

# Perspectives

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OUR VIEW ON INSURANCE CAPITAL MANAGEMENT TOPICS

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## From Caution to Opportunity: The Evolving Investment Landscape for Medical Liability Insurers

How have Medical Professional Liability insurers' investments coped with challenging market conditions since we last visited them in 2023?<sup>1</sup>

### EXECUTIVE SUMMARY

In this article, we delve into the enterprise profile of U.S. medical professional liability (MPL) insurers and assess their investment performance relative to the broader U.S. property and casualty (P&C) industry. The MPL composite trailed the P&C industry in net investment income [%], partly due to its more conservative asset allocation. Within the fixed income portfolio, despite having similar average credit quality and duration relative to the broader P&C industry, the MPL composite's book yield was lower, though the gap has narrowed recently. An in-depth comparative analysis of sector allocation and duration/quality strategy may point to opportunities to improve portfolio yields. MPL Insurers that assumed greater investment risk, particularly larger firms, tended to realize higher book yields, suggesting that selective risk-taking could serve as a lever for enhancing investment performance.

### SCOPE OF ANALYSIS

We use an MPL composite of 110 firms that primarily or exclusively underwrite MPL insurance.<sup>2</sup> Commercial multiline insurers that also offer MPL products are not included in the composite. The MPL composite is compared to a U.S. P&C industry composite of 1,006 companies that underwrite all P&C lines of business, excluding those in the MPL composite. All exhibits use statutory filing data as of December 31, 2024, from S&P Capital IQ Pro, supplemented by data from sources such as NEAM and ICE BofA.

### MPL COMPOSITE'S ENTERPRISE PROFILE

#### Similar Investment Leverage and Lower Premium Leverage

Exhibit 1 compares the statutory surplus, total invested assets, and net premiums written between the MPL composite and the P&C industry from 2022 to 2024. The MPL composite maintained a similar investment leverage (invested assets-to-surplus ratio) to the P&C industry. However, its premium leverage (net premiums written-to-surplus) was significantly

lower, reflecting the longer-tailed nature of the MPL business. For the same reason, the reserves-to-premium ratio remained higher for the MPL composite, while the difference in reserves-to-surplus ratios between the two groups was less pronounced. MPL writers were generally smaller in scale, with over 90% holding less than US \$1 billion in invested assets as of 2024. While both groups saw growth in surplus, invested assets, premiums, and reserves over the three-year period, the P&C industry outpaced the MPL composite in all areas except surplus growth.

#### Exhibit 1. Surplus, Invested Assets, and Premium Trend

Composite	Item	2024	2023	2022	2024 Growth	3-Year CAGR*
MPL Composite	Surplus [\$B]	18.3	17.4	15.6	5.3%	3.5%
	Invested Assets [\$B]	40.3	38.7	35.7	4.2%	3.2%
	Company # [% of total #]	110	109	108		
	Invested Assets > \$1B	10 [9%]	10 [9%]	9 [8%]		
	\$100M < Invested Assets < \$1B	34 [31%]	30 [28%]	30 [28%]		
	Invested Assets < \$100M	66 [60%]	69 [63%]	69 [64%]		
	Net Premium Written [\$B]	7.2	6.7	6.5	7.8%	5.9%
	Loss & LAE Reserves [\$B]	10.2	9.9	9.8	2.9%	1.8%
	Invested Assets-to-Surplus	2.2x	2.2x	2.3x		
	Premium-to-Surplus	0.4x	0.4x	0.4x		
	Reserves-to-Premium	1.4x	1.5x	1.5x		
	Reserves-to-Surplus	0.6x	0.6x	0.6x		
P&C Industry Ex MPL	Surplus [\$B]	1,097.7	1,022.3	963.1	7.4%	2.0%
	Invested Assets [\$B]	2,463.7	2,298.9	2,156.8	7.2%	4.1%
	Company # [% of total #]	1,006	982	967		
	Invested Assets > \$1B	156 [16%]	152 [15%]	152 [16%]		
	\$100M < Invested Assets < \$1B	293 [29%]	274 [28%]	245 [25%]		
	Invested Assets < \$100M	557 [55%]	556 [57%]	570 [59%]		
	Net Premium Written [\$B]	925.5	850.7	769.9	8.8%	9.3%
	Loss & LAE Reserves [\$B]	422.9	391.1	363.7	8.1%	7.9%
	Invested Assets-to-Surplus	2.2x	2.2x	2.2x		
	Premium-to-Surplus	0.8x	0.8x	0.8x		
	Reserves-to-Premium	0.5x	0.5x	0.5x		
	Reserves-to-Surplus	0.4x	0.4x	0.4x		

