

**Massachusetts Division of Insurance
Medical Malpractice Insurance Report
For the 2017 Calendar Year**

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Commissioner of Insurance

Acknowledgements

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The Division relies on insurance companies, the National Association of Insurance Commissioners, and other regulatory agencies for the accuracy of all reported financial information.

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Executive Summary

Health care professionals make daily decisions about treatment where they balance the need to use new procedures with the need to contain costs and avoid errors that may harm patients. When an error may have occurred and malpractice is claimed, medical malpractice insurance covers the cost to defend professionals and pay claims for damages.

Massachusetts requires that doctors have medical malpractice coverage¹ and that insurance companies make medical malpractice coverage available on an equal basis, under the “take all comers” statute to all doctors and certain other licensed healthcare providers willing to pay for it.²

Massachusetts medical malpractice insurance can be obtained through licensed insurers, risk retention groups and surplus lines insurers. Medical malpractice insurers that are licensed in Massachusetts and provide coverage to certain medical practitioners may not refuse to provide coverage for any such medical practitioner. In contrast, surplus lines insurers and risk retention groups may refuse to provide medical malpractice coverage to certain medical providers based on the insurer’s underwriting standards.

Trends observed for the medical malpractice market through 2017 include the following:

- Total medical malpractice insurance premiums decreased slightly by approximately .3% to \$313.5 million in 2017 from \$314.3 million in 2016.
- Licensed insurers no longer provide the majority of medical malpractice insurance in Massachusetts when compared to risk retention groups. Their share of the market, compared to that offered by surplus lines carriers and risk retention groups continue to decrease to 38.4% in 2017 from 41.1% in 2016.
- Almost three-fourths of the medical malpractice insurance market continues to be underwritten by two companies – Coverys (formerly known as ProMutual or as the Massachusetts JUA) and the Controlled Risk Insurance Company of Vermont (CRICO). CRICO is a risk retention group created to insure the physicians and employees of Harvard-affiliated medical institutions and writes approximately 47% of the medical malpractice insurance in Massachusetts.
- The financial strength of licensed insurance companies continues to improve in Massachusetts without significant rate activity. Coverys did not change its rates for physicians and surgeons in 2017.

While pressure on rates has eased, Massachusetts continues to have higher medical malpractice claim payments than most states. In 2017, the Massachusetts mean malpractice claim payment was the highest in the country while the median malpractice claim payment for physicians was the fourth highest nationally as seen in Figure 13.

¹ 243 CMR 2.07(16).

² M.G.L. c .175, §193U.

Massachusetts Health Care Professionals

Number of Professionals

For 2017, there were approximately 297,674 individual health care professionals licensed by state agencies to practice in the following categories:³

162,131	Nurses
25,098	Social Workers
37,090	Medical and Osteopathic Doctors
25,234	Allied Health Providers (Therapists, Assistants and Athletic Trainers)
6,898	Dentists
10,276	Allied Mental Health Providers
5,817	Psychologists
7,478	Audiologists, Speech Pathologists and Assistants
2,907	Respiratory Care Specialists
2,084	Chiropractors
2,876	Dietitians/Nutritionists
1,566	Dispensing Opticians
4,060	Physician Assistants
1,506	Optometrists
1,117	Acupuncturists
560	Podiatrists
710	Hearing Instrument Specialists (includes apprentices)
95	Certified Health Officers
117	Perfusionists

In addition to the above-noted individual professionals, approximately 1,784 facilities and programs were licensed to operate as the following types of entities:⁴

464	Nursing Homes/Rest Homes
341	Clinics
272	Home Health Care Agencies
190	Mammography Facilities
121	Hospitals (acute care and non-acute)
322	Ambulance services
74	Hospices

In order to practice in the Commonwealth of Massachusetts, a health care professional must be licensed or registered by an agency such as the Board of Registration in Medicine,⁵ the

³ Numbers of current licensed health care professionals as reported to the Division of Insurance by the following agencies: Massachusetts Board of Registration in Medicine for active board licensed medical and osteopathic doctors; Department of Professional Licensure and Division of Health Care Quality in the Department of Public Health; and the Department of Mental Health. The reported statistics reflect current licensed health care professionals; the number actively practicing in a profession may be smaller than the number reported.

⁴ Numbers of licensed facilities and programs, not including satellites, as reported to the Division of Insurance by the Department of Professional Licensure and Division of Health Care Quality in the Department of Public Health. While the reported statistics reflect the number licensed, the number actively operating may be lower.

⁵ The Board of Registration in Medicine coordinates the licensing of doctors (MDs and DOs) and acupuncturists.

Medical Malpractice Insurance in the Massachusetts Market

Division of Professional Licensure,⁶ Boards of Registration,⁷ the Department of Mental Health⁸ or the Department of Public Health.⁹ A health care professional may also need to satisfy additional training to represent that he or she is specially trained or board-certified in a specialty and may need to meet other requirements in order to practice in a hospital or to be included in a health plan network.

Liability Coverage Requirements

Even when a health care professional's medical decision may be appropriate based upon available information, adverse outcomes may occur with long-term financial consequences. Medical malpractice coverage pays the cost to defend a health care professional's reputation and cover the cost of damages.

In Massachusetts, if an insurance company offers medical malpractice coverage to health care professionals or facilities included in certain statutorily identified categories, the insurance company must provide coverage to any other practitioner or facility in that category. The statutory categories include¹⁰:

- Doctor of Medicine;
- Doctor of Osteopathy;
- Doctor of Optometry;
- Doctor of Dental Science;
- Physical Therapists and Physical Therapist Assistants;
- Doctor of Podiatry;
- Doctor of Chiropractic;
- Registered Nurses;
- Interns, fellows or medical officers; and
- Licensed hospitals, clinics, or nursing homes, and their agents and employees.

Health care professionals outside the statutorily defined categories may apply for coverage with insurance companies, but a company has the right to decline to provide coverage for non-protected categories.

⁶ The Division of Health Professions Licensure within the Department of Public Health coordinates the licensure for Dentists; Genetic Counselors; Nursing; Nursing Home Administrators; Perfusionists; Pharmacy; Physician Assistants; and Respiratory Care.

⁷ Boards of Registration in the Office of Consumer Affairs and Business Regulation coordinate the registration of Allied Health Care professionals (*i.e.*, Athletic Trainers, Occupational Therapists, Occupational Therapist Assistants, Physical Therapists, Physical Therapist Assistants, Physical Therapy Facilities); Allied Mental Health Care Professionals (*i.e.*, Mental Health Counselors, Marriage and Family Therapists, Rehabilitation Counselors, Educational Psychologists); Certified Health Officers; Chiropractors and Chiropractic Facilities; Dietitians and Nutritionists; Dispensing Opticians; Hearing Instrument (Hearing Aid) Specialists; Massage Therapist/Practitioners, Massage Therapy Salons, and Massage Therapy Schools; Optometrists; Psychologists; Licensed Independent Clinical Social Workers, Licensed Certified Social Workers, Licensed Social Workers, and Licensed Social Worker Associates; and Audiologists, Audiologist Assistants, Speech Pathologists and Speech Pathologist Assistants.

⁸ The Department of Mental Health licenses private mental health hospitals and clinics.

⁹ The Department of Public Health licenses hospitals, nursing/rest homes, long-term care facilities, clinics, home health care agencies, hospices, ambulances, nursing service agencies and mammography facilities.

¹⁰ M.G.L. c. 175, §193U. The Commissioner of Insurance also may designate other categories when they are eligible to be ceded to the medical malpractice reinsurance plan. Chapter 444 of the Acts of 2008 added Physical Therapists and Physical Therapist Assistants to M.G.L. c. 175, §193U.

Medical Malpractice Insurance in the Massachusetts Market

It is a specific requirement of licensure that medical doctors and advanced practice registered nurses with direct patient care responsibilities have medical malpractice coverage sufficient to protect against claims of at least \$100,000 per claim and \$300,000 per year¹¹ and that limited liability company or limited liability partnership where chiropractors are a member, a partner or an employee maintain coverage of at least \$500,000 per claim and \$1 million per year.¹² Hospitals and health plans may impose additional requirements to permit health care professionals to practice in the hospital or to be part of a health plan network.

Market for Medical Malpractice Coverage

History

Medical malpractice insurance has gone through a number of national and regional “crises” over the past 35 years, with years of stability and available coverage followed by years of rate increases and decreased availability. Following the departure of a number of medical malpractice insurers from the Commonwealth in the 1970s, the Massachusetts Legislature created the Medical Malpractice Joint Underwriting Association (“MMJUA”) to offer access to coverage for certain medical professionals, and authorized the MMJUA to assess other medical malpractice insurers for certain losses.¹³

During the 1980s, the medical malpractice insurance industry developed new types of policies to stabilize losses and premiums. Policies written before the 1980s were “occurrence-based” policies (covering all claims filed for an incident that occurred during a coverage year.) Many insurers subsequently switched to “claims-made” policies (covering only claims filed during a coverage year.)¹⁴ Since losses under claims-made policies are more predictable, the new products enabled companies to more accurately determine their liabilities and stabilize their rating practices.¹⁵

In 1994, Massachusetts passed legislation to transform the MMJUA into the Medical Professional Mutual Insurance Company (now known as “Coverys”) with a board composed mainly of practicing or retired healthcare providers.¹⁶ Since its inception, Coverys has been one of the largest medical malpractice insurance providers in Massachusetts.

¹¹ 244 CMR 4.09; 243 CMR 2.07(16)(b).

