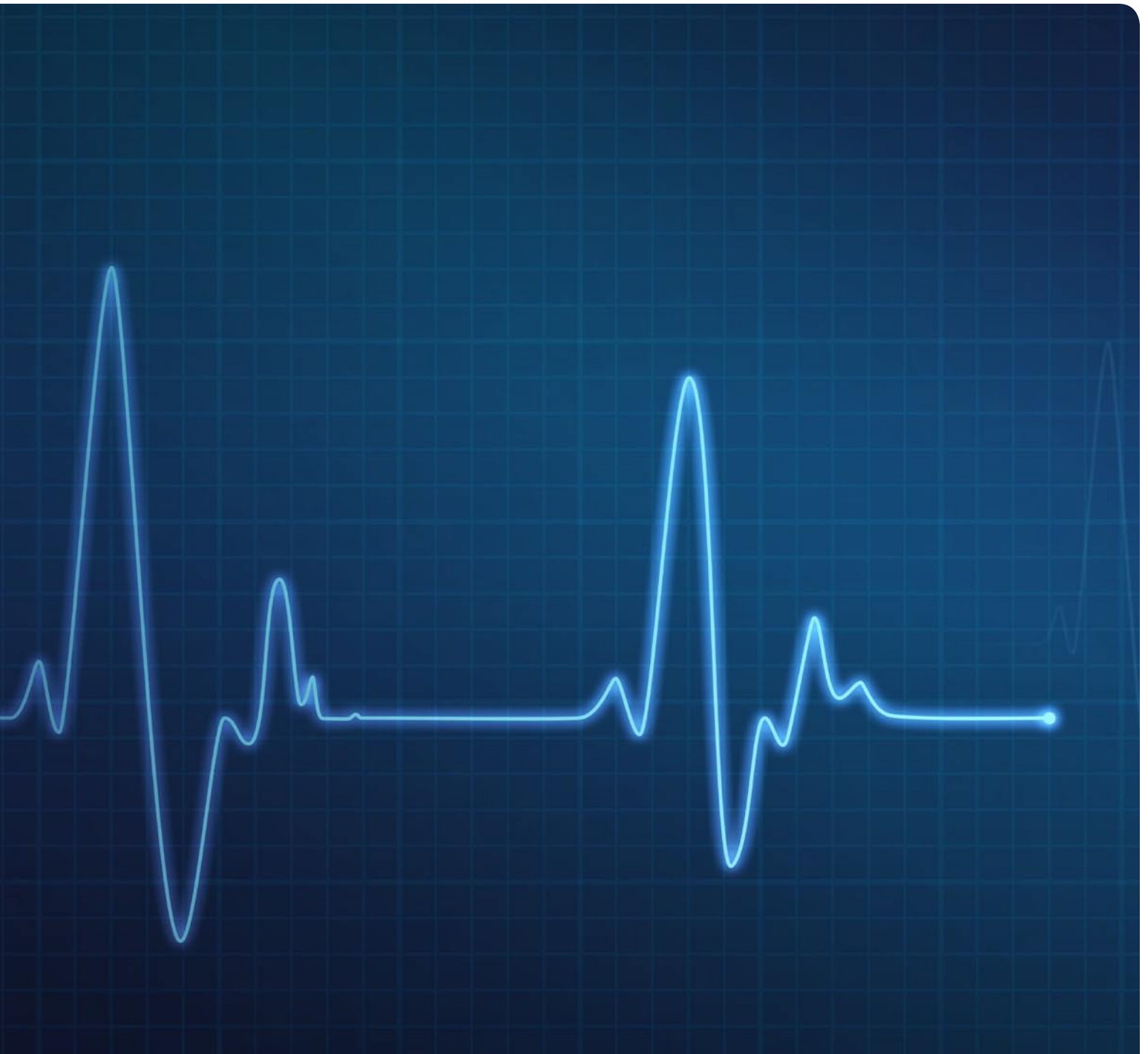


Volume 17, Number 2
Fall 2011



A risk management tool for the healthcare industry

Perspectives



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Facts about the data

Zurich's claims data base contains 343,000 non-zero claims, and \$27 billion in undeveloped losses from approximately 1150 hospitals. On a developed basis, these claims total \$29.7 billion. To limit much of the subjective component of claim evaluations and to provide a basis for comparisons and trend evaluations, the 2008 year was used as the cutoff point. The losses used to calculate claims severity were developed but not trended.

