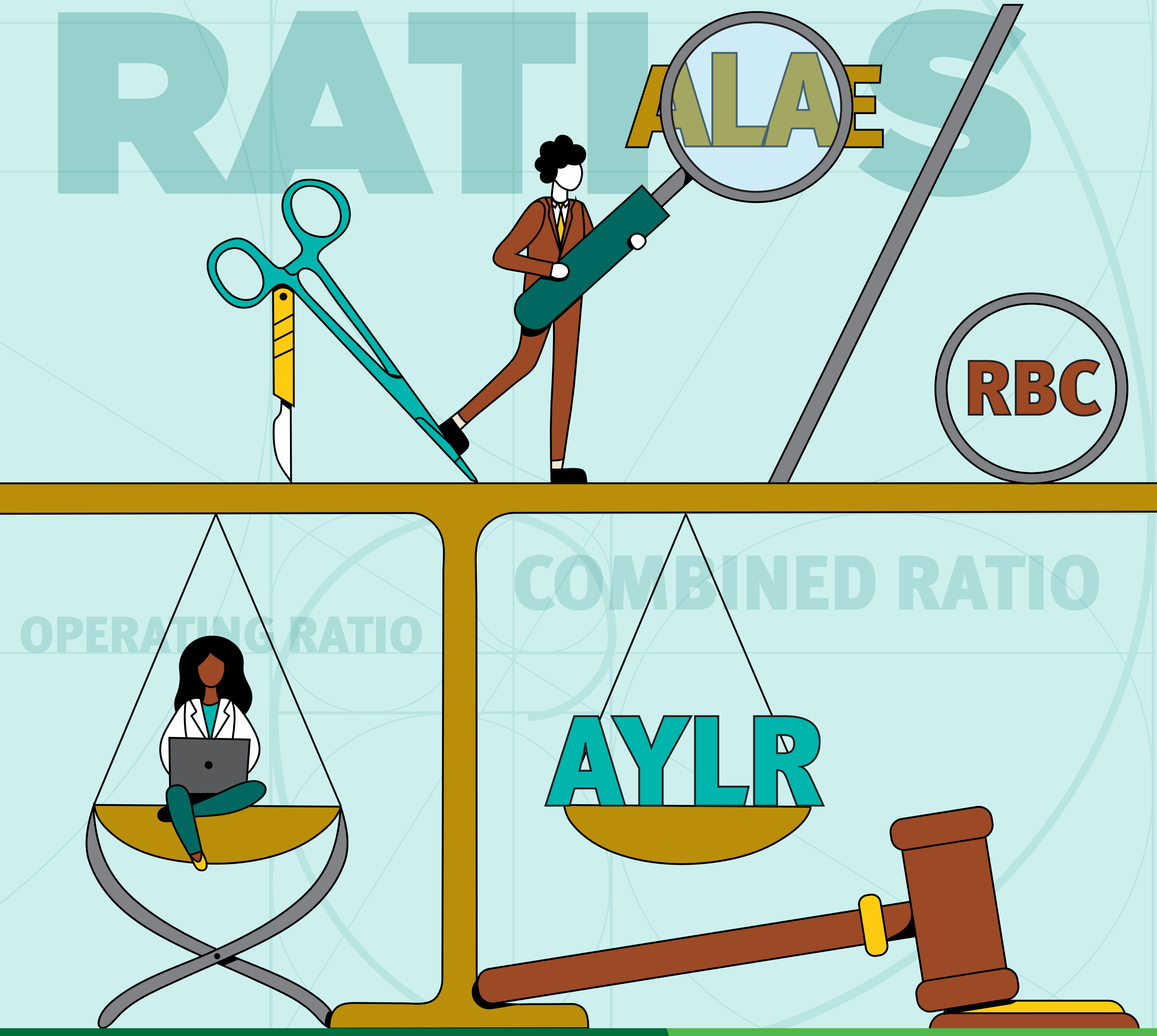
ProAssurance
NORCAL GROUP

provisions



RATIOS

TALKING POINTS

For **public companies**, there is typically **little variance** in **expense ratios** year-over-year. ProAssurance focuses on the **combined ratio and loss ratios,** among others, as a means of evaluating **financial stability**.

- ProAssurance prioritizes writing profitable business at generally sustainable rates by applying warranted rate increases at the account level, rather than in a program or state, to balance retention and risk.
- There is no single metric that can tell the entire story of an insurance company's prospective underwriting results, but the accident year loss ratio can often be a leading indicator.
- As a publicly traded company, ProAssurance balances its capital needs and the financial strength of our insurance companies, which often means operating at a narrower risk-based capital margin.

A Word on Our Issue

Ratios—the Metrics that Define Our Industry

While any business relies on ratios and metrics to define success, insurance uses this information to refine the product—ensuring pricing is appropriate to maintain sufficient reserves to address any claims associated with our policies.

Those familiar with other types of property/casualty insurance are generally familiar with key metrics such as loss ratios, expense ratios, combined ratios, and the like. But the long-tail nature of medical professional liability insurance adds increased complexity in how these figures are evaluated.

In this issue, we asked ProAssurance thought leaders to select a ratio that they monitor closely and provide additional color on why they consider those metrics important, how they define success, and how those ratios impact decision-making. We hope this will provide some insight on our business processes—further promoting quality communication between ProAssurance employees and our agency partners.

Like our issue on "the difference" in February, which highlighted the nuance between key industry terms, we hope this will serve as an educational tool for your teams. We have received feedback that educational materials you can use as part of your onboarding process are helpful in your efforts to grow and maintain your agencies.

