Nuclear Verdicts and Rising Costs:

HOW INFLATION IS IMPACTING MEDICAL MALPRACTICE CLAIMS

Moore Actuarial Consulting, LLC,
on behalf of
The Doctors Company

September 2025

The Doctors Company
TDC GROUP

EXECUTIVE SUMMARY

Using insurance company annual statement data, this study estimates that increasing economic and social inflation added $4 billion in insured losses and expenses incurred by physician-focused insurers, or 11 percent of booked losses for the decade ending in 2024. This is a $1.6 billion increase from our estimate of the impact of social inflation in the decade ending in 2021.

KEY TAKEAWAYS

- There is evidence that increasing inflation is present in the physicians' medical malpractice marketplace. Our prior work focused on social inflation because economic inflation was low and steady in the years studied. Recent years, in particular 2021 and 2022, had significant economic inflation. Our standard methodologies do not separate social and economic inflation, so the conclusions of this study apply to both.
- As in our previous study, we examined data from the National Practitioner Data Bank (NPDB), a federal database that since 1990 has collected information about malpractice judgments. Data at the aggregate level broadly confirms the inflation trends our methodology identifies.
- The NPDB also has a report-level database that allowed us to adjust its reports for economic inflation to year-end 2024. Inflationary trends that remain after the economic inflation is accounted for are evidence that social inflation is present. Even after adjusting for economic inflation, the frequency of reports in excess of $2 million relative to the total number of reports began growing in 2014 and paused in 2020 and 2021 for the pandemic. The trend reappeared in 2023. This is evidence of social inflation.

The Doctors Company engaged Moore Actuarial Consulting, LLC, to determine the degree of increasing inflation, if any, that is present in the U.S. medical malpractice claims-made insurance market for physicians.

Inflation is a constant concern for insurers. Social inflation occurs when an insurer's average claim amount grows faster than the overall economic inflation rate. The typical insurance premium contains an estimate of what future inflation will be. Some claims take years to settle, so the cumulative impact of inflation can be considerable. When inflation is excessive, insurers are forced to increase their rates and/or decrease coverage to keep up.

While economic inflation remained low and steady through the first 20 years of this century, insurers noticed in the past 10 years their claim payments growing faster than economic inflation. They called the additional growth social inflation. Other parties disputed the claim, suggesting the alarms were a ruse to justify increasing rates.

EXECUTIVE SUMMARY

This paper's authors have published a series of papers examining inflation's effects on insurance claims in commercial auto liability, personal auto liability, and medical malpractice claims-made. In the research, we use industrywide claims data and actuarial metrics to detect and measure inflationary trends.

We consistently found a high degree of increasing inflation in commercial auto and a lesser amount in personal auto.[1] Our previous research into medical malpractice found evidence of social inflation. The impact was less than that experienced in commercial auto liability. That **2023 report**, published by The Doctors Company, estimated that social inflation contributed $2.4 billion to $3.5 billion to medical malpractice claims (8 to 11 percent of total loss and defense and cost containment [DCC]) for the decade ending in 2021. The report also used a publicly available database to identify a significant rise in large settlements.[2]

RAND Corporation examined trends through 2019 in litigation rates, trial awards, and insurance claim payments that are consistent with the expected effects of social inflation. **Their research** found trends in trial awards and insurance claim severity that would be suggestive of social inflation. Court filings per capita in state courts were rising, as were plaintiff win rates and trial awards. Inflation-adjusted severity of bodily injury insurance claims rose faster beginning in 2014. The study stopped short of calling its evidence conclusive of social inflation, suggesting there could be factors external to the civil justice system that could explain the phenomena.[3]

The consulting firm of Milliman analyzed medical professional liability claims in 2025, using its proprietary database of data gathered from hospitals, nursing homes, and long-term care facilities. Among its conclusions: Claim severity rose an average of 5 percent annually between 2014 and 2023, driven in particular by claims in excess of $5 million. The percentage of claims closing with indemnity payment in excess of $1 million increased from a relative low of less than 4 percent of claims in 2012 to more than 7 percent in 2023. The percentage of claims settling above $5 million approximately tripled between 2012 and 2023.[4]

Consistent with our recent research, this paper discusses the combined impact of social and increasing economic inflation. The study's actuarial methodology cannot differentiate between underlying drivers. Social inflation is defined as "excessive inflation in claims" for the purposes of this paper and is a term primarily used by insurance industry professionals. Economic inflation is derived from the standard inflation benchmarks, such as the Consumer Price Index and the Personal Consumption Expenditures index and their constituent parts.[5]

METHODOLOGY

Our approach to insurance company annual statement data is the same as our previous analyses. It is described in the appendix.

Briefly, insurance companies keep track of how much they pay on a claim throughout its life. Also, until a claim closes, they keep track of how much they estimate they will pay, which is known as the case reserve.

Absent inflation and other confounding factors, the payments and the reserve estimates follow predictable patterns in the aggregate.

The standard actuarial metric that measures these patterns is known as the loss development factor (LDF). We look at LDFs across more than a decade for physician-focused medical malpractice insurers. In theory, these factors should change little except for random variation. If they are rising, it is evidence of increasing inflation—either social inflation, economic inflation, or both. The amount LDFs increase can be used to estimate the impact of increasing inflation.

In addition, this study, like our last analysis of medical malpractice, examines data from the NPDB—a federal dataset that collects information on, among other things, malpractice payments. The previous study only used aggregate data. This study uses, in addition, report-level data. This allows us to adjust all reports for inflation across the more than 30 years the NPDB has been populated.

OBSERVATIONS

In our previous report, we concluded a rise in LDFs in the decade ending in 2021 was evidence of social inflation. We concluded thus because economic inflation, as measured by the Consumer Price Index—All Urban, was low and steady through most of that period. If economic inflation is flat, a rise in LDFs is much more likely to come from social inflation.

The situation changed in 2021, as Chart 1 shows. Over 20 years ending in 2020, economic inflation fluctuated within a narrow range −0.3 to +3.8 percent. In the next three years, inflation exceeded 4 percent and reached a 40-year high in June 2022. We took this as strong evidence that LDFs in those years should rise because of economic inflation and, perhaps, social inflation as well.

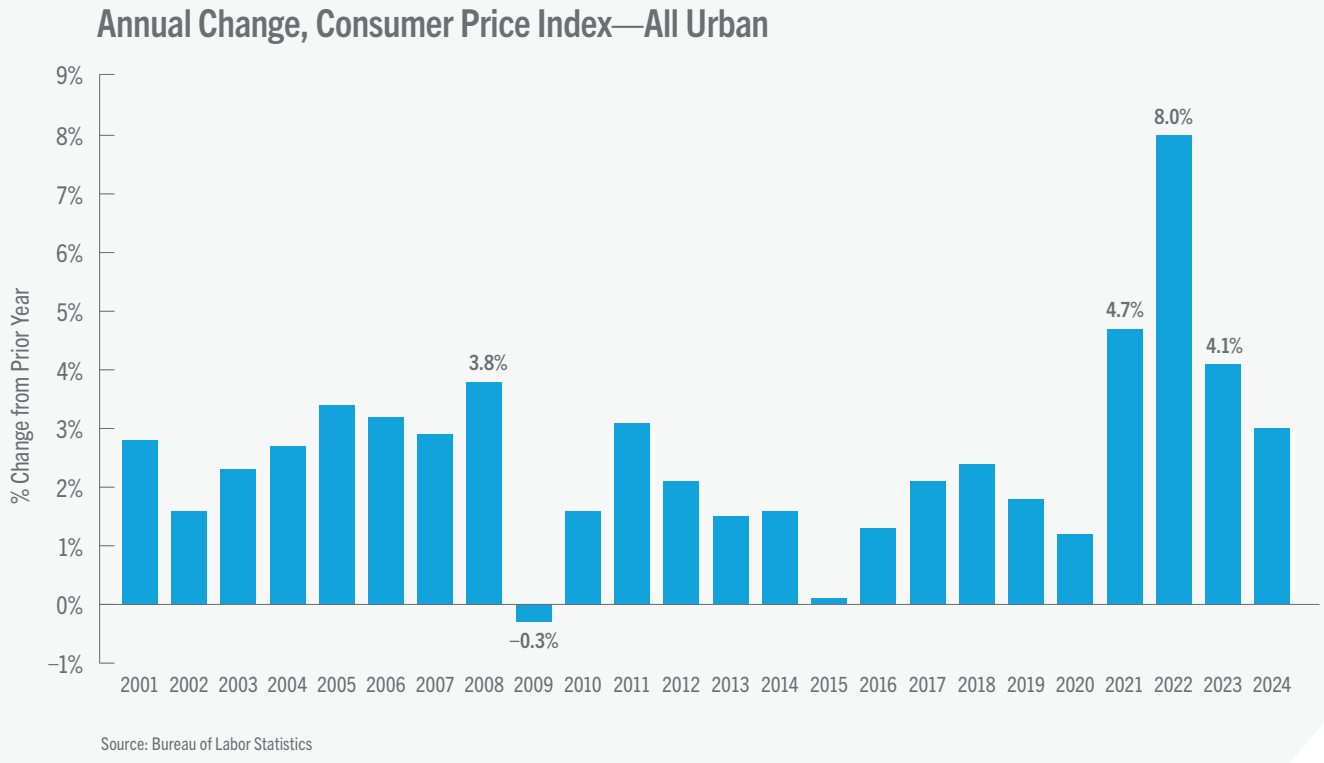

CHART 1

As a practical matter, social and economic inflation have the same influence on an insurance portfolio. They drive claim costs higher, which forces insurers to increase rates. Ultimately, consumers pay more for insurance.