Average severity reflects only those claims for which there is a reserve, or claims that have indemnity or expense payments associated with them. Unless otherwise noted, open claims are "developed" to their projected ultimate settlement value using loss development factors, but not trended.

Although the database is very large, the results reported in this study have an inherent uncertainty because certain assumptions had to be made with respect to loss development and trends. Considering the long-tail nature of many claims, these assumptions are unavoidable, but they also open up the possibility that results could be quite different depending on the interpretation of the data by an individual reviewer.

Results reported in this year's study differ somewhat from previous years' because of prior-year claims development and the inclusion of an additional year of data. Because of the volatile nature of hospital claims, particularly in recent years, results reported in later years are much more susceptible to change.

Estimates of future costs are limited by the ability to predict the course of future events such as jury decisions, court interpretations, legislative changes, public attitudes, and social and economic conditions that may impact losses. In addition, some state or regional results may lack credibility because of the limited amount of available data. Therefore, we can provide no assurance as to actual future results.

I am pleased to introduce Zurich's sixth annual benchmarking report on professional liability claims trends in the hospital industry. Our annual study is one of many services that Zurich extends to its clients in order to create value in the form of insightful data, industry information and thought leadership.



The data used in this analysis is comprised of Zurich's own claims information and claims self-reported by hospitals seeking quotes for professional liability insurance from Zurich. It contains over 343,000 non-zero claims, and \$27 billion in undeveloped losses from approximately 1150 hospitals. The data has been compiled into a national database. The size of the database allows Zurich to provide a view of medical malpractice claims frequency and severity for the hospital industry. The information is used for Zurich's internal analysis, to report on general industry trends and to provide a benchmark against which individual hospitals can measure their results. Although this report focuses on national trends, claims data for California, Florida, Illinois, New York, Texas and Pennsylvania are also highlighted because of the states' premium size, geographic, legal or legislative importance, and to compare variance between states.

This report provides a platform for highlighting trends for selected claims indicators. Benchmarking is a useful tool to compare different venues, operations or facilities, and to generate discussion of the factors that may drive these trends.

We hope you will use the information in this Perspectives to generate discussion about your organization and how it can enhance its risk management practices and influence decisions. Zurich can also provide customized benchmarking reports to our clients that will allow them to compare their own loss experience and loss costs to groups of other organizations of similar size, location and service offerings. We welcome discussions about this article and your organization's own claims experience.