If there are other insurance topics you would like us to cover from an educational perspective, please let us know. Content suggestions are welcome via AskMarketing@ProAssurance.com.

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ProAssurance. Treated Fairly

__ProVisions__ is ProAssurance's monthly agent magazine. If you or your colleagues do not receive the digital version, email __AskMarketing@ProAssurance.com__. Please include names and email addresses for everyone who would like to subscribe.

MPL RATIOS

Touchstone Ratios in MPL

Some of the most important ratios for quantifying the financial health of an insurance company include expense ratio, loss ratio, combined ratio, and operating ratio. These ratios each offer a different lens for viewing a carrier's operations, even as they intersect in various ways. They provide a broad set of ratios that fit together to provide insight into the performance of an insurance company and include critical financial and underwriting metrics including losses, expenses, premiums, and investment income.

For most lines of insurance (and especially for publicly held companies like ProAssurance), the combined ratio is often seen as the basic touchstone for performance. As a combination of loss ratio and expense ratio, a combined ratio below 100% represents an underwriting profit, and rating firms such as AM Best see this as a key benchmark when evaluating insurance companies. It's important to note, however, that investment income tends to be higher for MPL companies than for carriers in other lines because of the long duration between receiving premiums and paying out claims.

This "long tail" allows investments more opportunity to grow. Since this potential for higher investment income tends to help offset losses, AM Best will generally accept a higher combined ratio for MPL companies as long as their operating ratios are around or below 100%.

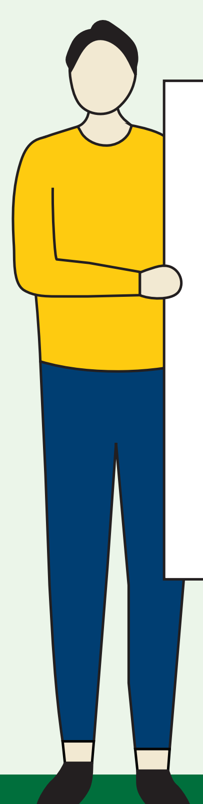
Expense ratios typically don't vary much year-over-year, but managing expenses is critical as it is the only metric that is 100% within our control. Differentiation in the expense ratio can reflect competitive advantages. A major component of the expense ratio is the commissions paid to agency partners. These commissions account for about one third of the expense ratio in MPL companies. This addition is much lower for direct writers that do not pay commissions providing them with an expense advantage. The disadvantage of writing directly is that growth is usually very slow. Our focus, though, is more on our combined ratio (which includes the expense ratio and loss ratio). The loss ratio is driven by the costs to manage claims reported to us and the cost of claims resolution via settlement, verdict, or closure without payment.

As the sum of the combined ratio (loss ratio plus expense ratio) minus the net investment income ratio (investment income divided by earned premium), the operating ratio is therefore the most all-encompassing of the ratios used in the industry and often a better tool for assessing an MPL company's performance than the other ratios. It is certainly the primary metric driving decision-making in mutual MPL companies. Thus, a combined ratio over 100% can yield an operating ratio of less than 100% after consideration of investment income. That would mean that the company has positive net income despite the higher combined ratio.

So changes in the loss environment that increase the number of claims reported to us (the frequency) or the cost of those claims (the severity) can negatively impact the combined and operating ratio performance of the company. Uncontrolled expenses or higher commission payments will increase the expense ratio. The level of external interest rates has a direct effect on our investment income changing the magnitude of the investment offset to underwriting performance. For example, in the last several years investment yields have been very low on average in the conservative (mostly bonds) portfolios of insurance carriers. As interest rates now start to rise, we will experience an increase in investment yields which will improve our operating performance (operating ratio) given a constant combined ratio.

Rob Francis
Executive Vice President, Healthcare Professional Liability

> "The operating ratio is therefore the most all-encompassing of the ratios used in the industry."



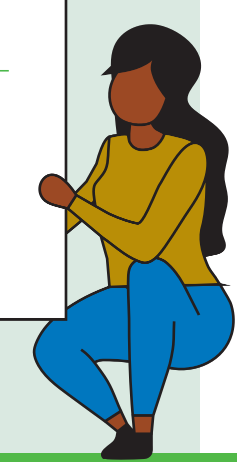
NET INVESTMENT INCOME RATIO = $\frac{\text{INVESTMENT INCOME}}{\text{EARNED PREMIUM}}$

COMBINED RATIO = LOSS RATIO + EXPENSE RATIO

OPERATING RATIO = COMBINED RATIO - NET INVESTMENT INCOME RATIO

LOSS RATIO = $\frac{\text{INCURRED LOSSES} + \text{LOSS ADJUSTMENT EXPENSE}}{\text{EARNED PREMIUMS}}$

EXPENSE RATIO = $\frac{\text{UNDERWRITING EXPENSES}}{\text{EARNED PREMIUMS}}$



DIGITAL MARKETING RATIOS

Are you maximizing the value for your digital marketing investment?

Your engagement ratio measures the number of people who saw your content versus those who engaged with the content.

Of course, there is a spectrum for what "engaged with the content" can mean. Reading an article, hitting the like button, sharing something with colleagues, stopping at a trade show booth—anything that involves interacting with your brand could be used to define your engagement ratio. To avoid wasting time and resources, it's important to determine your goals so you don't get bogged down in data that isn't going to serve you well.

ALL INDUSTRIES
—Overall Average

29.87% OPEN RATE

1.32% CLICK RATE

FINANCIAL SERVICES
(Accounting, Bookkeeping, Advisors, Insurance, etc.)

