



# INSPIRIEN

Reinsurance Meeting

# Agenda

- I. Company Update
- II. Insurance Company Financial Overview
- III. Claims Trends & Strategy
- IV. 2020 Focus
- V. Appendix



# Company Update

# New Claims Leadership



## **Judith Provencher | VP Claims and Risk Management**

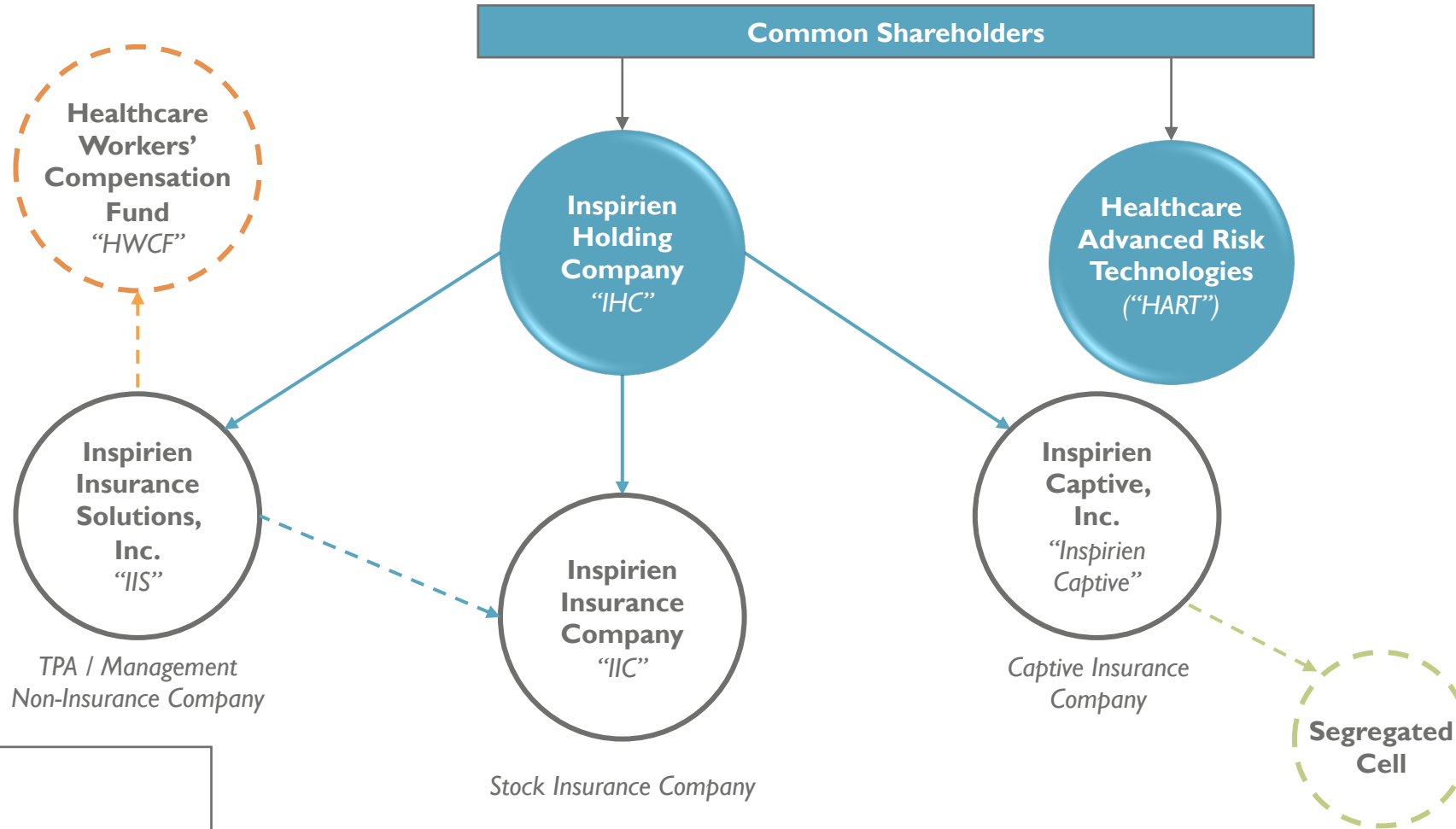
Judith Provencher joins the team as the VP of Claims and Risk Management. Judith is a strong operational leader with experience leading a number of P&C companies to success. Her expertise in claims and risk management initiatives spans multiple product lines including commercial and auto as well as medical malpractice and workers' compensation. Judith's experience will be leveraged to implement best practices from the industry to help scale our management company platform.



## **William C. McGowin (Bill) | VP Legal Operations**

William C. McGowin (Bill) is joining the team as the VP of Legal Operations from Bradley Arant Boult Cummings, LLC., bringing with him over 30 years of experience defending and trying cases ranging from personal injury, wrongful death, medical device/products liability, pharmaceutical mass tort litigation, and commercial litigation. Bill is a member of several prestigious legal organizations including the International Association of Defense Counsel (IADC). He has numerous accolades and awards in the legal field and is sought after to speak at various events around the country. Bill brings a depth of legal background and expertise in healthcare to the team.

# Corporate Structure



## Key

- > IHC Owned
- - -> IHC Owned and IIS Managed
- - -> IIS Management Only
- - -> Inspirien Captive Management

# Expand in Existing Markets

*Inspirien is in the process of expanding its geographic presence and evolving from a single-state insurer operating only in Alabama into a regional, multi-line player*

*Inspirien has maintained a position among the top-5 direct writers of medical professional liability insurance in AL*

2018 Rank	Company	Direct Premiums Written (\$000)				2018	
		2013	2014	2017	2018	Market Share	Loss & LAE Ratio
1	ProAssurance Indemnity Co.	\$63,030	\$52,214	\$55,523	\$48,687	41.4%	71.4%
2	MAG Mutual Insurance Co.	10,362	10,290	11,205	11,346	9.6	73.4
3	Centennial Casualty Co.	7,552	8,130	7,816	7,747	6.6	60.6
4	Inspirien Insurance Co.	5,838	5,986	6,333	6,242	5.3	73.6
5	Medical Protective Co.	5,187	5,148	5,039	5,314	4.5	64.2

*Inspirien plans to continue to grow within the AL medical professional liability space as well as expand into new product lines in AL and offer alternative risk management solutions through Inspirien Captive*