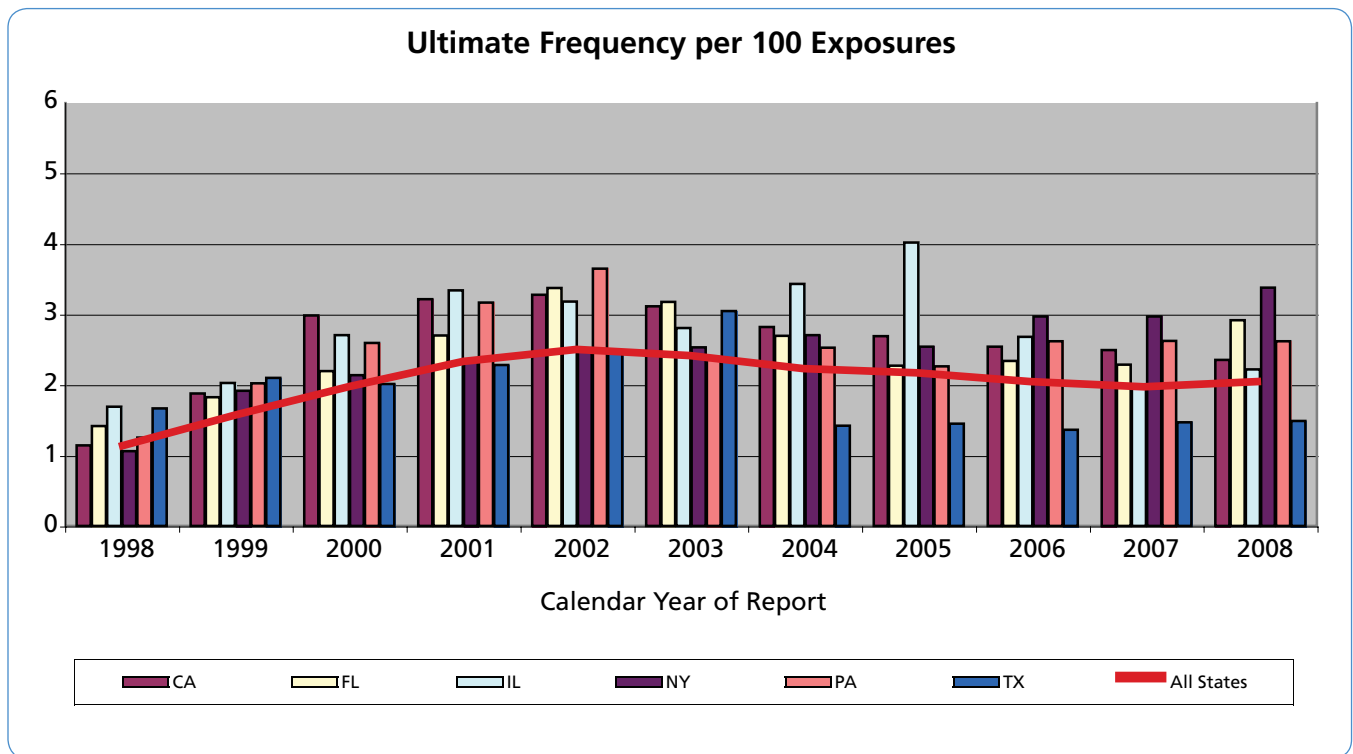
A handwritten signature in black ink that reads "Leo J. Carroll III". The signature is written in a cursive, slightly stylized font.

Leo Carroll
Healthcare Group Executive

Claims frequency – on the rise?

Claims frequency is calculated as the number of claims per 100 Occupied Bed Equivalents (OBEs). Using a standardized measure of exposure provides a way for individual hospitals to compare their claims experience with other hospitals (See: “Benchmarking claims experience”). This year we saw a slight rise in frequency, from 1.96 claims per 100 OBEs in 2007 to 2.04 in 2008. This is in contrast to the past few years in which we had noted declining, or stable frequency. We will monitor this trend going forward to see if it continues.

