

Medical Indemnity Forum

23 August 2007



Overview of Industry Capital and Market Structure

Chris Bratchford

Chief Operating Officer, Avant Mutual Group

Agenda

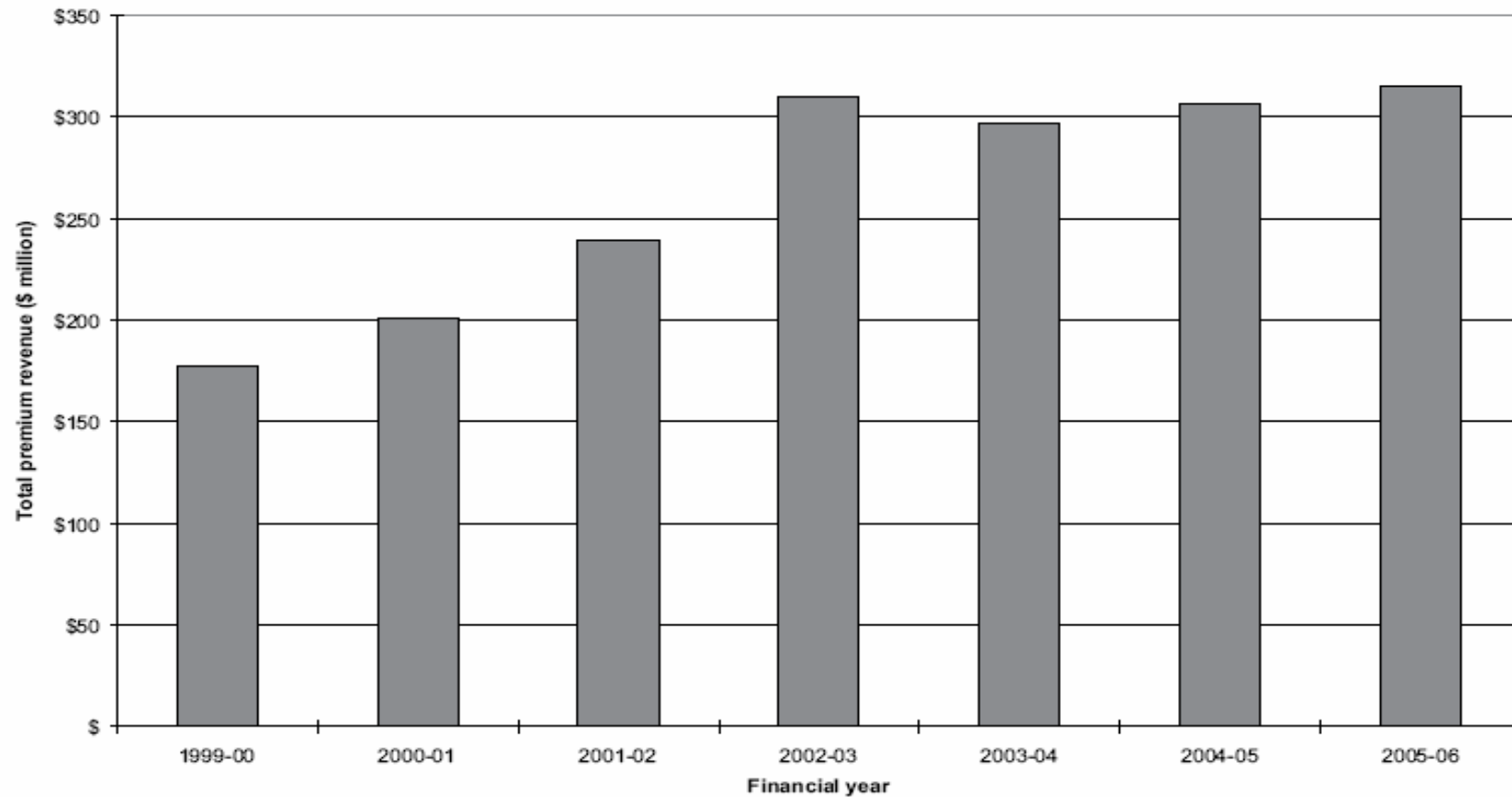
- **Market Size and Industry Capitalisation**
- **Market Share**
- **Premium Pool**
- **Capital Management for MDOs**

