FIRMING FOR HOSPITALS?

Growth in exposures related to the employment of physicians and implementation of healthcare reform will encourage an expansion of capacity for hospital professional liability and likely expand carriers’ related books. During the last two years, many physician carriers expanded their emphasis toward hospitals to bolster premium. MagMutual, Physicians Insurance A Mutual Co. and Physicians Liability Insurance Co. entered the market during that time. Lloyd’s of London may stake out a larger share of the hospital market with U.K.-based specialist Lloyd’s underwriter Marketform Managing Agency Limited moving into the U.S. hospital professional liability segment on June 1. This will further position Lloyd’s in the U.S. hospital space after a move late last year by managing general underwriter Sapphire Blue to enter the small and rural hospital segment with Lloyd’s-backed policies.

The Lloyd’s/Marketform hospital program expects 75 percent of prospective U.S. accounts will be hospitals underwritten as an open market product by either insurance or facultative reinsurance of a hospital captive. Coverage will be limited to hospitals with sophisticated risk management programs, in-house claims management and litigation teams and appropriate self-insured retention. The Lloyd’s/Marketform program will look at the full range of hospitals. Various Lloyd’s syndicates will be tapped to build a high-value/low-volume book of excess hospital accounts. Marketform is not new to med mal as it has always written medical professional liability. The underwriter will put down a line for a risk, then the placing broker will decide which syndicates or companies will follow Marketform in underwriting a portion of the risk. This is not a facility, line slip or managing general agency program. Marketform’s limit capacity is $7.5 million while following insurers will underwrite separate limits for this open market placement. Marketform is owned by American Financial Group, but mainly uses Lloyd’s Syndicate 2468. The underwriter’s move into the U.S. hospital segment was motivated by its many brokers with U.S. accounts.

Competition will only fuel an already long soft market, but a myriad of emerging exposures including more hospital employed physicians, increased number of patients and physician shortages could bring about some firming. Sedgwick Claims Management Services’ book of healthcare clients has recognized stable frequency with a 1 percent increase and a 3 to 5 percent increase in severity trends year to year. Defense costs have been on the rise and many carriers express concern that exposures priced today will likely be underpriced several years from now due to inflation and rising costs.

Look for longstanding professional liability and general liability hospital markets such as CNA, Zurich North America, Allied World, Medical Protective, ProAssurance and AIG to become more discerning while underwriting hospitals that have loss experience, especially now that many hospitals are taking on more physician exposures and expanding operations. Some will push for higher premiums due to the expanded exposure, especially if that hospital has had a history of losses. Carriers will increase their focus on those accounts with which they can have a long-term relationship with and that is adequately priced for the exposure. New programs may find it difficult to pull many hospital accounts away from existing relationships as most hospital risk mangers won’t change their insurance programs unless they feel their good loss experience isn’t being rewarded or bad experience puts upward pressure on their premium.

Expect CNA to continue to maintain disciplined underwriting focused on pricing. The carrier feels pricing across its book of hospital business is close to being adequate but may still need slight rate increases this year. The carrier has been writing medical institutions for more than 50 years and has a huge amount of data used to price risks, but adequately pricing hospital exposures during the soft market with highly competitive conditions has challenged CNA’s retention rate and ability to attract new business. Watch for other carriers to eventually follow CNA’s lead to raise rates, especially since the carrier is the largest hospital writer with a third of its direct premium written in 2012 as reported to the National Association of Insurance Commissioners, or $157 million, attributable to hospital business.

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FIRMING FOR HOSPITALS?…
Continued from Previous Page

Hiscox expects to write a little more new business by the end of the year though it continues to focus on existing clients. The Bermuda-based insurer will underwrite all types and sizes of hospitals but increasingly looks more favorably on accounts that have robust claims handling, a proven track record in the ability to handle difficult claims, a sound patient safety and risk management program that is supported by the board and management and is properly resourced and has a healthy budget. The carrier prefers to attach at the lead position, but can attach at higher levels.

