



Insurance Solutions For Healthcare Providers

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NEWS & VIEWS

Perfect storm brewing? A look into the future of MPLI

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Similar to the current housing market, in Florida and nationally, it seems that a buyer's market may be developing in the medical professional liability insurance (MPLI) market, too. MPLI, also known as medical malpractice insurance, is integral to a physician's practice. When a patient makes a claim this insurance protects the doctor by paying for the legal defense for the insured and by paying any judgments or settlements awarded.

This protection comes at a cost, the premium, and in the growing "soft" market there is great competition among carriers. In the past three to four years as frequency and severity have decreased from record high levels, carriers have returned to the state and we have seen more new start-up companies enter the market. Others, like First Professionals Insurance Company (First Professionals) are long-standing insurers in the state.

Current state of the market

As a keynote speaker at the third annual Medical Malpractice Insurance Execusummit in November last year, First Professionals' President Robert E. White, Jr. told the audience that for the first time since 1976 the MPLI line has its lowest combined ratio, used to indicate an insurer's profitability, at 87 percent. At 87 percent, carriers have made 13 cents in underwriting profit for each premium dollar. Claims frequency has decreased in most states, even states that have not enacted tort reform. Additionally, the severity trend, the increase in the average amount paid to patients, is flattening. That should provide peace of mind to both insurers and insureds. Reserves are strong and new capacity has been created by the start-ups. Policyholder surplus is growing, which means that companies insuring health care providers are financially strong.

A variety of factors drove those market changes. Rate adequacy, pricing discipline, and stricter underwriting and reunderwriting guidelines, assure financial stability as reflected in the 87 percent combined ratio and the growth in policyholder surplus. The insurance industry and medical profession have been more focused on resisting claims. That focus has been supported by tort reform, the patient safety movement and success with alternative dispute resolution mechanisms like arbitration.

"What that ultimately means for our buyers, is that we now have a market with too much capacity," said White.

Too much capacity means that insurers have more capital than they need to write the business currently on their books. Insurers have to look for ways to use the capital so that the owners of the company can achieve an optimal rate of return on their investment. The problem is that in the past excess capital has led to liberalized policy terms and conditions, and deterioration of underwriting guidelines and pricing. These conditions are not without risk to the market in the long-term as they create unstable premiums and volatility in pricing. White told the audience that competition based on maximizing efficient operational techniques and creativity will allow companies to maintain their profit margins and still provide lower prices to their

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First Professionals Insurance Company is Florida's Physicians Insurance CompanySM and the endorsed carrier for professional liability insurance by 22 county medical societies, 15 specialty societies, and three statewide associations in Florida.



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customers without creating the havoc in the marketplace that usually follows a soft market cycle.

Regarding the growing soft market, White asked his audience, "Have we failed to learn from past mistakes or is this simply the way an industry functions in a free market economy?" With 40 years in the business, he has seen this happen twice before with devastating consequence for health care providers each time.

White asked his audience to remember the lessons of the past when trying to find new uses for the capital the industry will be seeking. He told them to make sure that their actions do not create a new hard market and all of the hardship that creates for their customers. He said that even though prices fall from their hard market peaks in a soft market cycle, the premiums health care providers pay plateau at a higher level each time the cycle repeats.

External factors also drive the changing market. The American Association for Justice and Americans for Insurance Reform are pushing legislators and regulators to legislate or regulate profits away from insurers. In Florida and in other states legislative bills have been introduced to limit the rates insurers charge and the profit they can make. Scrutiny from regulators of insurers' rates has increased. Not only does this change the market for insurance carriers, it adds to the growing frustration with the health care delivery system for doctors.

Changes in health care delivery



More and more physicians are leaving conventional medical practices; an exodus driven by low reimbursement levels coupled

with diminished professional satisfaction. Doctors now think like entrepreneurs and have become change agents in how health care is delivered.

- Doc-in-a-Box
- Hospitalists and other hospital-based specialties
- Medi spas

“Have we failed to learn from past mistakes or is this simply the way an industry functions in a free market economy?”