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Total gross premium revenue by underwriting year: 1999–2000 to 2005–06



Source: ACCC, *Medical Indemnity Insurance Fourth Monitoring Report*, March 2007

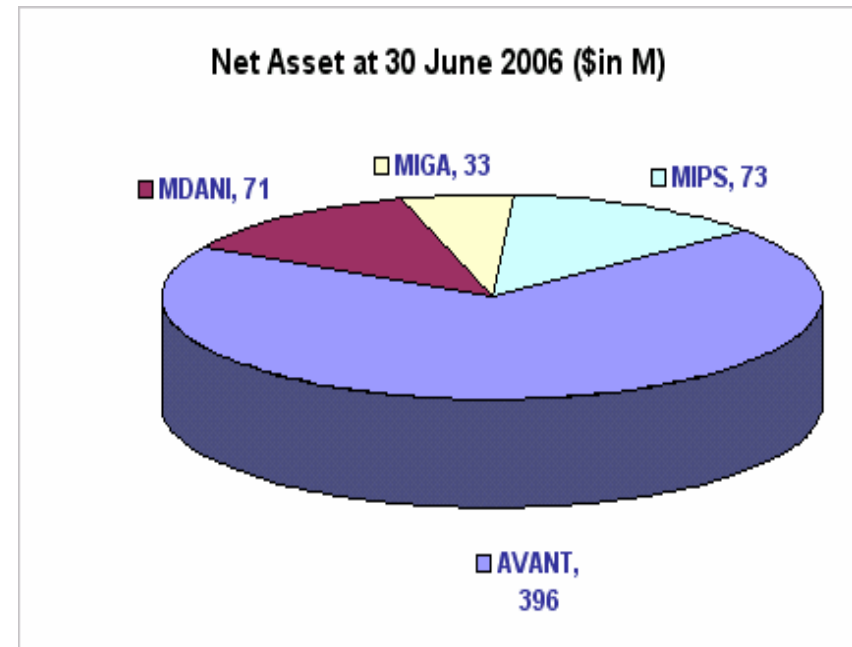
Medical Indemnity Industry in Context

	All General Insurers Dec 2006* \$m	Medical Indemnity Insurers June 2006 \$m	%
Gross Premium Revenue	27,400	315	1.2
Net Assets	24,786	573	2.3

*APRA Statistics Half Yearly General Insurance Bulletin December 2006

Medical Indemnity Industry Capital & Solvency Level at 30 June 2006

- Total net assets \$573m.
- MDO parents hold additional net assets.
- Net asset to MCR ratio 253%
- Net asset to MCR ratio 190% at 30 June 2004



Source: MDO's Insurer Annual Report 2006

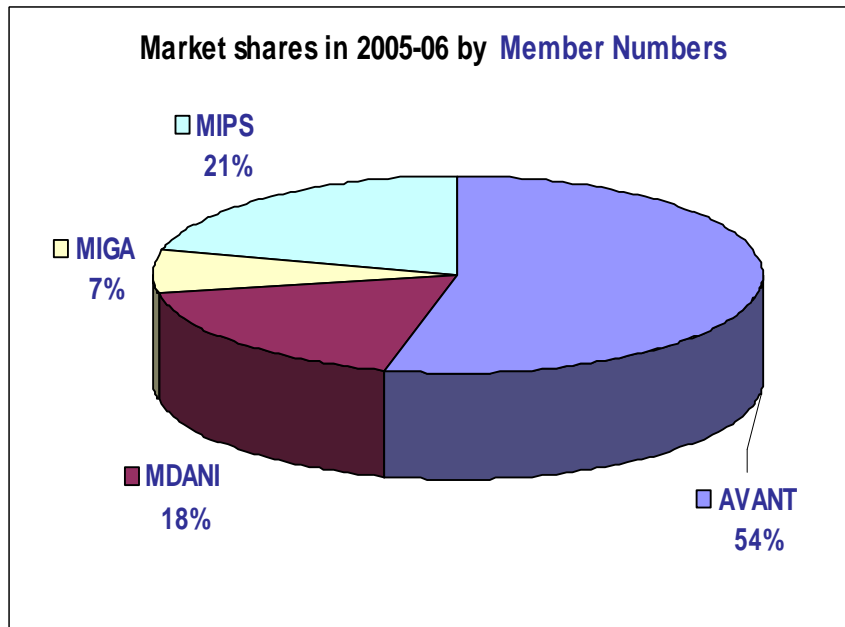
Note: Avant was formed out of the merger of UNITED Medical Protection & MDAV on 1 July 2008