22.01% OPEN RATE

0.76% CLICK RATE

How we define success

You've probably heard Steve Dapkus, Vice President of Marketing, say his department's goal is to raise awareness and improve sentiment. Do more people know about ProAssurance than they did previously? And, do the people who know about us like us more?

We go after that goal in a variety of ways—traditional advertising, social media, trade shows, custom merch (got your socks yet?), annual retention campaigns—you name it. But the place we spend a significant amount of time is email. It's extremely low cost, allows us to pass along a lot of information, and is easy to track and benchmark.

Constant Contact collects email campaign data from all users on their platform. Their current average engagement rates were last updated as of April 2022.

ProAssurance operates on a business-to-business (B2B) model—marketing to other business professionals rather than selling a product designed for the average consumer. HubSpot, our current marketing software platform, reports large B2B companies see maximum open rates averaging around 30% and average click rates topping off around 6%.

SO HOW DOES PROASSURANCE STACK UP?

	PROMOTIONS	AGENTS	INSUREDS
OPEN RATE	25.4%	38.4%	33.6%
CLICK RATE	7.9%	14.7%	2%

The key is to watch these metrics over time to ensure we are seeing consistent growth. We only started communicating with NORCAL insureds and agents a year ago, so there is still work to do to develop that relationship. That includes both developing trust and learning what people like. We test everything from subject lines to layout to email frequency to narrow down what works best for those we serve—while working to maintain consistency in our communication. Styles may vary, but it's always essential to be honest, informative, and responsive with every piece we create.

Emily Kelly-Gillingham
Marketing Communications Supervisor

UNDERWRITING RATIOS

Accident Year Loss Ratio

By Shep Tapasak, Senior Vice President, Specialty Underwriting

The Accident Year Loss Ratio (AYLR) is an important measurement of underwriting profitability. It compares losses (and defense costs) that occur for that year with the premium earned for that same year.

This is important since losses are being "matched" to the same year in which premiums are earned. In contrast, Calendar Year Loss Ratios include loss reserve changes to all previous Accident Years. So compared to Calendar Year Loss Ratios, AYLRs tend to be a more reliable predictor of future underwriting results.

Analysis of a company's AYLR is a bit like taking a person's temperature to see if it's normal or high—high temperatures being symptomatic of a possible health concern. Better yet, looking at AYLRs across many years is analogous to taking a person's temperature at consistent intervals across several days. For both, changes or trends can be more informative than simply just looking at AYLR or temperature at only one specific point in time.

Most of the time, the Accident Year period is a defined 12-month calendar year. Thus, the reference might be to the "Calendar-Accident Year." So Accident Year 2019 would compare earned premium for 2019 with the projected losses for 2019. Accident Year 2019 would not be impacted by any changes to loss estimates for earlier accident years. So if the underwriting results for the 2014-2018 accident years combined were updated to reflect that lower levels of loss reserves were needed for those years, the 2019 AYLR would not be impacted.

With healthcare professional liability and other longer tail casualty lines, more recent Accident Years are immature or "green." Therefore, the experience and trends of previous years can be used to estimate ultimate losses for that immature Accident Year. However, as time goes by and claims close, the Accident Year results can be "re-estimated," usually with a greater degree of certainty. So each accident year gets a fresh look based upon the currently available data.

What Impacts AYLR?

- Premium earned during that Accident Year
- Claims frequency trends
- Claims severity trends
- Paid and reported indemnity losses for Accident Year
- Paid and reported allocated loss/defense costs occurring for that Accident Year

What Does Not Impact AYLR?

- Incurred But Not Reported (IBNR) development on other Accident Years; such development can be material and either favorable or unfavorable. This is the big difference between Calendar Year Loss Ratios.
- Expenses incurred (general, commission, taxes, etc.)
- Investment income

$$\text{AYLR} = \frac{\text{Ultimate Losses + ALAE}}{\text{Earned Premium}}$$

ALAE: Allocated Loss Adjustment Expense

Example of how AYLRs are calculated and the infamous "development triangle"

Let's start with a simple look at how ***ultimate losses*** will change over time during various annual valuation points. This hypothetical company began writing HCPL in 2013. As you can see, they grew their premium base during the 2013-2016 timeframe. However, earned premiums began decreasing in 2017—perhaps because rates began decreasing sometime during 2016.

For each year, there is an initial projection of ultimate losses after 12 months. For the accident years 2013-2016, the company was able to see their loss ratios decrease over time compared to the initial estimates at 12 months. Yet for 2017 and 2018, it appears the initial ultimate loss estimates for those accident years will be insufficient.

Now, based upon the above, let's look at the resulting Accident Year ***Loss Ratios***—in the same triangular format. As a reminder, the AYLR = (Ultimate Losses + allocated loss adjustment expenses (ALAE))/Earned Premium.

So when we look at 2013 through 2016, we see that the Accident Year loss evaluations developed favorably. Let's go back in time and look at everything above the red line. If we had taken the Accident Year Loss Ratio "temperature" after 2017 ended, we would have concluded that we had healthy underwriting results.

However, now that we have the benefit of additional data (below the red line), we see that the results have turned to unfavorable development for 2018-2019. Further, we see a definite trend in AYLRs both on a single year and rolling three-year basis. Now our Accident Year Loss Ratio "temperature" is running hot—at about 11 points higher than the AYLR of four years earlier.

There is no single metric that can tell the entire story of an insurance company's prospective underwriting results,. but the Accident Year Loss Ratio is a very important measurement and one that can often be a leading indicator.