## Core Capability Enhancement

- Made a key underwriting hire in 2018 from a rival competitor within AL medical professional liability
  - 14+ years in medical malpractice underwriting
  - Expected to enhance underwriting efficiency and attract clients
- Pipeline is building as major hospitals are approaching renewal

## Product Expansion

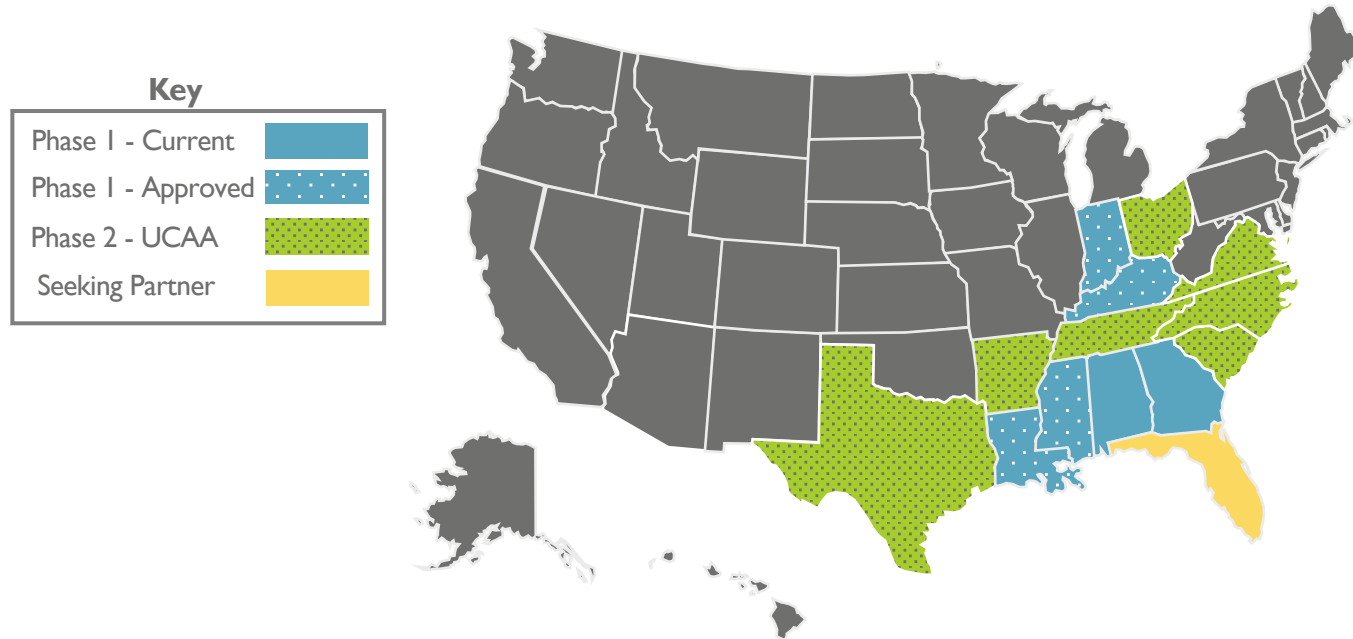
- Launched cyber and excess products in Alabama in the second half of 2018
  - Both products are showing solid growth
- Approved to underwrite commercial workers' compensation products in Alabama
- Focused on writing non-healthcare workers' comp to avoid conflicts with HWCF
- Have begun accepting quotes in May 2019

## Alternative Risk Management Solutions

- Launched Inspirien Captive in 2018
- Flexible structure that offers products of varying risk-reward
- Looking to capitalize on network of affinity groups through the Alabama hospital associations
- Inspirien plans to offer bundled packages for associations helping them reduce their insurance costs

# Geographical Presence

*As a top-five writer of medical professional liability in Alabama, Inspirien is seeking to capitalize on its regional expertise and expand its current market share in the state.*



- 1 Inspirien Insurance Company is admitted in AL, GA, IN, KY, LA and MS, but is currently only operating in AL and GA.
- 2 Phase I – Pending applications are filed and being reviewed by each state’s insurance department.
- 3 Phase 2 – Expected start date of mid-2019.
- 4 FL has a five-year seasoning requirement per Section 624.404(2), however, exceptions may be granted with sufficient capital base. Inspirien is seeking to partner with a current provider of medical malpractice insurance in FL to enter the state, or alternatively acquire a shell company with a FL license.