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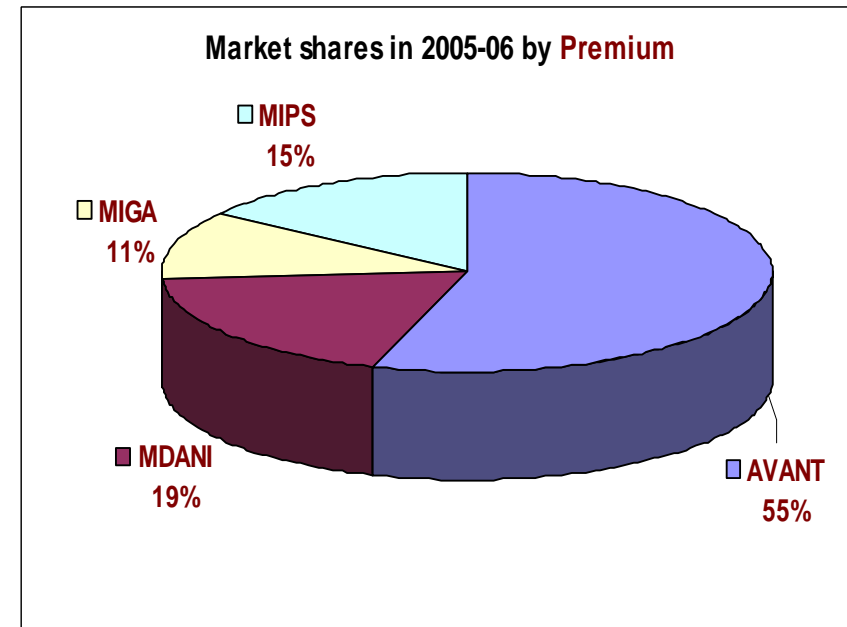
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FY2006

Market Shares by Member Numbers



Market Shares by Premium



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Premium Pool Components

ROCS
Expected Surplus
Reinsurance Expense
Underwriting and General Expenses
Net Claims Cost

- **Pool generally determined at aggregate level**
- **Pool allocated to speciality level based on:**
 - Claims experience
 - Income band (proxy for activity)
 - State or Territory
 - Other factors