Shep Tapasak
Senior Vice President,
Specialty Underwriting

THE INFAMOUS "DEVELOPMENT TRIANGLE"

ACCIDENT YEAR	EARNED PREMIUM	ULTIMATE LOSSES AND ALAE EVALUATED AT THIS NO. OF MONTHS: 12	24	36	48	60	72	84
2013	**85,000**	68,000	65,000	63,000	60,000	59,000	59,000	58,000
2014	**166,250**	133,000	134,000	132,000	130,000	125,000	120,000	
2015	**235,000**	188,000	188,244	175,000	175,00	164,000		
2016	**256,000**	200,000	188,941	195,512	195,000			
2017	**250,000**	200,000	180,490	206,000				
2018	**227,273**	175,000	189,500					
2019	**230,263**	175,000						

Note: All results above are in thousands

ACCIDENT YEAR	ULTIMATE LOSSES AND ALAE EVALUATED AT THIS NO. OF MONTHS: 12	24	36	48	60	72	84	CURRENTLY VALUED AYLR	3 YEAR AVERAGE AYLR
2013	80%	76%	74%	71%	69%	69%	68%	69%	68%
2014	80%	81%	79%	78%	75%	72%		70%	72%
2015	80%	80%	74%	74%	70%			70%	70%
2016	78%	74%	76%	76%				73%	76%
2017	80%	72%	82%					76%	82%
2018	77%	83%						81%	83%
2019	76%							81%	76%

SPECIALTY PROPERTY & CASUALTY RATIOS

Ensuring Solvency: A Look at Risk-Based Capital Ratio

Regulators are charged with ensuring that insurance companies can fulfill their financial obligations to policyholders. One way they do this is by imposing a risk-based capital (RBC) requirement.

RBC is a statutory minimum level of capital that is based on two factors: (1) an insurance company's size and (2) the inherent riskiness of its financial assets and operations. That is, *the company must hold capital in proportion to its risk*. (RBC is intended to be a regulatory standard and not necessarily the full amount of capital that an insurer would need to hold to meet its objectives.)

A spate of insurer insolvencies in the 1980s drove the creation of an RBC standard. The RBC formula calculations thereby created critical thresholds that would enable timely regulatory intervention to prevent insolvencies. Under the RBC system, regulators have the legal authority to take preventive and corrective measures.

Industry Requirements

RBC requirements are not designed to be used as a stand-alone tool in determining financial solvency. Rather, RBC is one of the tools that gives regulators legal authority to take control of an insurance company.

The RBC standard for P&C insurance companies is based on the e Risk-Based Capital (RBC) For Insurers Model Act (#312), which the National Association of Insurance Commissioners (NAIC) adopted in 2012.

The model laws outline methods for measuring this minimum amount of necessary capital. To effectively serve its purpose, the formula and its accompanying parameters are consistently reviewed, updated, and revised, if necessary, to reflect changing industry circumstance.

The P&C industry's general standard of absolute minimum capital is 300%, although companies may want to have much more than that. However, different companies face different risks and, therefore, should have different levels of capital based on those different risks.

So how much capital should your carrier have?

Formula Mechanics

The basic formula for RBC ratio ensures ProAssurance and regulators have a clear sense of why a particular result has occurred and what it means. Since the formula will never be able to take into account a company's particular circumstance perfectly, some interpretation and judgment is necessary.

The formula is applied to our financial data at each year end, and it should produce reasonably consistent results from year to year, both for ProAssurance and the MPL industry as a whole.

However, risk-based capital should not change abruptly due to some discontinuity in the financial database to which the formula is applied. Nor should one year to the next cause an abrupt change in the amount of risk-based capital. We do want to have risk-based capital levels respond appropriately to the underwriting cycle (i.e., risk-based capital should not fall just because rate levels decline and vice versa).

While having much more capital on hand may look healthy, it may also be an inefficient use of that capital. Ultimately, it comes down to managing capital wisely.

"Whether you're at four-times the minimum required standard or 10-times that minimum, you should be good stewards of capital," says Larry Cochran, ProAssurance Chief Investments Officer. "We run our business on the amount of capital we think we need, plus a margin, which is prudent to our shareholders and creates efficiencies, all the while letting regulators know our companies are financially sound. As a publicly traded company, ProAssurance continually balances the capital needs of the organization and the financial strength of our insurance companies, which means we often operate at a narrower margin of RBC than some of our competitors."

Source: National Association of Insurance Commissioners

Larry Cochran
Chief Investments Officer

The RBC ratio is calculated by dividing the total adjusted capital of a company by its required risk-based capital. A company with a 200% RBC ratio has capital equal to twice its risk-based capital.

RBC RATIO = Total Adjusted Capital / Risk-based Capital

Total Adjusted Capital
Total adjusted capital includes the statutory capital and surplus/total net worth of the reporting entity plus adjustments.

Risk-based Capital
The theoretical amount of capital needed to absorb the risks involved in the operation of a business. A higher risk business requires more capital than one of lower risk.

> "Whether you're at four-times the minimum required standard or 10-times that minimum, you should be good stewards of capital."

AM Best Affirms ProAssurance/ NORCAL Ratings

AM BEST A Excellent

We are pleased to announce AM Best has affirmed **ProAssurance's A (Excellent) rating** as of April 26, 2022, and revised the outlook long-term issuer credit ratings (long-term ICR) to stable from negative.

The official statement from AM Best notes:

The revised outlook to stable for the Long-Term ICRs of ProAssurance Group's members reflects the group's continued strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), following the acquisition of NORCAL, supported by financial flexibility afforded by the holding company, solid liquidity, prudent loss reserve position and conservative investments.