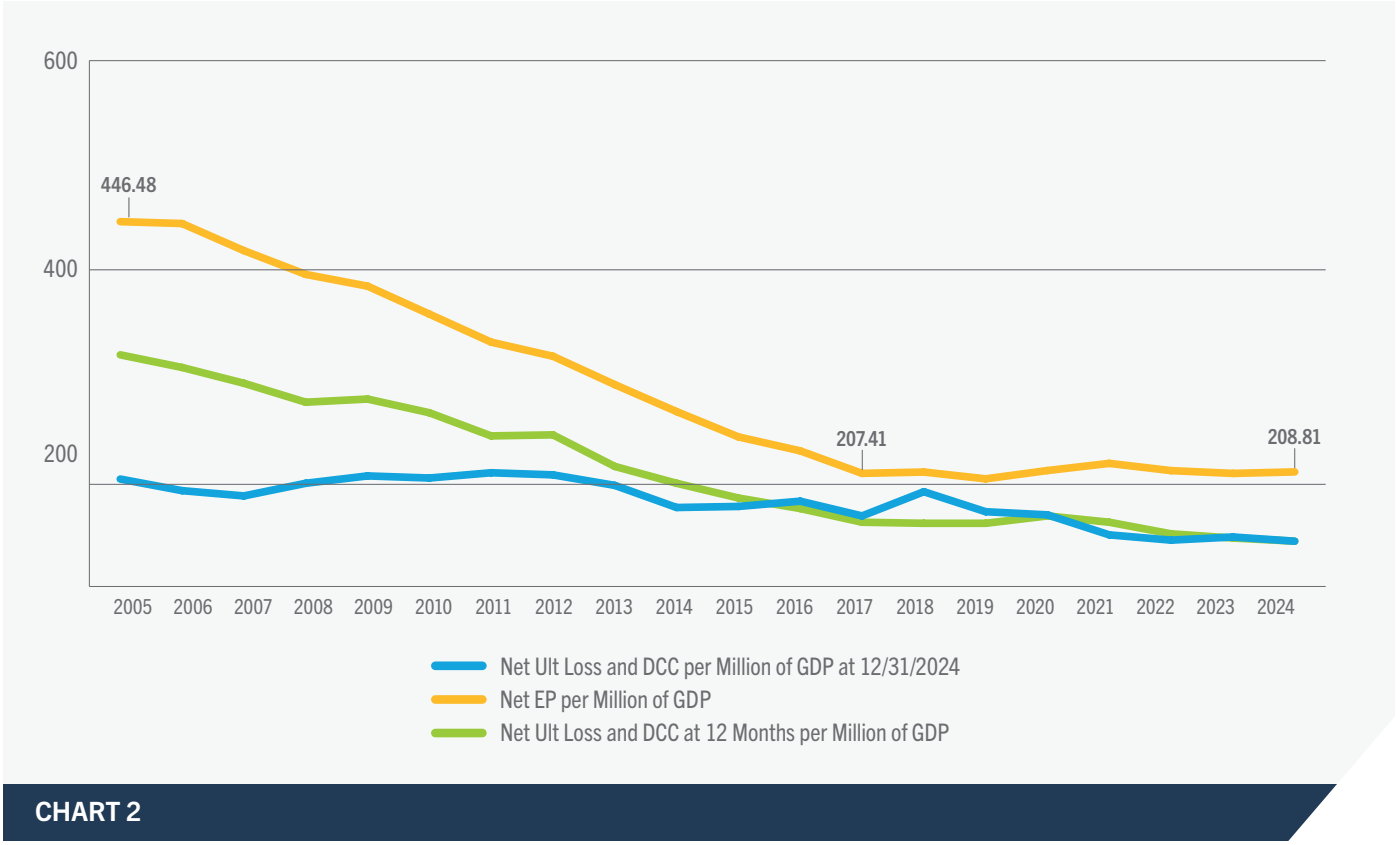

CHART 2

Chart 2 consists of three lines that track premium and losses in medical malpractice claims-made business. All of the premium and losses have been standardized against nominal gross domestic product (GDP) to adjust for size of the economy.

The yellow line represents net earned premium (NEP). It shows that NEP relative to GDP has shrunk by more than 50 percent from 2005 to 2017. Over the same period, the green and blue lines show declining losses as a function of GDP, however not to the same degree as premiums. For each accident year, the green line represents the first estimate of losses for that year. The blue line represents the most recent estimate for that year. Both have been declining since 2005.

The chart indicates that the trends seen in recent years have continued. The gap between the green and the blue lines through 2015 represents reductions in loss estimates, which helped spur declining rates through that period. The tiny gap between the lines since then suggests there is less redundancy, if any, in the booked ultimates. The industry has experienced adverse development in four out of the last six calendar years. The COVID years (2020 and 2021) were the exceptions.

According to the National Association of Insurance Commissioners, medical malpractice insurers posted an underwriting loss of –10 percent of direct premiums earned in 2023, the most recent calculation available. That was worse than the underwriting margins of 2021 and 2022: –8.2 and –2.5 percent, respectively. It is also worse than the 10-year average of –6.6 percent.

Rates appear to have been rising since 2019, according to an American Medical Association research brief. In 2024, 49.8 percent of respondents to a *Medical Liability Monitor* survey said their rates had risen, up from 13.7 percent in 2018.[6]

Insurers overall filed for an average increase of 2.9 percent in 2024. The average increase for states with a malpractice liability cap was 1.2 percent. For states without a cap, the figure was higher, at 4.5 percent.[7]

TABLE 1

Acc Year	12–24	24–36	36–48	48–60	60–72	72–84	84–96	96–108	108–120	CYR 12–60
2005	6.075	1.979	1.393	1.189	1.068	1.046	1.029	1.013	1.011	
2006	4.738	1.933	1.356	1.173	1.097	1.040	1.019	1.017	1.009	
2007	4.878	1.952	1.287	1.177	1.083	1.042	1.031	1.016	1.018	
2008	4.847	1.916	1.365	1.174	1.078	1.038	1.033	1.024	1.018	
2009	4.948	1.894	1.364	1.161	1.087	1.038	1.039	1.016	1.005	15.248
2010	4.695	1.881	1.329	1.191	1.086	1.049	1.040	1.020	1.010	14.326
2011	4.976	2.016	1.337	1.206	1.094	1.046	1.040	1.017	1.022	14.288
2012	5.410	1.950	1.394	1.168	1.096	1.054	1.026	1.012	1.009	14.982
2013	4.827	1.986	1.334	1.194	1.089	1.068	1.025	1.015	1.015	16.827
2014	4.727	1.920	1.393	1.194	1.107	1.036	1.017	1.015	0.988	14.994
2015	4.970	2.175	1.386	1.172	1.081	1.037	1.034	1.030	1.014	15.786
2016	4.943	2.103	1.391	1.164	1.085	1.081	1.029	1.041		14.868
2017	5.466	2.031	1.271	1.169	1.131	1.081	1.054			17.875
2018	5.193	1.819	1.320	1.242	1.173	1.101				19.015
2019	4.204	1.812	1.453	1.258	1.151					17.197
2020	4.293	2.041	1.489	1.212						11.316
2021	4.189	2.052	1.499							12.006
2022	4.385	2.034								15.430
2023	4.161									16.860
2024										15.386

Table 1 shows the loss development pattern by accident year through 120 months for net paid loss and DCC. The shading is used when the factor is larger than the one above it. Shaded factors are evidence of increasing inflation.

The far-right column is the calendar year ratio for factors from 12 to 60 months (CYR 12–60). It is the product of the 12–24, the 24–36, the 36–48, and the 48–60 factors in each calendar year. For example, the 2024 factor—15.386—is the product (taking rounding into account) of 4.161, 2.034, 1.499, and 1.212.

The CYR 12–60 LDF is our key inflation-measuring statistic. Its steady increase is a sign of increasing inflation.

Chart 3 focuses on the CYR 12–60 factor across time. In our prior study we noted the increase from 2012 to 2018 and attributed the decline in 2020 and 2021 to a slowdown in litigation due to the pandemic.

The CYR 12–60 factors post-pandemic are significantly higher than the pandemic years. We believe this is due to:

- The slowdown in litigation during the pandemic.
- A catch-up on the backlog created by the pandemic.
- Increasing economic inflation.