Components of actuarially recommended aggregate premium pool: 2003–04 to 2006–07

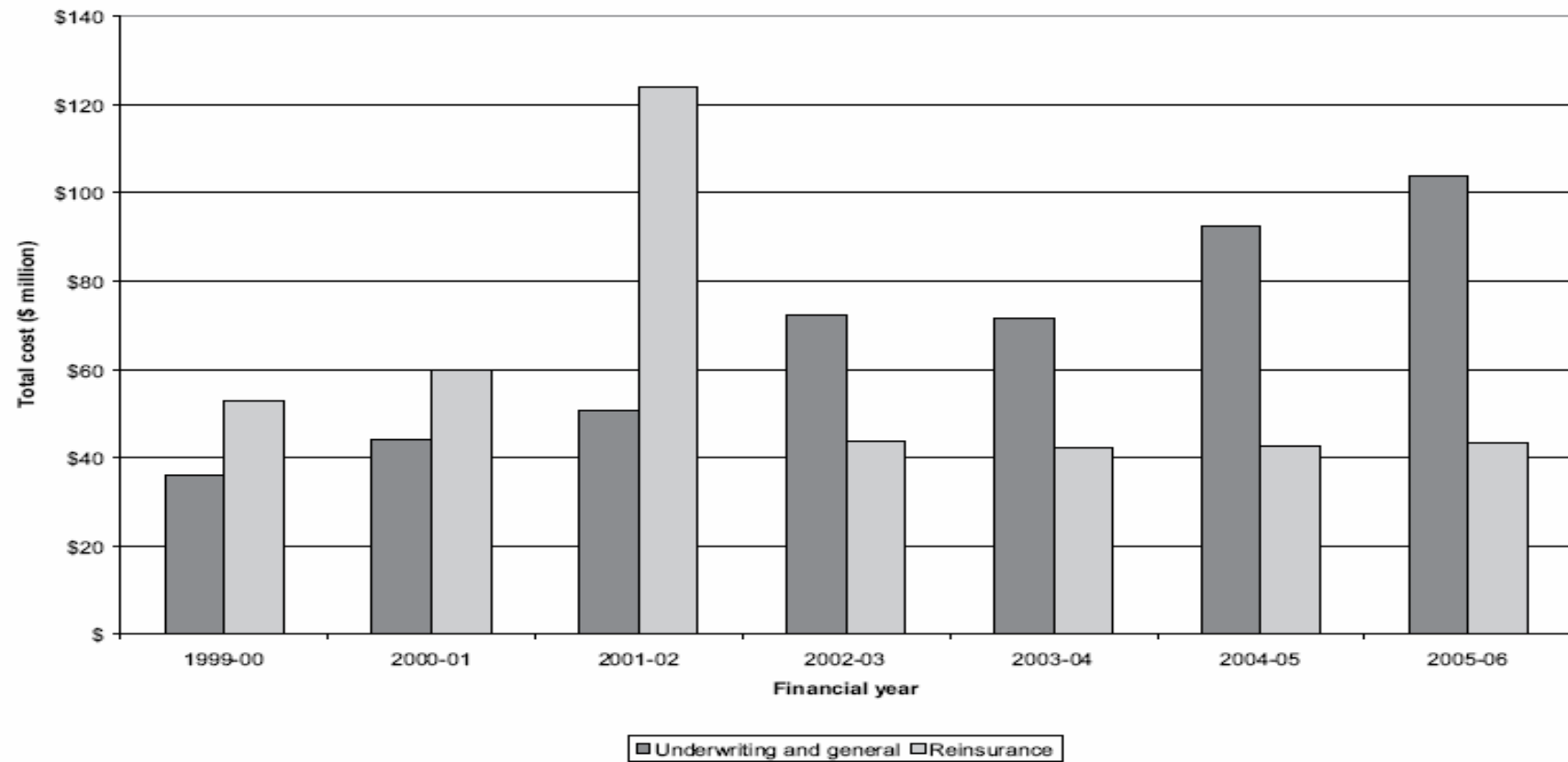
	2003–04	2004–05	2005–06	2006–07
Expected surplus ⁵¹	36	26	21	19
Net claims costs ⁵²	32	36	40	45
Reinsurance expenses	17	16	14	13
Underwriting and general expenses	15	22	25	23
Total premium pool	100	100	100	100

Source: Derived by ACCC from data for all medical indemnity providers, excluding Invivo.

Note: The table represents the actuarially determined premium pool and does not include statutory third party collections such as stamp duty, the goods and services tax (GST) or the ROCS levy.