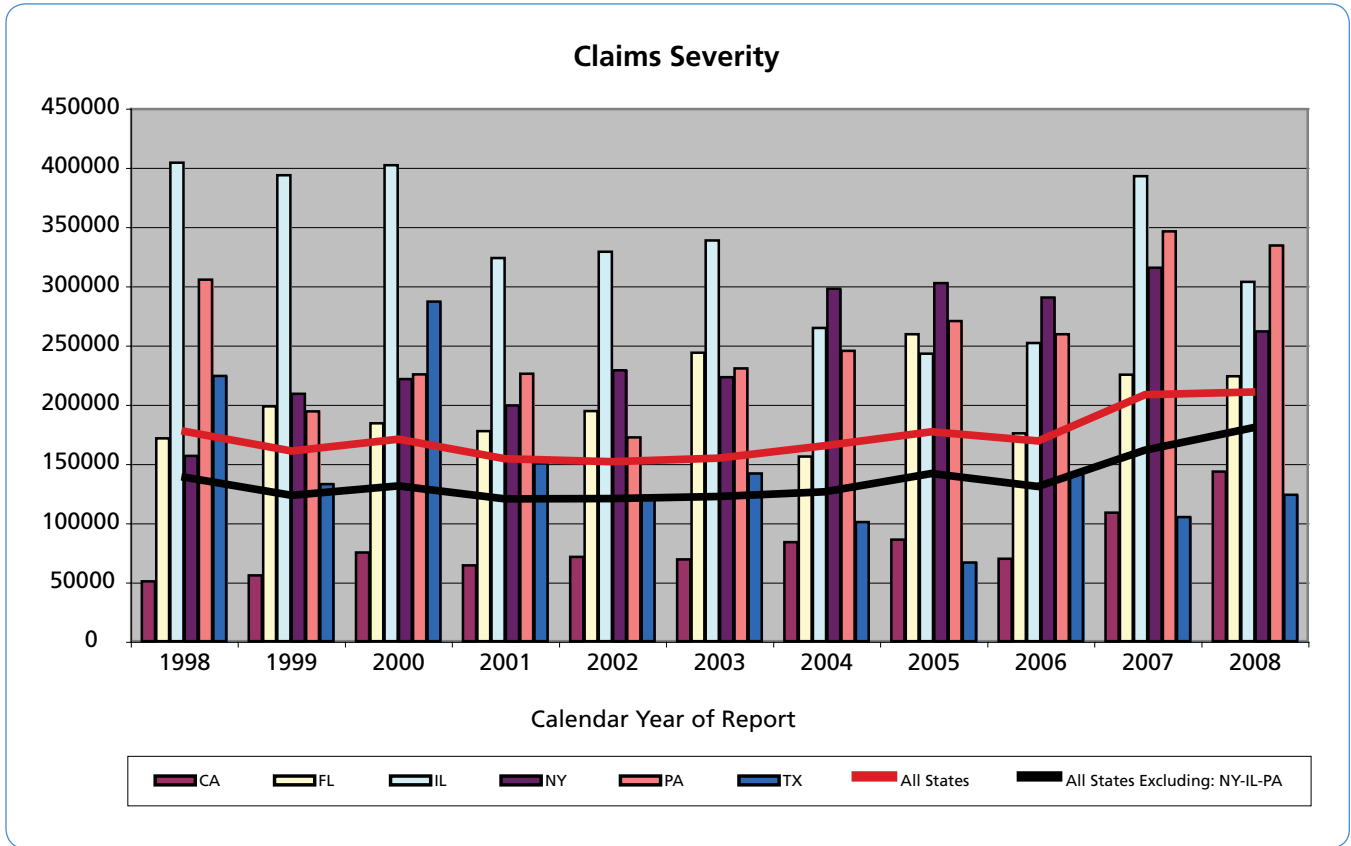
Exhibit 1 – Claims Frequency



Claims severity:

Along with the slight increase in claim frequency, this year we also found that severity continues to rise. Between 2002 and 2008, severity rose 6.3 percent per year.