The factors were comparable to 2013 to 2015—the early stage of increasing inflation—but the factors were lower than those recorded from 2017 to 2019.[8]

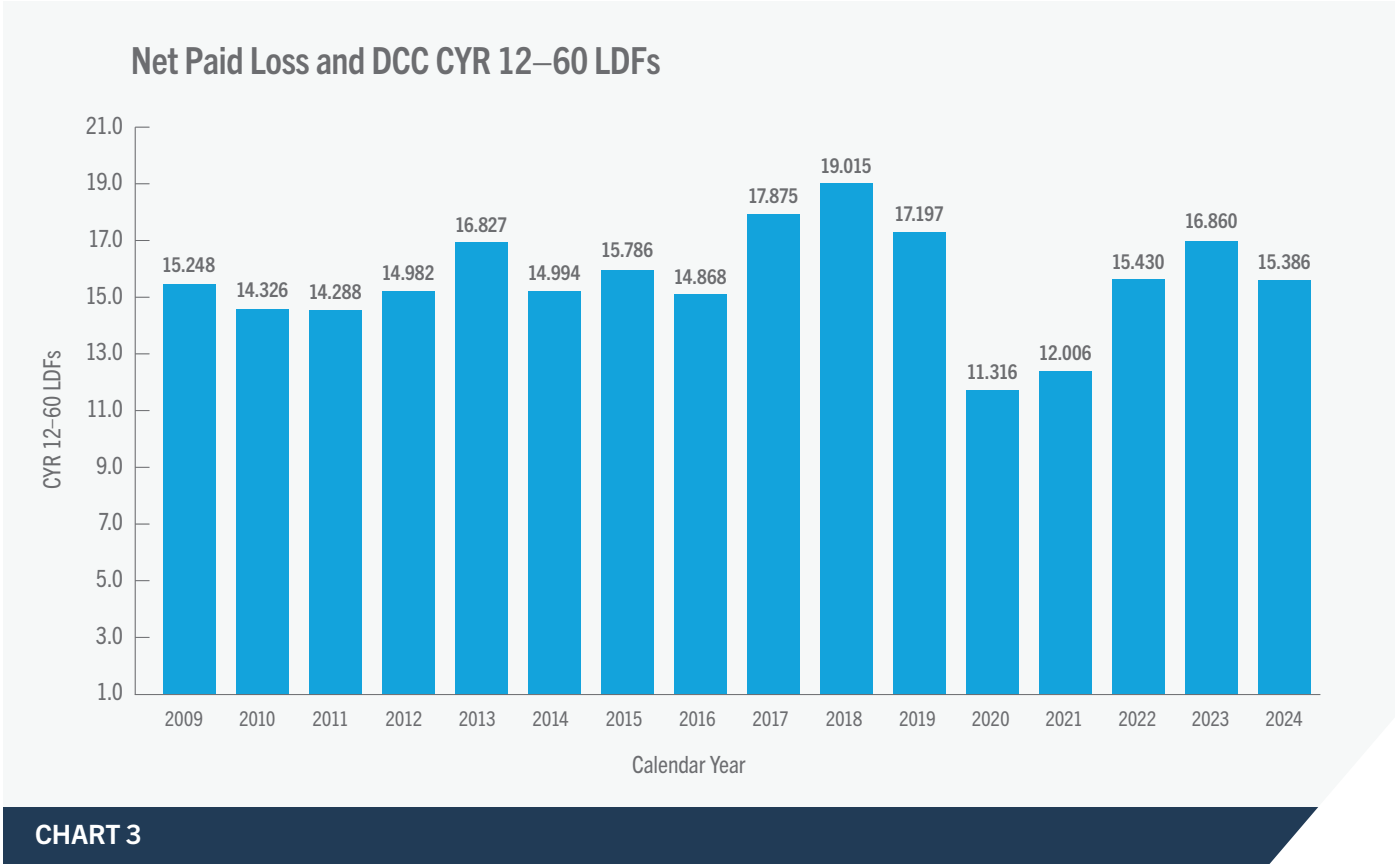

CHART 3

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If inflation is forcing development factors higher, then losses should be emerging faster than predicted. Table 2 tests that proposition. This table compares actual with expected emergence where expected emergence is based on an average of the LDFs from the three latest years. The variance column is the difference between the two, expressed both in millions of dollars and as a percentage of expected emergence. A number greater than zero means emergence was faster than expected—a sign of increasing inflation.

TABLE 2

Calendar Year	Paid Emergence on Prior Accident Years Through 120 Months			
	Expected	Actual	Variance	% Variance
2015	2,846	2,987	140	4.9%
2016	2,834	2,834	(0)	0.0%
2017	2,768	3,067	298	10.8%
2018	2,883	3,057	174	6.0%
2019	3,116	3,135	18	0.6%
2020	3,393	2,612	(781)	–23.0%
2021	2,886	2,482	(405)	–14.0%
2022	2,522	3,132	610	24.2%
2023	2,595	3,338	744	28.7%
2024	3,180	3,631	451	14.2%
2015–2019	14,449	15,080	631	4.4%
2020–2021	6,279	5,094	(1,186)	–18.9%
2022–2024	8,297	10,101	1,805	21.8%
2015–2024	29,025	30,275	1,250	4.3%
ex '20 and '21	22,745	25,181	2,436	4.3%

Over the 10-year period, losses emerged faster in seven years. The exceptions were 2016 (minimal difference between actual and expected) and the pandemic years. This is evidence that increasing inflation has been affecting the portfolio through the decade and has re-emerged post-pandemic.

To attempt to quantify the impact of increasing inflation, we used LDFs as of December 31, 2010, to estimate what ultimate losses would have been before evidence of increasing inflation emerged. That is compared to booked ultimate losses.

Table 3 shows the results. Had paid development patterns remained at the 2010 level, ultimate losses and DCC for medical malpractice claims-made physician business would have been $4.9 billion less than what insurers booked. That amounts to 13.4 percent of booked losses for the period.

TABLE 3

	A	B	C	D = A* (Alternative LDF)	E = D – C
	Per 12/31/YYYY Schedule P		Per 12/31/2024 Schedule P	3yr Weighted Average as of 12/31/2010 (Paid)	
Year	Net Paid Loss and DCC at 12 Months	Net Case Incurred Loss and DCC at 12 Months	Net Ultimate Loss and DCC	Implied Net Ultimate Loss and DCC using Alternative LDFs	Variance to Booked
2015	146	1,365	3,219	2,732	–487
2016	151	1,384	3,402	2,821	–581
2017	142	1,349	3,272	2,644	–628
2018	172	1,386	3,917	3,201	–716
2019	188	1,384	3,675	3,507	–167
2020	163	1,220	3,592	3,049	–543
2021	162	1,149	3,529	3,028	–501
2022	168	1,164	3,741	3,138	–604
2023	217	1,385	4,084	4,054	–30
2024	190	1,339	4,181	3,540	–641
Total	**1,700**	**13,124**	**36,612**	**31,715**	**–4,896**
				% Variance	–13.4%

*Amount in millions

The estimate overstates the impact of increasing inflation because booked losses in medical malpractice are considered redundant. In May 2025, A.M. Best estimated the redundancy to be $1.3 billion.[9] Our analysis covers 70 percent of the medical malpractice insurance industry, so we estimate the booked reserves in our study are approximately 70 percent X $1.3 billion = $910 million redundant. This implies ultimate losses are $910 million less than booked, or $35.702 billion. That number would be $4.896 billion – $910 million = $3.986 billion (11 percent of booked losses) higher than it would have been had losses developed at the 2010 level. We round that number to $4 billion.

ANALYSIS OF NPDB DATA

This section focuses on aggregate data obtained from the NPDB website. As with annual statement analysis, we have restricted our work to MDs and DOs only.

There remain key differences between data from the NPDB and the annual statement. The NPDB reports give paid amounts only, with no information on insurer loss reserves. Reports are classified by the year of payment, not the year a claim was made or an event occurred. In almost all cases, payments exclude loss adjustment expenses.

We exclude 2024 data from this analysis because the population of the database with 2024 reports appeared incomplete.

Chart 4 shows that after the pandemic, the average paid per report rose to its highest level in nearly two decades. Our previous study classified NPDB data into the following blocks of time:

- 2006–2011: Fluctuating
- 2012–2017: Slight growth
- 2018–2019: Accelerated growth
- 2020–2021: Shrinkage attributable to the pandemic

To this we add:

- 2022–2023: Reaccelerated growth

To clarify the analysis, the chart shows averages across those time blocks. In the latest block, the average report was about $45,000 (8 percent) higher than in the prior block.

The increase might result from a post-pandemic catch-up. Complicated cases were postponed during the pandemic while simpler ones settled. This could explain the declines of 2020 and 2021 and the inordinate increase in 2022 and 2023.