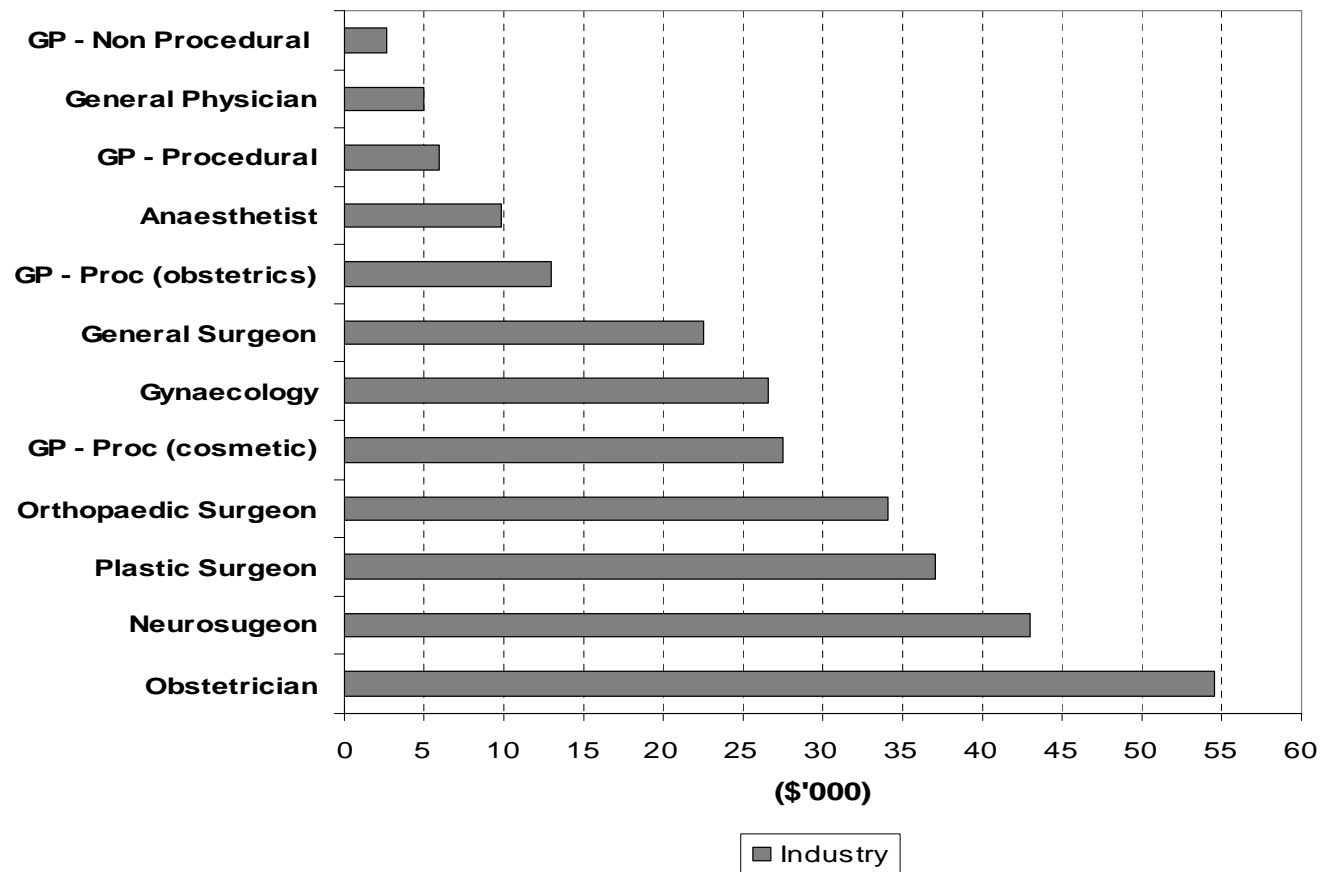
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Reinsurance expense and underwriting and general expenses: 1999–2000 to 2005–06