¹² According to 233 CMR 4.04 (1), “A limited liability company or limited liability partnership which provides or offers to provide Chiropractic Treatment in Massachusetts shall maintain in good standing professional liability insurance which meets the following minimum standards:

- (a) The insurance shall cover negligence, wrongful acts, and errors and omissions;
- (b) The insurance shall insure the limited liability company and its members, as required by M.G.L. c. 156C, § 65, or the limited liability partnership and its partners as required by M.G.L. c. 108A, § 45(8)(a);
- (c) The insurance shall provide, for each registered chiropractor who is a member, partner or employee of the limited liability company or limited liability partnership, coverage in an amount of at least \$500,000 for each claim with an aggregate top limit of liability for all claims during any one year of at least \$1,000,000.”

¹³ Section 6 of Chapter 362 of the Acts of 1975.

¹⁴ “Medical Malpractice: Implication of Rising Premiums on Access to Health Care,” General Accounting Office, August 2003, p. 10.

¹⁵ In Massachusetts, only one company – the MMJUA’s successor - is required to offer both “occurrence-based” and “claims-made” coverage, while other companies have switched to “claims-made” policies.

¹⁶ Chapter 330 of the Acts of 1994 created M.G.L. c. 175, § 193U. This law was further amended – Chapter 372 of the Acts of 1998 - to make clear that the coverage offered to each provider must be available at least at a certain standard level as defined in the rules of operation of the medical malpractice reinsurance plan.

Licensed Insurance Companies

Medical malpractice insurance companies may be licensed by the Division of Insurance with a designation of 6F - liability other than auto for “medical malpractice”. These insurers are required to participate in the state’s guaranty fund for property and casualty writers, which provides some protection to policyholders in the event of an insurer’s insolvency. In 2017, licensed medical malpractice insurance companies wrote \$120.3 million in direct written premium; this is about 1.0% of the premium written for all property and casualty coverage. (Figure 1)

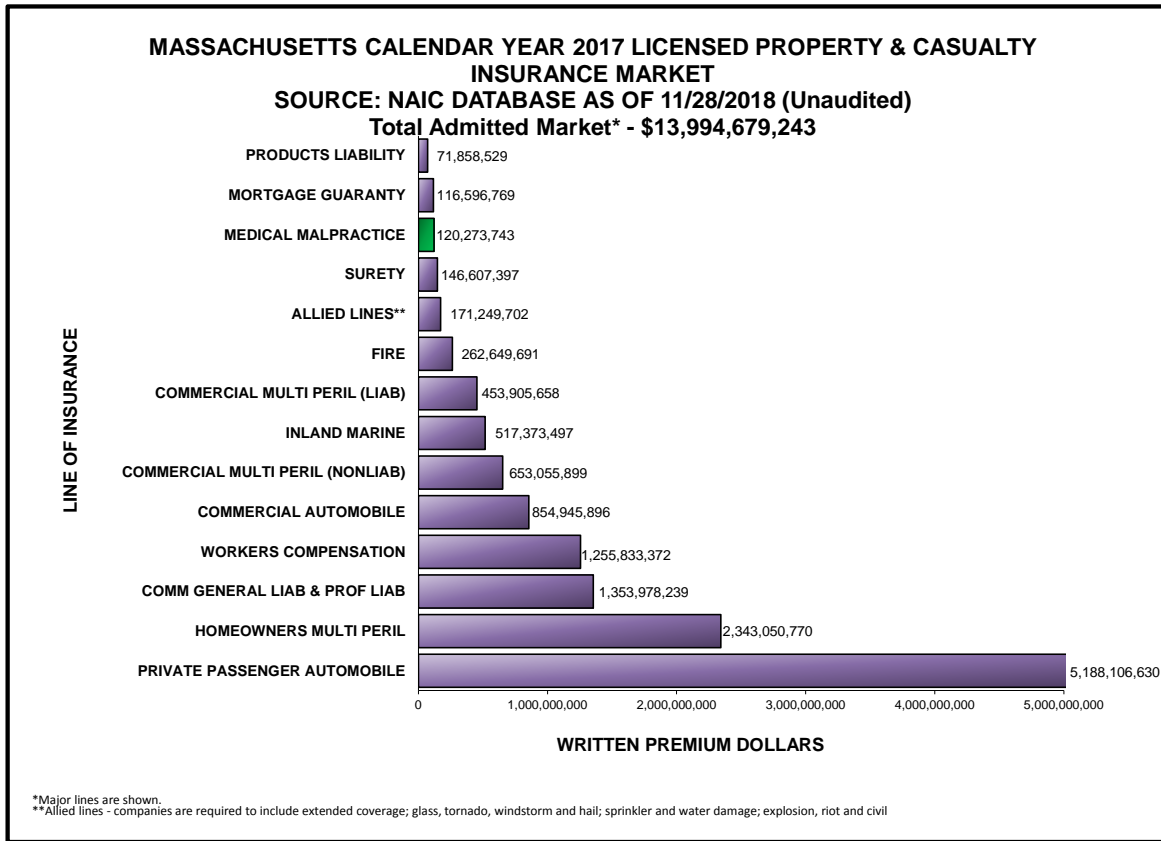


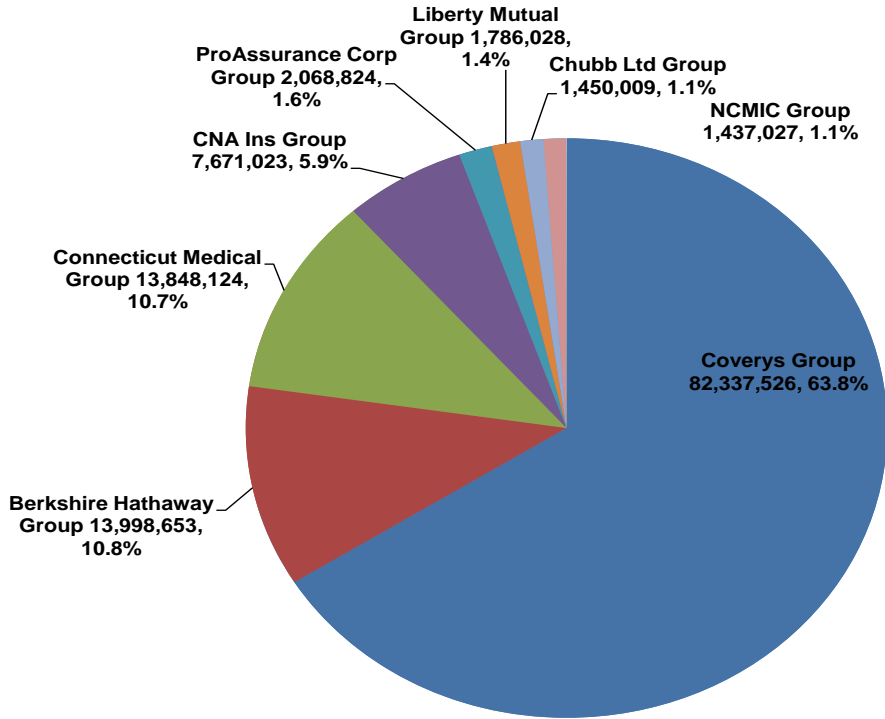
Figure 1

The Division of Insurance maintains a list of medical malpractice insurance companies on its website¹⁷ identifying the “take all comers” classes of health care professionals written by the company. The list of licensed insurance companies writing medical malpractice coverage in 2017 is in Appendix A-1.

¹⁷ The Division’s website indicates the companies that write each of the designated classes of providers <https://www.mass.gov/service-details/medical-malpractice-insurance>

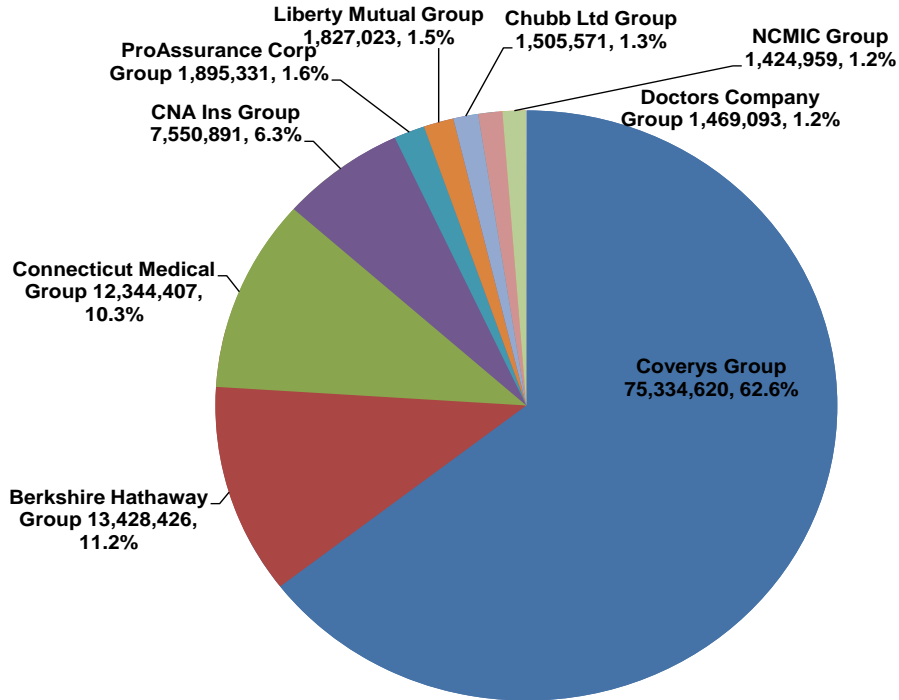
Medical Malpractice Insurance in the Massachusetts Market

**2016 MA Admitted Writers (Market Share >1%)*
\$124,597,214 of Total Admitted Market of \$129,070,083**



*Based on unaudited NAIC data - direct premium written

**2017 MA Admitted Writers (Market Share >1%)*
\$116,780,321 Total Admitted Market of \$120,273,743**



*Based on unaudited NAIC data - direct premium written

Figure 2
Massachusetts Division of Insurance

Medical Malpractice Insurance in the Massachusetts Market

As noted in Figure 2 above, the Coverys Group, composed of Medical Professional Mutual Insurance Company, ProSelect Insurance Company and Preferred Professional Insurance Company, covered the predominant share of the 2017 medical malpractice insurance policies, collecting approximately 62.6% of total insurance premium. This is a decrease from its 63.8% market share of the market in 2016.