\*Compound Annual Growth Rate

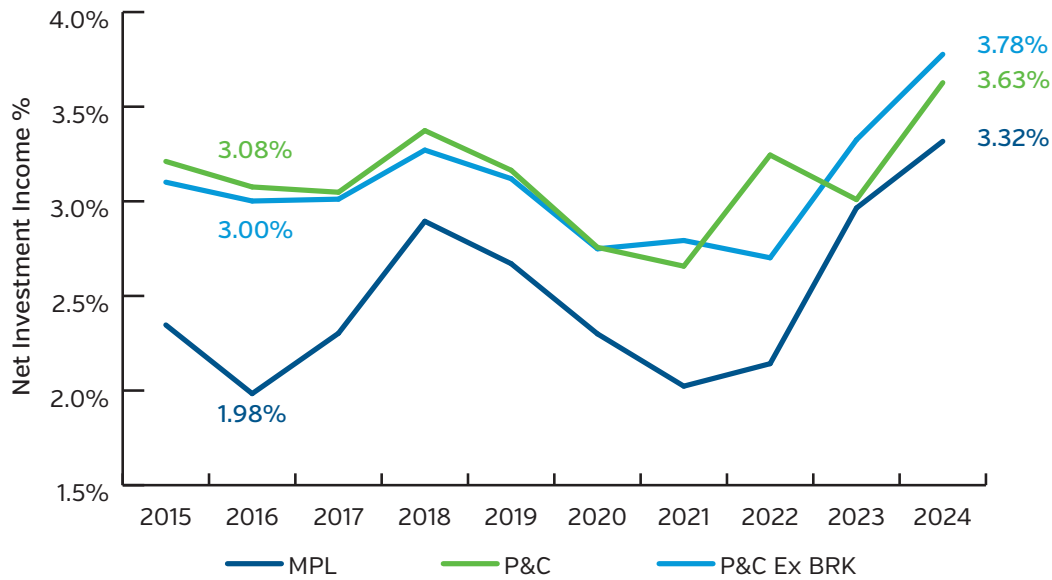
Source: NEAM, S&P Capital IQ Pro

## A LOOK AT THE MPL COMPOSITE'S ASSET CHARACTERISTICS

### Net Investment Income Trailed the P&C Industry

Exhibit 2 shows the net investment income [%] of the MPL composite and the P&C industry. Over the past decade, the MPL composite consistently trailed the P&C industry, with the gap peaking at 110 basis points (bps) in 2016 before narrowing to 31 bps in 2024. In recent years, the P&C industry's net investment income [%] has begun to diverge more noticeably depending on whether Berkshire Hathaway [BRK] is included, reflecting the impact of the company's significant reallocation activity.<sup>3</sup>