Read the full release here.

In March 2021, ProAssurance's long-term ICR rating was revised to negative due to "uncertainty with regards to reserve development, as well as the execution risks associated with the planned acquisition of NORCAL ... and the ensuing integration of the acquired entity."

As a reminder, NORCAL Group still holds a separate AM Best rating, which was also affirmed April 26, 2022. NORCAL Group's AM Best rating is rated A- (Excellent) with a stable outlook.

Ties that Bind

Monthly Insights for Selling to Healthcare Professionals

Show Me the Data!

President Ronald Reagan popularized the phrase, *"Trust, but verify."* He implied that trust is essential, but blind trust without proof is foolish, especially when the stakes are high.

Health professionals share a similar sentiment when discussing product and service options with sales representatives and business advisors. When decisions have significant consequences, they often say, *"Show me the data!"*

As used by clinicians, data refers to *scientific data,* a collection of unbiased observations and measurements. However, data is subject to interpretation, and doctors can be skeptical when non-clinicians infer what it means. Agents can avoid this by presenting factual information and inviting the prospect or client to draw their own conclusions. It's as simple as summarizing an article, showing charts and graphs, sharing a case study, and asking, *"What are your thoughts?"*

You can even steer a conversation with specific questions relating to research, such as, *"When you consider the progressive increase in malpractice suits as shown in this study, what are your main concerns?"* Data that resonates at a personal level is hard to ignore.

> Data that resonates at a personal level is hard to ignore.

Research studies and data analysis are valuable tools to guide healthcare decision-makers to informed decisions. Here are some best practices to observe when referencing research data with healthcare professionals:

- **Know the details or don't cite the research.** Thoroughly familiarize yourself with data and case studies before presenting them. It might be tempting to skim through a research article, rephrase the author's summary, and point to some tables and graphs, but don't. A clinician may want to examine the details. Know the data well enough to discuss it.
- **Know how you'll use the data in advance.** You'll need a clear understanding of how any data supports your argument. If you're uncertain what the data implies or how it's appropriate, ask for help. You can find help by contacting your Business Development or Underwriting representative at ProAssurance to help you source valuable research references and clarify how to use them.
- **Don't spin the data!** Stick to discussing factual information and the research author's opinions as published. Don't offer conclusions not stated in the research. For example, if a research study identifies liability risks but does not explicitly recommend insurance coverage to protect against these risks, it would be a misstatement to suggest that it does.
- **Apply data to make prospects and clients think, not make them wrong.** Doctors may challenge the validity of a study or even question a researcher's credibility. They may even counterpose the researcher's conclusions. When this occurs, acknowledge their perspective and ask questions to gain a better understanding. You can offer a different point of view and solicit their thoughts, but don't get into a debate. Remember, HCPs see themselves as experts and may resent being challenged by someone lacking their credentials and training. Consider bringing in a credible third party with the appropriate expertise to clarify and resolve any points of contention. The goal is to serve the client, not to win an argument.

When HCPs avoid discussing essential topics or resist a good course of action, think of it as them silently saying, *show me the data*. Have reliable data available during business conversations with healthcare decision-makers. You'll gain their attention, build credibility, and satisfy their need to *trust, but verify.*

Written by **Mace Horoff** of Medical Sales Performance

Mace Horoff is a representative of Sales Pilot. He helps sales teams and individual representatives who sell medical devices, pharmaceuticals, biotechnology, healthcare services, and other healthcare-related products to sell more and earn more by employing a specialized healthcare system.

Have a topic you'd like to see covered? Email your suggestions to AskMarketing@ProAssurance.com.

ASK YOUR CLIENTS...

How Healthy Is Your Practice?

*Help insureds minimize risk using real practice data gathered through our **Risk Management Self-Assessment***

The ProAssurance Baseline Self-Assessment is a brief, self-directed assessment completed by a practice administrator and their team, including physicians. The questions focus on office processes such as diagnostic test tracking, management of phone calls, informed consent, emergency preparedness, and documentation. Reponses are anonymous and only identified by the role the person plays in the practice—allowing for candid answers that help identify gaps in staff competency, and enables ProAssurance to develop focused educational opportunities that make the most efficient use of the practice's resources.

Knowing how their practice stacks up may give practice administrators confidence in processes, gap identification, and their ability to provide solutions. For ProAssurance, the accumulated data allows for a wider analysis of insureds. Risk Management can then use this data to determine where additional educational materials might be needed and create ongoing learning opportunities more directly tailored to the healthcare providers' needs.

> 84% of respondents report using controlled substances in their practice. Responses also show that telemedicine is used in nearly 85%.

Thus far, Baseline Self-Assessment data has told us 84% of respondents report using controlled substances in their practice. Responses also show that telemedicine is used in nearly 85% of participating practices. As more data is collected, ProAssurance can use that information to develop service offerings specific to identified areas of need, such as telemedicine and controlled substance use.

The Baseline Self-Assessment allows practices to evaluate themselves in areas that impact risk. It gives healthcare providers a starting point from which they can improve their practice using the strategies, suggestions, and resources contained within the assessment.

How Can Your Clients Get Started?

Our Risk Management consultants will reach out with information on how to take part in this valuable opportunity and how to stay up-to-date on new and existing resources that provide guidance in risk management situations. Download the Baseline Self-Assessment flyer for more information.

Your clients can also request a Baseline Self-Assessment at 844-223-9648 or RiskAdvisor@ProAssurance.com.