CONCIERGE CARE NEXT SPECIALIZATION FOR CARRIERS

Concierge care will be the next segment in which carriers will adopt specialization as a way to boost underwriting profits. ProAssurance is the first admitted carrier on board with a new program specifically addressing the risk, as many carriers have done with numerous other lines in the med mal market. Concierge care programs have shown spurts of growth for multiple carriers, such as Markel, Kinsale and Lloyd’s of London. Studies have found patients prefer this model of care and have lower rates of hospitalization. In the United States there were about 4,400 private physicians in 2012, a 25 percent increase over 2011. With an average of 350 patients per concierge doctor, more than 1.5 million Americans receive care from a physician who provides a higher level of service in return for a membership fee.

ProAssurance created the specialized program in partnership with MDVIP, a national company offering personalized healthcare in a patient membership model. The carrier developed a risk purchasing group (RPG) with managing general agency (MGA) William Gallagher Associates to offer coverage to MDVIP members in states where the practice provides patient care. Previously, ProAssurance would individually write physicians working within concierge care practices. It does not currently offer a widespread concierge care program. ProAssurance’s partnership with MDVIP reflects an anticipation of the growth in this segment. The carrier is well known for targeting business it believes will be profitable.

Limits for the ProAssurance/MDVIP RPG vary by state and will change as the program moves into new markets. Florida-based MDVIP currently offers care in 39 states. The RPG is not available for all MDVIP physicians as a company purchased plan. Rather, it’s optional on the part of physicians with individual policies. Insureds who meet the criteria to join the RPG are preferred risks due to the selection criteria. This reduction of risk entails a 15 percent credit to the base rate for all eligible participants.

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in fixed income and equity markets.

5 percent increase in its investment income in 2012 compared to 2011 due to continued improvements made with subsidiary thanks to the positive full-year impact of a $750 million fixed-income investment purchased in Q3 2011. Municipal bonds made up about $14 million of MMIC's investment income and make up almost half of its revenue-backed municipal bonds. MMIC’s net investment income grew by about 8 percent last year. Some carriers will be better positioned with a continuing rise in investment income. Investment income levels will help carriers invest in additional securities and buy additional investments. However, many carriers haven’t made big moves to bolster investment returns.

Projections suggest that carriers such as Medical Liability Mutual Insurance Co., The Doctors Co., ProAssurance, ISMIE Mutual, Physicians Reciprocal Insurers, NORCAL and State Volunteer could be the first to consider changes to boost declining investment income. PRI already looks to increase investment yield by refocusing new investments on more traditional investment-grade fixed maturity securities to try and reduce overall risk after a move in recent years toward alternative investments, such as mortgage loans and other long-term allocations primarily comprised of investments in limited partnerships and limited liability companies. Medical Mutual Insurance Co. of North Carolina expanded its investment portfolio to include real estate properties the company believes will help boost income in the future.

Some carriers will be better positioned with a continuing rise in investment income. Investment income will likely rise at MMIC Insurance after a recent shift that allocated more of its investment portfolio to revenue-backed municipal bonds. MMIC’s net investment income grew by about 8 percent last year. Municipal bonds made up about $14 million of MMIC’s investment income and make up almost half of its investment portfolio. Medical Protective reported a 34 percent increase in its investment income last year thanks to the positive full-year impact of a $750 million fixed-income investment purchased in Q3 2011. The carrier also reported an increase in cash and short-term investments due to a loss portfolio transfer made with subsidiary Princeton Insurance Co. Medical Mutual Insurance Co. of Maine saw a 5 percent increase in its investment income in 2012 compared to 2011 due to continued improvements in fixed income and equity markets.

CHAIR: MORE PRESSURE ON RATES?