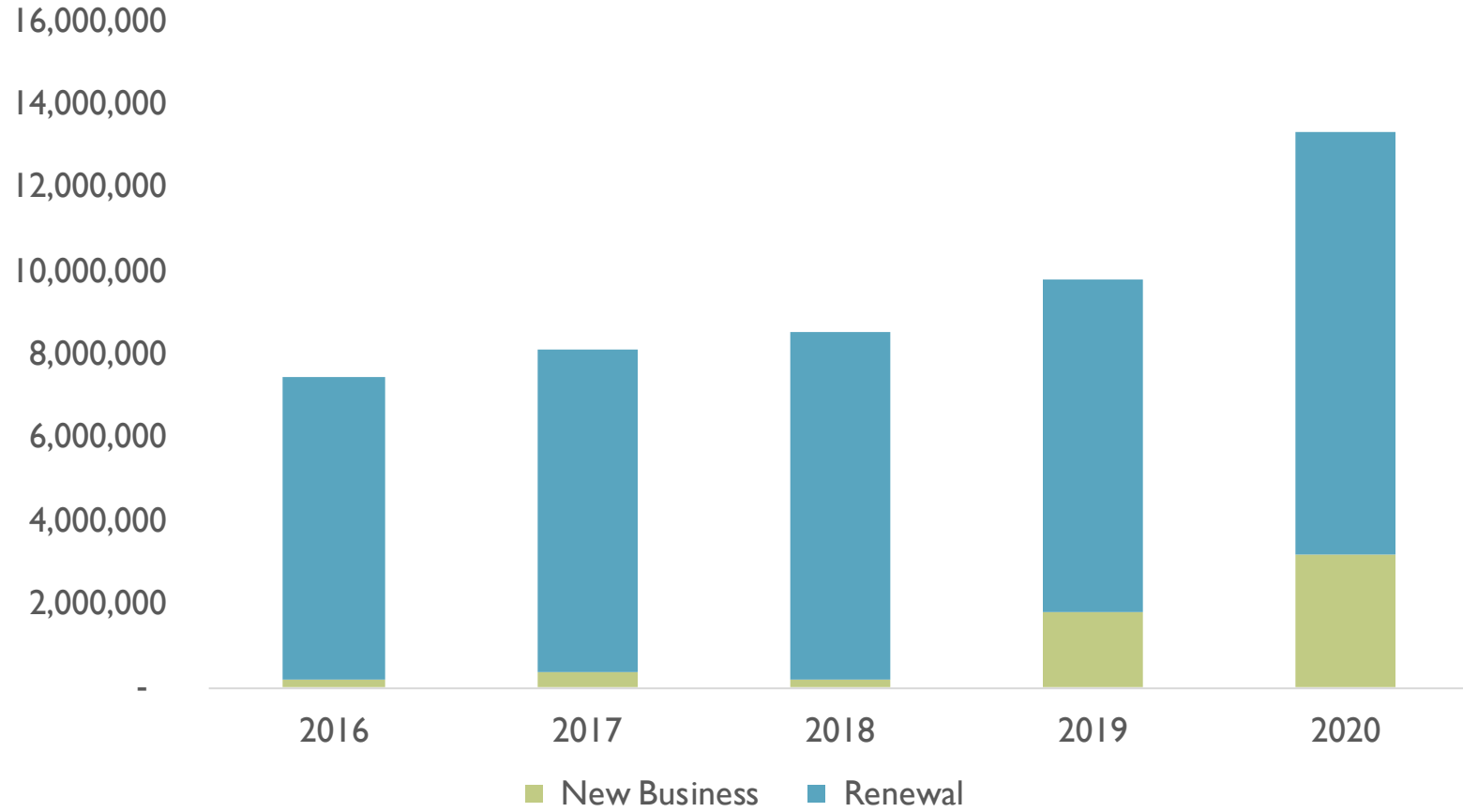
# Go-To-Market Strategy

*Inspirien has developed a targeted marketing strategy to reach potential clients whose financial, risk and partner motivations align with Inspirien's products and services. The immediate go-to-market opportunities are in Alabama and Georgia due to relationships, infrastructure, staffing, logistics and knowledge of the marketplace.*

	Alabama	Georgia
Targets	<p><b>Mid-to-Large size Physicians Groups and Allied Professionals</b></p> <ul style="list-style-type: none"> <li>• General Practice</li> <li>• Pediatrics</li> <li>• Orthopedics</li> <li>• Podiatrists</li> <li>• Surgical Centers</li> <li>• Gastroenterologists</li> <li>• Stand-Alone ER Groups</li> <li>• Plastic Surgery</li> </ul> <p><b>Hospitals</b></p> <ul style="list-style-type: none"> <li>• Continue to gain market share and execute on current leads</li> </ul> <p><b>Other Workers' Compensation</b></p> <ul style="list-style-type: none"> <li>• Outside of healthcare based on appetite guide</li> </ul>	<p><b>Hospitals (2019)</b></p> <ul style="list-style-type: none"> <li>• Small and mid-sized hospitals (50 - 250 beds)</li> <li>• Independently owned</li> <li>• Avoid high-litigation hospitals</li> </ul> <p><b>Mid-to-Large size Physicians Groups and Allied Professionals (2020)</b></p> <ul style="list-style-type: none"> <li>• General Practice</li> <li>• Pediatrics</li> <li>• Orthopedics</li> <li>• Podiatrists</li> <li>• Surgical Centers</li> <li>• Gastroenterologists</li> <li>• Stand-Alone ER Groups</li> <li>• Plastic Surgery</li> </ul>
Products	<ul style="list-style-type: none"> <li>• Medical Malpractice</li> <li>• Workers' Compensation</li> </ul>	<ul style="list-style-type: none"> <li>• Medical Malpractice</li> <li>• Workers' Compensation</li> </ul>