**Exhibit 2. Net Investment Income (%) Comparison**

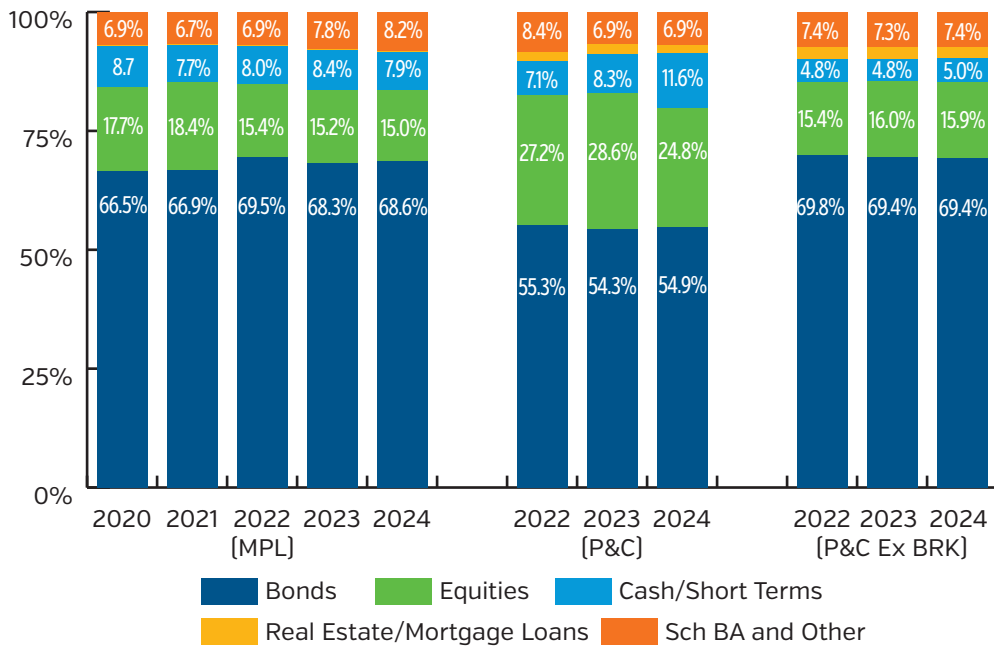


Source: NEAM, S&P Capital IQ Pro

### More Allocations to Bonds and Less to Equities

As shown in Exhibit 3, the MPL composite maintained higher allocations to bonds relative to the P&C industry, while its equity allocations were lower. The MPL composite's exposure to Schedule BA assets gradually increased, and reached 8.2% at year-end 2024, compared to 6.9% for the P&C industry. When excluding BRK, the P&C industry's broad allocations were largely in line with the MPL composite, except for cash.

**Exhibit 3. Invested Assets Sector Composition**

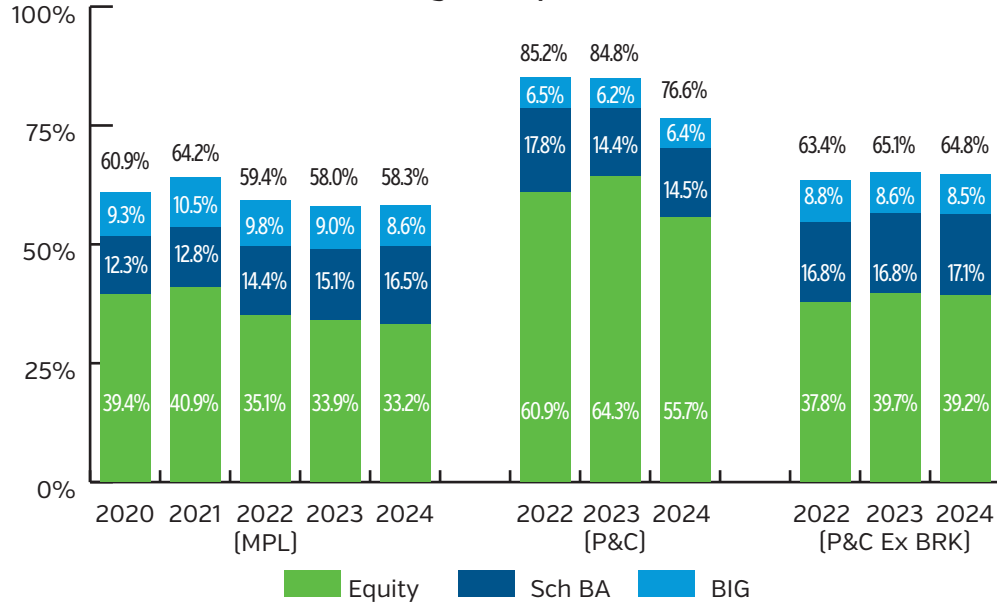


Source: NEAM, S&P Capital IQ Pro

### Lower Risk Assets as a Percentage of Surplus

We categorize equities, fixed income assets rated below investment grade (<BBB), and Schedule BA assets as risk assets. Exhibit 4 displays risk assets as a percentage of surplus for both the MPL composite and the P&C industry. As of year-end 2024, risk assets accounted for 58.3% of surplus in the MPL composite, well below the P&C industry's 76.6%. This difference partly explains the disparity in net investment income [%] between the two groups. The MPL composite's lower equity holdings were the key driver of this difference, while its allocations to Schedule BA assets and below investment grade bonds were slightly higher than those of the P&C industry. When excluding BRK, the risk asset holdings of the MPL composite were still lower than those of the P&C industry, though the difference was less pronounced.