Expect continuing declines in investment income to put further pressure on carriers to pursue rate increases — as well as changes to underwriting standards. Most med mal carriers rely heavily on low-risk U.S. Treasury bonds but low interest rates have made it difficult to grow investment income year over year. Interest rates for U.S Treasury 10-year bonds clocked at 2 percent during the second quarter of this year, much lower than the 5 percent rate in 2006. Some carriers can be expected to pursue moderately risky bonds to boost yields and may increase stock market investment. Current record high capital and surplus levels will help carriers invest in additional securities and buy additional investments. However, many carriers haven’t made big moves to bolster investment returns.

Net Investment Income Earned
in millions (,000,000)

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<tbody>
<tr>
<td>Medical Protective</td>
<td>+ 5.30%</td>
<td>$135.0</td>
<td>$128.2</td>
<td>$95.3</td>
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<td>ProAssurance Corp.</td>
<td>- 4.48%</td>
<td>130.0</td>
<td>136.1</td>
<td>141.0</td>
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<td>Coverys Group</td>
<td>+ 2.24%</td>
<td>105.0</td>
<td>102.7</td>
<td>100.3</td>
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<tr>
<td>Medical Liability Mutual Insurance Co.</td>
<td>- 10.71%</td>
<td>101.7</td>
<td>113.9</td>
<td>158.0</td>
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<tr>
<td>Doctors Co., An Interinsurance Exchange</td>
<td>- 8.93%</td>
<td>81.6</td>
<td>89.6</td>
<td>140.0</td>
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<tr>
<td>ISMIE Mutual</td>
<td>- 4.05%</td>
<td>40.3</td>
<td>42.0</td>
<td>43.9</td>
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<tr>
<td>MagMutual Insurance Co.</td>
<td>+ 1.88%</td>
<td>38.0</td>
<td>37.3</td>
<td>36.8</td>
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<tr>
<td>Physicians Reciprocal Insurers</td>
<td>- 6.38%</td>
<td>36.7</td>
<td>39.2</td>
<td>42.1</td>
</tr>
<tr>
<td>NORCAL Group</td>
<td>- 7.87%</td>
<td>31.6</td>
<td>34.3</td>
<td>37.7</td>
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<tr>
<td>State Volunteer</td>
<td>- 7.87%</td>
<td>31.6</td>
<td>34.3</td>
<td>37.3</td>
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<tr>
<td>MMIC Insurance Inc.</td>
<td>+ 7.18%</td>
<td>22.4</td>
<td>20.9</td>
<td>19.4</td>
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<tr>
<td>Medical Mutual Liability Ins Society of MD</td>
<td>- 7.62%</td>
<td>19.4</td>
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<tr>
<td>Medical Mutual Insurance Co. of NC</td>
<td>+ 0.82%</td>
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<td>12.2</td>
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<tr>
<td>Medical Mutual Insurance Co. of Maine</td>
<td>+ 5.33%</td>
<td>7.9</td>
<td>7.5</td>
<td>7.1</td>
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*Projections are based on financial data, annual reports, average industry changes, and are subjective editorial assumptions regarding anticipated future performance in the segment. Projections do not represent official figures from the company. SOURCE OF 2011 & 2012 Data: Statutory Filings from the National Association of Insurance Commissioners and company annual reports.
MED MAL BRIEFS

Coverys member company Medical Professional Mutual Insurance Co. declares a 10 percent dividend to be applied to first quarterly payment installments for qualified policyholders in Massachusetts beginning on July 1. Policyholders that do not renew will receive a check. The dividend is 33 percent more than last year’s dividend and was the result of lower-than-anticipated losses from prior years. The carrier has distributed more than $30 million in dividends over the past five years. The carrier will also keep rates flat for its more than 7,500 physicians and surgeons in the Bay State after loss estimates for the rate year developed more favorably than expected, based on prior years’ analysis.