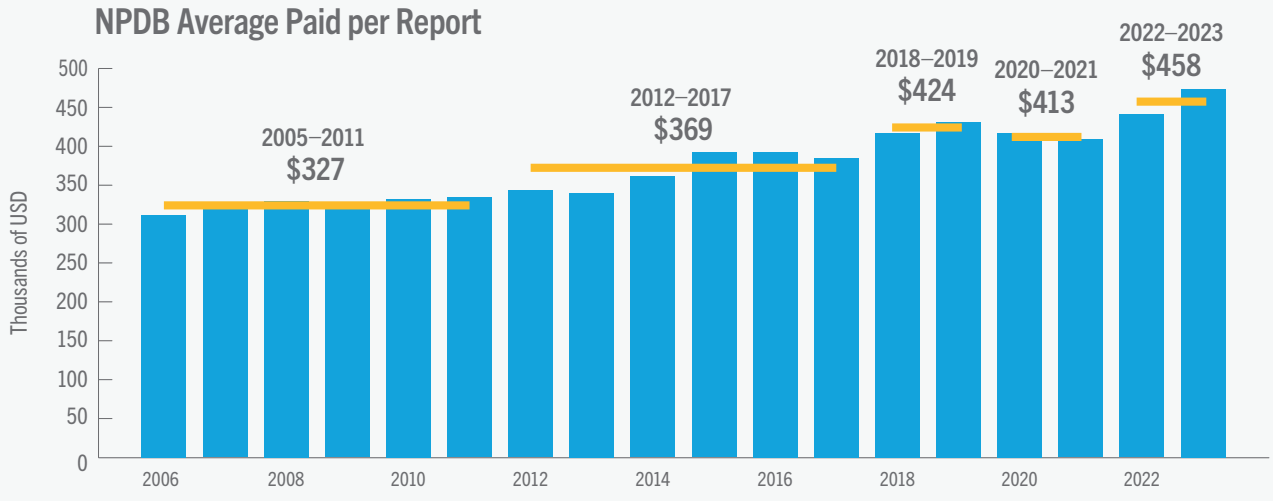

CHART 4

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The data tool permits data about reports in excess of various thresholds, including $1 million. Chart 5 shows the average paid report in excess of $1 million, with groupings as in the previous chart. The most recent block is not significantly higher than the 2018–2019 block. Given increasing inflation overall and an increase in ground-up payment per report, this is surprising.

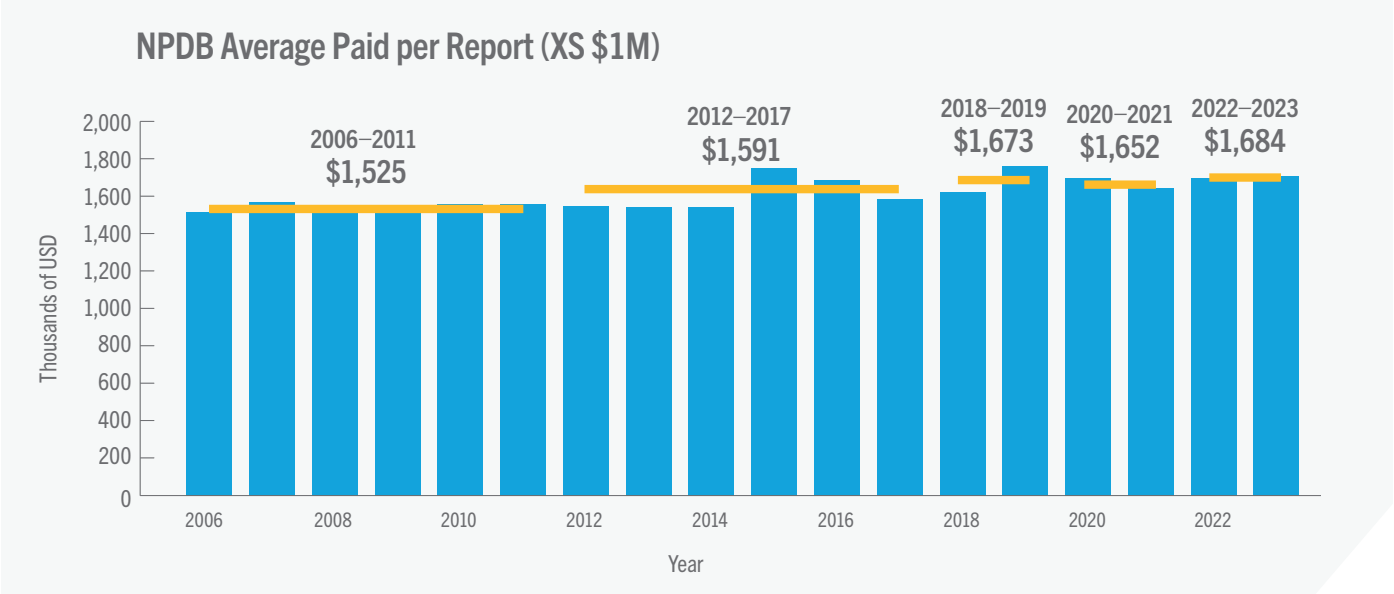

CHART 5

Chart 6 may give some insight into what could be happening. It shows the ratio of reports in excess of $1 million as a percentage of total reports. That ratio continues to increase, after a brief pandemic pause. The 2022–2023 block is the highest across the study period, three percentage points higher than the 2012–2017 block, which itself is two percentage points higher than the block that precedes it.

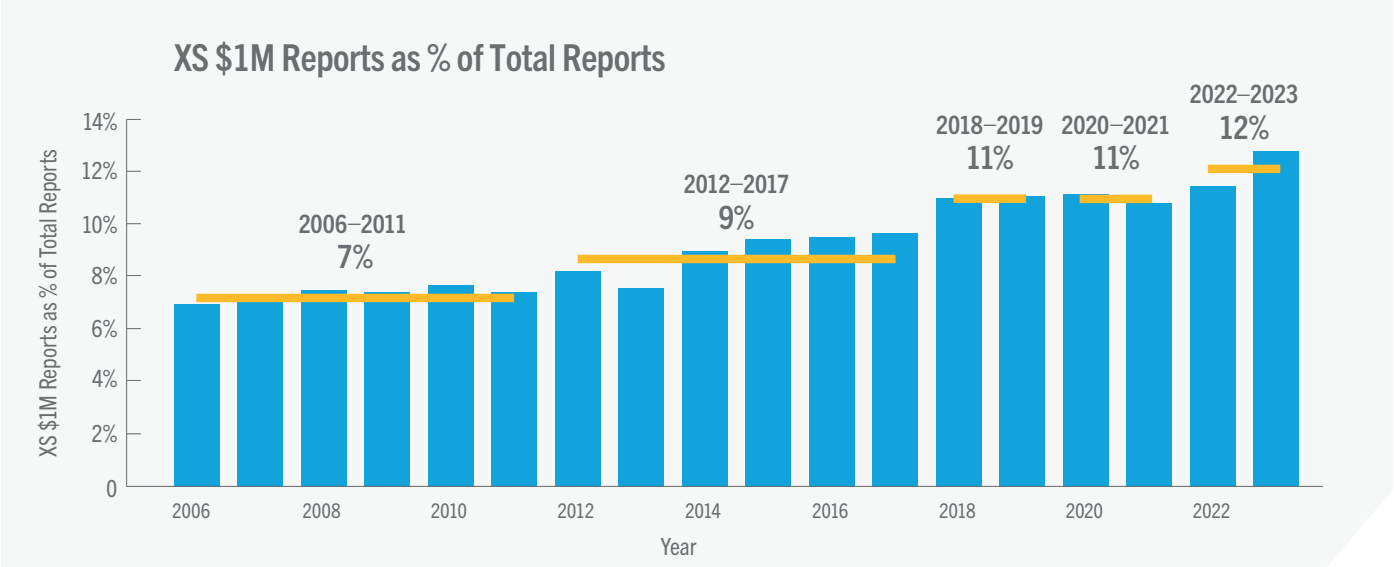

CHART 6

These two phenomena—flat excess severity but increasing excess frequency—could be caused by an increase in the number of reports barely crossing the $1 million threshold.

We extend the analysis by examining report-level claims accessible from the NPDB. We extracted all reports since the data bank's inception in 1990.[10]

Having report-level data allows us to adjust all reports for inflation. This, in effect, allows us to focus on inflation in excess of economic inflation, i.e., social inflation.

We did this twice: Once using the Consumer Price Index—All Urban and once using the Consumer Price Index—Medical Care. This analysis displays the results of only one, Consumer Price Index—Medical Care. All reports were trended forward to 2024. Both sets of results yielded similar trends.

