



Tort Reform in Iowa, State of the Healthcare Liability Insurance Marketplace, and Future Predictions

By: Cameron James, Healthcare Insurance Broker, AssuredPartners
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Last week, Iowa Governor Kim Reynolds, signed Tort Reform Bill HF 161, which caps non-economic damages in medical malpractice cases in the state. For hospitals, the cap is \$2,000,000. For all other healthcare organizations, the cap is \$1,000,000.

Many people are now wondering how this will affect professional liability insurance rates in Iowa – in the short and long term. Before predicting how this legislation will affect rates, it's important to understand the current environment in the professional liability insurance marketplace.

State of Insurance Market for Professional Liability Coverage in Healthcare

As illustrated by the charts that follow, healthcare liability insurers are operating at very high combined ratios. The combined ratio measures the incurred losses and expenses in relation to total collected premiums. The loss ratio measures the total incurred losses in relation to the total collected premiums. Together, they are used to measure the profitability of an insurance company.

For several years, many top healthcare liability insurers have been operating at a combined ratio of greater than 100%. For insurers to return to profitability, premiums must go up, or claim costs must go down. Because claim costs have been trending sharply upward in recent years, insurers are increasing premiums.

Combined Loss Ratio by Insurer

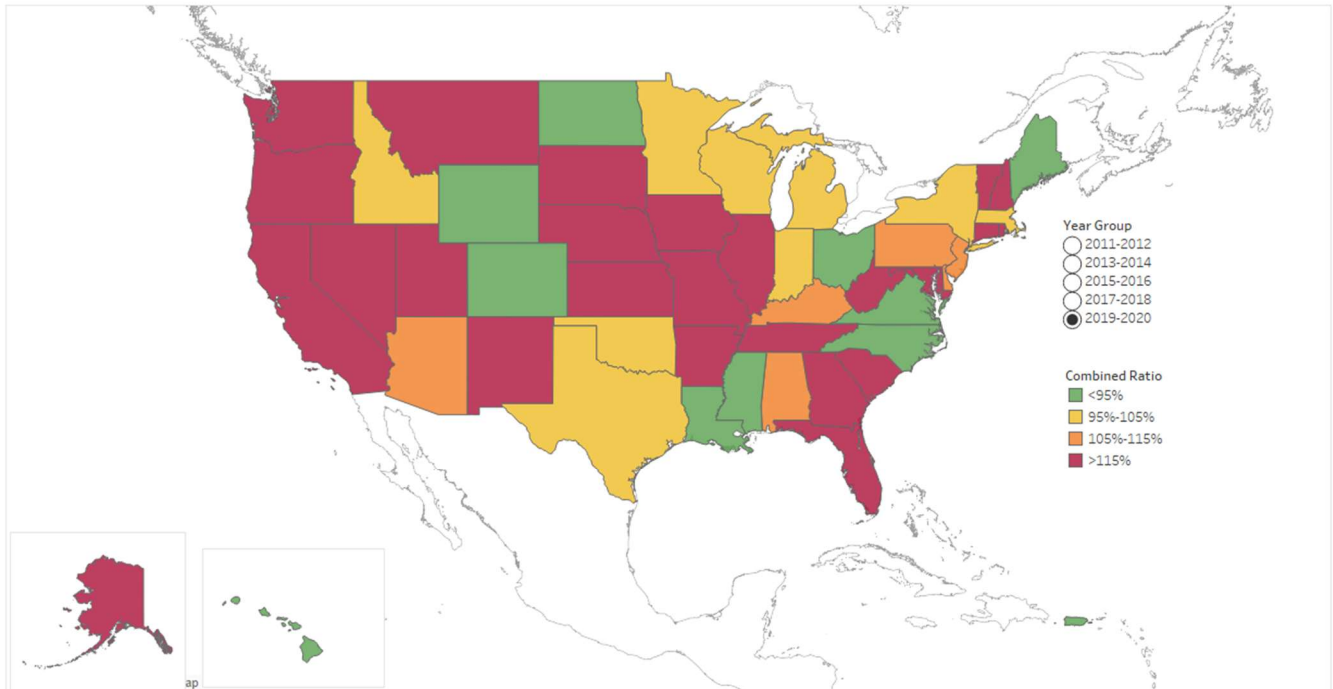
Group	2017	2018	2019	2020	2020 DWP
MedPro Group	87%	92%	98%	97%	1,448
TDC Group	100%	97%	105%	101%	963
CNA	106%	110%	115%	135%	609
Coverys	123%	117%	126%	129%	523
ProAssurance	88%	105%	136%	130%	436
MagMutual	110%	111%	115%	109%	369
NORCAL	106%	103%	171%	133%	360
Liberty Mutual	128%	104%	101%	132%	263
MMIC	96%	109%	108%	126%	173
EmPro	96%	64%	42%	75%	170
ISMIE	117%	121%	131%	137%	166
Chubb	99%	124%	69%	142%	151
W.R. Berkley	107%	102%	103%	91%	143
Curi	79%	81%	89%	108%	140
Alleghany	84%	87%	95%	88%	134
Physicians Ins - A Mutual	108%	106%	112%	116%	126
SVMIC	91%	99%	104%	107%	114
COPIC	109%	97%	106%	107%	102