Missouri Professionals Mutual (MPM) will make disability insurance for injuries and illnesses available to physicians in Missouri and Kansas. The large provider of medical professional liability insurance in those states will offer as much as $1.5 million limits for disturbances that interrupt or end a doctor’s ability to practice medicine. The new policy will allow for the purchase of $500,000, $1 million or $1.5 million in lump sum disability insurance coverage and is a guarantee issue with no medical exam. Ninety percent of all disability claims are directly related to illnesses, with the other 10 percent the result of accidents. The new coverage is being backed by Lloyd’s of London. Enrollment continues through July 12. MPM and MPM-Kansas policyholders will have their disability insurance premiums reduced by 10 percent through education.

Sedgwick Claims Management Services Inc. expects a more litigious environment to emerge as more patients take on the brunt of healthcare costs via increased health insurance premiums due to declining reimbursements and other economic factors tied to healthcare reform. This may lead to more patients seeking compensation in the form of claims via a hospital if something goes wrong. Sedgwick expects physician employment to be among the main challenges facing hospital and health systems due to a lack of enterprise risk management and a lack of understanding of the different exposures and risks brought on by employed physicians. Sedgwick’s clients continue to report an increase in defense costs, which have been rising faster than indemnity costs. The company has seen a big push among its clients to better control expenses and about 40 percent of Sedgwick’s clients now use software to track legal bills.

Princeton Insurance Co. received a financial strength rating upgrade of “A++” up from “A+” and issuer credit upgrade of “a++” from “a+” from A.M. Best. The outlook for the carrier has been upgraded from stable to positive. Individual considerations supporting this decision include Princeton’s strong capital position, leading market presence in New Jersey and excellent operating performance over recent periods. The rating also takes into account Princeton’s relationship with Medical Protective, which acquired Princeton in 2011. Princeton entered into a loss portfolio transfer and quota share agreement with MedPro in 2012. Princeton has also received operational support from MedPro for actuarial, underwriting, claim and investment functions, which the rating also took into account.

RPS Healthcare expects hospital med mal premiums to increase for facilities that continue to purchase traditional insurance products due to physician acquisitions. The wholesale broker does not anticipate growth within the hospital industry as a whole because of an increased number of mergers and acquisitions, along with hospital consolidation, which will create larger hospital systems aimed at combating growing strategic, economic and regulatory pressures. Additionally, hospital exposures will continue to expand, including data breach liability due to the transition to electronic medical records, affiliation with or formation of accountable care organizations and government regulatory actions resulting in restitution, fines or penalties. The broker also sees increased demand from hospitals for higher limits as standalone excess and umbrella coverage remains inexpensive and widely available. RPS Healthcare works with numerous non-admitted and admitted carriers nationwide.

MMIC Insurance enters a three-year agreement with CRICO Strategies to help evaluate trends and reduce risk. The agreement establishes the two companies as data partners through the purchase of CRICO’s Comprehensive Risk Intelligence Service and membership in its Comparative Benchmark System. MMIC counts on CRICO’s 30 years worth of data to help improve patient safety. The mutual is currently the largest policyholder-owned medical liability insurance company in the Midwest. It does business in nine states and covers more than 17,000 physicians, including more than 500 clinics, hospitals, health care systems, outpatient and long-term care facilities.

Allied World Assurance Co. receives the endorsement of Premier Insurance Management Services Inc., the insurance subsidiary of Premier healthcare alliance, for directors and officers/employment practices liability coverage. This new D&O/EPL program will provide Premier alliance hospitals with a 5 percent premium credit, regulatory documentation and audit management and appeals consulting from approved vendors. Employment practices guidance is available through Workplace HELPLINE. Premier members will also receive a quarterly educational webinar offering continuing education credits for human resource professionals at no additional charge. Premier is a provider-owned alliance of more than 2,800 hospitals and 95,000 other care sites.
HOSPITALS

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CYBER LIABILITY EXPLOSION ON HORIZON

New capacity for cyber liability will put a damper on any rate increases despite growing awareness of the dangers from data breaches pushing carriers to develop a range of products to address emerging liabilities. Increased competition could even pressure rates even lower — though likely only incrementally. Regardless, rates will remain at dangerously low levels in light of the escalating cost of data breaches.