**Exhibit 4. Risk Assets as a Percentage of Surplus**

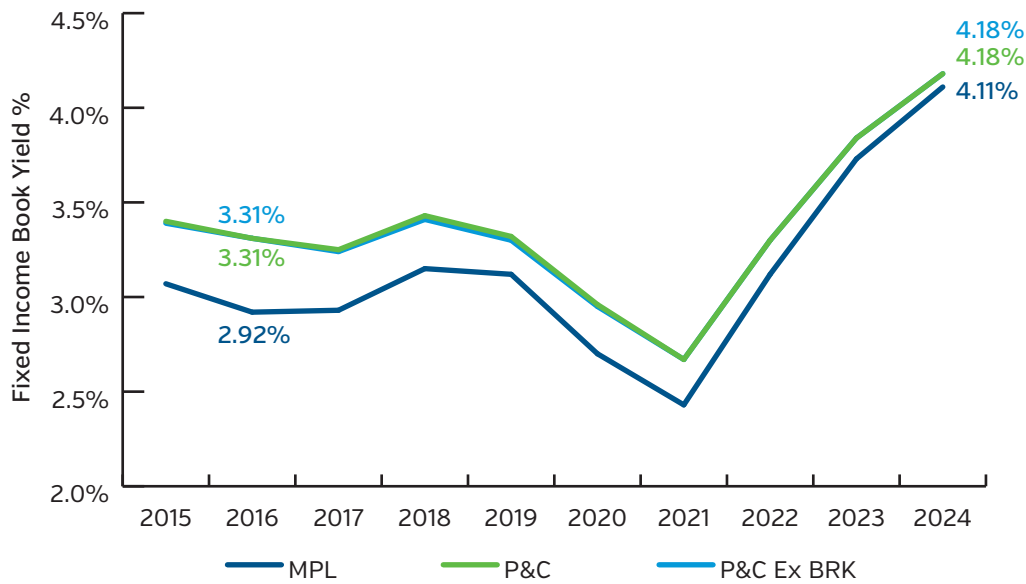


Source: NEAM, S&P Capital IQ Pro

### Gap in Book Yield Narrowed Recently

As shown in Exhibit 5, the MPL composite's fixed income portfolio has had lower book yields than the P&C industry over the past decade. The gap peaked at 39 bps in 2016 but narrowed to a mere 7 bps by year-end 2024. Both groups saw their book yields increase in 2024, reflecting sustained higher market yields since 2022. BRK's fixed income portfolio was smaller than its equity and alternative asset holdings,<sup>4</sup> so its exclusion did not significantly impact the industry's overall book yield.