Source: S&P Global Market Intelligence.

National Insurers' Combined Ratios per State

HCL Industry Combined Ratio

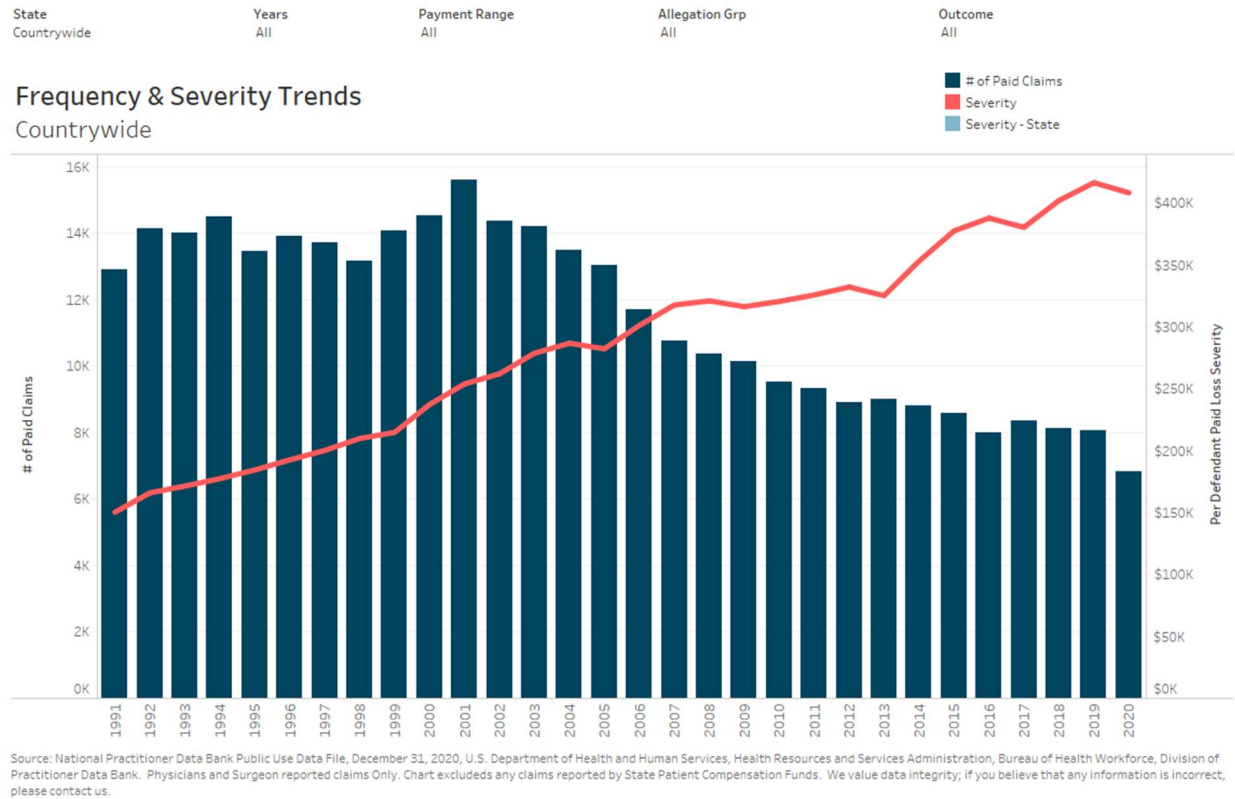
This map illustrates changes in combined ratio over the last eight years.