Surplus Lines Carriers

In addition to licensed insurance companies, health care professionals also may turn to surplus lines carriers for medical malpractice coverage. Surplus lines carriers are not licensed as insurers in Massachusetts, but are licensed in another jurisdiction and can issue coverage, through specially licensed brokers, to those who cannot obtain coverage from those insurers licensed to do business in Massachusetts (often referred to as the “admitted market”). Surplus lines carriers are not subject to Massachusetts insurance laws, such as the “take all comers” requirements, and do not participate in the state’s guaranty fund. The Division of Insurance maintains a list of surplus lines carriers approved to do business in Massachusetts on its website.¹⁸ The list of surplus lines carriers writing medical malpractice coverage in 2017 is in Appendix A-2.

¹⁸ The list is located at <https://www.mass.gov/files/documents/2018/12/05/Approved-Surplus-Lines-Companies.pdf>

Medical Malpractice Insurance in the Massachusetts Market

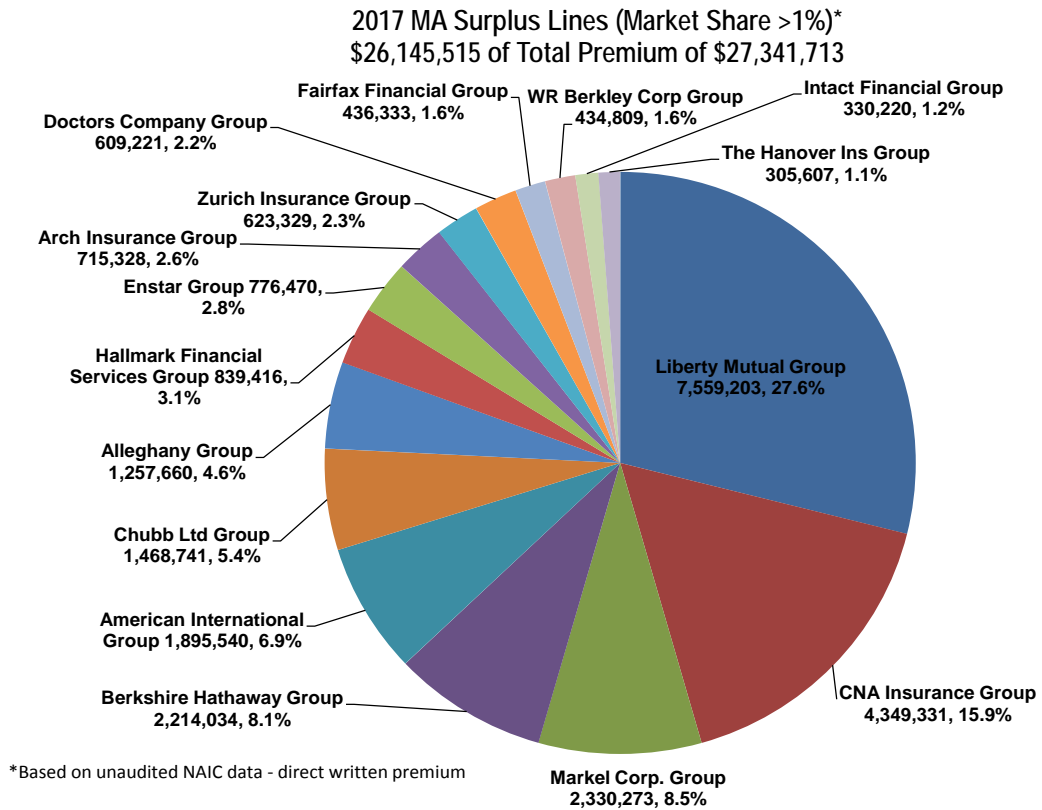
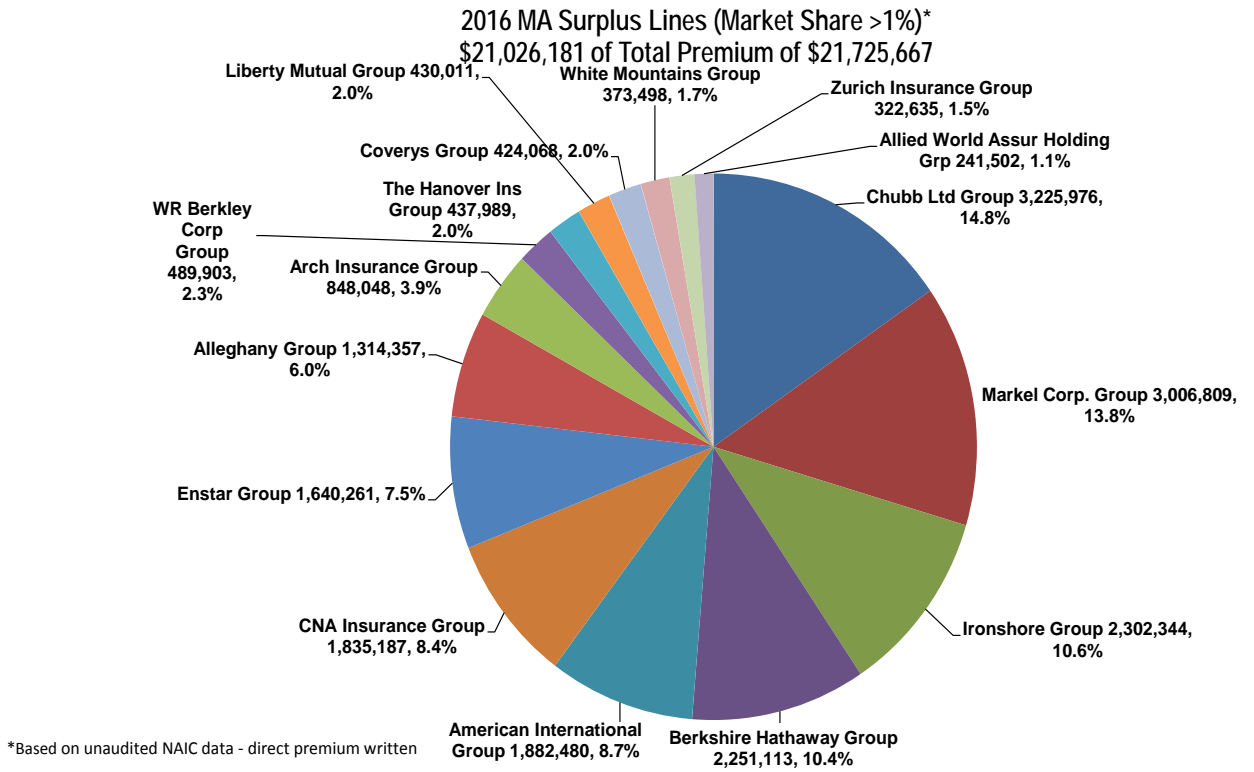


Figure 3

Medical Malpractice Insurance in the Massachusetts Market

The largest medical malpractice carrier in the surplus lines market in 2017 was Liberty Mutual Group, accounting for 27.6% of the 2017 medical malpractice policy premium provided in the surplus lines market. (Figure 3)

Risk Retention Groups

In addition to licensed insurance companies and surplus lines carriers, medical malpractice coverage also may be obtained through risk retention groups (“RRGs”). Under federal law,¹⁹ an RRG may offer liability coverage in any state, provided the RRG is licensed as an insurance company in at least one state. RRGs are specifically exempted by federal law from participation in state guaranty funds and are not subject to the “take all comers” requirements that apply to licensed insurance companies.²⁰

Under federal law,

1. An RRG can be formed and owned only by members who are engaged in a similar business or activity and with similar liability risk exposure²¹; and
2. An RRG cannot exclude eligible members solely to reduce the RRG’s risk of loss.²²

¹⁹ Liability Risk Retention Act of 1986, 15 U.S.C. § 3901.

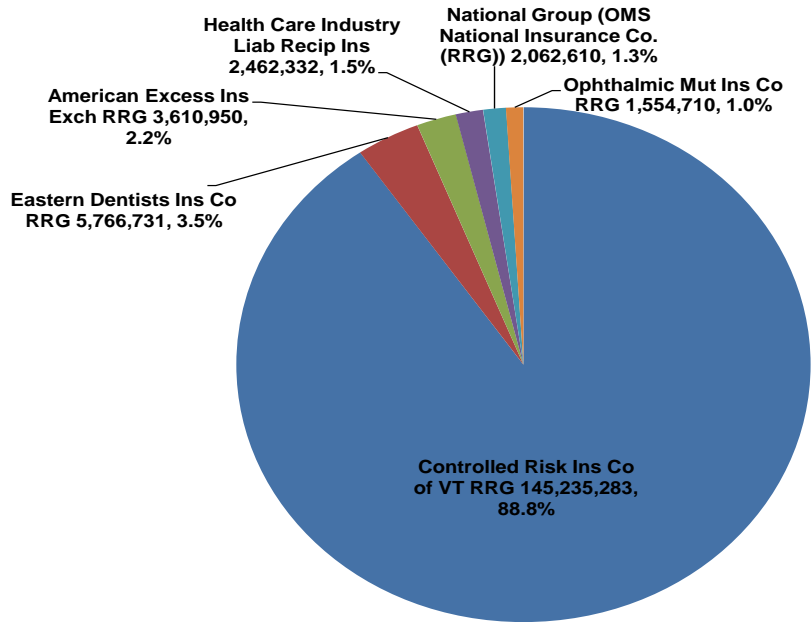
²⁰ 15 U.S.C. § 3902.