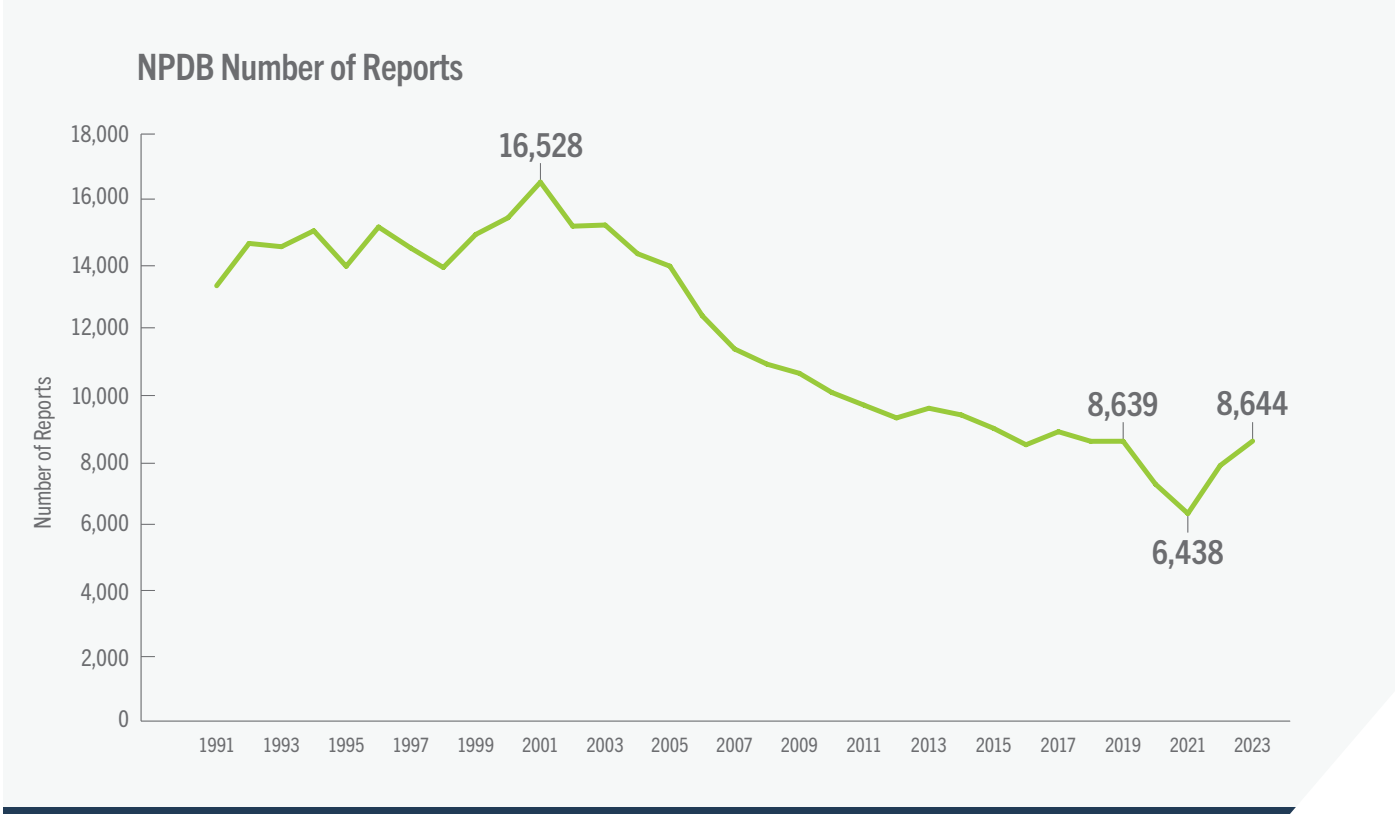

CHART 7

Chart 7 shows the number of reports from 1991 to 2023. The number of reports peaked in 2001—the height of a malpractice crisis—but steadily declined until the pandemic, when the number of reports declined sharply. The decline during the pandemic is consistent with the hypothesis that the pandemic caused a slowdown in court cases. In 2022 the number of reports started to climb again. By 2023, the number of reports was approximately the same as in 2019.

Note that the incidence of medical malpractice among MDs and DOs is in long-term decline. Adjusting all reports for inflation provides insight into whether there are inflationary trends beyond economic inflation.

Chart 8 shows the frequency of reports in excess of $1 million and $2 million, before trending. They are normalized as a percentage of total reports. The percentage of excess reports steadily rises as all sources of inflation affect the data set. The percentage of claims in excess of $1 million increased from 1.9 percent in 1990 to 13.2 percent in 2023 (a 6.9-fold increase). The percentage of claims in excess of $2 million increased from 0.3 percent in 1990 to 3.2 percent in 2023 (a 10.7-fold increase).

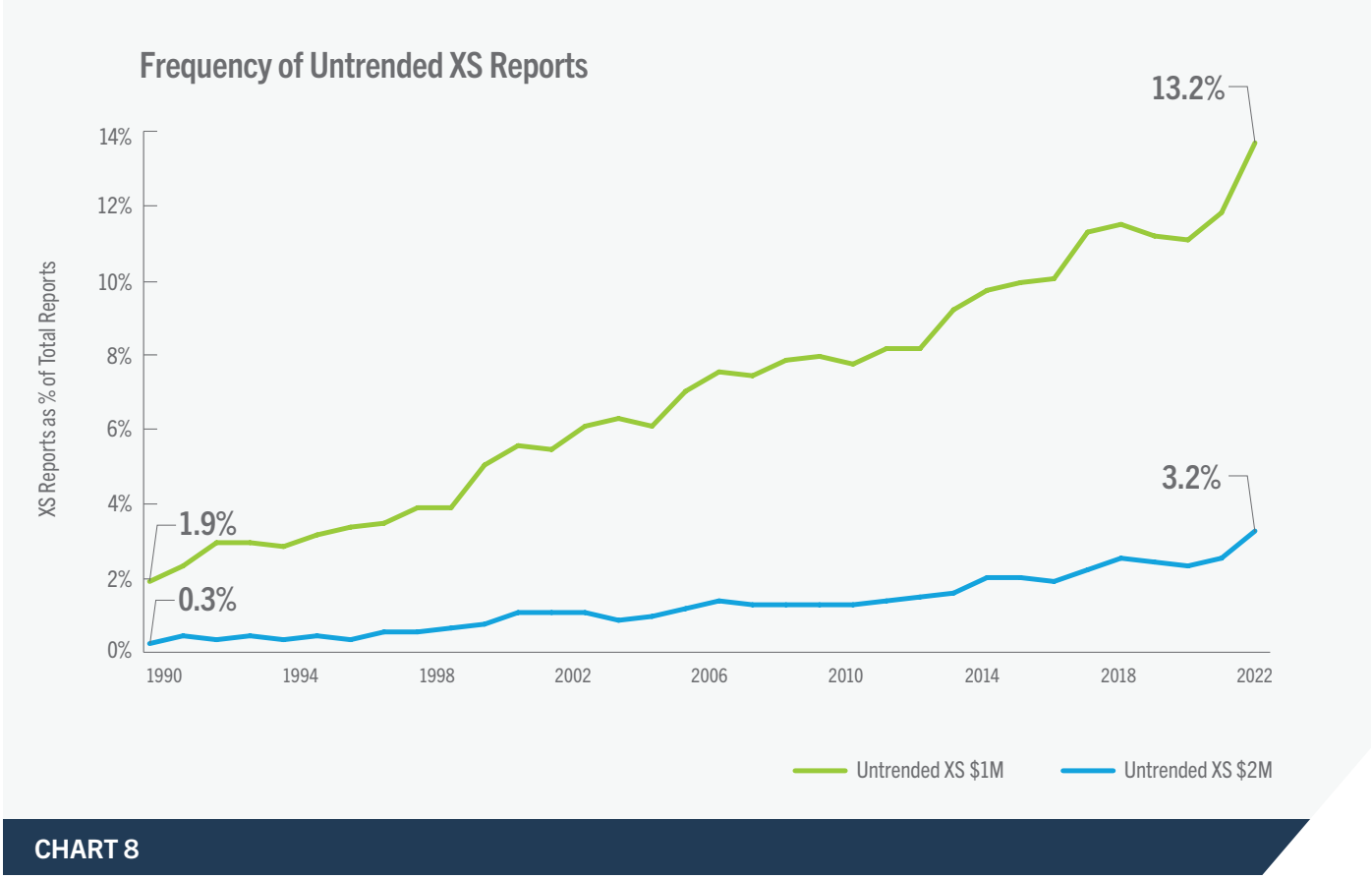

CHART 8

Chart 9 shows the frequency of trended reports in excess of $1 million and $2 million. Both trended reports are considerably flatter than in Chart 8. That's because the trending removes a significant source of increasing inflation—economic inflation. If the trend factor (Consumer Price Index—Medical Care) accounted for all inflationary elements, the percentage across time would stay about the same. The lines in the chart would be flat.

The frequency of trended in excess of $1 million reports grew significantly between 1999 and 2001, signifying social inflation had affected the portfolio in that period. Since then, it was in steady decline until 2019 (13.2 percent of total reports). Next came a sharp, pandemic-era decline to approximately 12 percent for three years, followed by a spike in 2023 to 13.7 percent.

For trended reports in excess of $2 million, the frequency was flat until 2001, fluctuating between 4.8 and 5.6 percent. It then fell sharply to 2.8 percent and declined slowly until 2013, when frequency bottomed out at 1.9 percent of total reports. It rose more than 60 percent from 2013 to 2023. Because the reports discussed here have been trended to account for medical inflation, any consistent increase would be a sign that noneconomic inflationary factors—e.g., social inflation—are at work.