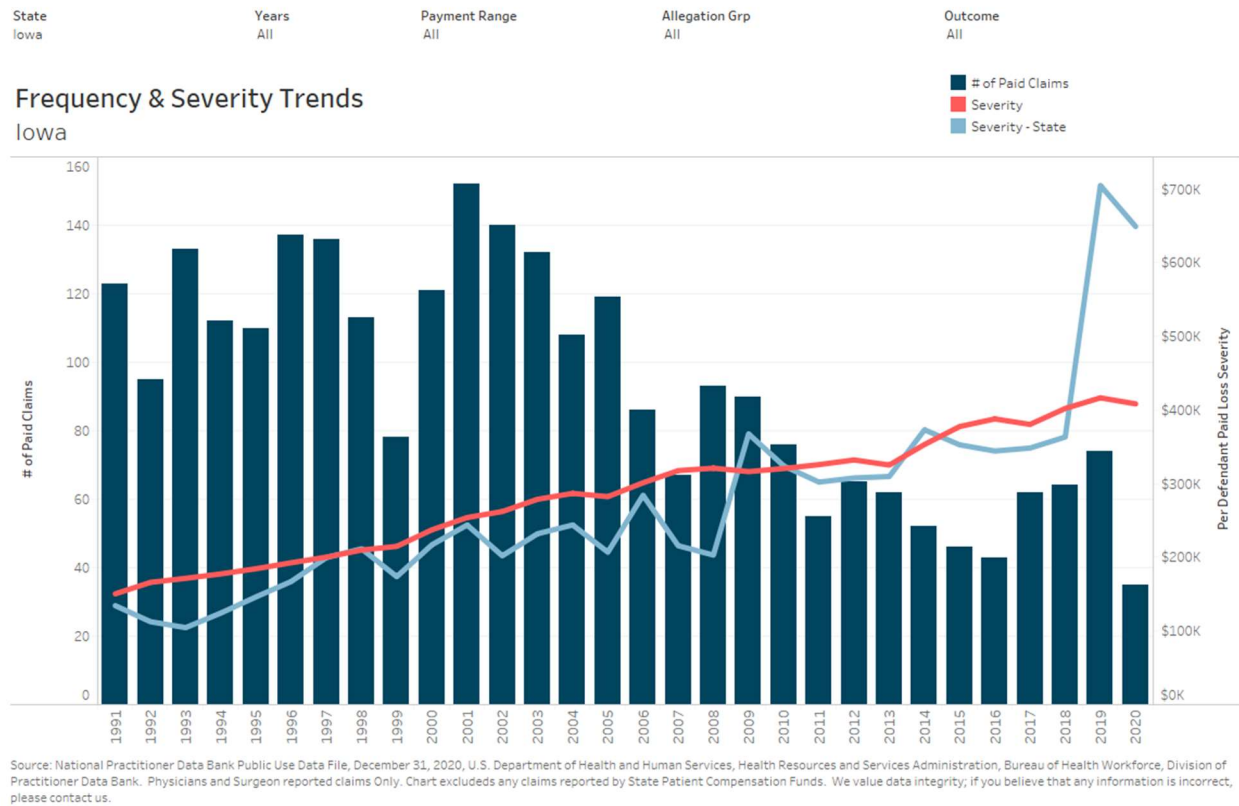


Source: HCL Industrywide data as calculated by S&P Global Market Intelligence. State HCL calendar year combined ratio based upon: (1) incurred losses, (2) allocated loss adjustment expenses incurred, (3) policyholder dividends, and (4) expenses. We value data integrity; if you believe that any information is incorrect, please contact us.

