

BEST'S REVIEW® ISSUES & ANSWERS: WORKERS' COMP AND MEDICAL PROFESSIONAL LIABILITY INSURANCE

Industry professionals discuss the role of actuaries in the workers' comp line and how technology is impacting medical professional liability writers.



Interviewed Inside:



Tim Mosler
Pinnacle Actuarial Resources



Joe Murphy
Coverys

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Commitment Beyond Numbers.

The operative word is 'commitment.'

$$E(C_{y+1}|C_{ij}) = f_j C_{ij} \quad \sqrt{E(d_{ij})} \quad \text{Var}(Y) = E(\text{Var}(Y^2|Z)) + E(E(Y|Z)^2) - (E(Y|Z))^2 \quad F_{ij} = C_{ij+1}/C_{ij} \quad E(C_{y+1}|C_{ij}) = f_j C_{ij} \quad \text{Var}(f_j) = \sigma_j^2 / \sum_i C_{ij} \quad E(C_{y+1}|C_{ij}) = f_j C_{ij}$$

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Commitment Beyond Numbers



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Actuaries in Time of COVID

Tim Mosler, Principal and Consulting Actuary with Pinnacle Actuarial Resources, said that if employers are met with increased workers' compensation rates due to COVID, they can shop around.

"There's still a lot of competition in the workers' comp market, which is perhaps counterintuitive in a time of crisis like this pandemic, but we're still seeing rate decreases," he said.

What is the role of the actuary and workers' comp?

It's all related to estimating the cost of future events. That comes through in a variety of projects. The two most frequent ones are rate analyses and reserve analyses. In the rate analysis, we're projecting rates to charge for coverage in a future period. In a reserve analysis, we're estimating how much the insurer should hold at a particular point in time to settle all of the outstanding claims. That's particularly important in workers' compensation because claims can stay open for so long that frequently you see a situation where more of the claim is left to be paid than has been paid already.

How is the COVID-19 pandemic changing that role?

It makes it tougher. There's always going to be some uncertainty in predicting future events. Most of the time, we feel confident within a certain range. COVID-19 creates the chance of much higher outcomes, through many more claims being added to the system. Because of that, there's a risk that we're off significantly to the low side, which is exactly where we don't want to be for our clients.

What are the long-term implications for the workers' comp industry as a result of the pandemic?

The first is the risk of mass insolvencies, the idea that it's going to put insurers out of business, but that feels relatively low to me in this period of relatively high profitability. The bigger risk is compensability for a large set of COVID claims being decided by a judge or the executive branch leaving insurers ultimately responsible for claims they never considered when setting rates. If that happens, insurers could be hesitant to insure certain classes, like healthcare workers, going forward. That could result in an availability problem similar to that caused by terrorism for policies issued in 2002. That could lead to a federal backstop for pandemics as we move forward. There is one such proposal right now called the Pandemic Risk Insurance Act, or PRIA. If that were to come to pass, then there would be an optional federal backstop for those companies that wanted to buy into it.

How can insurers and actuaries work better together?

The keys to that relationship are communication and data. In terms of the data, every insurer should know which claims in their



Tim Mosler

Principal and Consulting Actuary
Pinnacle Actuarial Resources



"Pinnacle Actuarial Resources is dedicated to keeping our clients up-to-date on relevant regulatory, administrative and economic conditions that impact their businesses."

loss run are COVID claims. That gives the actuary an option to analyze those claims separately. If the amounts are small, they can be included in the analysis knowing they won't distort the results. At the very least, it lets the actuary get a handle on how much the data has been skewed by COVID claims. The same holds true with premium and payroll. With premium and payroll data, the real question is whether those are estimates or whether they've been adjusted to reflect the pandemic conditions. Actuaries would prefer the latter, but it's more work for the insurers. On the soft data side, insurers need to educate actuaries on the laws of their states so that we know about those presumptions and know what the risk is. The insurer may be in a state where COVID claims are generally not covered and then it's a minor issue in the actuary's work. Or, the insurer may be in a state where the judiciary is taking the stance that if there's any way COVID might have come from work, then it is a workers' comp claim. In that case, COVID claims need stronger consideration by the actuary.



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Changing Landscape in MPL

Joe Murphy, chief operating officer for Coverys, said advanced analytics will help not only predict risk in this changing world, but appropriately price it, mitigate it, and effectively manage it. “At Coverys, we have been developing a risk scoring tool that not only integrates our own data but other external data sets as well,” he said. The following are excerpts of an interview.



- State of the art risk management.
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How is this pandemic impacting MPL writers?

Broadly speaking, our business has not been materially impacted by COVID-19. Certainly, we have insureds who have been adversely impacted, and we've responded by providing underwriting accommodation through endorsements and credits, and offering premium deferrals. To date, we've processed nearly a thousand credit endorsements. The overall premium impact is still within what we thought it would be back in the early days of the pandemic in March. We continue to renew business and write new business. Our retention rate is right in the margin that we'd like it to be in. While I can't speak specifically to other writers, there clearly continues to be competition in pockets, with continued aggressive pricing. The overall market has been firming up, but there's still ample capacity within the traditional admitted market.

What role is telemedicine playing today, and is that being driven by the pandemic?

The movement toward virtual care has absolutely been driven by the pandemic. We've made more progress, in terms of the adoption of telemedicine in the last six months, than we've made in the last six years. It's important to know that telemedicine is a highly organized and structured model that's been around for a number of years. It was safely designed for a physician to use with recommended protocols, and now with the pandemic the barriers to use telemedicine have been modified or relaxed.

Have you noticed an increase in physician migration?

Within our traditional book of admitted business, we've not necessarily seen a difference in 2020 from, say, 2019, or even earlier years. However, the longer-term effects of COVID aren't known as of yet. It's anyone's guess how that will pan out as we head into 2021. With that said, we continue to see strong retention, and we continue to see and win new business opportunities. With severity trends moving north of 3% in many jurisdictions, and the exponential growth of paid, large losses, it remains to be seen if it will have an impact on hospital systems.

Joe Murphy

Chief Operating Officer
Coverys



At Coverys, we're committed to helping providers reduce the endless distractions that keep them from focusing on patient care which have become increasingly difficult to providers during this time of pandemic.

Go to the Issues & Answers section at bestreview.com to watch an interview with Joe Murphy

How is technology changing MPL?

As an industry, historically, in the medical professional liability area, we've always looked at data that we have access to in evaluating risk. But this has really been a look at it in the past tense—true both in terms of premium pricing and in terms of managing risk based on what has already happened. Now, however, we're watching the delivery of care shift to new models in front of our very eyes. It isn't just the pandemic that is doing this. The movement toward value-based care was already catalyzing new approaches to traditional medicine. If we look at things like payment reform, those existed outside the Affordable Care Act. Those are things that were occurring because insureds were demanding that something be done about the increasing cost of health care. As these changes occur, we need ways to look forward to predict what will happen in the future, to predict risk, to understand these emerging vulnerabilities, and to help providers, practices, and hospitals proactively manage those risks.