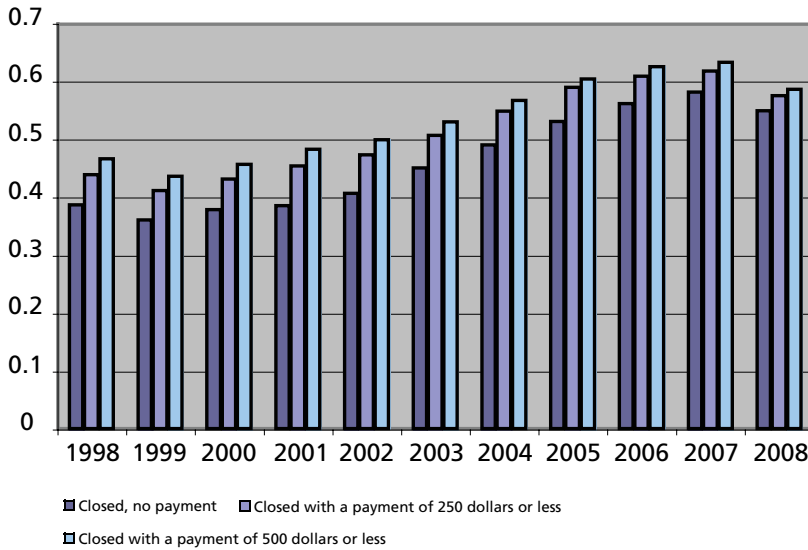
Exhibit 2 – Claims Severity



Illinois, New York and Pennsylvania continue to have the highest severity. But although the difference in severity between “all states” and the three states with highest severity is relatively stable, their severities are moving closer together. Illinois, which has the highest severity of the states shown for 8 out of 11 years actually has a flat annual trend from 2002 to 2008. New York, another high severity state has an annualized average trend of just 3.9 percent. This is 2.4 percent lower than the national average. Pennsylvania has the highest annual trend of the states shown at over 10 percent from 2002 to 2008. While severity has moderated somewhat in the high severity states, the other states have seen relatively greater increases in severity.

Exhibit 3 – “Closed no pay”