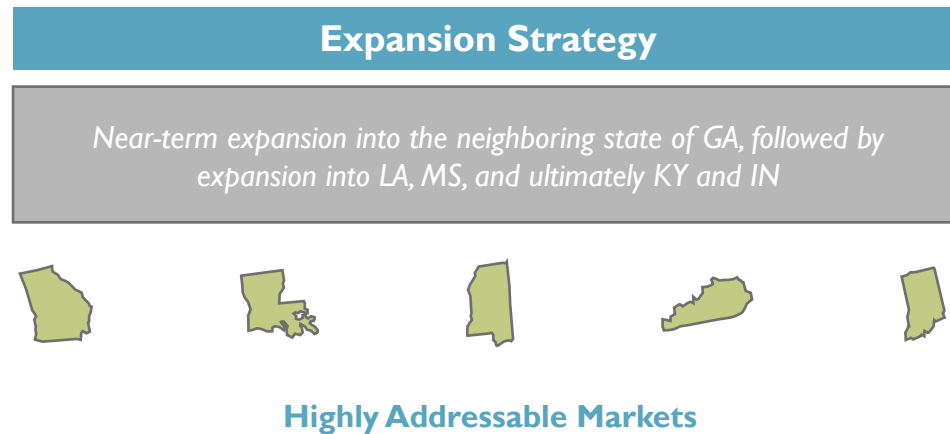


# Go-To-Market Results - Revenue

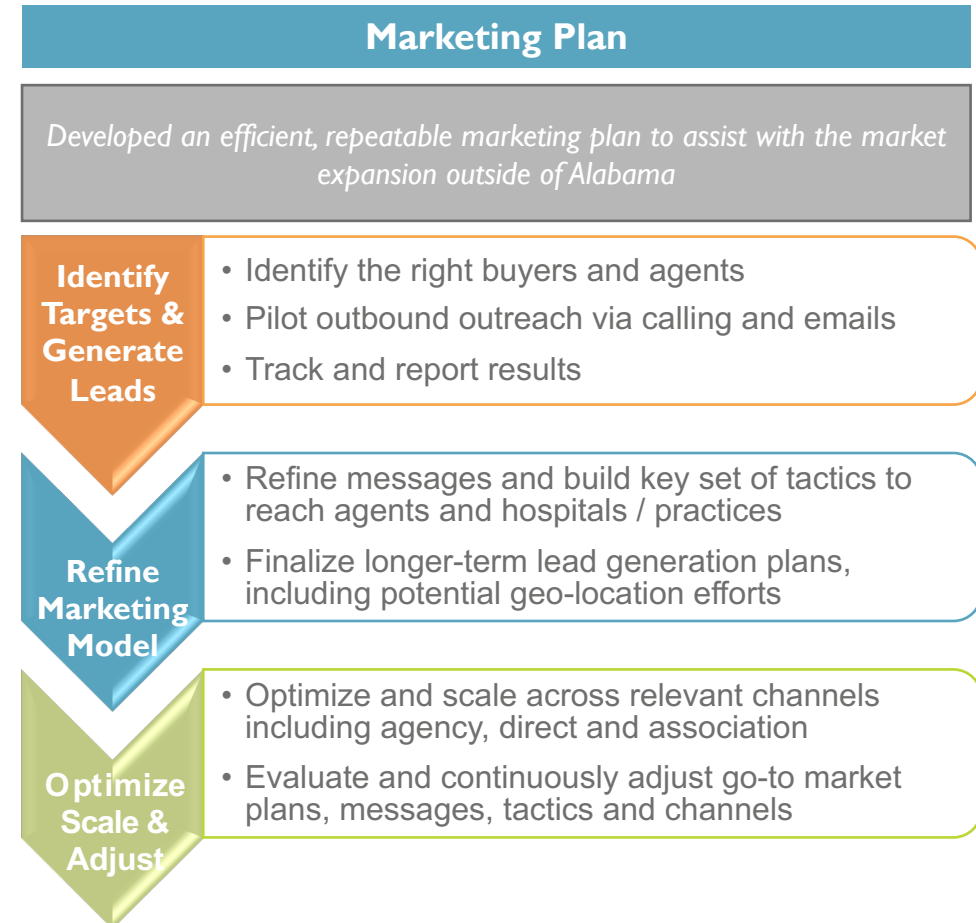


# Expand into New Markets

*Inspirien plans to expand both geographically as well as into new product lines, and has developed an efficient, repeatable marketing plan to assist with its ultimate go-to-market expansion outside of Alabama.*



- 1 Ease of access
- 2 Comparable regulatory environment
- 3 Similar competitive landscape
- 4 Currently partner with agencies that have key relationships in these states



A hand is shown in the upper right corner, placing a light-colored wooden block with a dark arrow pointing up and to the right. Below it is a staircase of four columns of wooden blocks, each with an arrow pointing up and to the right. The background is a soft gradient from light blue to light green.

# Insurance Company Financial Overview

# IIC Financial Overview

	2019 Year End Actual	2020 YTD Actual	2020 Year End Forecast
<b>UNDERWRITING INCOME</b>			
<b>Gross Premiums Written</b>			
Professional liability	\$5,349,774	\$4,914,492	\$7,410,920
General liability	454,296	476,367	651,374
Umbrella liability	2,401,534	1,984,820	3,844,184
Allied Health	33,380	0	0
Physicians	1,433,131	112,137	1,435,644
Workers' Compensation / Excess WC	1,071,342	783,437	1,750,000
<u>Gross Premiums Written</u>	<u>10,743,457</u>	<u>8,271,253</u>	<u>15,092,122</u>
Less: Reinsurance premiums ceded	(6,047,074)	(2,781,696)	(5,411,624)
<u>Net Premiums Written</u>	<u>4,696,383</u>	<u>5,489,557</u>	<u>9,680,498</u>
Change in unearned premiums	(443,668)	(3,602,818)	(947,023)
<u>Net Premiums Earned</u>	<u>4,252,715</u>	<u>1,886,739</u>	<u>8,733,475</u>
<b>UNDERWRITING DEDUCTIONS</b>			
Losses	2,383,737	67,209	3,323,555
Allocated Loss Adjustment Expense	2,633,525	583,049	1,789,607
Unallocated Loss Adjustment Expense	1,277,127	337,626	1,291,567
Service Fee Expense	2,601,313	753,491	3,534,816
Direct Expense	502,400	179,908	(421,566)
Taxes, Licenses, and Fees	177,197	158,897	284,180
Depreciation and Amortization	786,663	111,134	712,256
<b>Total Deductions</b>	<b>10,361,962</b>	<b>2,191,314</b>	<b>10,514,413</b>
Underwriting Gain (Loss)	(6,109,247)	(304,575)	(1,780,938)
<b>INVESTMENT INCOME</b>			
Net Investment Gain	990,581	410,671	1,442,684
Other Income	3,365	23,738	32,738
<b>Income (Loss) Before Dividends and Income Tax</b>	<b>(5,287,801)</b>	<b>129,834</b>	<b>(305,516)</b>
Federal Income Taxes - Current Year	(81,926)	0	-
<b>NET INCOME (LOSS)</b>	<b>(\$5,205,875)</b>	<b>\$129,834</b>	<b>(\$305,516)</b>

A wooden gavel and a stethoscope are positioned on a textured, light-colored surface. The gavel is in the upper right, and the stethoscope is in the lower right. The background has a subtle gradient from light blue at the top to light green at the bottom.

# Claims Trends & Strategy

# Improved Claims Strategy

## Legal Expertise

### Focus on Legal Execution

- Hands on involvement in every claim and suit
- Capitalize on current market conditions, where appropriate to get older claims off the books
- Hold the Defense Counsel Panel accountable for results
- Focus on efficient management of legal spend



## Operational Expertise

### Drive P&C Operational Efficiencies

- Use data analytics to drive improved reserving practice
- Institute periodic reviews of high impact files for reserve accuracy
- Convene a claims committee of internal cross functional expertise as well as external customers
- Transparency and accountability

# 2020 Focus



# 2020 Focus

Support our  
customers, partners  
and our business  
through the COVID-  
19 crisis