²¹ 15 U.S.C. § 3901.

²² 15 U.S.C. § 3901.

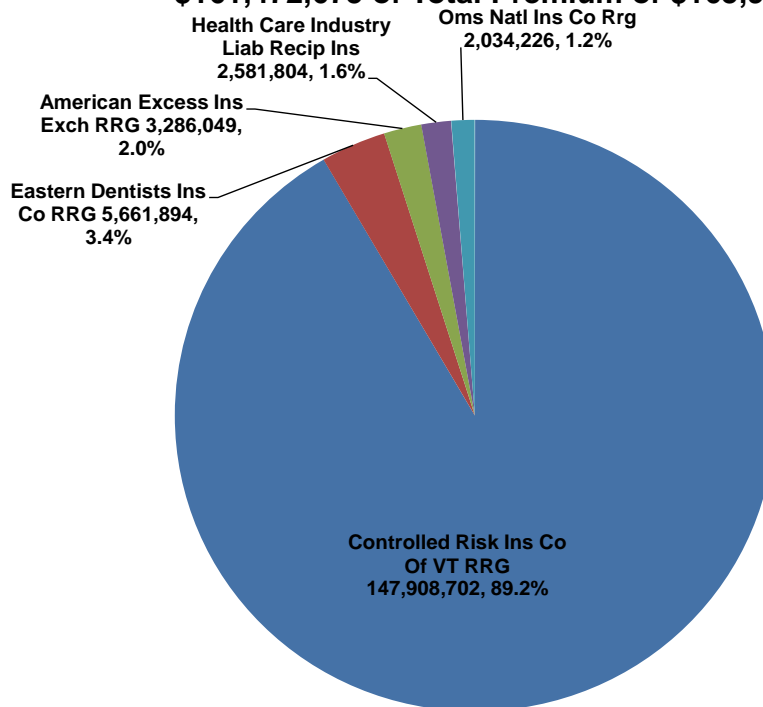
Medical Malpractice Insurance in the Massachusetts Market

**2016 MA Risk Retention Groups (Market Share >1%)*
\$160,692,616 of Total Premium of \$163,541,372**



*Based on unaudited NAIC data - direct premium written

**2017 MA Risk Retention Groups (Market Share >1%)*
\$161,472,675 of Total Premium of \$165,906,997**



*Based on unaudited NAIC data - direct premium written

Figure 4
Massachusetts Division of Insurance

Medical Malpractice Insurance in the Massachusetts Market

The Controlled Risk Insurance Company of Vermont RRG – also known as CRICO - has the predominant share of the RRG medical malpractice market, collecting approximately 88.8% of premium in 2016 and 89.2% in 2017. (Figure 4) CRICO was created in 1979 to provide professional liability coverage to the physicians and employees of Harvard-affiliated medical institutions.²³ According to CRICO’s business plan, physician applicants must meet CRICO underwriting criteria and are assigned to one of the many underwriting specialties based on level of risk exposure.

The four next largest RRGs collectively account for about 8.2% of the market, and some of them write coverage for specialty providers. The list of RRGs that were writing medical malpractice coverage in 2017 are in Appendix A-3.

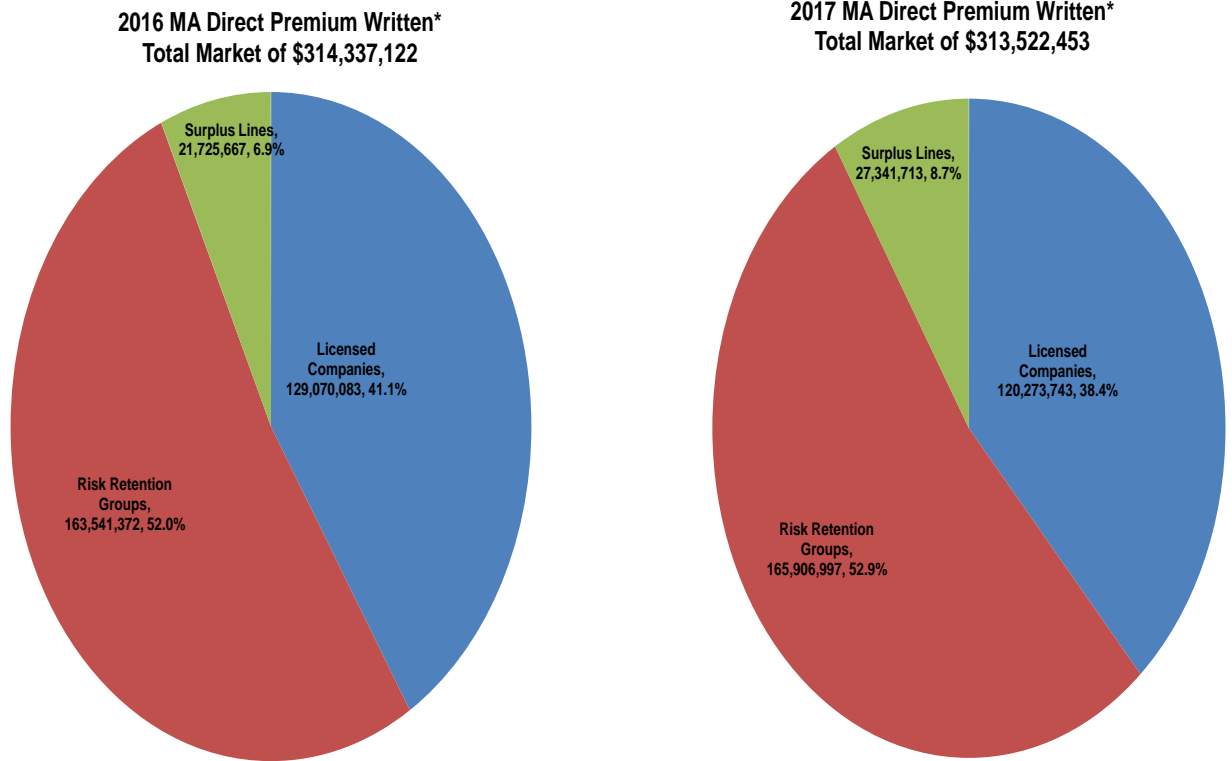
²³ Founding members of the Risk Management Foundation eligible for CRICO coverage include:

Beth Israel Hospital Association	Judge Baker’s Children Center, Inc.
Brigham and Women’s Hospital	Massachusetts Eye and Ear Infirmary
Cambridge Health Alliance	Massachusetts General Hospital
CareGroup, Inc.	Massachusetts Institute of Technology
Children’s Hospital Corporation	McLean Hospital
Dana-Farber Cancer Institute, Inc.	Mount Auburn Hospital
Faulkner Hospital	New England Baptist Hospital
Harvard Pilgrim Health Care, Inc.	New England Deaconess Hospital Corporation
Harvard School of Dentistry	Newton-Wellesley Hospital
Harvard School of Public Health	North Shore Medical Center
Harvard University Medical School	Partners HealthCare System, Inc.
Harvard University Health Services	Presidents/Fellows of Harvard University
Harvard Vanguard Medical Associates, Inc.	Spaulding Rehabilitation Hospital
Joslin Diabetes Center, Inc.	

Medical Malpractice Insurance in the Massachusetts Market

Shares of the Market

During 2017, insurers, surplus lines carriers and RRGs together wrote \$313.5 million of medical malpractice premium, with 38.4% written by insurance companies, 52.9% written by RRGs and 8.7% written by surplus lines carriers. In 2016, insurers, surplus lines carriers and RRGs together wrote \$314.3 million of medical malpractice premium, with 41.1% written by insurance companies, 52.0% written by RRGs and 6.9% written by surplus lines carriers. (Figure 5)



*Based on unaudited NAIC data - direct premium written

Figure 5

Medical Malpractice Insurance in the Massachusetts Market

In 2011, 54.1% was written by insurance companies, 40.3% was written by RRGs and 5.6% was written by surplus lines carriers. (Figure 6)

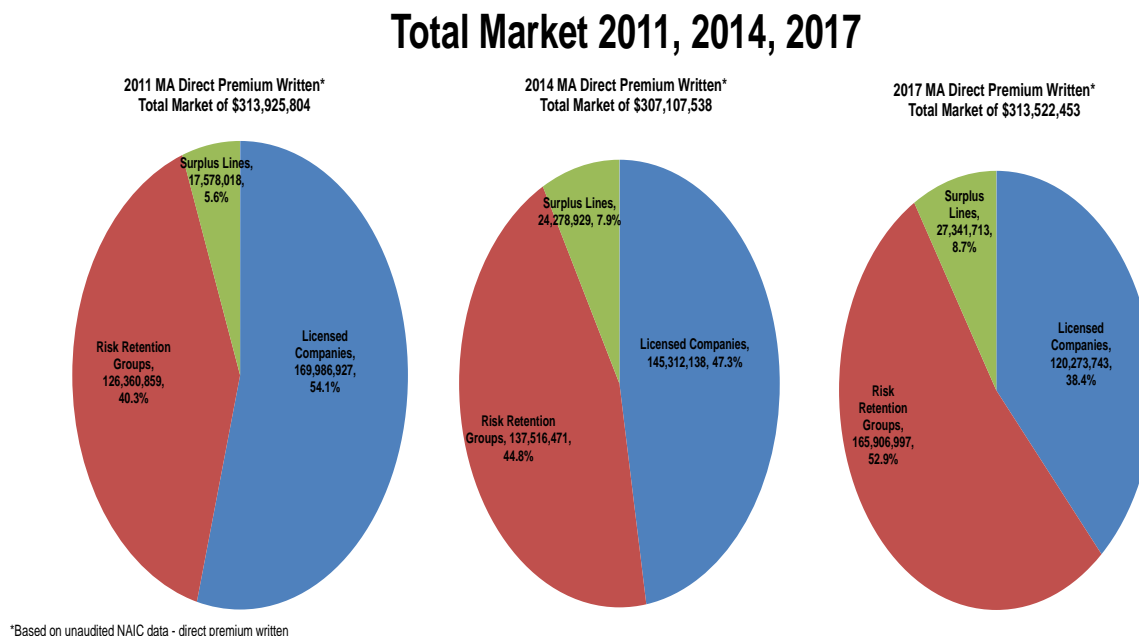


Figure 6

Financial Results for Insurance Carriers

Premiums

Financial results for providers of medical malpractice insurance are calculated based on premiums earned during the calendar year. Between calendar years 2014 and 2017, total earned premium for insurance companies, RRGs and surplus lines carriers combined increased .5%, compared with a 2.1% decrease in earned premiums between calendar years 2011 and 2014.