Rate Changes Effective 7/1/2022

In keeping with our commitment to apprise you of developments within your market, we would like to share with you our recently updated rate strategy. We are committed to responsible pricing that reflects the current risk environment. Upon recent review of our rate plan and rating factors, it was determined that the following changes would be necessary for NORCAL insureds:

ILLINOIS

- Revised Rate Tables
- Revised Surcharge Program rules
- An overall 16.5% rate increase (a result of legislative action regarding prejudgment interest)

PENNSYLVANIA

- No base rate increase
- No charge for shared corporate limits of coverage
- Updated Per-Exposure Unit for the Anesthesiology specialty
- Updated Specialty Class Plan and Class Codes
- Updated Part-time Practice Discount for qualified healthcare providers
- Updated New to Practice Discount for qualified healthcare providers
- Removed Group Size Discount
- Revised Surcharge Program rules

DISTRICT OF COLUMBIA

- No base rate increase
- Updated Per-Exposure Unit for the Anesthesiology specialty
- Added new specialties to the Specialty Class Plan
- Updated Part-time Practice Discount for qualified healthcare providers
- Updated New to Practice Discount for qualified healthcare providers
- Removed Group Size Discount
- Revised Surcharge Program rules

These changes, which have been filed and approved, go into effect July 1, 2022, and are applicable to new and renewal accounts. We will notify our affected policyholders of the changes.

THE Comments Section

THIS MONTH'S TOPIC:

Medical Liability Premiums Trending Upward As 'Hard Market' Forms

This month, we are featuring the American Medical Association's analysis of nationwide MPL rate trends. Key takeaways from the report include:

- Premium decreases have become more rare over time and are now less likely than premium increases. In 2012, the percentage of premiums that decreased was 25.7%. In 2021, only 6.5% of premiums decreased.
- The percentage of premiums that increased spiked after 2018, when 13.7% of premiums increased. In 2019, 26.5% of premiums increased. In 2020, 31.1% of premiums increased, which was higher than any year since 2005.

View the full article.

Source: Health Leaders Media

About The Comments Section

The Comments Section is a recurring feature that focuses on an industry article in line with the monthly theme. ProAssurance thought leaders offer insights on the article and how the topic relates to our industry.

"In the underwriting department, we focus on underwriting profitability by charging rates commensurate with the risk/exposure. For those accounts needing rate amelioration, the team focuses on moving accounts toward profitability and an ultimate loss ratio of 65%. Improving the overall book loss ratio has a positive impact on the combined ratio, an important metric used in determining the success of our organization internally, and, externally, by rating agencies, and shareholders—it's evidence of how well we manage our fiduciary responsibility.

While many states didn't experience base rate changes until recent years, carriers have been reducing subjective credits in an effort to keep up with the deteriorating claims environment resulting from years of depressed, unsustainably low rates. The recent spike in base rates is reflective of pressure from insurance departments and rating agencies to improve insurer combined ratios in the face of costs incurred in resolving cases, due in part to desensitization of the value of money from social inflation and juries awarding enormous, excess verdicts.

At ProAssurance, our actuarial team is monitoring claims results and trends, and recommends base rate changes to maintain responsible pricing. While many carriers chase price in the marketplace, it's a priority for us to write profitable business at sustainable rates. On the Standard Underwriting side of the house, underwriting results pointed toward price firming in the marketplace in 2018 and 2019, and as a result, we attempted to enforce rate adjustments on books and accounts needing rate increases to support claims activity. However, with plentiful surplus in the market, insureds easily found lower priced coverage elsewhere, evidence the hard market had not yet hit the standard line of business. With this reaction in the market to our attempts to increase base rate, we pivoted to applying needed rate increases at the account level rather than to all insureds in a program or state. This adjustment has improved retention at the insured and account level, while moving the needle on rate increases.

With filed base rates increasing, standard insurers (including ProAssurance) are offsetting the increases with premium credits in an effort to retain profitable accounts, further delaying firming of prices."

Karen Carlile
Senior Vice President, Standard Underwriting

"In my observation, the rise in cost of medical liability premiums is no different from the rise in cost of health, auto, and homeowners insurance premiums, to mention a few. The article talks about how hard it has been on physicians and practices, and how some are discontinuing services and the fact it is affecting patient care. However, some people have to sell their homes because they cannot afford the high cost of homeowners insurance. People choose high dollar deductibles to try to keep costs of insurance low gambling on the possibility of having to make a claim. Again, my observation is that the increase in the cost of medical liability premiums is no different than what others go through, although premiums for medical liability are significantly higher in the grand scheme of things."

Anita Hamilton
Director, Customer Experience and Engagement

"Bad medicine is not to blame in Illinois. A home state to premier physicians and institutions is also home to 62,000 attorneys, according to the American Bar Association. Illinois has one of the highest concentrations of attorneys in our country."

Mike Iovine
Assistant Vice President, Senior Care

"This latest cycle is not unexpected but has probably caught physicians off-guard after years of a soft market. The timing is difficult but, given the failure of tort reform in many states as well as the actual and expected catastrophic losses and current economic realities, these market corrections are critical. Communication with our insureds and providing tools to our agency partners regarding these necessary changes are key to supporting them through this difficult transition."