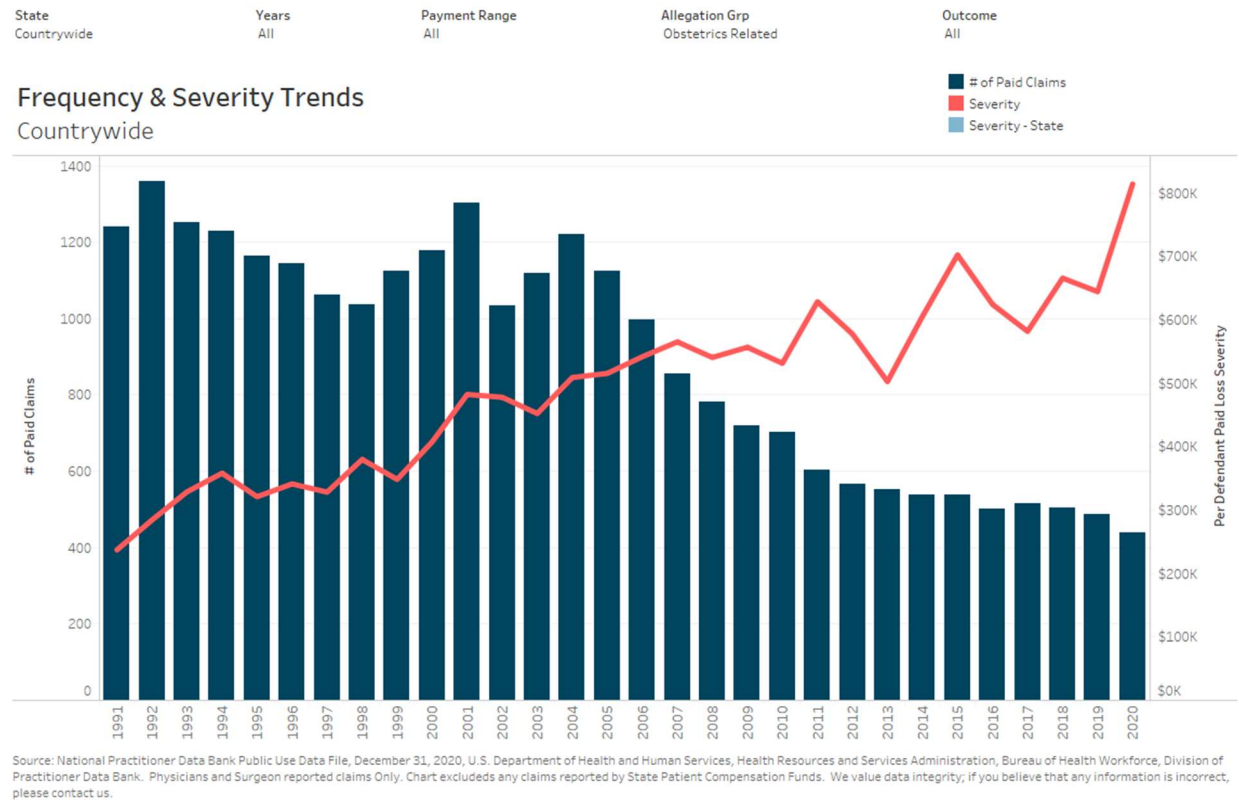
Claim Severity

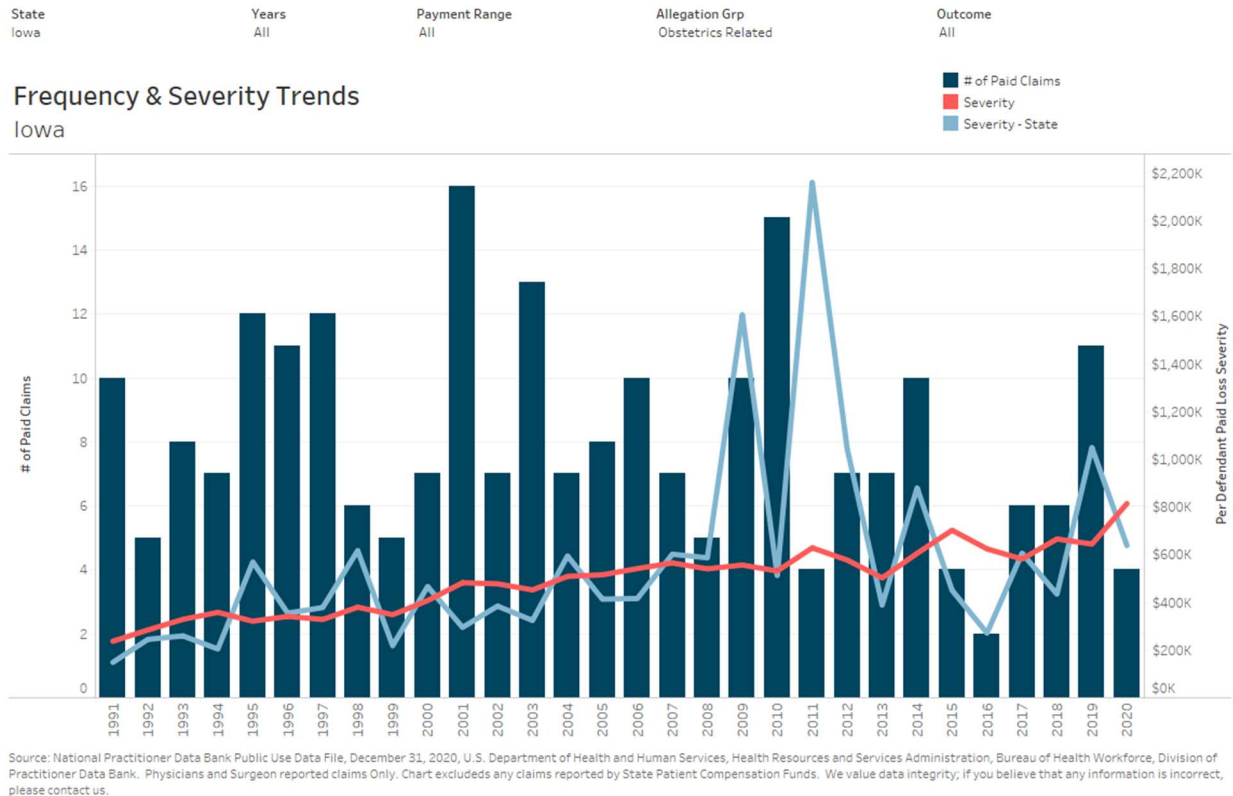
The severity of claims has been trending steadily upward countrywide and sharply upward in Iowa. We expect Iowa's severity trendline for 2022 to show an even sharper increase with the recent \$97.4MM verdict in S.K. v. Mercy Hospital Iowa City. This verdict, handed down by a jury in Johnson County, represents the largest medical malpractice verdict in state history.





Perhaps not surprisingly, obstetrics-related claims have been even less favorable than healthcare liability claims overall:





How Will Tort Reform and the Cap Affect Insurance Rates

Based on available data, we understand that insurance companies have been paying out more claims than they have been collecting in premiums. Many of these claim payouts are due to recent large verdicts that Iowa has seen.

Short-Term (Next 2-3 Years):

With insurance companies seeing combined ratios of over 100%, they will need to make up for their losses within the next 2-3 years. Insurance premiums will continue to rise, but perhaps not at the percentage increase that they have been recently. Many organizations and hospitals have seen upwards of 25% rate increases within the past year. I anticipate this will drop to 5-10% over the next few years, and with proper leverage and brokering, some organizations might even see flat renewals or slight rate decreases.

Long-Term (Next 5-10 Years):