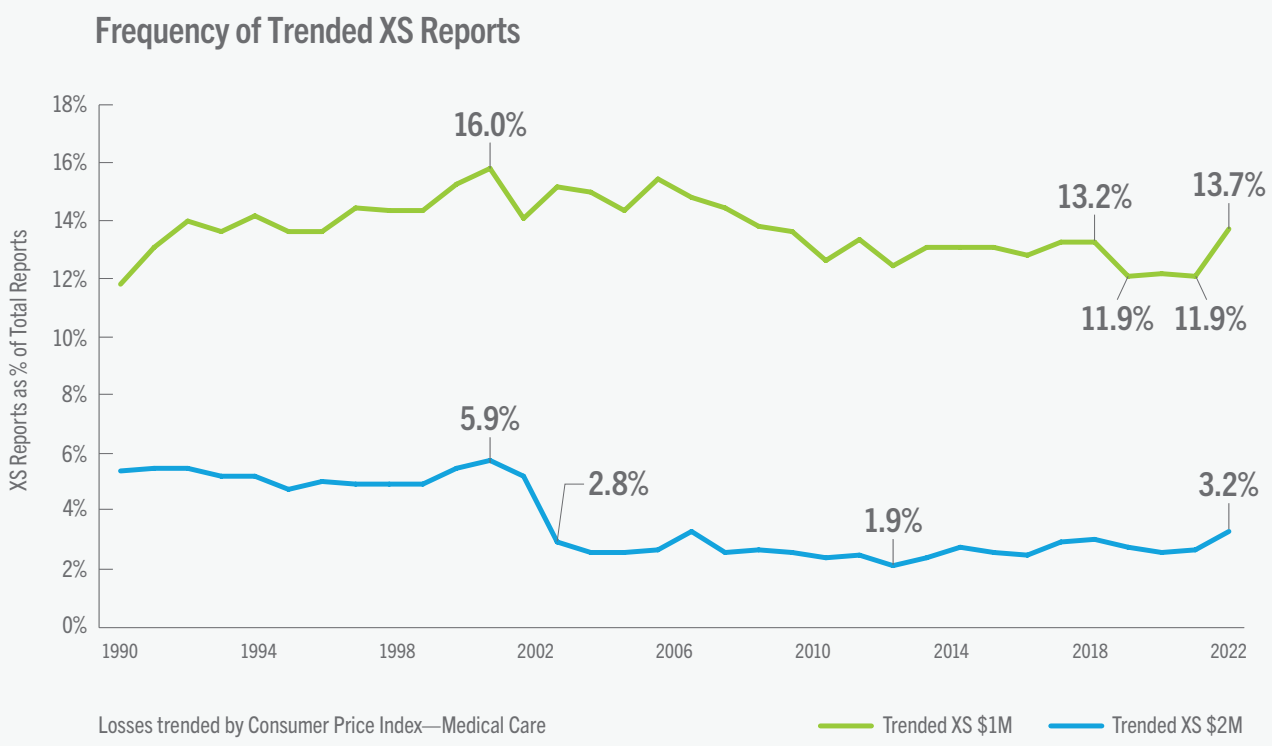

CHART 9

Chart 10 contains the same data as Chart 9 but focuses on trended reports in excess of $2 million for 2009 and later, to provide a better focus on that period.

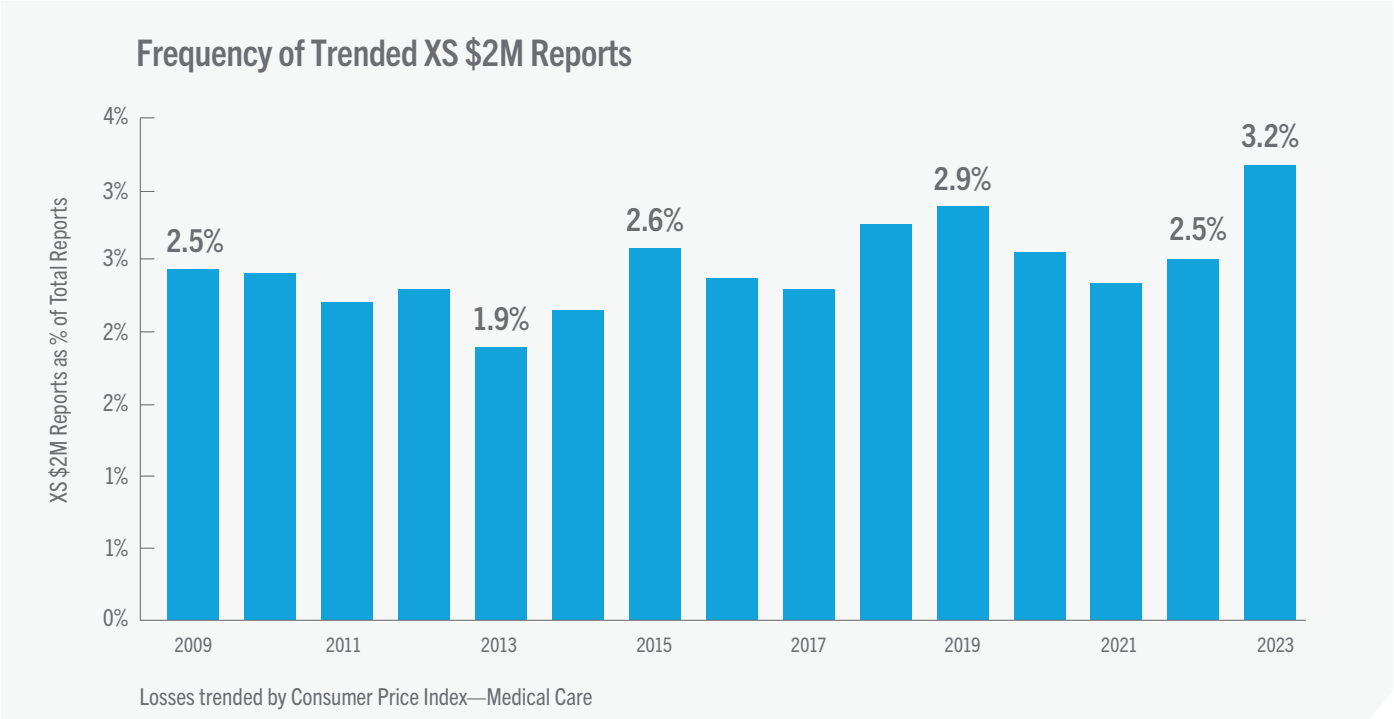

CHART 10

The trended excess frequency hits a periodic low in 2013 then begins climbing until a peak in 2019, with 2.9 percent of trended reports in excess of $2 million. The percentage falls through the pandemic years of 2020 and 2021, but even then, the frequency remains higher than in 2017. In 2023, 3.2 percent of reports were in excess of $2 million, 67 percent higher than in 2013.

The change of 1.3 percentage points (1.9 percent in 2013 to 3.2 percent in 2023) might seem subtle, but it is significant. Its significance is borne out by Chart 11, which shows the amount of inflation-adjusted dollars paid out on trended reports in excess of $2 million, as a percentage of total payments. The percentage has grown from 15 percent in 2013 to 24 percent in 2023. The latter is the highest percentage since 2001, the peak of the last malpractice crisis.