**Exhibit 5. Comparison of Fixed Income Portfolio Book Yield 2015-2024**

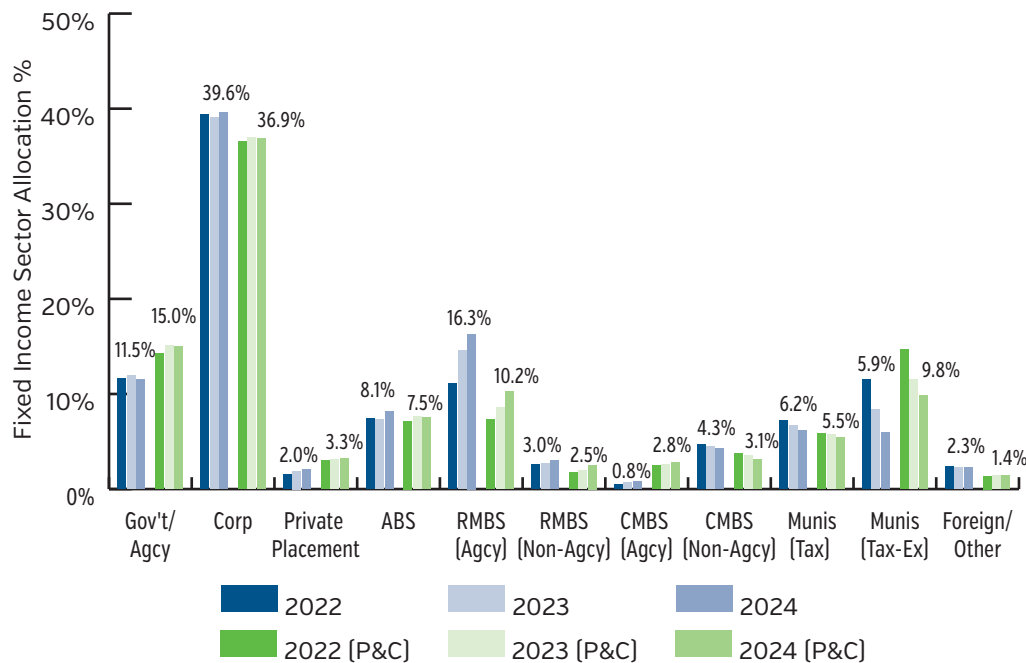


Source: NEAM, S&P Capital IQ Pro

### Overweight in Agency Residential Mortgage-Backed Securities and Underweight in Tax-Exempt Municipal Bonds

Exhibit 6 shows the fixed income sector allocations for the MPL composite and the P&C industry. Compared to the P&C industry, the MPL composite was overweight in agency residential mortgage-backed securities (RMBS) and underweight in tax-exempt municipal bonds. Over time, both groups increased their allocations to structured securities, particularly agency RMBS, and decreased allocations to tax-exempt municipal bonds.

**Exhibit 6. Comparison of Fixed Income Sector Allocations**



Source: NEAM, S&P Capital IQ Pro

Exhibit 7 illustrates each fixed income sector's contribution to the total book yield for both the MPL composite and the P&C industry. The values were calculated by multiplying each sector's allocation percentage by its average book yield for the corresponding year, with the results summing to the total book yield. While corporate bonds were the largest contributors for both groups, the MPL composite had higher contributions from agency RMBS, corporate bonds, and non-agency commercial mortgage-backed securities (CMBS) compared to the P&C industry. In contrast, the P&C industry saw greater contributions from most other sectors, particularly government/agency bonds and tax-exempt municipal bonds.

#### Exhibit 7. Comparison of Fixed Income Book Yield Breakdown by Sector

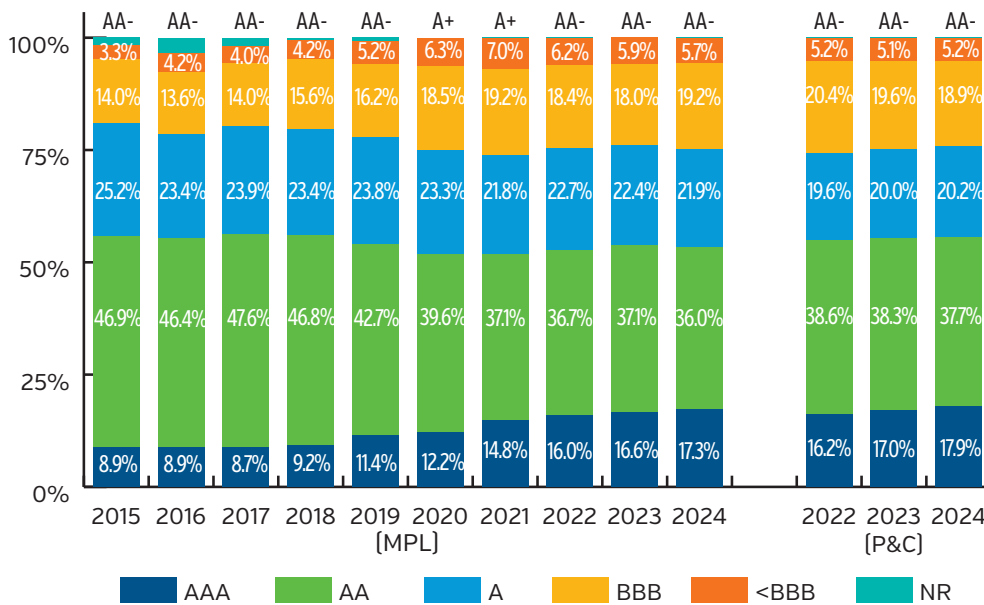
	MPL Composite			P&C Industry			MPL Minus P&C		
	2024	2023	2022	2024	2023	2022	2024	2023	2022
Gov't/Agcy	0.39	0.35	0.25	0.52	0.45	0.32	[0.13]	[0.10]	[0.07]
Corp	1.70	1.51	1.29	1.63	1.48	1.30	0.07	0.02	[0.01]
Private Placement	0.10	0.09	0.06	0.17	0.16	0.14	[0.08]	[0.07]	[0.08]
ABS	0.41	0.36	0.29	0.41	0.43	0.33	0.00	[0.07]	[0.04]
RMBS - Agcy	0.70	0.56	0.33	0.42	0.31	0.21	0.27	0.25	0.13
RMBS - Non Agcy	0.13	0.11	0.09	0.13	0.09	0.07	0.00	0.01	0.02
CMBS - Agcy	0.03	0.03	0.01	0.10	0.08	0.07	[0.06]	[0.05]	[0.05]
CMBS - Non Agcy	0.19	0.19	0.18	0.14	0.15	0.14	0.05	0.05	0.04
Munis - Taxable	0.21	0.21	0.20	0.20	0.19	0.18	0.01	0.02	0.02
Munis - Tax Exempt	0.20	0.27	0.36	0.31	0.36	0.45	[0.12]	[0.09]	[0.09]
Foreign/Other	0.07	0.06	0.06	0.15	0.13	0.11	[0.08]	[0.07]	[0.06]
<b>Grand Total</b>	<b>4.11</b>	<b>3.73</b>	<b>3.12</b>	<b>4.18</b>	<b>3.84</b>	<b>3.30</b>	<b>[0.07]</b>	<b>[0.11]</b>	<b>[0.18]</b>