- Medical directorships
- Concierge medicine

These bold moves address the issues of low reimbursement and poor job satisfaction. In these settings some doctors do not accept insurance, which helps to guarantee full reimbursement for services rendered. They also have more control over their work, for example, over their work hours. Younger doctors do not want to work the long hours of physicians in the past and as their own bosses, they can choose their hours.

This 21st century creativity brings new underwriting risks to insurers. A prudent insurer wants to be sure it thoroughly understands the exposure and needs to know the location and logistics of delivery, supervision in place, credentialing and the spectrum of services to be provided. In this new and changing market successful insurers will be prepared to respond with coverage options for these entrepreneurial doctors, while at the same time operating the insurance company in sound business fashion.

“In addition to this changing delivery platform, doctors are increasingly using physician extenders in a variety of roles,” said White. “Physician assistants, nurse practitioners, medical assistants and others continue to have an expanded role in providing service to patients. Again, this is not without risk exposure to the physician and the med mal insurer so clear communication is vital.”

Developing trends that will impact the future

There is a growing shortage of physicians in America. In the late 1970s the Graduate Medical Education Advisory Commission predicted a large surplus of physicians in the 21st century. They created policies to stabilize enrollments of medical schools in order to eliminate the expected glut of physicians. The policies they created and administered were so effective that medical school enrollments were virtually flat for 20 years. Unfortunately, the new century found us not with an oversupply of physicians but with a growing shortage. Some experts predict that by 2020, the United States could be short from 200,000 to 700,000 physicians depending upon the level of utilization.

America's patient population is aging. According to the U.S. Census Bureau nearly 15 percent of the population now is 65 or older and it projects that by 2030 that demographic will make up 20 percent of the population. Today, 46 million

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Americans are 65 years of age or older. By 2030, 83 million Americans will be 65 or older and among them, 14 million will suffer from diabetes and 21 million will be obese. The physician population is also aging. Today, one out of three practicing physicians is over 55.

Nine thousand doctors retired in 2000, and by 2020 that number will more than double to 22,000. The number of retirements in 2020 will almost equal the number of admissions in allopathic training. This trend is already adding to the shortage of physicians and that gap will continue to widen. Further exacerbating the problem is the fact that medical students are opting for specialty care with such frequency that primary care physicians are in very short supply. The low pay and long hours associated with primary care are proving unattractive to medical school seniors.



From 1980-2005 the U.S. population increased 31 percent or 70 million people; however, during that same time period the country

saw zero growth in allopathic training enrollment. Fewer doctors mean busier doctors and other health care providers. Tired or overwhelmed practitioners are accident prone, and if they are hurried they miss things. Ancillary personnel don't have the diagnostic acumen of physicians, yet we already see the broadening of the scope of services being provided by physician extenders. This all leads to increased risk exposure and potential for decreased patient safety to create the "perfect storm" for claims.

Looking ahead 10 years when there are fewer doctors treating a greater number of patients – aging patients who generally have more medical problems – we could see an increased number of medical incidents. That does not mean that malpractice will be the root cause; rather that the projected imbalance of practitioners to patients, who because of their age will require more medical encounters, will adversely impact patient safety. MPLI carriers who have failed to monitor trends and prepare financially will be unable to fund those losses and adequately protect their policyholders.

MPLI carriers and their physician policyholders need to remain cognizant of these new and emerging exposures and manage them accordingly. It is critical that coverage be priced adequately for the risk so that when losses occur, all

parties have adequate protection. The buyer's market that is developing today could spell trouble in the future if doctors have not purchased the right coverage for their particular practices and if insurance companies have not priced that coverage appropriately. ■

CME Cruise

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and
Palm Beach County Medical Society Services
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Letters from Policyholders

To FPIC:

I am writing to thank your company for your support during a long, difficult time. It has been over nine years since the beginning of my malpractice journey and we got a good verdict after two trials! You supported me in a persistent way that has helped me clear my name in a ridiculous suit, which should never have happened.

The whole team helped make a difficult journey as tolerable as possible.

Again my sincere appreciation to your company and excellent support.

Dr. M
South Florida

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