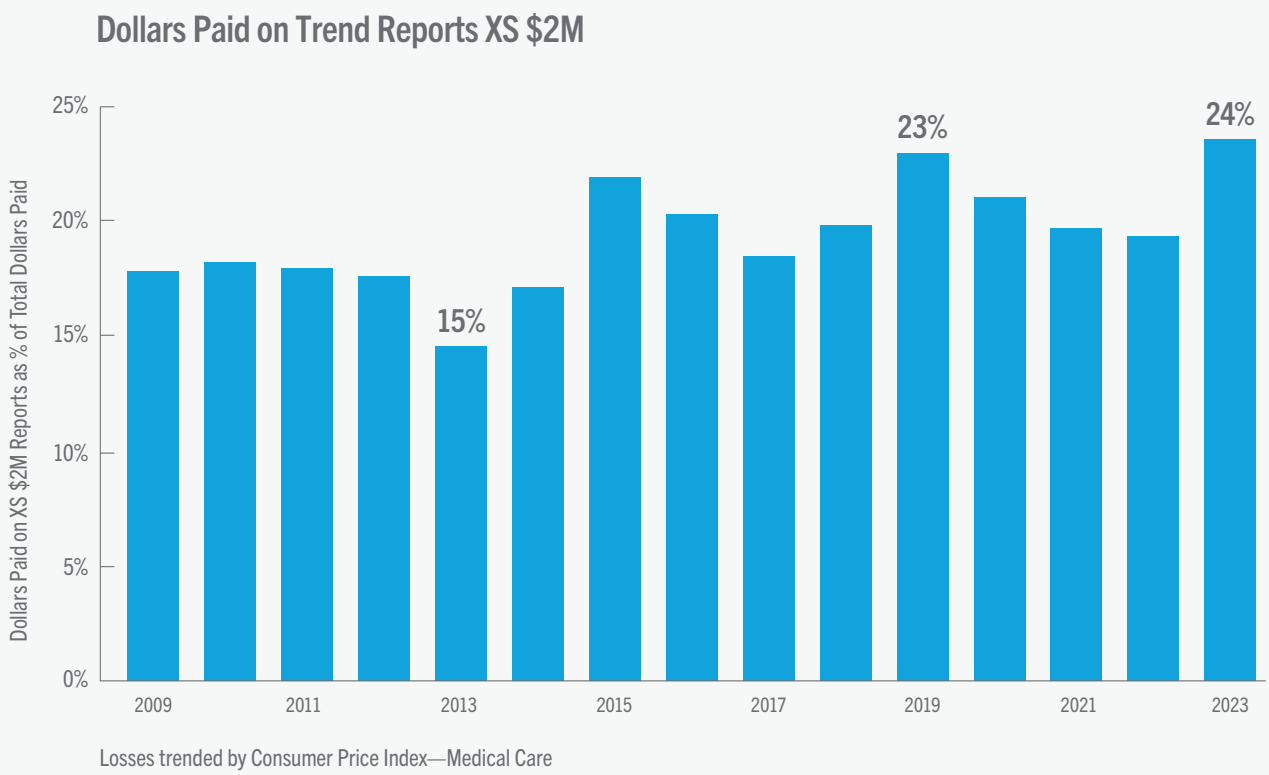

CHART 11

Concern among medical malpractice insurers seems warranted. The results here are similar to what Milliman found in its 2025 study, cited above: An increase in the number of claims settling at higher amounts. Milliman studied losses among institutions like hospitals and care facilities. Our work focuses on MDs and DOs. Still, it is reasonable to think that both classes of business are subject to similar pressures, though they might manifest differently.

Milliman, working with data unadjusted for inflation, found an increase in claims severity. Our inflation-adjusted data found an increase of 7.6 percent in total from 2013 ($447,108) to 2019 ($481,044), followed by a pandemic-driven dip and a return to 2019 levels in 2023 ($485,885). The increase (after inflation adjustment) would be consistent with our prior work, which suggested that social inflation had a small but meaningful impact on the medical malpractice portfolio.

IMPACT OF THIRD-PARTY LITIGATION FINANCING

Milliman, in an aside, suggested that third-party litigation financing (TPLF) may be a cause of the increase in claim size. A recent article summarized the practice:

> **Simply put, TPLF is an investment in a lawsuit. An investor provides funding for a legal claim in exchange for a share of the potential settlement or judgment. Litigants can pursue cases without bearing the full cost upfront.**

Insurers maintain that TPLF is an important driver of social inflation. It is difficult to document, though. Most organizations providing TPLF are private. Only rarely are plaintiffs required to disclose its presence. A dispute can wind through the court for years, and even after its conclusion, the insurer will not know whether there was a third-party investor.

The practice appears profitable. An actuary at the EY consulting firm estimated that TPLF will most likely cost insurers between $13 and $18 billion over the next five years. His top-end estimate was $25 billion.[11] Swiss Re reported an internal rate of return exceeding 20 percent on insurance-related TPLF investments. The lone publicly traded financier, Burford Capital, notes that the cases it invests in are as likely to return over 200 percent as to lose a dollar.[12]

Other suspected causes of social inflation include:

- Changes in underlying beliefs about the appropriateness of filing lawsuits and expectations of higher compensation.
- Rollbacks of previously enacted tort reforms intended to control costs.
- Legislative actions to retroactively extend or repeal statutes of limitations.
- Increased attorney advertising and increased attorney involvement in liability claims.
- Increasing numbers of very large jury verdicts, reflecting an increase in juries' sympathy toward plaintiffs and in their willingness to punish those who cause injury to others.
- Proliferation of class-action lawsuits.[13]

CONCLUSION

This study reaffirms that increasing inflation—both social and economic—has impacted the physician-focused medical malpractice insurance market. Our analysis estimates an additional $4 billion in losses, or 11 percent of booked losses, attributable to these inflationary pressures. Data from the NPDB are consistent with these findings and indicate inflation is increasing the frequency of claims in excess of $1 million and $2 million and driving the highest settlements—excess of $2 million—even higher.

Inflation is accelerating claim costs and reshaping insurer expectations. Insurers and other interested parties, such as legislators and regulators, should continue to monitor the situation to understand and mitigate the evolving risk.

APPENDIX

The analysis identifies inflation by looking for "drift" in LDFs. LDFs that are consistently rising provide evidence of increases in loss cost trends. If the trend in the Consumer Price Index has been stable or decreasing, this drift would likely be attributable to social inflation. If the Consumer Price Index has been rising, this drift would likely be attributable to economic inflation or a combination of the two.

The methodology followed the white paper on social inflation "Social Inflation and Loss Development," published jointly by the Insurance Information Institute and the Casualty Actuarial Society in February 2022. That paper defined social inflation as "excessive inflation in claims" and primarily looked for evidence that the size of claims has increased. The methodology is not as well-suited to identifying increases in claim frequency or a subset thereof, such as an increase in the frequency of large losses.

Basic actuarial techniques assume that losses move from unreported to reported to paid in a predictable fashion. There are many factors behind that movement. Inflation is one.

Actuaries usually select an LDF by averaging several link ratios; their assumption being that they are observing a random process with a stable mean. That assumption implies that inflation has been constant.

If link ratios are increasing, it is likely that the process no longer has a stable mean. The instability could, in theory, have many causes. One of those is inflation. The presence of rising link ratios in lines of business where those ratios are normally stable can be evidence of inflation.

The Doctors Company requested that we examine medical malpractice claims-made data from the annual statement to see if there was evidence of inflation. The Doctors Company's own experience indicated that industrywide annual statement data have two significant sources of anomalies:

- A few companies have unusual Schedule P triangles, thanks to unconventional reserving practices and/or anomalies caused by large financial transactions, such as mergers and loss portfolio transfers.
- Some companies primarily write hospital business. Hospitals have different retention and limit profiles than physicians, which leaves them with different loss development patterns.

To address these potential problems, The Doctors Company supplied a list of companies to exclude from the industry dataset. Those companies are:

- Berkshire Hathaway Group
- Missouri Hospital Plan
- MagMutual
- MCIC Vermont
- Controlled Risk Insurance Co. of Vermont
- CRICO
- Franklin Casualty Insurance Company
- Healthcare Underwriting Company
- Community Hospital Alternative
- California Healthcare Insurance Company

These companies constitute roughly 30 percent of industry NEP for the medical malpractice claims-made line of business.

The first company was excluded because of distorting intercompany transactions and/or loss portfolio transfers. The remaining companies were excluded based on a list provided by The Doctors Company of top hospital writers.

The list of excluded carriers differs slightly from the list established in our prior medical malpractice paper. The present list excludes Endurance American Specialty Insurance Company, for which no data was found. It adds CRICO, which is a successor organization to Controlled Risk Insurance Co. of Vermont.

To ensure that the change in excluded companies did not distort the analysis, we compared key metrics, described below, for both sets of excluded companies. Changing the list of excluded companies did not materially change the key metrics, nor did it affect any analysis or conclusions.

With the resulting data: First, we examined trends in aggregate premium and losses by calendar year and accident year, as standardized by the size of the overall economy. Next, we examined loss development on net paid loss and DCC triangles and net reported loss and DCC triangles. We focused on the product of link ratios along each diagonal of the triangle from 12 months to 60 months. If this product, the calendar year loss development factor, is consistently growing, it is a sign that increasing inflation is present. The team performed similar analysis on gross losses and found consistent patterns with what the net showed.

Next, we compared the actual emergence of losses to what was predicted by recent link ratios.

To project emergence in each year, we use a three-year weighted average of the previous link ratios.

The calculation is as follows:

- Let $E(L_{i,j})$ = expected cumulative paid loss and DCC for accident year i at age j in months
- Let $A_{i,j}$ = actual cumulative paid loss and DCC for accident year i at age j in months
- $E(L_{i,j}) = (A_{i,j-12}) * (A_{i-3,j} + A_{i-2,j} + A_{i-1,j}) / (A_{i-3,j-12} + A_{i-2,j-12} + A_{i-1,j-12})$

The expected projection is only one diagonal forward; for example, the 2021 diagonal starts with the 2020 actual diagonal and applies three-year average link ratios to project the 2021 diagonal.

If actual emergence greatly exceeds predictions, it is a sign that inflation is increasing.

Finally, we compared booked ultimate losses to what ultimate losses would have been prior to inflation. We calculated the implied net ultimate loss and DCC based on the paid loss development method using alternative LDF assumptions. These alternative LDF assumptions are based on using three-year weighted average link ratios from the latest three calendar years as of December 31, 2010. We reason that in the absence of increasing inflation, LDFs would not be creeping higher.

This yields an estimate of the impact of increasing inflation on the portfolio.