Percentage of total claims that close claims with little to no payment

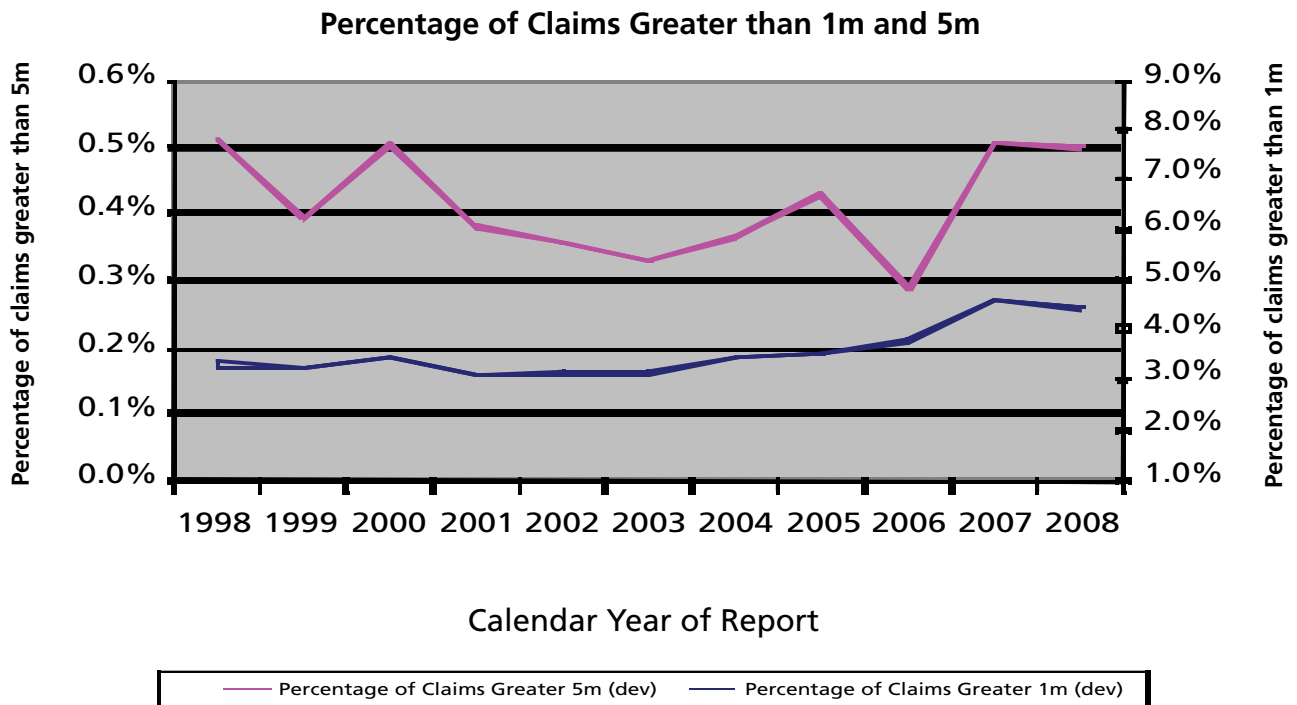


Closed paid vs. no pay claims

This year we looked at the proportion of claims that were closed with little or no payment. For several years we had seen this ratio rising, but it is now much more stable. The decrease in the latest year is likely due to claim maturity rather than the start of a new pattern. We suspect future updates to this graph to show a similar decrease for the most recent year.

Percentage of claims over \$1 million and \$5 million

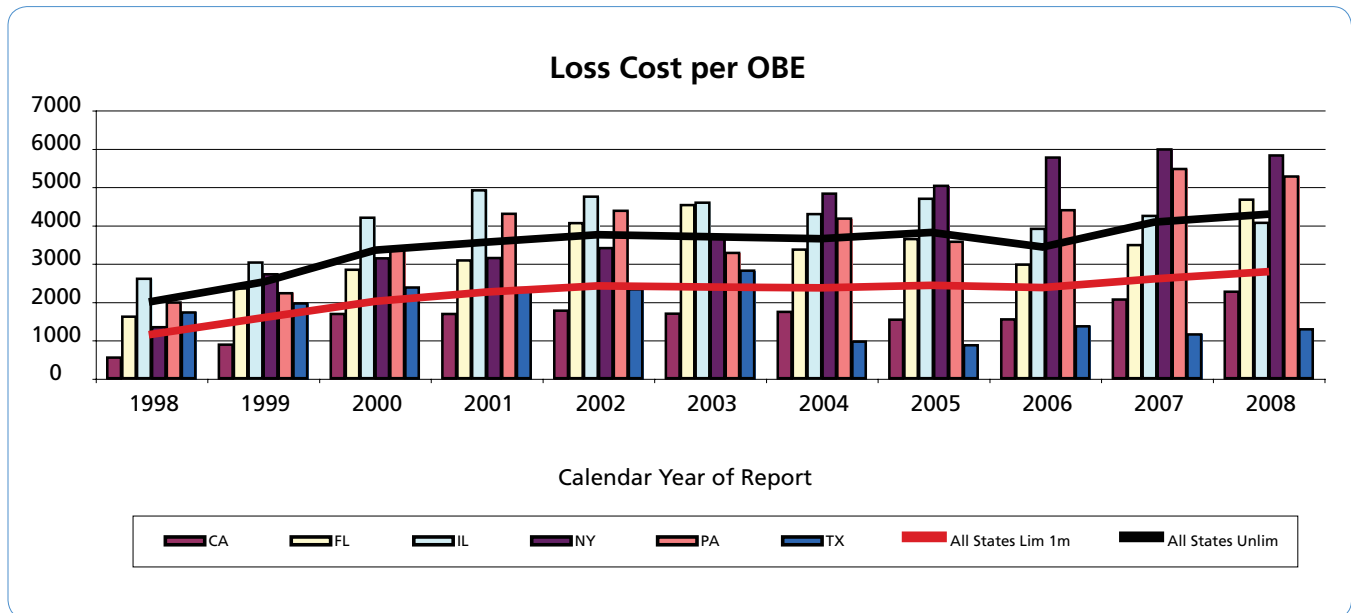
Exhibit 4 – Percentage of claims greater than \$1 million and \$5 million



The percentage of very large claims (greater than \$5 million) has risen very slowly, and has fluctuated by less than 2 tenths of 1 percent since 1998. The increase in medium severity claims (greater than \$1 million) has risen steadily – from 3.4 percent to 4.4 percent since 1998 – a 30 percent increase. It is these claims that are driving the increase in severity.