Ginger Kelley
Risk Management Regional Manager, Southeast

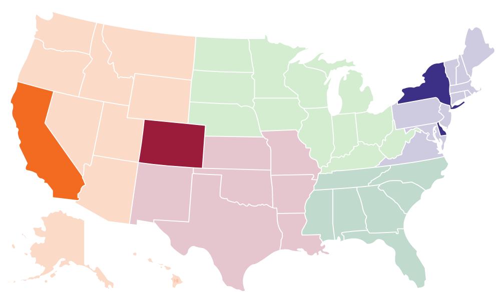
"The key point here is that the article's data is based on manual filings for base rates and not what the customers are actually paying. Fierce competition for good accounts remains and, indeed, intensifies with several regional carriers now racing toward a national platform. Whether or not you consider this a hard market, it's much more complicated than anything we've seen before."

Steve Dapkus
Vice President, Marketing

"Premium changes are largely venue driven and a result of judicial climate. Various areas and specialties remain highly competitive among professional liability insurance carriers. Contributing factors for an unknown future for all professional liability exposures include what, if any, losses will result from the COVID pandemic, unknown future of losses related to increased use of telemedicine, higher than average ALAE related to the backlog in the courts systems, and longevity of the pre-pandemic open losses."

Gail Schroeder
Director, Standard Underwriting

MPL **State News**



The last hard market ended after claim frequency fell sharply in 2004/05. While MPL claim frequency remained flat, claim severity has been steadily ticking up, which compounds over time. In recent years, large jury verdicts have widely been seen as the primary driver of increasing claim severity. Below are examples of recent verdicts which help to illustrate current claim severity trends.

NATIONAL

Best and Worst States for Doctors 2022—South Dakota took the top spot on Wallet Hub's annual list of top states for doctors—scoring a 69.37 out of a possible 70 points.

Wallet Hub uses 19 criteria including wages, competition, malpractice awards per capita, average cost of professional liability insurance, how punitive medical boards are, and more to make their determination.

Additional top scores include:

Malpractice payout amount per capita

The Lowest:	The Highest:
1. Wisconsin	1. New York
2. Texas	2. Pennsylvania
3. Tennessee	3. Rhode Island
4. Michigan	4. West Virginia
5. Mississippi	5. New Jersey

Annual cost of MPL insurance

Least Expensive:	Most Expensive
1. Nebraska	1. New York
2. Wisconsin	2. Illinois
3. Minnesota	3. Washington
4. Kansas	4. District of Columbia
5. Idaho	5. Louisiana

(WalletHub)

NEW YORK

New York grants nurse practitioners full practice authority—New York is the latest state to pass legislation granting nurse practitioners full practice authority after Governor Kathy Hochul signed the state budget into law April 11. With full practice authority, NPs in New York will now be able to evaluate, test, diagnose, manage treatments, and prescribe medications for patients without having to sign a contract agreement w ith a supervising physician. Half the states in the country now grant full practice authority to NPs, according to the American Association of Nurse Practitioners. (Healthcare Dive)

CALIFORNIA

California's malpractice payouts would rise under a deal to avoid a costly ballot fight—Cash payments in California medical malpractice cases would go up for the first time in nearly five decades under a deal between rival interest groups that avoids a costly battle at the ballot box in November.

The overhaul to the long-standing Medical Injury Compensation Reform Act of 1975, known as MICRA, will be outlined in a bill scheduled to be introduced in the California Legislature, with the deal requiring that it be signed into law by Governor Gavin Newsom before June 28—the deadline for removing a related measure from the November 8 statewide ballot. (Los Angeles Times)

DELAWARE

Federal court in Delaware requiring disclosure of litigation funding agreements—Insurers are applauding a decision by the chief judge for the U.S. District Court in Delaware to require parties to disclose whether a litigation funder has an interest in any cases brought before him.

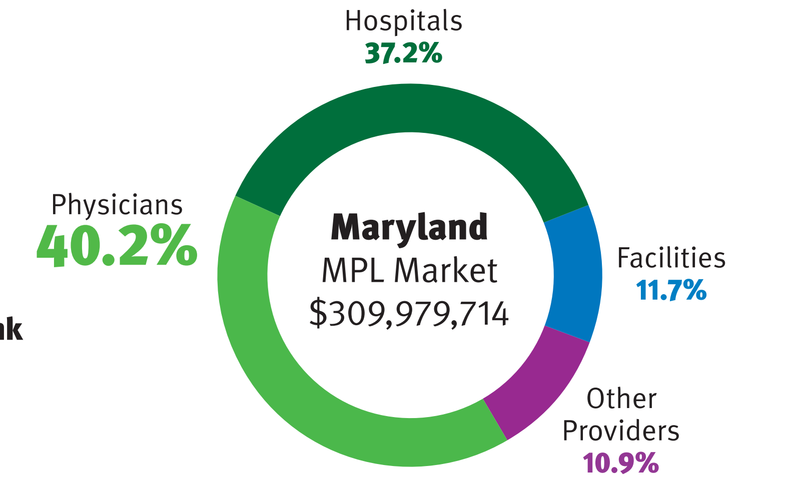
The standing order issued by Chief Judge Colm F. Connolly is not unique—several other federal courts have adopted similar rules—but this decree was made in an extremely influential district. More than half of publicly traded US corporations are incorporated in Delaware, and its laws often govern contracts between businesses. (Claims Journal)

COLORADO

New Colorado anti-doxxing law protects healthcare, child protection, code enforcement workers—House Bill 1041 allows public, but un-elected workers to withhold their full name and home address from the internet if they attest to being at risk of imminent and serious threats. Or, to use 21st-century terms, the law seeks to cover them if they fear they're vulnerable to doxxing, where people post addresses and phone numbers to the internet, or use that information to harass the victims. (The Denver Post)