Licensed insurance companies had earned premium of \$125.7 million in earned medical malpractice premium in 2017, which is 17.4% less than the \$152.1 million in medical malpractice premium in 2014 and 27.2% less than the \$172.6 million in medical malpractice premium in 2011. RRGs had earned premium of \$163.3 million in 2017, which was 19.4% more than the \$136.8 million in 2014 and 29.4% more than the \$126.2 million premium in 2011. Surplus lines carriers had earned premium of \$24.1 million in 2017 which was 6.9% more than the \$22.5 million premium in 2014 and 24.2% more than the \$19.4 million in 2011. (Figure 7)

Medical Malpractice Insurance in the Massachusetts Market

The statistics above shows the rate of premium change over the period 2011 to 2017 varied considerably by the type of insurance provider. The change in the average annual premium²⁴ for licensed insurance companies decreased by 5.2%, as compared to an increase of 4.4% for RRGs, and an increase of 3.7 for surplus lines insurers.

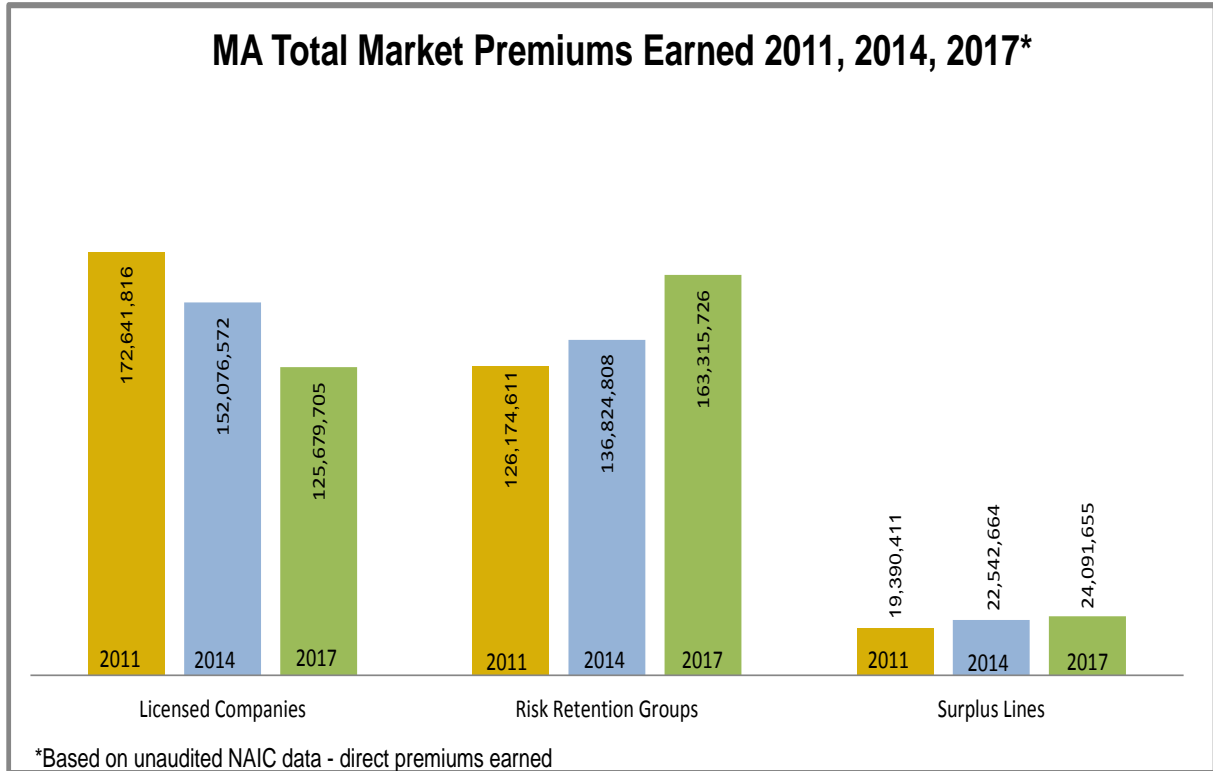


Figure 7

Claim Costs

Medical malpractice insurance premiums are based on projected medical malpractice claims costs, as well as the cost to settle or defend claims, general administrative expenses, agent commissions, and reinsurance expenses. Claims dollars are important drivers of overall costs, but examining insurance losses in financial reports may not present an accurate picture of an insurance provider's financial results. In Massachusetts, medical malpractice claims are resolved an average of six years²⁵ following a malpractice incident. Insurance losses reported in financial reports may be associated with premiums that were collected six years ago, even though they are compared with premiums that were collected in the past year.

²⁴ Average annual change is calculated as $(2017 \text{ earned premium} / 2011 \text{ earned premium})^{(1/6)} - 1.0$ using the premiums shown in Figure 7.

²⁵ National Practitioner Data Bank 2012 Annual Report, Table 24, Median and Mean Medical Malpractice Payment Delay, in Years, Between Incident and Payment, by Jurisdiction, 2003 – 2012, p.70.

Medical Malpractice Insurance in the Massachusetts Market



Figure 8

Massachusetts licensed insurance companies reported total incurred losses of \$32.3 million in 2011, which is less, compared to \$172.6 million collected in earned premiums.

On an industry basis, licensed insurance companies had incurred losses - amounts that were reserved for claims that were open in the current year as well as amounts paid out for claims during the year - of \$67.2 million in 2017 which is more than incurred losses in both 2014 and 2011 respectively.

RRGs incurred \$97.3 million in losses in 2017 which, on the other hand is higher than losses for both 2014 and 2011 respectively. Surplus lines carriers incurred \$11.4 million in losses in 2017, which is more than losses for 2014 and less than losses in 2011. (Figure 8)

Loss Ratios

Loss ratios from company financial statements (incurred losses divided by earned premium) reflect the proportion of premium dollars used to pay claims for medical malpractice. Financial statement loss ratios for medical malpractice can vary significantly from one year to the next because of changes in reserves for unpaid or unknown claims.

The calculated loss ratios for Massachusetts medical malpractice companies (licensed insurers, RRGs and surplus lines carriers) increased from 28.8% in 2011 to 56.0% in 2017. The loss ratios on a national basis for all medical malpractice companies increased from 34.6% in 2011 to 49.2% in 2017. (Figure 9)

Medical Malpractice Insurance in the Massachusetts Market

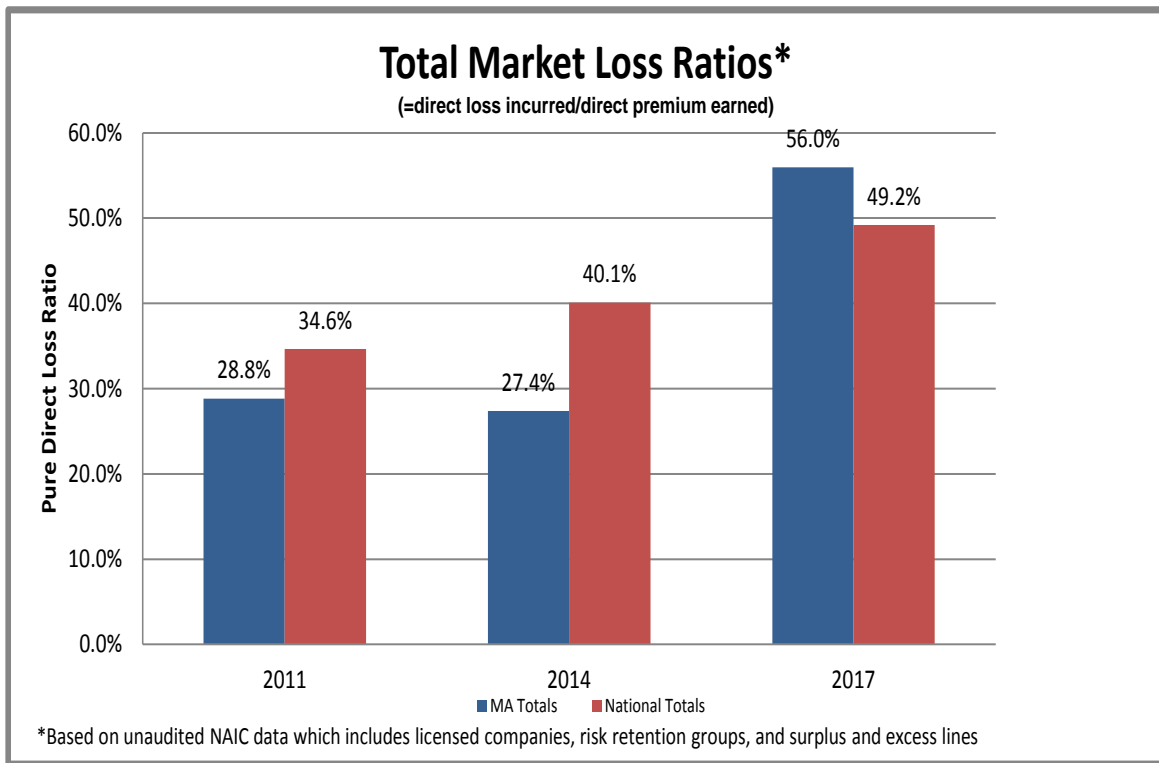


Figure 9

The licensed insurance companies' loss ratios increased from 18.7% in 2011 to 53.4% in 2017. The RRGs' loss ratios increased during this period from 37.8% in 2011 to 59.1% in 2017. The surplus lines carriers' loss ratios decreased from 60.8% in 2011 to 47.5% in 2017. (Figure 10)²⁶

²⁶Includes losses covered by reinsurance and does not necessarily reflect the loss expense of the primary insurers.