The average cost of a breach rose almost 35 percent from 2011 to 2012, climbing from $2.4 million to $3.7 million. A NetDiligence study provided by major underwriters of cyber liability regarding 137 breaches found that claims ranged from $2,000 to $76 million. Forensic, notification, call center, credit monitoring and legal counsel crisis services fees can cost nearly $1 million for each incident. A Ponemon study reported the average cost of a breach to be much higher: $5.5 million. ACE has found there is rarely a correlation between the number of records and cost of a claim. Rather, the final cost was unique to the specifics of the breach.

Healthcare is the second largest market in which breaches occurred and private health information — followed by personal identification information — is one of the most typically exposed data types, making cyber liability coverage for med mal accounts a new priority. Carriers leading this segment include Beazley, Chubb, Lloyd’s of London through managing general underwriter (MGU) NAS Insurance Services, Hiscox, CNA and Lloyd’s managing general agent CFC Underwriting. NAS has also been up against new markets such as Travelers, Philadelphia and RSUI, as well as a handful of incoming MGAs.

Expect NAS to focus on bringing out new programs to address emerging liabilities, though it thinks the cyber liability product cycle is still in the early stages. Its products can accommodate riskier aspects of cyber liability for small to midsized accounts. The MGU has noticed an industry wide move toward higher limits amid softer pricing and increasing claim expenses. NAS programs can cover a range of issues from HIPAA violations stemming from breaches to lost revenue from reputational damage arising from a privacy breach. Other carriers remain wary of cyber liability coverage, tending toward low limits and limited coverage to keep risk at a manageable level. Many options are add-on coverages with a limited scope. Physician, allied health, surgeon, outpatient medical facilities and medical professionals are all segments typically associated with these cyber “freebies.” Many carriers tend to stay away from offering standalone cyber coverage.

ISMIE in April announced an expansion of its protection to include limited business interruption coverage at no extra cost. All ISMIE Mutual policies still come with a cyber liability endorsement thrown in as a freebie. Limits range on the extremely low end: $100,000 to $500,000. Sublimits for business interruption coverage top out at $20,000. Similar to ISMIE’s approach, ProAssurance provides its Limited Network Related Coverage endorsement to professionals or entities named in an insured’s policy.
CYBER LIABILITY EXPLOSION ON HORIZON…
Continued from Previous Page

Coverage for network and security breaches; regulatory fines and penalties; as well as patient notification and credit monitoring costs each have a maximum annual aggregate of $50,000. Data recovery costs come with an even lower limit of $5,000. Higher limits come with a price.

NAS is currently considering enhancements such as a contingent business interruption coverage option that would cover lost income associated with cloud data storage. Crime-type coverages may also be on the horizon for the MGU, but it first needs to ensure profitability. Any new developments will most likely trigger its main competitors — namely Beazley, Hiscox and CFC — to follow closely behind. Beazley has long influenced the cyber segment worldwide. Its Information Security and Privacy product includes coverage such as privacy liability, computer information security and electronic media liability. It also offers Beazley Breach Response, a loss control and risk mitigation service that provides notification and protection resources in the event of a data breach. Limits are on the high side: up to $20 million.

CFC touts its CPM coverage. The policy covers property and business interruption; cyber liability, privacy liability and privacy breach notification costs; breach of contract; invasion of privacy; and defamation, among others. Limits can reach $10 million. Premiums currently start at $300 and the MGA can be expected to either start hiking rates considerably within the next year or leave the segment. CFC’s program has some of the lowest rates in the industry. Deductibles begin as low as $1,000. NAS’ e-MD Cyber Liability program offers similar options. It provides a $10 million/$10 million limit option along with a network asset protection and BRANDGUARD. It can also be combined with the MEDEFENSE Plus coverage or standalone HIPAA protection. MEDEFENSE has the same limits and minimum premiums starting at $1,750. The e-MD product has a $1,500 minimum premium. Coverage is available in all states.