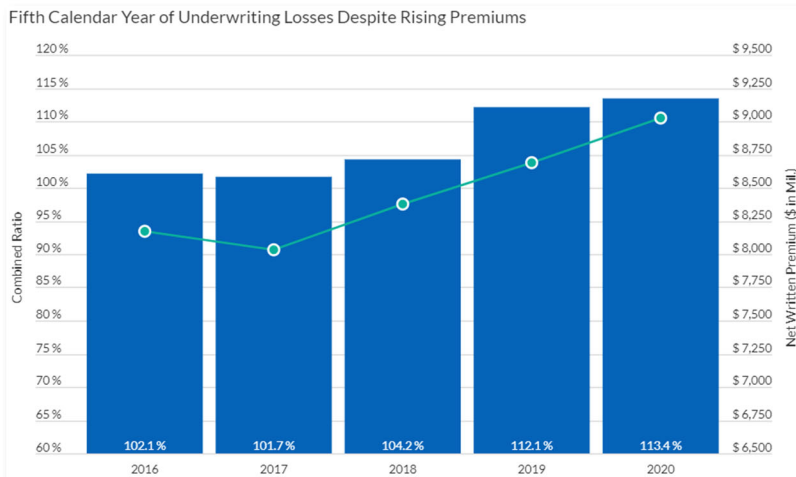


ILLUSTRATION 2: Source: Fitch Ratings, July 20, 2021

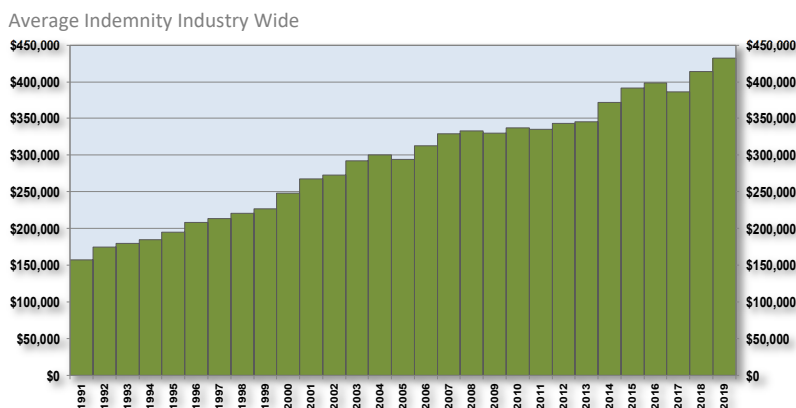


ILLUSTRATION 3: Source: Milliman analysis of National Practitioner Data Bank Public Use File, December 31, 2019

Overall National Performance

Citing fading prior year loss reserves (\$111.4M in 2020ⁱ -- see Illustration 1) and new pandemic-related concerns affecting results, 2020 marked the fifth consecutive year that the medical professional liability insurance (MPLI) segment experienced underwriting losses. Overall, MPLI Industry incurred \$1.14B in underwriting losses in 2020ⁱⁱ.

There is an ongoing trend of higher severity in losses (as seen in the increase multi-million-dollar verdicts). As a result, the Combined Ratio for the entire MPLI Industry was 113% in 2020 (see Illustration 2), meaning that for every \$1.00 in premium the industry paid \$1.13 in losses and expenses.ⁱⁱⁱ

Since 1991 there has been a steady increase in the frequency and severity claims with the average indemnity skyrocketing from \$150 thousand to more than \$425 thousand (see Illustration 3) – this average does not include ever-increasing cost of defense.^{iv} Malpractice payments of \$1M or more have accounted for greater than 40% of total MPL payments during the last three years. Payments of \$2M or more accounted for more than 20% of total payments in 2019 for the first time.^v

Local Data

Physicians Insurance’s experience shows an increase in severity of claims beginning in 2016 (see Illustration 4). The blue line represents the percentage of claims resolving for more than \$1M and the orange line represents the percentage of claims resolving for more than 2M. In less than four years, the number of claims settling for more than \$1M and \$2M jumped 100% and 300% respectively. For just Washington and Oregon (see Illustration 5) the changes range between 30%-400%.

According to the National Practitioner Databank, the number of payments in excess of \$2M have increased nationwide and hit a record high of the total number of MPL payments in 2020.^{vi} And this national data is being reflected locally.