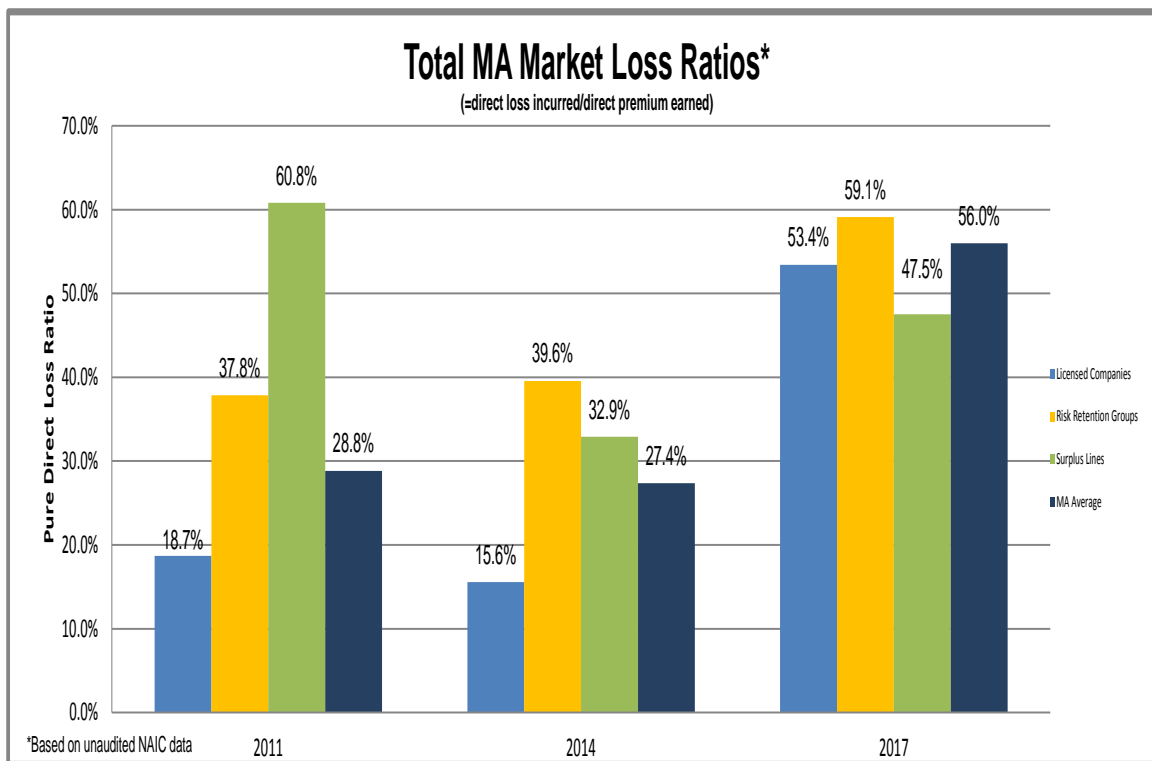


Figure 10

Profitability

An operating ratio represents the overall return on an insurer’s investment in providing medical malpractice insurance. The operating ratio reflects the loss ratio of an insurance company, as well as the costs required to run it, including claims handling, commissions to agents, advertising, taxes, and dividends to policyholders. This combined ratio is then reduced by an insurer’s investment returns, as a percentage of premium collected, to produce the operating ratio. If a company’s operating ratio is less than 100%, it has made a profit²⁷; when the operating ratio is greater than 100%, it has lost money.

The operating ratio of the medical malpractice insurance industry over time indicates whether the historic experience of the market has returns that reasonably align with expectations. Operating ratios based on historic data are not good indicators of price strength in any given year, but are helpful to understand why prices are moving in a specific direction.

Since medical malpractice loss ratios from financial statements can vary widely from year to year, the Division of Insurance monitors the operating ratios of this industry using five year moving average loss ratios. This adjustment smooths out these fluctuations, and provides a more accurate picture of claim cost trends in this market. Also, since medical malpractice is considered a “long tailed line” where claim payments may not be made for many years after a claim has occurred or been reported, the investment income earned during this delay contributes significantly to an insurer’s profitability. Because investment

²⁷Federal/state income tax and dividends to stockholders are paid out of the profits earned during the year.

Medical Malpractice Insurance in the Massachusetts Market

returns can vary widely from year to year, the Division of Insurance similarly monitors the operating ratios of this industry using five-year moving average investment returns.

Figure 11 below displays the “adjusted” operating ratios for all medical malpractice insurers licensed in Massachusetts. Column (G) indicates that the operating returns to medical malpractice insurers are trending towards profitability, and indicates that the market is increasing its financial strength.

Calculation of Adjusted Operating Ratios - Licensed Companies							
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
		5 Year	1 Year	1 Year	1 Year	5 Year Average	Average
Calendar	Earned	Moving Loss	Other	Commission	Dividend	Net Investment	Return on
Year	Premium	Ratio	Expense Ratio	& Premium Tax	Ratio	Income	Premium
2017	\$125,679	47.5%	22.7%	14.1%	8.3%	17.4%	24.8%
2016	\$133,094	44.3%	24.7%	16.2%	6.2%	17.1%	25.6%
2015	\$141,763	39.8%	16.4%	13.4%	1.4%	17.1%	46.2%
2014	\$152,077	49.2%	22.6%	10.0%	8.0%	17.4%	27.4%
2013	\$159,250	52.4%	19.2%	11.8%	6.5%	18.1%	28.1%
2012	\$173,829	54.8%	11.4%	11.6%	5.0%	14.7%	31.9%
(A) NAIC database, licensed companies only							
(B) NAIC database, calendar year direct incurred loss & DCCE adjusted by a factor of 1.071 to reflect other claims adjustment expense							
(C) Bests' Aggregates and Averages for MA licensed companies only							
(D) NAIC database, as percentage of direct written premium							
(E) NAIC database, as percentage of direct written premium							
(F) Bests' Aggregates and Averages for MA licensed companies only							
(G) = 1.0 - (B) - (C) - (D) - (E) + (F)							

Figure 11

Premiums for Medical Malpractice Coverage

Insurance companies develop premiums to pay future expected claims costs and business expenses, while also meeting company profit expectations and staying competitive with other insurance companies. Changes in future expected claim costs, business expenses, and investment returns drive changes in insurers’ rates on a yearly basis. If an insurer’s current rates are adequate to pay all claims and expenses, and provide a reasonable profit, the rates for the next year can be expected to rise by the expected changes in underlying costs.

The Coverys Group is the largest medical malpractice licensed insurer in Massachusetts, writing approximately 24.1% of the total market, and 62.6% of the admitted market. As such, its rate history can be used to illustrate the relationship between expected cost increases and changes in rates.

Medical Malpractice Insurance in the Massachusetts Market

The rate history of Medical Professional Mutual Insurance Company (part of the Coverys Group) illustrates that medical malpractice rates rose quickly in the early 2000s. Between 2000 and 2004, Medical Professional's physician and surgeon average rates increased each year by at least 9.0%. After 2004, Medical Professional's rate changes were much more moderate, and less than their projected rate of cost increases ranged from -2.3% to 5.3%. (Figure 12)

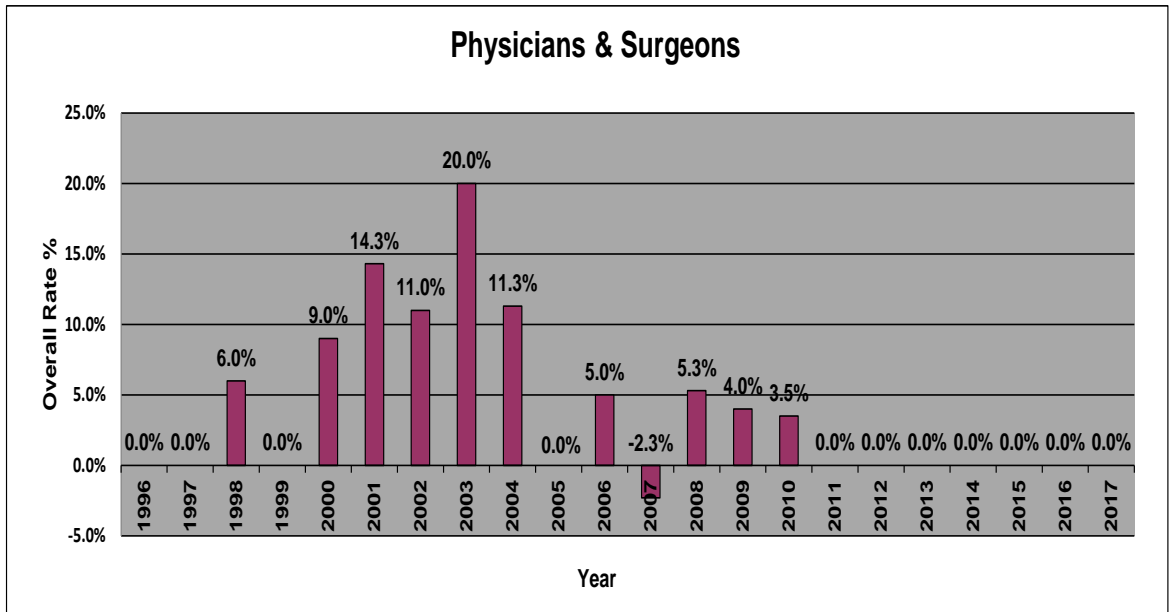


Figure 12

The rate change history of the Medical Professional Mutual Insurance Company supports the expectation that returns have improved, and that, absent any dramatic change in underlying claim costs or investment returns, rate changes have remained flat or declined from a high in 2003.