Get new claims  
leadership onboarded  
and strategy in motion

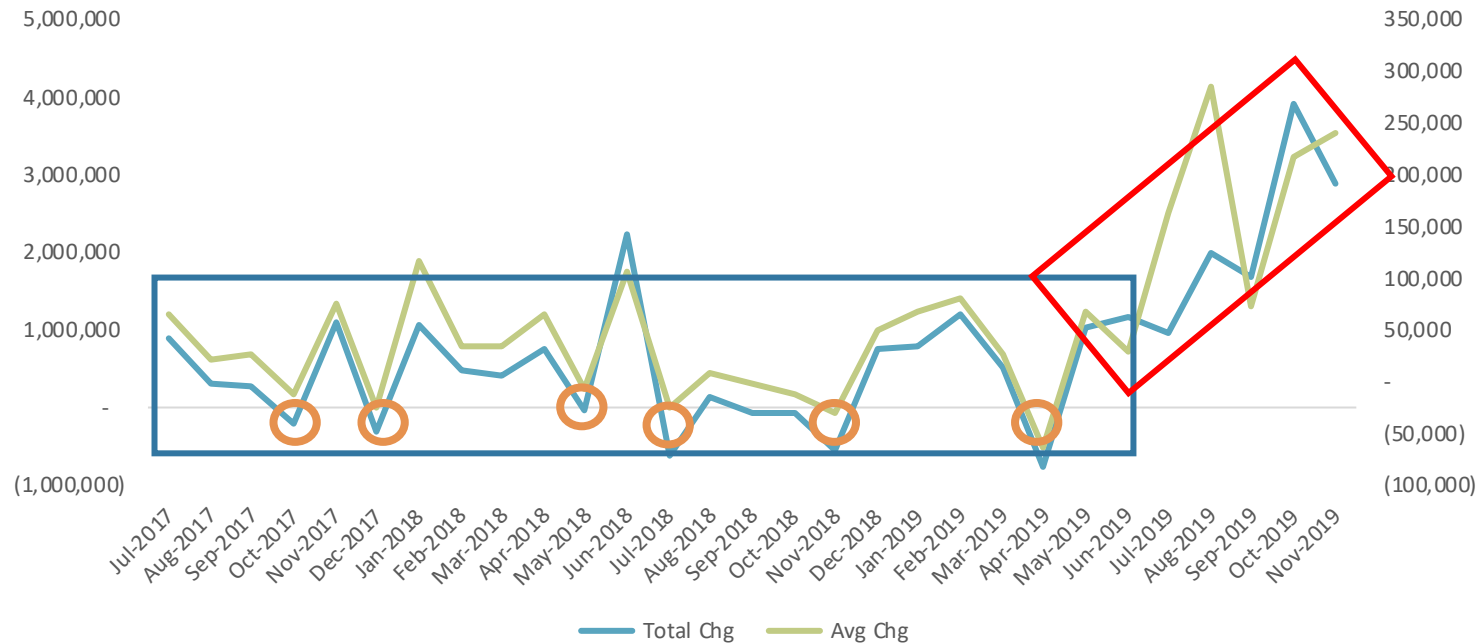
Organically grow IIC  
through our  
expansion efforts





# Appendix

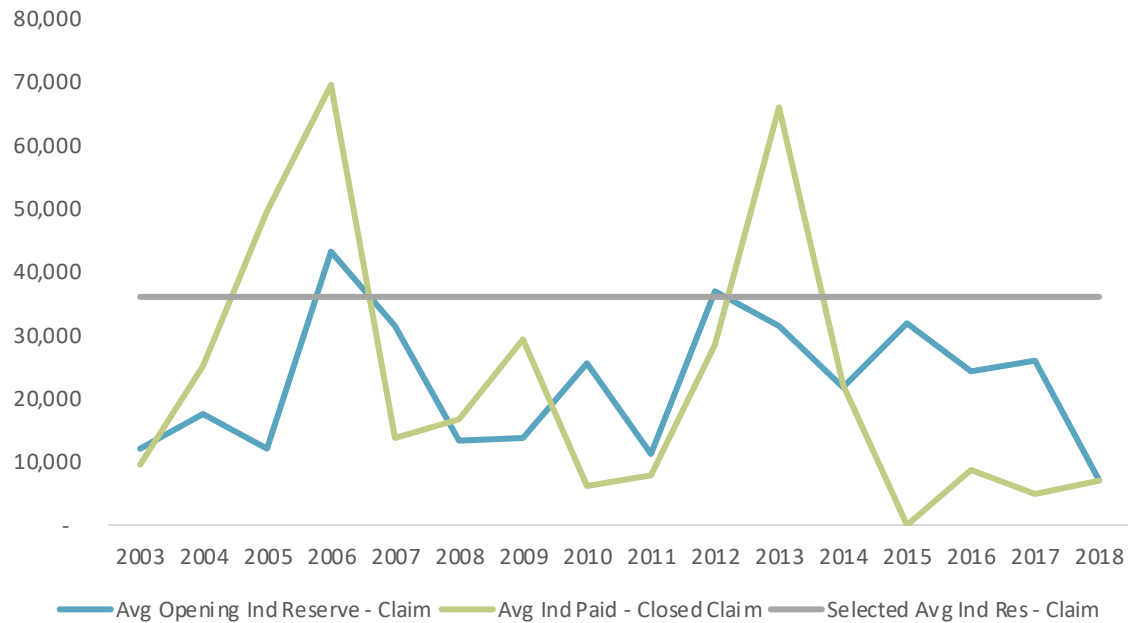
# Analysis of Medical Professional Liability Claims Reserving – Historical to Current Summary