This legislation should allow insurance companies to flip their combined ratios to a more favorable level within 5-10 years because they will no longer risk paying out nuclear verdicts for non-economic damages. Once insurance companies start to see combined ratios and loss ratios back near 70%, they can pass on some of the savings to their insureds. It will take a few years for these ratios to come back to a favorable level, but once they do, Iowa's healthcare organizations will see more stabilization in terms of insurance rates.

About the Author



Cameron James

Healthcare Insurance Broker at AssuredPartners

Cam is currently one of Iowa's top insurance agents/brokers for healthcare organizations. He works with over 30 healthcare organizations, brokering Property & Casualty insurance and tailoring risk management programs. His specialties include Medical Malpractice/Professional Liability, Cyber, Property, Workers' Compensation, Auto, General Liability, Umbrella, Directors & Officers, and Employment Practices Liability.

Cam joined AssuredPartners in September of 2021 and now leads their Healthcare Team out of the West Des Moines, IA, office. He has had a passion for healthcare his entire life, as both of his parents spent their entire careers in it. Cam is originally from Peosta, IA, but now resides in Norwalk, IA. In his free time, he enjoys golfing, watching sporting events, spending time with family and friends, and cheering on his Iowa Hawkeyes.

AssuredPartners is the 11th largest insurance brokerage in the U.S. and the 5th largest Property & Casualty Insurance Brokerage. With offices in 35 states, AP places its focus on building and fostering relationships with clients and carrier partners. AssuredPartners was founded in 2011 and is currently one of the fastest-growing insurance brokerages in the U.S, surpassing \$2B of revenue in 2021.