Average Claim Costs for Medical Malpractice Coverage

Regarding the size and type of paid claims, Massachusetts continues to have higher claim payouts than other states. In 2017, the median Massachusetts medical malpractice payment made on behalf of physicians was \$400,000, the fourth highest in the country only behind Illinois (first) with Connecticut, New Hampshire, Pennsylvania and Rhode Island (tied for second) and Wyoming (third). In 2017, the mean Massachusetts medical malpractice payment made on behalf of physicians was \$583,830, ninth in the country.

Medical Malpractice Insurance in the Massachusetts Market

National Practitioner Data Bank

Median and Mean Medical Malpractice Payments and Rank by Jurisdiction for 2017

State	2017 Median Payment	Rank	2017 Mean Payment	Rank
Alabama	\$200,000	22	\$436,748	17
Alaska	\$281,250	14	\$856,531	1
Arizona	\$217,500	21	\$373,050	26
Arkansas	\$320,000	8	\$462,628	14
California	\$100,000	35	\$276,628	42
Colorado	\$225,000	20	\$432,715	19
Connecticut	\$500,000	2	\$745,833	4
Delaware	\$342,500	7	\$406,594	23
District of Columbia	\$312,500	9	\$657,100	5
Florida	\$200,000	22	\$247,587	46
Georgia	\$350,000	6	\$523,132	10
Hawaii	\$287,500	13	\$457,630	15
Idaho	\$307,500	11	\$421,814	22
Illinois	\$600,000	1	\$851,273	2
Indiana	\$150,000	30	\$249,425	44
Iowa	\$250,000	18	\$347,557	31
Kansas	\$200,000	22	\$198,053	50
Kentucky	\$175,000	27	\$373,972	25
Louisiana	\$95,000	36	\$217,411	49
Maine	\$291,250	12	\$792,383	3
Maryland	\$250,000	18	\$355,892	30
Massachusetts	\$400,000	4	\$583,830	9
Michigan	\$150,000	30	\$277,173	41
Minnesota	\$135,000	31	\$356,681	29
Mississippi	\$200,000	22	\$281,892	40
Missouri	\$195,000	23	\$357,127	28
Montana	\$192,500	24	\$394,445	24
Nebraska	\$280,000	15	\$316,706	36
Nevada	\$125,000	34	\$321,506	35
New Hampshire	\$500,000	2	\$625,460	8
New Jersey	\$375,000	5	\$517,567	11
New Mexico	\$200,000	22	\$287,268	39
New York	\$350,000	6	\$484,560	13
North Carolina	\$130,308	32	\$303,406	37
North Dakota	\$312,500	9	\$321,875	34
Ohio	\$275,000	16	\$425,627	21
Oklahoma	\$150,000	30	\$253,890	43
Oregon	\$250,000	18	\$630,455	7
Pennsylvania	\$500,000	2	\$435,172	18
Rhode Island	\$500,000	2	\$643,558	6
South Carolina	\$156,000	29	\$234,737	47
South Dakota	\$182,500	25	\$186,200	51
Tennessee	\$181,001	26	\$338,600	33
Texas	\$129,390	33	\$219,003	48
Utah	\$265,500	17	\$448,115	16
Vermont	\$165,891	28	\$296,964	38
Virginia	\$310,000	10	\$501,489	12
Washington	\$250,000	18	\$430,072	20
West Virginia	\$237,500	19	\$360,369	27
Wisconsin	\$100,000	35	\$249,184	45
Wyoming	\$412,500	3	\$344,000	32

Note: Year is malpractice payment year.

Figure 13²⁸

²⁸ Figure 13 and Figure 14 are from the National Practitioner Data Bank. More recent National Practitioner Data for figure 14 was not available at the time of this report.

Medical Malpractice Insurance in the Massachusetts Market

Obstetric-related malpractice paid claims, nationally, continue to have the highest average claim payouts. In 2012, the average national medical malpractice payment made on behalf of physicians for obstetrics related claims was \$572,199. When examining claim payments made over the ten years from 2003 to 2012 the average national medical malpractice payment made on behalf of physicians for obstetrics related claims was \$548,733. The national median obstetrics related payment was \$350,000 in 2012 and over the ten years from 2003 to 2012 the median payment was \$300,000. Diagnosis related malpractice claim payments ranked the second highest nationally with an average claim payment in 2012 of \$388,892 and over the ten years from 2003 to 2012 the average claim payment was \$378,730. (Figure 14)

National Practitioner Data Bank 2012 Annual Report

Table 25: Mean and Median Physician Malpractice Payments, 2003 - 2012

Payment Reason	Median Payment		Number of Payments		Mean Payment	
	2012	2003-2012	2012	2003-2012	2012	2003-2012
Obstetrics Related	\$350,000	\$300,000	585	9,321	\$572,199	\$548,733
Anesthesia Related	\$239,980	\$200,000	2,872	37,836	\$373,476	\$340,667
Diagnosis Related	\$227,500	\$200,000	222	3,298	\$388,892	\$378,730
Monitoring Related	\$170,000	\$152,500	323	3,306	\$293,769	\$315,952
IV & Blood Products Related	\$169,400	\$150,000	2,559	30,782	\$319,332	\$271,443
Treatment Related	\$150,000	\$140,000	1,804	22,331	\$286,892	\$264,929
Surgery Related	\$140,000	\$150,000	21	247	\$205,203	\$241,172
Medication Related	\$125,000	\$125,000	511	5,942	\$246,756	\$241,885
Behavioral Health Related	\$75,000	\$75,000	222	2,407	\$278,249	\$211,332
Other Miscellaneous	\$65,625	\$100,000	26	379	\$282,567	\$236,656
Equipment/Product Related	\$30,000	\$55,000	49	627	\$160,323	\$145,413

Note: Year is malpractice payment year.

Figure 14

Medical Malpractice Insurance in the Massachusetts Market

Premiums Compared to Those of Other States

Coverys submitted materials to supplement testimony it presented at the October 3, 2008 hearing presenting the rates the company charges by physician specialty in six Northeast states.²⁹ These rates since have been updated to reflect Massachusetts' rates as of October 1, 2018. The rates that the company charges, generally, in Massachusetts and Connecticut are among the highest of the six states, but not for every specialty. (Figure 15)

COVERYS GROUP'S (FORMERLY PROMUTUAL GROUP) MATURE RATES BY CLASS AS OF 10/1/2018 FOR CLAIMS MADE POLICIES*							
25 HIGHEST MASSACHUSETTS COMPARED TO RATES IN OTHER NORTHEAST STATES							
Class	Description	Massachusetts Effective 7/1/2015	Connecticut Effective 12/1/2017	Rhode Island Effective 9/30/2018	N. Hampshire Effective 10/1/2018	New Jersey Effective 1/1/2018	PA-Territory 4 Effective 9/1/2018
80152	Neurology - incl children, major surgery	111,274	128,614	105,239	120,602	104,908	105,380
80153	OB, gynecology, major surgery	104,071	142,447	116,895	81,890	113,829	111,229
80168	OB, major surgery	104,071	142,447	116,895	81,890	113,829	111,229
80154	Orthopedic incl. spinal, major surgery	89,418	52,416	76,690	69,979	72,807	79,050
80146	Vascular, major surgery	59,257	70,154	65,021	61,046	59,569	64,678
80150	Cardiovascular disease, major surgery	59,257	70,154	79,737	61,046	60,614	60,709
80170	Head & neck, major surgery	59,257	70,154	48,204	53,601	60,614	60,709
80171	Traumatic, major surgery	59,257	70,154	65,021	61,046	60,614	60,709
80354	Orthopedic excl. spinal, major surgery	48,353	37,776	61,377	53,601	59,569	64,678
80141	Cardiac, major surgery	48,305	52,416	46,610	61,046	60,614	60,709
80143	General (NOC), major surgery	48,305	88,142	46,610	54,121	60,614	60,709
80144	Thoracic, major surgery	48,305	70,154	48,204	61,046	59,569	64,678
80155	Plastic - otorhinolaryngology, major surg.	48,305	70,154	65,021	50,623	60,614	60,709
80156	Plastic (NOC), major surgery	48,305	70,154	65,021	50,623	60,614	60,709
80157	Emergency med, incl major surg (brd cert)	48,305	37,776	46,610	53,601	37,608	43,247
80166	Abdominal, major surgery	48,305	52,416	46,610	50,623	60,614	60,709
80167	Gynecology, major surgery	48,305	52,416	46,610	53,601	60,614	60,709
80169	Hand, major surgery	48,305	52,416	44,159	50,623	60,614	60,709
80184	Bariatric, major surgery	48,305	88,142	46,610	50,623	60,614	60,709
80465	Emergency med, inc major surg (no brd ce	48,305	37,776	46,610	NA	37,608	43,247
80102	Emergency med, no major surg (brd cert)	33,170	34,628	31,894	22,126	30,395	33,991
80464	Emergency med, no major surg (no brd ce	33,170	34,628	31,894	22,126	30,395	33,991
80101	Bronco-Esophagology, major surgery	32,143	37,776	26,994	35,734	24,794	26,921
80103	Endocrinology, major surgery	32,143	37,776	26,994	35,734	18,665	20,266
80104	Gastroenterology, major surgery	32,143	37,776	26,994	25,312	24,794	26,921

*Coverys mature rates in a claims made policy are for those doctors who have been covered under the claims made policy for five or more years.