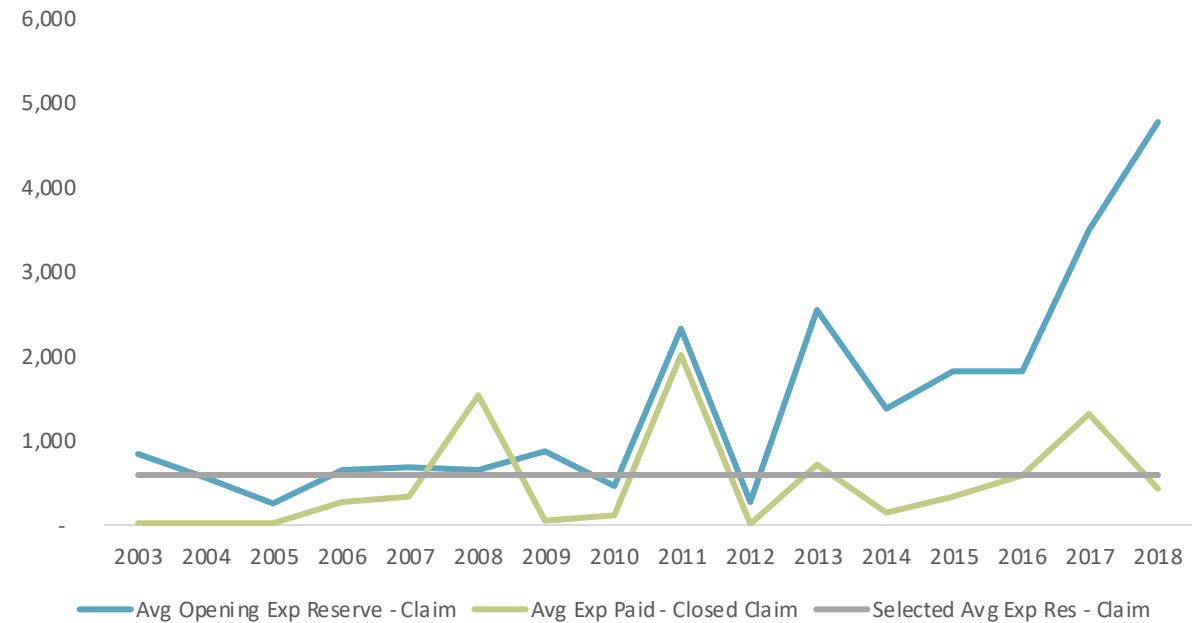
- Typical gross reserve changes occur monthly, which include new claim occurrences, increases in existing claims, and reserve reductions as a result of either payment or settlement.
- Mapping out monthly reserve changes, from Jul 2017 to Jun 2019, the average month's reserve change was \$436k, with the average individual claim/suit change of **\$27k**.
- During this time, a new claim or suit's average indemnity plus expense reserve was set at **\$120**.
- A clear event occurred beginning in July 2019, where there have been constant reserve increases well outpacing historical trends.
- Average month's reserve change from Jul 19 to date is \$2.3M, with an average individual claim/suit change of **\$174k**.
- New claims/suits are now being reserved (ind + exp) at **\$282k**.

Period	Sum of IND Chg	Sum of EXP Chg	Total Chg	# Claims Chg	Avg Chg	New Claim Count	IND Chg - New	EXP Chg - New	Total Chg - New	Avg Chg - New
June 2019 Prior	5,519,768	4,942,983	10,462,752	388	26,966	80	7,157,000	2,437,100	9,594,100	119,926
July 2019 to Date	6,787,700	4,664,444	11,452,144	66	173,517	28	4,570,000	3,320,500	7,890,500	281,804

# Professional Liability \$1m/\$3m Claims Reserving - Historical

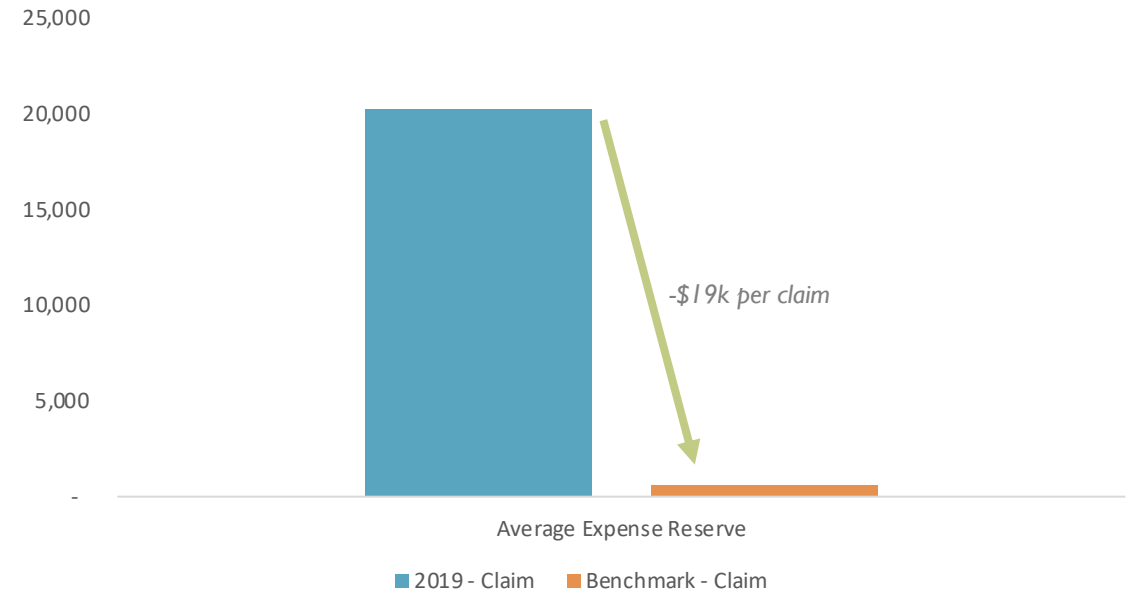
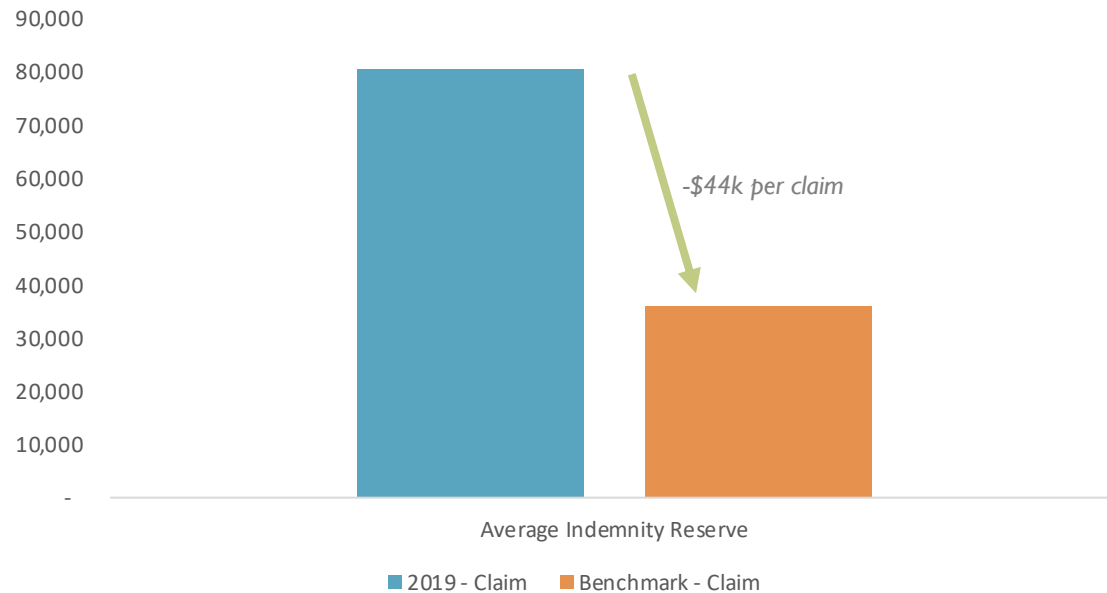


