In the paragraphs and charts below, we summarize some key financial results for a composite of medical professional liability (MPL) specialty writers through the second quarter of 2018. By comparing historical second-quarter financial results to historical annual results and taking recent trends into consideration, we are afforded an indication of where 2018 annual financial results might fall. Through six months, some recent positive trends continue as the volume of written premium continues to outperform 2017 and investment income continues to remain strong. On the other hand, the favorable reserve development, which has been a driver of the long run of profitability for MPL writers, appears to be vanishing while MPL combined ratios continue to rise.

Our analysis is based on the collective financial results of a large group of insurers specializing in MPL coverage. The data used in our analysis dates back to 2002 and consists of aggregate statutory financial information compiled from S&P Global Market Intelligence. The current composite includes 169 MPL specialty companies with 2017 total direct written premium of approximately $5.1 billion.

**Written Premium Rising**

The 12-year decline in direct written premium finally reversed course in the first quarter of 2018 and second quarter premium levels have followed suit. The composite brought in $102 million (3.6 percent) more premium through six months than through the first six months of 2017 (see Figure 1). This is the largest year-over-year increase in written premium since December of 2005.

**Reserve Releases Dwindling**

The composite’s 2018 favorable reserve development through six months dropped when compared to each of the past 12 years (See Figure 2). Just $36 million worth of reserves were released during the first half of 2018, compared to an average of nearly $250 million during the past 12 years. While annual MPL reserve development is largely dependent on fourth quarter reserve adjustments made in preparation for year-end financial statements, Figure 2 illustrates that the amount of reserves released through six months provides a glimpse as to how the reserves will develop during the final six months of the year. If recent relationships continue in 2018, MPL specialty writers will see the lowest annual favorable reserve development in 12 years by a wide margin.

**Combined Ratios Continue to Climb**

Related in part to the reduction in reserve redundancies, the composite’s combined ratio through the second quarter rose for the third straight year to 112 percent — its highest mark in 15 years. Figure 3 compares the composite’s second quarter combined ratios to its year-end combined ratios since 2002. From this graph, the impact of the composite’s favorable reserve development during the latter half of the year is apparent.

From 2005 to 2017, second quarter combined ratios dropped by an average of more than 10 points by year-end. These reserve releases, until recently, helped turn what may have been unprofitable underwriting years into profitable years. The anticipated downturn in reserve

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**Figure 1**: Direct Written Premium — Q2 vs Full Year ($Millions)

**Figure 2**: Cumulative Reserve Development — Q2 vs Full Year ($Millions)
releases could place upward pressure on the 2018 combined ratio. Recent drops in the amount of favorable reserve development in 2012 and 2015 led to five- and six-point increases in the composite’s annual combined ratios, respectively.

**INVESTMENT GAINS FUEL PROFITS**
The composite’s investment gain (investment income plus net realized capital gains) as of the second quarter increased for the third straight year (see Figure 4). This is an increase of 5.1 percent relative to 2017 and continues the upsw ing in investment performance, which began near the end of 2016. As the composite’s investment performance continues to improve and its underwriting performance continues to deteriorate, the composite’s profitability has turned into a struggle between these two conflicting forces.

Thus far, the upward pressure on net income from the composite’s strong investment performance is exceeding the downward pressure from the composite’s underwriting performance. As Figure 5 shows, the composite’s 2018 second quarter net income is slightly lower, but comparable to 2017. However, if relief from favorable reserve development never shows, in 2018 or in future years, we will likely see a downward trend in the composite’s net income unless underwriting results improve or investment income continues to rise.

**CONCLUSION**
The development commanding the most attention in the 2018 MPL market thus far is the lack of reserve releases relative to prior years. It is possible that companies have delayed these releases in 2018 for various reasons, or possibly that the reserve redundancies from which the MPL market has benefitted for better than a decade have run their course. The concern if the latter is true is the impact this would have on the already underperforming underwriting results. Keeping this concern in check, however, are robust investment results, high levels of capital, and another quarter of increasing premium volume.

In any regard, at the half-way point of 2018, MPL specialty writers appear on track for yet another year of profitability.

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