Loss costs – track severity

Exhibit 5 – Loss costs per OBE



The loss cost figures reported in this study are standardized per Occupied Bed Equivalent (OBE). (See Side Bar – Benchmarking claims experience). They include indemnity payments and expenses, and are calculated as the sum of the amount paid and reserved per OBE, developed to ultimate. In order to determine whether high value claims are skewing loss costs upwards, we looked at both average loss cost per OBE, and average loss cost per OBE capped at \$1 million. As can be seen, the gap between the loss cost lines for “capped” and “uncapped” costs is fairly consistent. Of note this year is a trend of increasing loss costs in Florida and Pennsylvania over the past few years. We will monitor this trend to see if it continues. Loss costs per OBE tend to track severity (see Exhibit 2).

Benchmarking claims experience

Comparing hospitals' claims experience has always been difficult. Exposures, which vary by the type of facility, size of the institution, services provided, location, patient demography and regional/legal climate, have typically created untold obstacles for those attempting such an analysis. But many of these apples-to-oranges discrepancies can be eliminated by standardizing exposures across healthcare organizations. Zurich's claims data uses an occupied bed equivalent (OBE), calculated by assigning a standard relativity to exposures for:

- The number and type of beds devoted to certain categories of care such as acute care, long term care and rehabilitation
- The number and types of visits for emergency department, laboratory and other services
- Other procedures, such as births and surgeries
- Staffing, as reflected in the number and specialties of physicians and employees

With the development of a common denominator for exposure, data on state and national frequency rates and average claims severity can be compiled and evaluated across different segments of the industry and within specific peer groups.

What does an exposure year look like?

Exposure Type	Amount in our Database
Beds	331,690
Visits and Procedures	434,553,534
Professionals	121,388