- Initial reserves set on claims were relatively closely correlated to their final settlement indemnity amounts
- Due to the risk and variability in adverse defense verdicts, materially adverse outcomes were excluded (\$750k) as outliers to smooth the curve
- **Average indemnity reserve** selected based on historical period from 2010 to 2015 at **\$36,000 per claim**, as this amount would eliminate bias of more recent years in not having closed as many “complex” claims



- Initial reserves set on claims were relatively closely correlated to their final expenses incurred amounts
- Major divergence between initial reserve setting and final expenses paid on claims occurred beginning in 2013, with a further divergence in 2016
- **Average expense reserve** selected based on historical period from 2010 to 2015 at **\$600 per claim**, as this amount would eliminate bias of more recent years in not having closed as many “complex” claims

# Professional Liability \$1M/\$3M Claims Reserving – 2019 Comparison

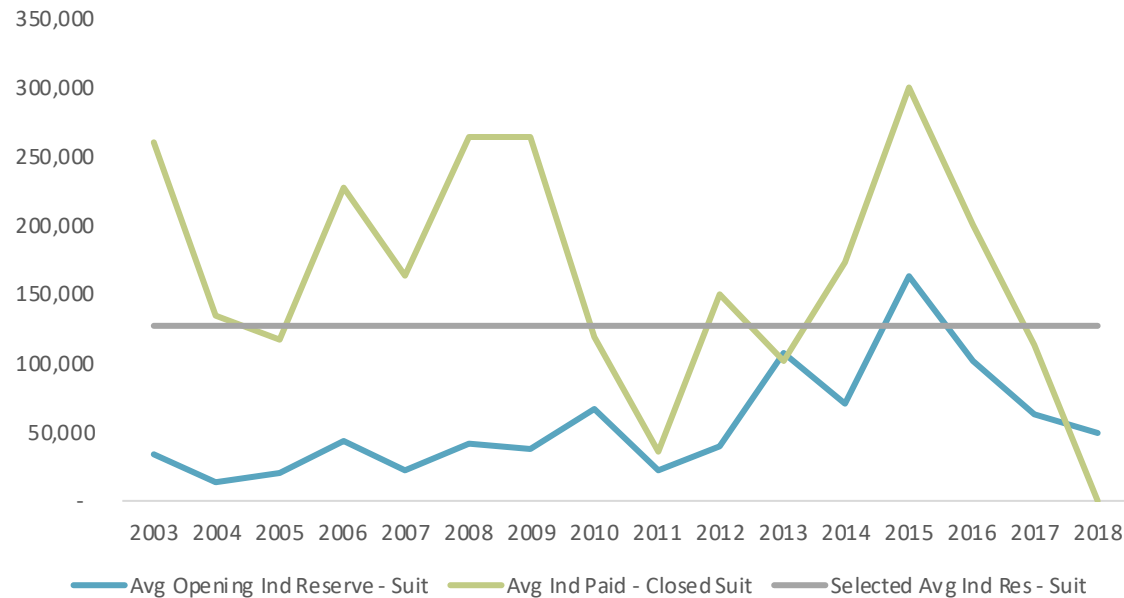


- Average indemnity reserve on claims in report year 2019 is \$80,000
- Compared to the historical benchmark of \$36,000, these 2019 claims are expected to have in excess of 2x redundancy

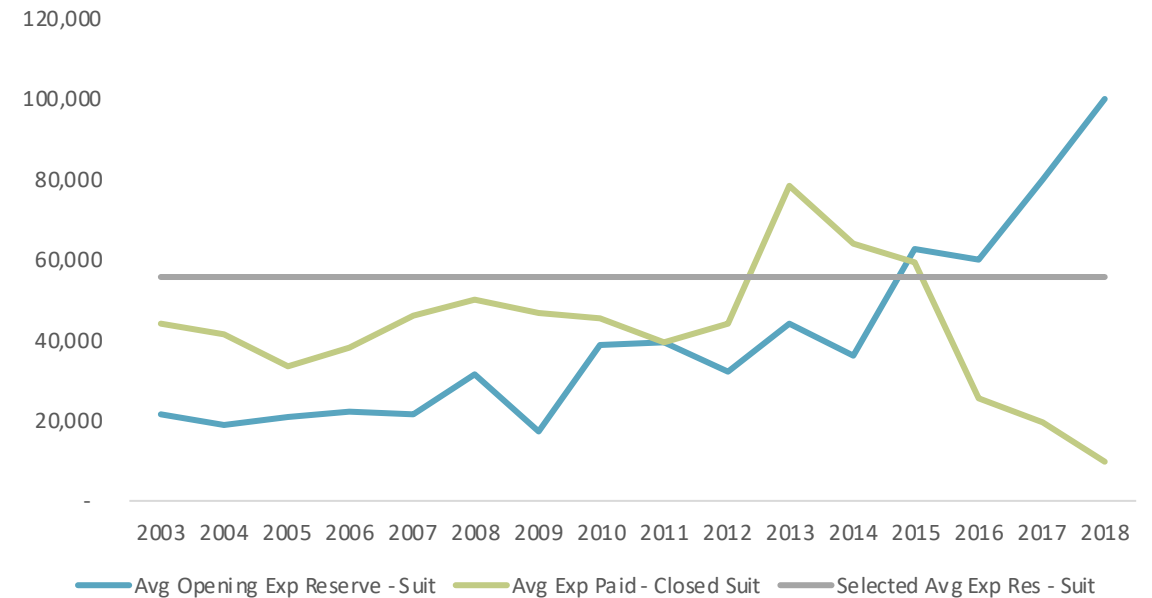
- Average expense reserve on claims in report year 2019 is \$20,000
- Compared to the historical benchmark of \$600, these 2019 claims are expected to have in excess of 33x redundancy