Source: ACCC, *Medical Indemnity Insurance Fourth Monitoring Report*, March 2007

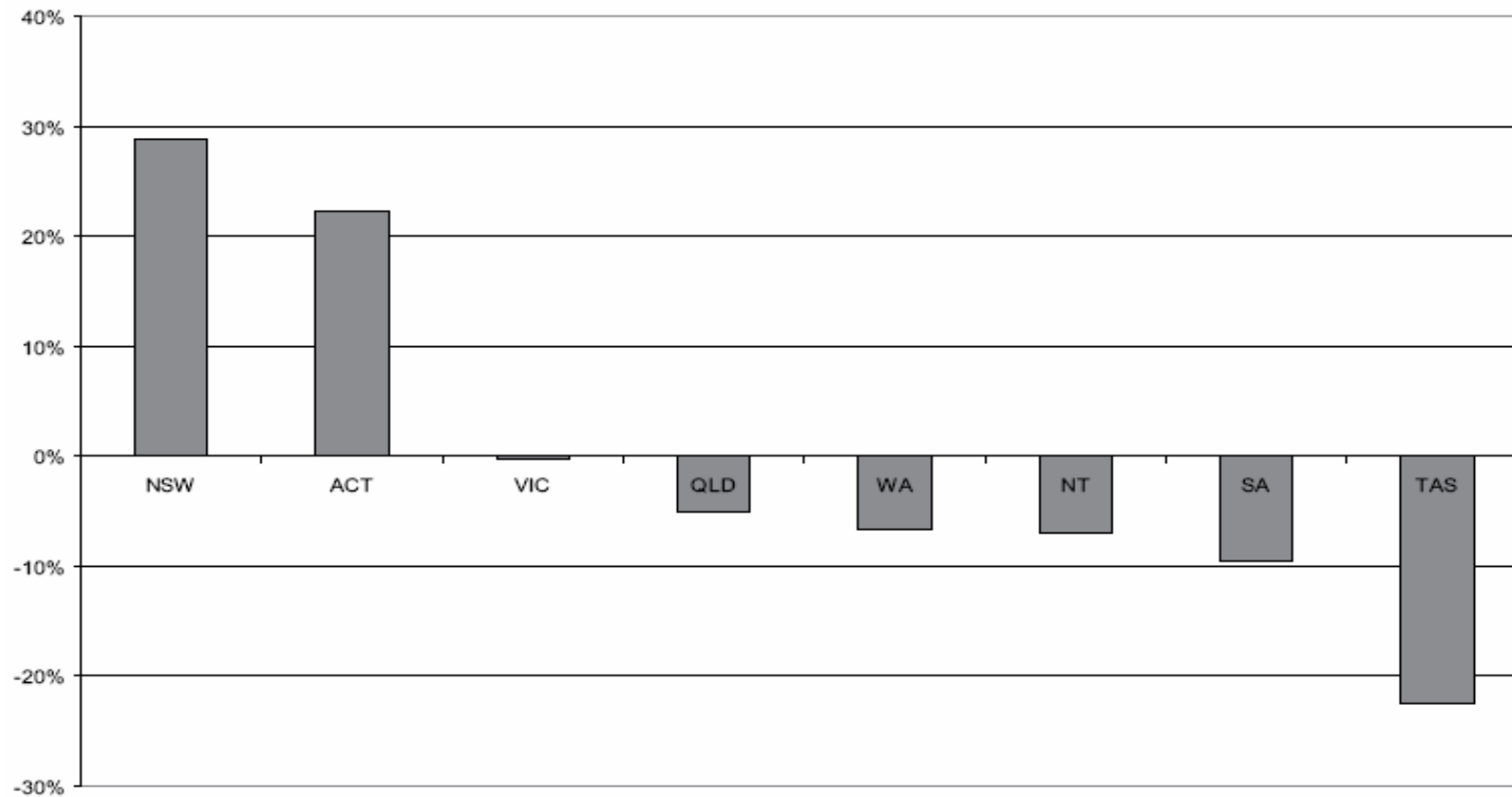
2006-07 Average premium by specialty



Source: ACCC, *Medical Indemnity Insurance Fourth Monitoring Report*, March 2007

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Average observed jurisdictional relativity: 2006–07