Claims Payments Greater Than \$1M and \$2M

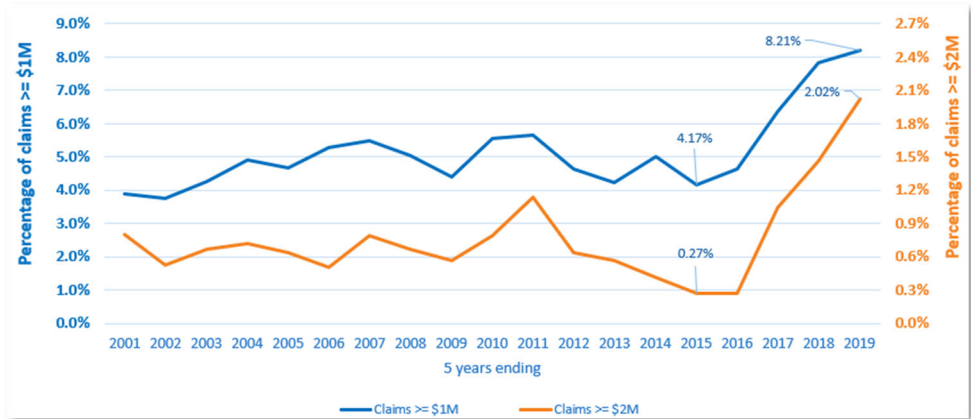


ILLUSTRATION 4: Source: Physicians Insurance A Mutual Company

Changes in Paid Indemnity | Oregon and Washington States

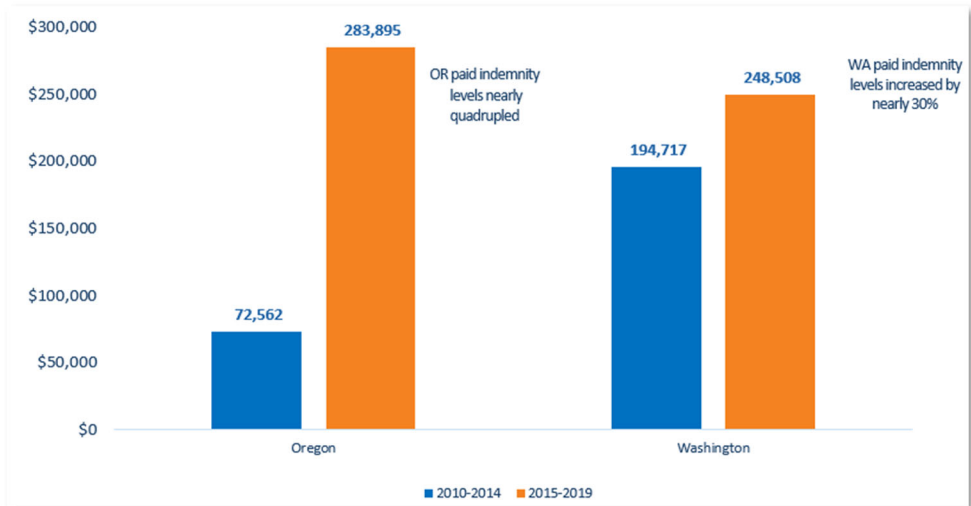


ILLUSTRATION 5: Source: Physicians Insurance A Mutual Company

In the fifteen-year period from 2005 through 2020 Physicians Insurance only had 12 Plaintiff verdicts and 142 defense verdicts in public trials. That’s a 94% defense win rate – and doesn’t include Plaintiff verdicts where we successfully managed costs and litigated indemnity payments well below the demand. Yet, the cost to defend a claim has increased by nearly 50% since 2007. In short, not only are claims resolving for more indemnity (the sum of money paid out in the claim), but it is also costing more to defend them.

ⁱ MLM Webinar: *Social Inflation, Nuclear Verdicts, and COVID-19: How to Mitigate Their Effects on MPL Claims Severity, Rate Increases and Your Bottom Line*; August 24, 2021.

ⁱⁱ MPLA MLM Webinar: *Social Inflation, Nuclear Verdicts, and Covid 19* 8/24/202

ⁱⁱⁱ 7/20/21 Fitch Ratings MPLI Providers Underwriting Losses Mount Despite Pricing Improvement

^{iv} Milliman analysis of National Practitioner Data Bank Public Use File, December 31, 2019

^v MPLA MLM Webinar: *Social Inflation, Nuclear Verdicts, and Covid 19* 8/24/202

^{vi} MLM Webinar: *Social Inflation, Nuclear Verdicts, and COVID-19: How to Mitigate Their Effects on MPL Claims Severity, Rate Increases and Your Bottom Line*; August 24, 2021.