**NOTE – 86% of all claims result in \$0 indemnity being paid**

# Professional Liability \$1M/\$3M Lawsuit Reserving - Historical

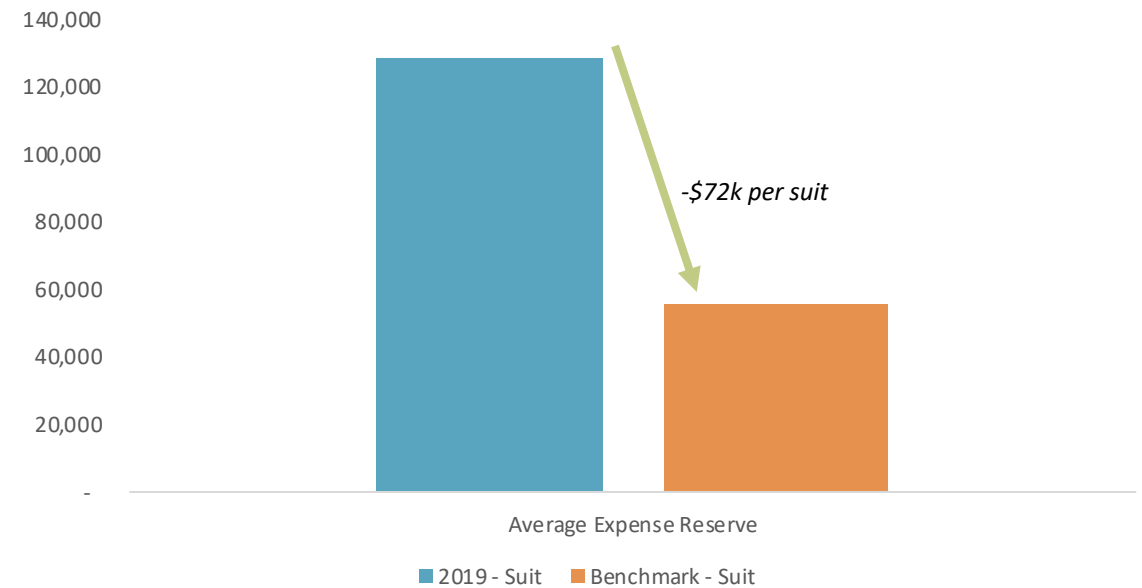
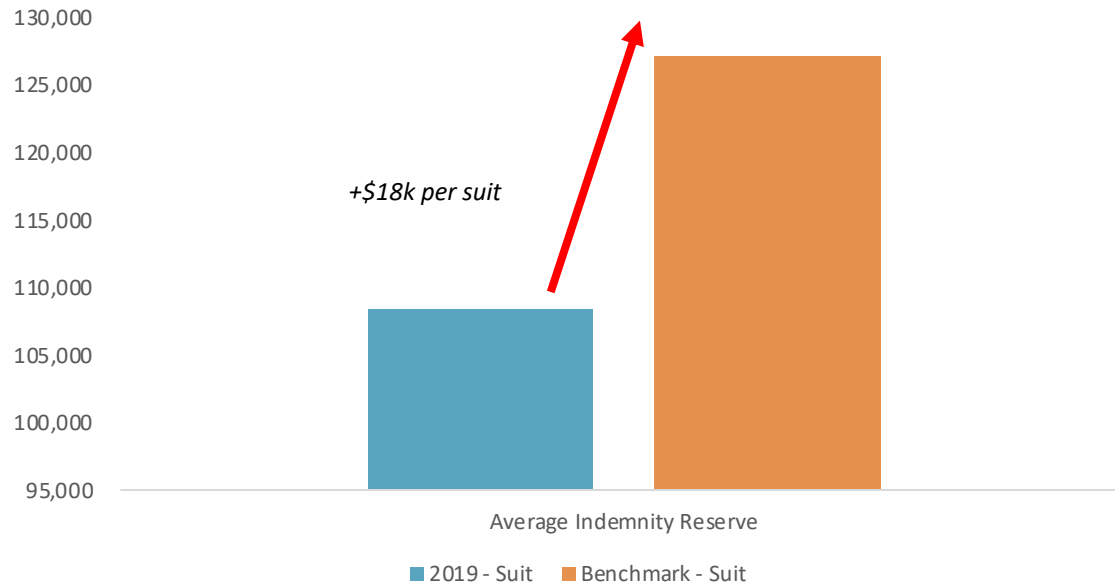


- Initial reserves set on lawsuits saw the highest degree of variability from the final settlement indemnity amounts
- Due to the risk and variability in adverse defense verdicts, materially adverse outcomes were excluded (\$750k) as outliers to smooth the curve
- **Average indemnity reserve** selected as benchmark based on historical period from 2010 to 2015 at **\$127,000 per lawsuit**, as this amount would eliminate bias of more recent years in not having closed as many “complex” lawsuits



- Initial reserves set on lawsuits were relatively closely correlated to their final expenses incurred amounts
- Major divergence between initial reserve setting and final expenses paid on lawsuits occurred beginning in 2015
- **Average expense reserve** selected as benchmark based on historical period from 2010 to 2015 at **\$56,000 per lawsuit**, as this amount would eliminate bias of more recent years in not having closed as many “complex” claims

# Professional Liability \$1M/\$3M Lawsuit Reserving – 2019 Comparison



- Average indemnity reserve on lawsuits in report year 2019 is \$108,000
- Compared to the historical benchmark of \$127,000, these 2019 lawsuits are expected to have reserve inadequacy by approx. 15%

- Average expense reserve on lawsuits in report year 2019 is \$128,000
- Compared to the historical benchmark of \$56,000, these 2019 claims are expected to have in excess of 2.25x redundancy

**NOTE – 78% of all suits result in \$0 indemnity being paid**

# Professional Liability \$1M/\$3M Comparison on Indemnity < \$25k

Analyzing specifically claims and suits where the initial indemnity reserve was set at or below \$25k, **indemnity reserves on new 2019 claims** and suits are about 20-28% over the **2010-2015 historical benchmark**, but well above the **historical payout**.

However, **expense reserves on these new 2019 claims** and suits are trended well above both the **historical average initial expense reserve**, and the **ultimate expense paid to close the claim or suit**.