MPL State Profile
Maryland

- **9** 2020 Rank in MPL Market
- **5** 2020 ProAssurance Rank
- **10** 2020 NORCAL Rank
- **3** **2021 ProAssurance Post-Merger Rank**



Tort Laws

- **Limits on damages for pain and suffering:** $845k non-economic damage cap ($15k annual increase)
  - Effective 2005 (Cts. & Jud. Proc. §3- 2A-09)
- **Limits on contingent attorney fees:** Court approval required if disputed
  - Effective 1986 (Cts. & Jud. Proc. §3-2A07)
- **Reform of collateral source rule:** none
- **Periodic payment of future damages:** discretionary
  - Effective 1986 (Cts. & Jud. Proc. §11-109)
- **Statute of limitations:** 5 years or 3 years from discovery (foreign object exception for minors only)
  - Upheld (Cts. & Jud. Proc. §5-109)

PreJudgment Interest

- **Tort actions rate:** Generally, because damages are unliquidated, interest is not allowed.
- **Accrual date:** At court discretion from the time the date was filed if the defendant caused unnecessary delay.

Department of Insurance Reporting

The Maryland Insurance Administration maintains a report of medical professional liability insurance rates for consumer review. Get a copy of the report here.

Pending Legislation

SB 167 – Enacted 4/12/2022

This bill amends current statute to allow the Insurance Commissioner to require an insurer to fulfill policy obligations or pay a claim or an amount due under an insurance policy. It also authorizes the Commissioner to require payments that were previously inappropriately denied, under certain circumstances. Would go into effect on 10/1/2022.

SB 311 – Introduced

This bill expands medical liability protections to employees, agents, and contractors of healthcare facilities who provide or assist in healthcare delivery. Adds language tying liability protections to acts or omissions directly or indirectly related to a catastrophic health emergency proclamation.

SB 112 – Introduced

This bill expands the Maryland Personal Information Protection Act (MPIPA) by (1) covering additional types of personal information; (2) expanding the types of businesses that are required to implement and maintain reasonable security procedures and practices to protect personal information from unauthorized use; (3) shortening the period within which certain businesses must provide required notifications to consumers after a data breach; and (4) requiring additional information to be provided to the Office of the Attorney General (OAG) after a breach has occurred. Violation of the bill is an unfair, abusive, or deceptive trade practice under the Maryland Consumer Protection Act (MCPA), subject to MCPA's civil and criminal penalty provisions.

HB 25 – Introduced

This bill expands medical liability protections to employees, agents, and contractors of healthcare facilities who provide or assist in healthcare delivery. Adds language tying liability protections to acts or omissions directly or indirectly related to a catastrophic health emergency proclamation. Applies retroactively to acts or omissions under a catastrophic health emergency occurring on or after March 5, 2020 and ending 180 days after the termination of the catastrophic health emergency.

This was produced with 2020 data, and we will begin updating all profiles as the 2021 data becomes available. The new set will be featured in the July 50/50 issue.

ProAssurance
NORCAL GROUP

provisions

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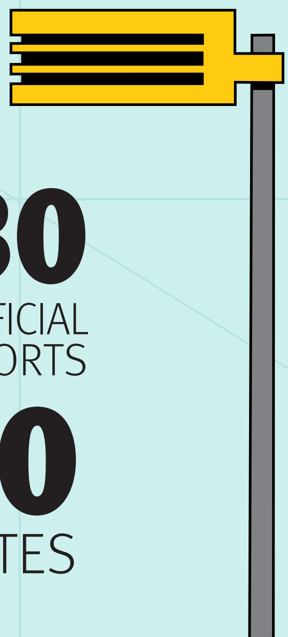
Click to learn more about the Golden Ratio

the WORLD GAMES

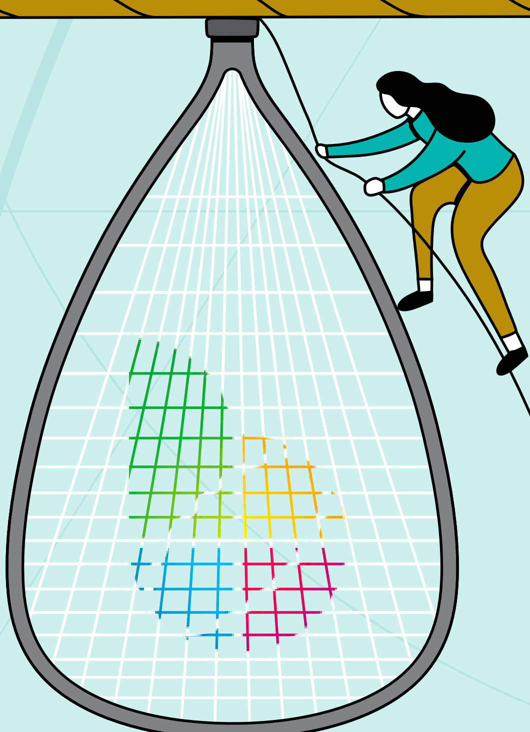
The World Games is an 11-day international multi-sport event organized with support of the International Olympic Committee held the year following the Summer Olympic Games. The World Games 2022 will be held in Birmingham, Alabama from July 7-17.



106 NATIONS PARTICIPATE

30 OFFICIAL SPORTS

3,600 ELITE ATHLETES



Join Us at The World Games 2022

ProAssurance is a proud sponsor of The World Games 2022. That sponsorship package includes a number of tickets, which we are making available to our agency partners.

If you are interested in attending, or would like more information about the event, contact your Business Development Representative.

Click on the illustrations to learn more about various events.