Source: NEAM, S&P Capital IQ Pro

#### Similar Credit Quality to the P&C industry

Exhibit 8 illustrates the fixed income credit quality trend over time for both the MPL composite and the P&C industry. The MPL composite's AAA allocation continued to increase, and BBB rebounded in 2024 after declining in 2022 to 2023. Though the average credit ratings remained within the A+ to AA- range, there were two noticeable changes in the MPL composite's credit quality breakdown. Prior to 2022, amidst a prolonged low-yield environment, MPL writers increased their allocations to BBB and below-investment-grade bonds, perhaps in pursuit of higher income. However, since 2022, when the Fed's tightening policy went into effect, many MPL writers have been shifting their investments to higher-rated bonds, especially AAA-rated bonds, to take advantage of rising rates from sectors like MBS and asset-backed securities (ABS). Compared to the P&C industry, the MPL composite held marginally higher allocations to below-investment-grade bonds and lower allocations to AAA and AA-rated bonds as of year-end 2024.

### Exhibit 8. Fixed Income Credit Quality Distribution



Source: NEAM, S&P Capital IQ Pro

### Fixed Income Duration in Line with the P&C industry

Exhibit 9 shows the option-adjusted duration [OAD] of the MPL composite's fixed income portfolio by sector, alongside the total OAD for the P&C industry. Over the past decade, the OADs of the two groups have remained close, particularly since 2019. In 2024, the MPL composite's OAD shortened by 0.2, while the P&C industry's extended by 0.1. Among sectors, the MPL composite saw the most significant OAD shortening from ABS, while the OAD of tax-exempt municipal bonds extended materially.

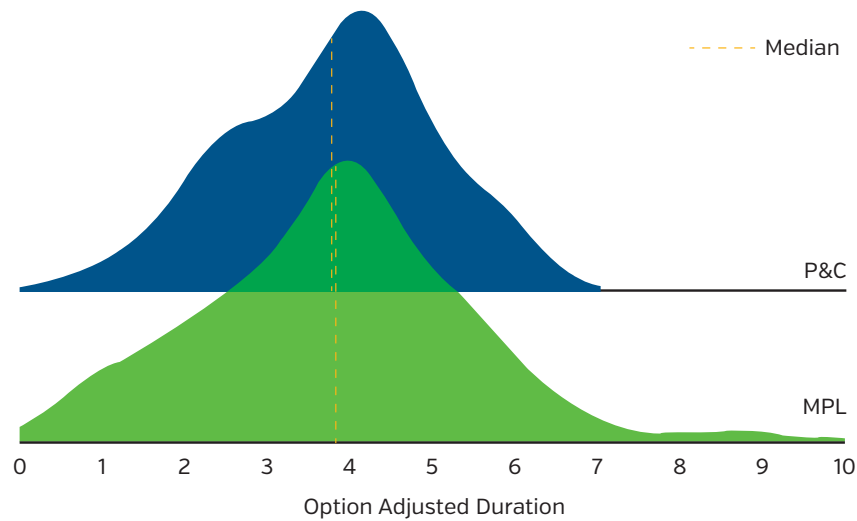
### Exhibit 9. Comparison of Fixed Income Portfolio Option-Adjusted Duration (OAD) by Sector