Figure 15

Among the specialty groups, Massachusetts' average rates for the obstetrician rating classes (80153 and 80168) are both \$104,071; this is in the middle of rates reported for five other Northeast Region states, but over \$22,000 more than what is reported for rates for obstetricians in New Hampshire.

²⁹ Rates presented by Coverys that are being charged across six Northeast states for the same level of claims-made coverage. The presented chart is for the 25 highest rated specialty classes in Massachusetts with 1M/3M limits of liability, with the exception of Connecticut, where the limits are 1M/4M.

Recent Medical Malpractice Reforms

Chapter 224 of the Acts of 2012³⁰ - An Act Improving The Quality of Health Care and Reducing Costs Through Increased Transparency, Efficiency and Innovation helped address some of the Division's 2007 recommendations by establishing new statutory provisions that prevent a patient from commencing a legal medical malpractice lawsuit against a Massachusetts-based health care provider until 182 days after the patient has given the health care provider a written notice of a malpractice claim. Essentially, this so-called "cooling-off period" establishes a period of time during which the aggrieved patient and the health care providers might communicate and exchange documents prior to the commencement of litigation, in the hope that the two sides may resolve the malpractice claim. This statute also makes a provider's apology inadmissible as evidence in a medical malpractice proceeding.

Chapter 224 of the Acts of 2012 also increases the statutory cap on medical malpractice damages for non-profit organizations that provide health care from \$20,000 to \$100,000, exclusive of interest and costs, and lowers the interest rate on malpractice damages from 4 percent to 2 percent.

These changes are intended to allow for more claims to be settled prior to any cases going into litigation. Prior to these changes, many health care providers may not have learned that a lawsuit had been filed until they were notified by the Medical Malpractice Tribunal. Chapter 224 also provides health care providers with the opportunity to seek dismissal of malpractice actions brought by plaintiffs who fail to comply with the statute's notice requirements.

Conclusion

While medical malpractice premiums have been relatively stable over the past several years, many health care professionals consider them to be too high and too prone to increase. While medical malpractice premiums can change for many reasons, Massachusetts' relative high cost compared to that of other states appears to be tied to the higher cost of medical malpractice claims here.

The Division's 2007 report analyzed different reasons that medical malpractice costs may be high, and proposed ideas to reform the tort or medical systems. Specifically, the 2007 report examined ways to address the number and size of medical malpractice claims by looking at the following types of changes:

- Improving communications between patients and health care professionals to improve trust, reduce unreasonable expectations and avoid lawsuits;
- Shifting malpractice risk from individuals to enterprises - *e.g.*, hospitals and health plans - because systems' problems are responsible for many medical errors;

³⁰ Please see Chapter 224 of the Acts of 2012 sections 220, 221, 222, and 223 for complete description at <https://malegislature.gov/Laws/SessionLaws/Acts/2012/Chapter224>.

Medical Malpractice Insurance in the Massachusetts Market

- Changing the tort system - *e.g.*, limiting medical malpractice awards and establishing new procedural tort standards - to reduce unnecessary lawsuits and lower the cost of those that remain; and
- Preventing medical errors - *e.g.*, disclosing all medical errors and establishing medical standards of care - to reduce patient injuries.

The 2007 report identified that certain specialties (*e.g.*, obstetrics and gynecology) have higher claims and higher premiums than other specialties and identified that there may be ways to temper premiums for these specialties by looking at the following changes:

- Increasing other providers' premiums to subsidize high-risk providers' premiums;
- Assessing insurers to subsidize high-cost providers' premiums; and
- Establishing limited no-fault systems to review claims for high-cost providers.

Although the Division did not conduct the same analysis for this report or previous calendar year reports, it does believe that the calendar year 2007 analysis and recommendations remain valid for the Massachusetts medical malpractice market today.

Medical Malpractice Insurance in the Massachusetts Market

Appendix A-1: Medical Malpractice Insurance Companies

The following list identifies the admitted insurance companies that reported Massachusetts premium revenue for medical malpractice coverage during 2017:³¹

Company Name	Domicile
ACE American Insurance Company	PA
Ace Fire Underwriters Insurance Company	PA
Ace Property & Casualty Insurance Company	PA
Allied World Insurance Company	NH
Allied World Specialty Insurance Company	DE
American Alternative Insurance Corporation	DE
American Casualty Company of Reading, Pennsylvania	PA
Aspen American Insurance Company	TX
Atlantic Specialty Insurance Company	NY
Beazley Insurance Company, Inc.	CT
Berkshire Hathaway Specialty Insurance Company	NE
Church Mutual Insurance Company	WI
Connecticut Medical Insurance Company	CT
Continental Casualty Company	IL
Doctors Company An Interinsurance Exchange	CA
Fair American Insurance and Reinsurance Company	NY
Fortress Insurance Company	IL
Great American Assurance Company	OH
Great American Insurance Company of NY	NY
Great Divide Insurance Company	ND
Hudson Insurance Company	DE
Liberty Insurance Underwriters, Inc.	IL
Medical Mutual Insurance Company of Maine	ME
Medical Professional Mutual Insurance Company	MA
Medical Protective Company	IN
National Union Fire Insurance Company of Pittsburgh, PA	PA
NCMIC Insurance Company	IA
PACO Assurance Company, Inc.	IL
Pharmacists Mutual Insurance Company	IA
Philadelphia Indemnity Insurance Company	PA
Podiatry Insurance Company of America	IL
Preferred Professional Insurance Company	NE
Professional Solutions Insurance Company	IA
ProSelect Insurance Company	NE
State Farm Fire and Casualty Company	IL

³¹ According to direct written premium reported to the National Association of Insurance Commissioners.

Medical Malpractice Insurance in the Massachusetts Market

Appendix A-2: Medical Malpractice Surplus Lines Carriers

The following list identifies the surplus lines carriers that reported Massachusetts premium revenue for medical malpractice coverage during 2017:³²

Company Name	Domicile
Admiral Insurance Company	DE
AIX Specialty Insurance Company	DE
Allied World Assurance Company (U.S.), Inc.	DE
Allied World Surplus Lines Insurance Company	AR
Arch Specialty Insurance Company	MO
Aspen Specialty Insurance Company	ND
AXIS Surplus Insurance Company	IL
Berkley Assurance Company	IA
Capitol Specialty Insurance Corporation	WI
Chubb Custom Insurance Company	NJ
Colony Insurance Company	VA
Columbia Casualty Company	IL
Coverys Specialty Insurance Company	NJ
Endurance American Specialty Insurance Company	DE
Evanston Insurance Company	IL
Gemini Insurance Company	DE
General Star Indemnity Company	DE
Hallmark Specialty Insurance Company	OK
Homeland Insurance Company of New York	NY
Houston Specialty Insurance Company	TX
Hudson Specialty Insurance Company	NY
Illinois Union Insurance Company	IL
Ironshore Specialty Insurance Company	AZ
James River Insurance Company	OH
Kinsale Insurance Company	AR
Landmark American Insurance Company	NH
Lexington Insurance Company	DE
Liberty Surplus Insurance Corporation	NH
Mt. Hawley Insurance Company	IL
National Fire & Marine Insurance Company	NE
Navigators Specialty Insurance Company	NY
NORCAL Specialty Insurance Company	PA
ProAssurance Casualty Company	MI
QBE Specialty Insurance Company	ND
StarStone Specialty Insurance Company	DE
Steadfast Insurance Company	DE
TDC Specialty Insurance Company	DC
Western World Insurance Company, Inc.	NH

³² According to direct written premium reported to the National Association of Insurance Commissioners.

Appendix A-3: Medical Malpractice Risk Retention Groups

In Massachusetts, the following Risk Retention Groups (RRGs) reported Massachusetts premium revenue for medical malpractice coverage during 2017:³³

Company Name	Domicile
Academic Medical Professionals Insurance, LLC (RRG)	VT
Affiliates Insurance Reciprocal (RRG)	VT
Allied Professionals Insurance Company (RRG)	AZ
American Association of Orthodontists (RRG)	AZ
American Excess Insurance Exchange (RRG)	VT
Applied Medico Legal Solutions (RRG)	AZ
BeaconHarbor Mutual (RRG)	ME
Caring Communities Reciprocal (RRG)	DC
CMIC (RRG)	DC
Controlled Risk Ins Co of VT (RRG) [aka CRICO]	VT
Eastern Dentists Insurance Company (RRG)	VT
Emergency Physicians Insurance Exchange (RRG)	VT
Franklin Casualty Insurance Company (RRG)	VT
Green Hills Insurance Company (RRG)	VT
Health Care Industry Liability Reciprocal Insurance Company	DC
Ironshore RRG (DC) Inc.	DC
Lone Star Alliance (RRG)	DC
MMIC RRG, Inc.	DC
Oms National Insurance Company (RRG)	IL
Ophthalmic Mutual Insurance Company (RRG)	VT
Preferred Physicians Medical (RRG)	MO
Scrubs Mutual Assurance Company (RRG)	NV
The Doctors Company a Reciprocal Exchange (RRG)	DC
Urgent Care Assurance Company RRG, Inc.	NV

³³ According to direct written premium reported to the National Association of Insurance Commissioners.