Annual statement data have advantages and disadvantages for this kind of analysis. Data are affected by legal changes, changes in types of claims, changes in laws and regulations, and changes in policy limits and attachment points. Often these considerations, such as the homogeneity, credibility, development patterns, reinsurance, and use of discounting and operational changes are muted when analyzing industry-level results.

The actuarial team also assessed the utility of data from the NPDB, which contains, among other things, extensive nationwide information regarding payments to settle medical malpractice disputes.

The NPDB was created by Title IV of the Health Care Quality Improvement Act of 1986, Public Law 99-660. It began accumulating information in 1990. It is overseen by the Health Resources and Services Administration, an agency of the Department of Health and Human Services.

The data bank collects and disseminates information about medical professionals to "prevent incompetent practitioners from moving state to state without disclosure or discovery of previous damaging or incompetent performance." The law requires medical malpractice payers, hospitals, medical and dental licensing boards, and certain other healthcare entities to report adverse actions taken against medical professionals.

Although it was designed as a clearinghouse that lets organizations like hospitals and medical boards check on the fitness of a medical professional, the data bank also makes available anonymized data in a public use file. In 2012, a data analysis tool was added to query high-level information, and the actuarial team used this tool.

For insurance purposes, the reports from the public use file can be useful to establish rate relativities—how losses vary from, say, state to state or among specialties. In other respects, their insurance use is limited. The reports give paid amounts only, with no information on insurer loss reserves. Reports are classified by the year of payment, not the year a claim was made or an event occurred. In almost all cases, payments exclude loss adjustment expenses.

Instead of recording the amount paid, the public use file contains an amount that slots the payment into a range. For example, payments between $30,001 and $35,000 are coded as $32,500. Overall, this doesn't distort aggregate payments much. The distortion may be greater at higher amounts.

Payments between $50 million and $100 million are coded at the midpoint of $10 million increments, so payments between $50 million and $60 million are coded as $55 million. The maximum paid report is $105 million. Higher reports are coded as $105 million.

Some incidents result in multiple reports of payments. For example, a multimillion-dollar verdict could result in reports from a payer of a self-insured retention, such as a hospital, from a primary insurer, and from an excess insurer.

These would exist as three separate reports in the database, and database managers have made no attempt to join them.

Collecting reports by the year of payment (essentially by calendar year) makes inflation trends easier to spot.

Some of the insurance limitations, though, provide insights into public policy issues like social inflation. Paid data are not subjective. Occasionally insurance industry skeptics suggest that insurers pad their claim estimates to exaggerate their plight. Paid data can't be subject to exaggeration, so the skeptics' argument vanishes.

The database contains information not included in annual statement data. Hospitals that indemnify a physician must report a payment, even if the hospital is self-insured. Non-U.S. insurers must also report into the database. They do not file an annual statement.

The database can isolate reports on physicians. The annual statement cannot.

Lacking loss adjustment expenses, the database allows analysts to focus on how much indemnity costs contribute to increasing inflation. The annual statement has similar information (direct paid losses).

Tracking the number of reports allows analysis by size of claim. The database also separates reports by their size. The annual statement collects claim counts, but lack of uniformity in how companies define a claim presents challenges to severity analyses.

PURPOSE AND SCOPE

The Doctors Company has engaged Dave Moore of Moore Actuarial Consulting, LLC, and Jim Lynch of James Lynch Casualty Actuary to attempt to determine the degree of increasing inflation, if any, present in the U.S. medical malpractice claims-made market for physicians. The Doctors Company requested use of the quantitative methods they employed in their white paper on social inflation, "**Social Inflation and Loss Development**."

The decision to implement or act upon any of the information, indications, or recommendations presented herein is the sole responsibility of the Company.

For the intended purposes of this report, the Accounting Date (the date used to separate paid versus unpaid claim amounts) and the Valuation Date (the date through which transactions are included in the data) for the latest annual statement data are assumed to be 12/31/2024.

In addition, we reviewed summary-level information from the NPDB, a federal dataset that collects information on, among other things, malpractice payments. Reports of payments for malpractice settlements since September 1990 are summarized and made available with an online data analysis tool. The Valuation Date of data contained in the NPDB is 5/5/25.

And the Review Date (the cutoff date for including information known to the actuary in the analysis) and information date (the date through which data or other information has been considered in developing the findings include in this report) was 7/25/2025.

DISTRIBUTION AND USE

We have prepared this report in conformity with its intended utilization by person(s) technically competent in the areas addressed and for the stated purposes only. Our services and deliverables are not for a third party's use, benefit, or reliance, and we disclaim any contractual or other responsibility or duty of care to others based upon these services or deliverables or advice we provide.

Any third-party recipient of this report should understand that this report in no way relieves them of the responsibility to perform their own due diligence and should place no reliance on this report or the data contained herein without independent verification. Furthermore, reliance on this report or the data contained herein by any third party does not create any duty or liability on our behalf to the third party.

QUALIFICATIONS, RISKS, AND UNCERTAINTY

David P. Moore is a Fellow of the Casualty Actuarial Society, Member of the American Academy of Actuaries, and a Chartered Enterprise Risk Analyst and meets the qualification standards of the American Academy of Actuaries.

James Lynch is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries and meets the qualification standards of the American Academy of Actuaries.

This report provides modeled indications based upon the data, assumptions, and methods described herein. As with any forward-looking statements, there is risk of material adverse deviation of actual results from those modeled and/or projected. We assume no liability for deviation in actual results from those estimated and provides no guarantee of the actual results and/or financial condition of the Company.

NOTES

[1] Jim Lynch and Dave Moore, "**Social Inflation and Loss Development**," Casualty Actuarial Society and Insurance Information Institute, 2022; Jim Lynch and Dave Moore, "**Social Inflation and Loss Development – An Update**," Casualty Actuarial Society and Insurance Information Institute, 2023; Jim Lynch, Dave Moore, and Dale Porfilio, "**Impact of Increasing Inflation on Personal and Commercial Auto Liability Insurance**," Insurance Information Institute, 2023; Jim Lynch, Dave Moore, William Nibbelin and Dale Porfilio, "**Increasing Inflation on Auto Liability Insurance – Impact as of Year-end 2023**," Insurance Information Institute, 2024.

[2] Jim Lynch and Dave Moore, "**Medical Malpractice Claims-Made Social Inflation and Loss Development Report**," The Doctors Company, 2023.

[3] Lloyd Dixon, Nicholas M. Pace, James Davidson, and Jamie Morikawa, "**What Is the Evidence for Social Inflation? Trends in Trial Awards and Insurance Claim Payments**," RAND Corporation, 2024.

[4] Mitchell Morris and Tim Vosicky, "**2025 Medical professional liability update: Severity still rising, new benchmarking insights**," Milliman, June 19, 2025.

[5] Lynch, Moore, Nibbelin, and Porfilio, p. 2.

[6] Allen Hardiman, PhD, "**Upward Trajectory of Medical Liability Premiums Persists for Sixth Year in a Row**," American Medical Association Policy Research Perspectives, February 2025, p. 1.

[7] Calculated using data from *Medical Liability Monitor*, Annual Rate Survey issue, Vol. 49, No. 10, October 2024.

[8] We again examined CYR 12–60 factors on a case-incurred basis, but as in our prior report, we determined that they did not yield useful information. As before, a reduction in case reserve adequacy appears to have been driving factors higher—even before considering the impact of increasing inflation. And as in our prior study, we continue with a focus on paid loss development factors.

[9] "**Medical Liability Insurers Face Mounting Challenges Despite 2024 Surge in Profits**," *Risk & Insurance*, May 30, 2025.

[10] It is important to note that report-level data is anonymized. As part of the anonymization process, the precise size of the payment is not recorded in the public-use file. It is represented by placement in the center of a range. For example, payments between $30,001 and $35,000 are coded as $32,500. Payments between $50 million and $100 million are coded at the midpoint of $10 million increments, so payments between $50 million and $60 million are coded as $55 million. The maximum paid report is $105 million. Higher reports are coded as $105 million.

Overall, this doesn't distort aggregate payments much. For example, for data through May 5, 2025, payments during 2019 totaled $4.598 billion using the detailed database and $4.394 billion using the data analysis tool, a difference of around 5 percent. The distortion may be greater at higher amounts.

Most significant for this study: Reports of exactly $1 million are recorded in the report-level data as the midpoint of their bracket, $995,000. Reports of exactly $2 million are recorded at the midpoint of their bracket: $1,950,000. To capture those reports, we define "in excess of $1 million" as reports exceeding $995,000, and "in excess of $2 million" as reports exceeding $1,950,000. We verified that our process provided results close to information extracted via NPDB's data tool, in particular for reports in excess of $1 million and $2 million. Discrepancies were slight and did not affect the analysis or conclusions.

[11] "**5-Year Cost of Litigation Funding to Commercial Insurers Could Top $25B**," *Insurance Journal*, August 12, 2025.

[12] Jim Lynch, "**Finding Justice: The Rise and Risks of TPLF**," *Actuarial Review*, July 2025, p. 28.

[13] Summarized by Lynch and Moore (2022), p. 2.

CONTACT US

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