MPL OAD by Sector	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Gov't/Agcy	4.8	5.0	4.8	5.3	4.7	4.6	3.8	4.1	4.4	4.1
Corp	4.3	4.3	4.5	4.8	4.9	4.5	4.6	4.7	4.7	4.8
ABS	1.9	2.3	2.5	2.5	2.2	2.4	2.2	2.6	2.4	2.4
RMBS - Agcy	5.5	5.7	6.7	4.8	3.9	4.5	5.0	4.7	5.0	3.8
RMBS - Non Agcy	4.5	4.8	5.3	4.2	2.7	3.4	3.4	3.7	3.5	1.5
CMBS - Agcy	4.7	4.6	4.2	4.2	3.5	3.7	3.8	3.5	3.7	4.1
CMBS - Non Agcy	3.0	3.3	3.5	4.0	4.4	4.8	4.5	4.6	3.9	3.8
Munis - Taxable	6.0	6.2	6.3	6.6	6.9	6.0	5.3	5.5	5.5	5.5
Munis - Tax Exempt	6.3	5.8	6.0	4.7	5.1	5.0	5.6	5.8	5.8	5.5
<b>MPL Grand Total</b>	<b>4.5</b>	<b>4.7</b>	<b>4.9</b>	<b>4.8</b>	<b>4.7</b>	<b>4.5</b>	<b>4.6</b>	<b>4.8</b>	<b>4.8</b>	<b>4.7</b>
<b>P&amp;C Grand Total</b>	<b>4.7</b>	<b>4.6</b>	<b>4.8</b>	<b>4.7</b>	<b>4.8</b>	<b>4.6</b>	<b>4.8</b>	<b>5.1</b>	<b>5.2</b>	<b>5.0</b>

Source: NEAM, S&P Capital IQ Pro

MPL writers had a similar OAD distribution to the P&C industry despite the longer-tailed nature of their business, as evidenced by a higher reserves-to-premium ratio shown in Exhibit 1. Exhibit 10 compares the OAD distributions of the MPL composite and the P&C industry in 2024. Aside from a small subset of MPL insurers with especially long OADs (>7), the two groups had similar distributions and closely aligned medians. Further analysis of P&C insurers' fixed income duration management can be found in our previous publication.<sup>5</sup>