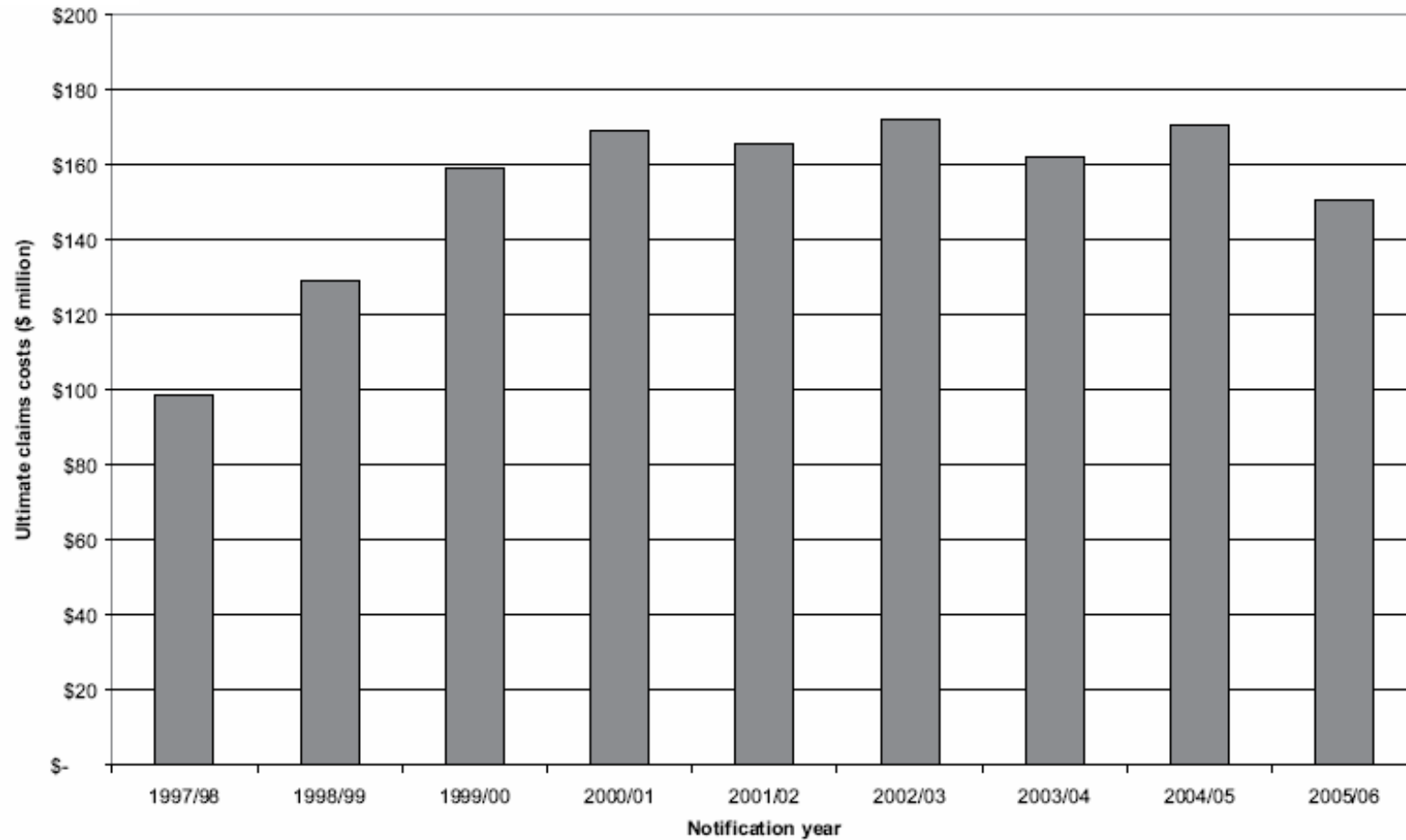
Source: ACCC, *Medical Indemnity Insurance Fourth Monitoring Report*, March 2007

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Ultimate claims costs by year of notification: 1997-98 to 2005-06



Source: ACCC, *Medical Indemnity Insurance Fourth Monitoring Report*, March 2007

Capital Management Challenge

- **Medical indemnity is long-tail and volatile**
- **Tort law:**
 - Ex ante changes
 - Court interpretation
 - Legislative change
- **MDOs as ‘mutuals’:**
 - For the benefit of members
 - Premium stability
 - Raising new capital
 - How much is enough?
 - What if you have too much capital?

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MIAA
MEDICAL INDEMNITY INDUSTRY ASSOCIATION OF AUSTRALIA