## Exhibit 10. Comparison of OAD Distribution (2024)

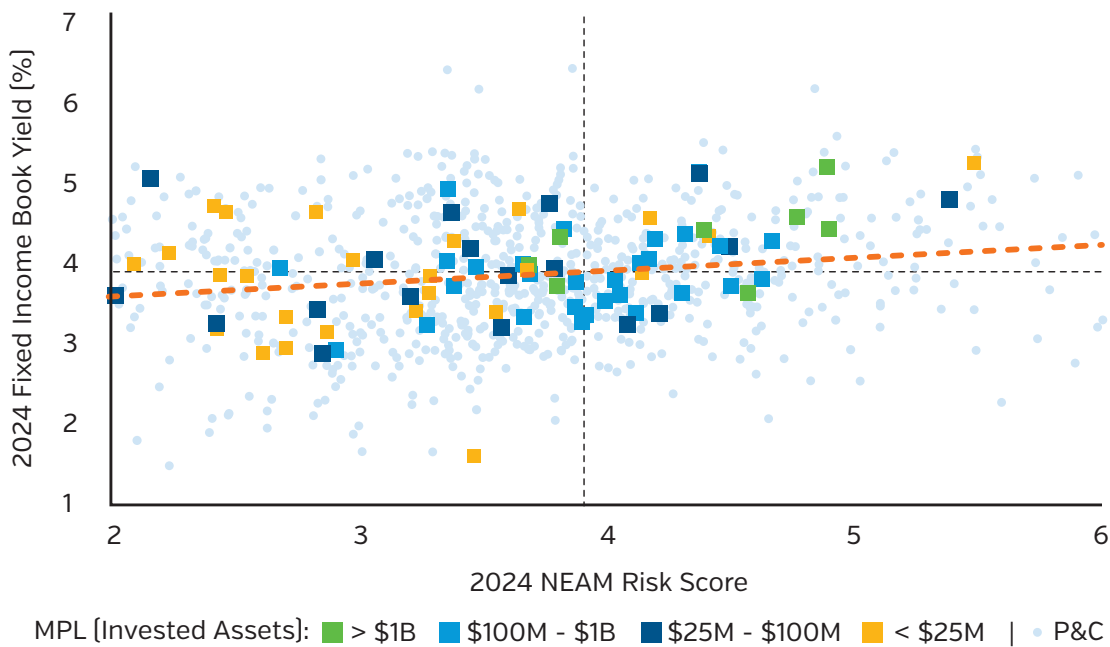


Source: NEAM, S&P Capital IQ Pro

### Greater Risk-Taking Led to Higher Yields for Larger MPL Writers

NEAM estimates a Risk Score based on duration, credit quality, and convexity to provide a unified measure of investment risk for fixed income portfolios. Exhibit 11 illustrates how individual MPL writers' book yields varied relative to this Risk Score in 2024. Individual MPL writers are shown as squares, color-coded by invested asset size. Smaller pale blue dots represent other P&C writers, with the industry median Risk Score and book yield marked by black dotted lines. The positive slope of the orange dotted trendline indicates that across the entire industry (including both MPL and other P&C insurers), higher Risk Scores were generally associated with higher book yields. Large MPL insurers (green) with invested assets over US \$1 billion, tended to occupy the upper-right quadrant, achieving higher yields while assuming greater risk, indicating exposure to lower-rated, longer-duration, and more negatively convex credit. Medium-to-large insurers (light blue), with invested assets between US \$100 million and US \$1 billion, were broadly dispersed, reflecting diverse approaches to balance risk and return. Medium-to-small insurers (dark blue), with invested assets between US \$25 million and US \$100 million, generally exhibited lower Risk Scores, consistent with more conservative portfolio strategies. The small insurers (yellow), with invested assets under \$25 million, also maintained low Risk Scores and tended to concentrate on short-term securities which delivered relatively high yields in 2024.

**Exhibit 11. MPL Writers' 2024 Book Yields against NEAM Risk Score**



Source: NEAM, S&P Capital IQ Pro

## KEY TAKEAWAYS

MPL insurers have a unique liability profile that may influence their investment choices. We constructed an MPL composite of 110 firms to represent their overall enterprise profile and compared it with the U.S. P&C industry, excluding MPL, to explore differences in their investment decisions. Key takeaways from this analysis include:

- The MPL composite maintained investment leverage similar to the broader P&C industry, though premium leverage was notably lower, reflecting the longer-tailed nature of MPL business
- MPL insurers consistently lagged the industry in net investment income [%], partly due to lower exposure to risk assets like equities, below investment grade bonds, and other alternative investments
- Although the MPL composite's fixed income book yield remained below that of the industry, the gap narrowed to just 7 bps in 2024
- In terms of fixed income sector allocations, MPL insurers were generally overweight in agency RMBS and underweight in tax-exempt municipal bonds when compared to the P&C industry
- Credit quality profiles for the MPL composite and the P&C industry were largely similar, with average ratings holding steady between A+ and AA- for both the MPL composite and the industry overall
- Despite the longer-tailed liabilities, fixed income duration for MPL insurers aligned closely with the rest of the P&C industry, both in aggregate and individually
- Industry-wide, insurers assuming more risk generally achieved higher book yields. Within the MPL composite, larger firms (over \$1 billion in invested assets) typically held riskier fixed income portfolios than their smaller peers

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## ENDNOTES

<sup>1</sup> *Perspectives*, “Analyzing the Investment Profile of Medical Professional Liability Insurers, through the Lens of Risk & Reward” [November 2023]: <https://www.neamgroup.com/insights/analyzing-the-investment-profile-of-medical-professional-liability-insurers-through-the-lens-of-risk-reward>

<sup>2</sup> P&C insurers operating as of year-end 2024 whose business focus was ‘Commercial Medical Malpractice’ according to S&P Global, where medical malpractice represents the highest net premiums written among their lines of business, and where the difference between medical malpractice and the second-highest line is at least 15% of total net premiums written

<sup>3</sup> The significant reduction in equities and increase in cash/short terms in 2024 was driven primarily by BRK, whose equity holdings declined by US \$69 billion and cash/short terms increased US \$83 billion. Also, the company’s Schedule BA investments decreased from US \$56 billion in 2022 to US \$27 billion in 2023

<sup>4</sup> As of year-end 2024, BRK’s bond holdings were ~US \$8 billion, compared to stocks of US \$302 billion and other investments of US \$25 billion. Given its limited impact, we will not include the ‘P&C industry excluding BRK’ as a comparison in the subsequent exhibits related to the fixed income portfolio

<sup>5</sup> *Perspectives*, “Exploring the Relevance of Asset Liability Duration Matching in P&C Companies: Myth or Must?” [February 2025]: <https://www.neamgroup.com/insights/exploring-the-relevance-of-asset-liability-duration-matching-in-pc-companies-myth-or-must>





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