Legal expense to indemnity ratios

Expense vs. Indemnity, only claims with an indemnity component

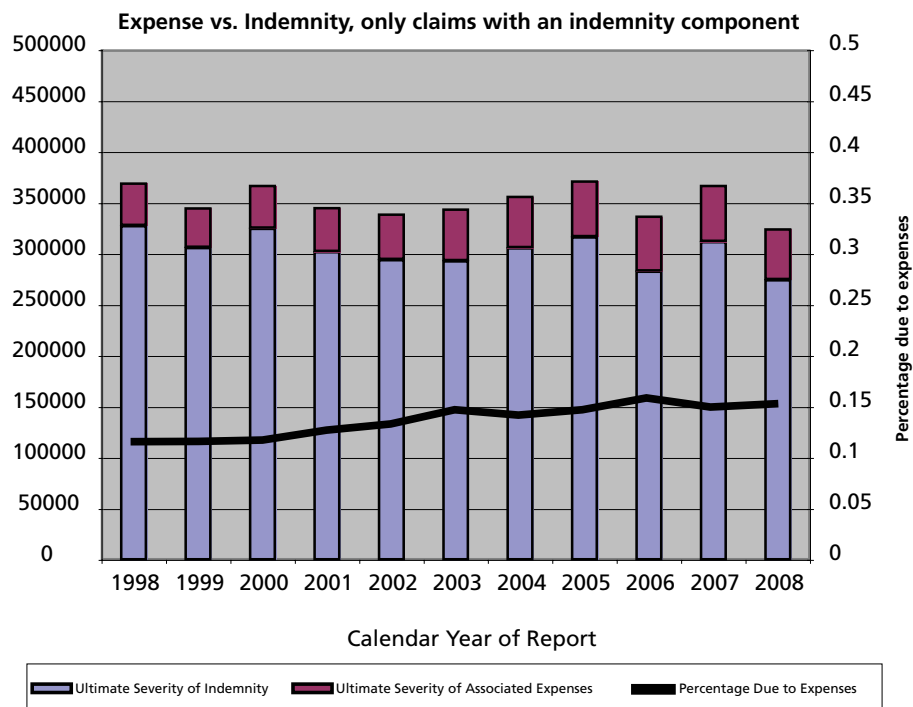


Exhibit 6 – Expenses vs. Indemnity

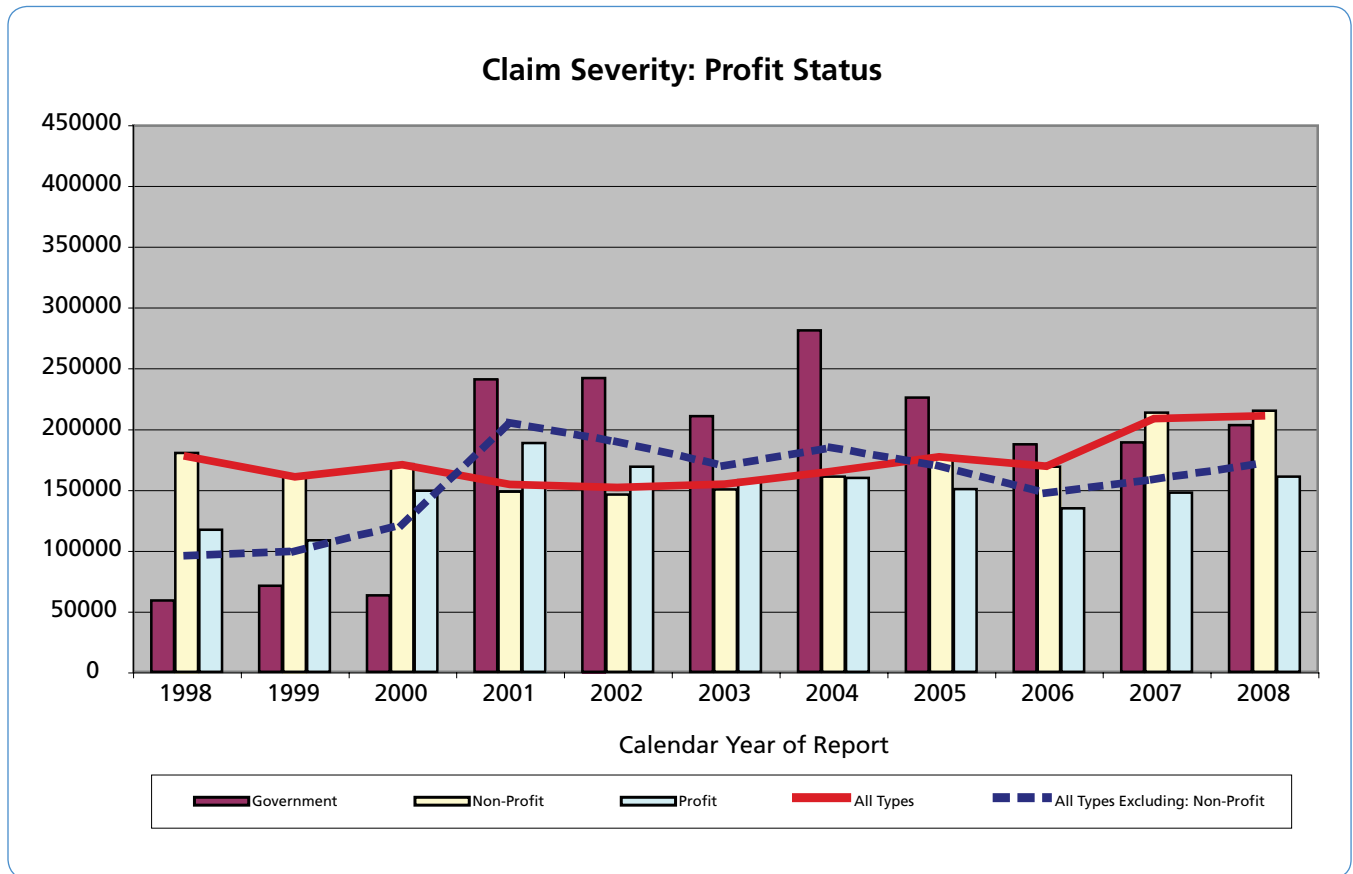
Aggregate indemnity and expense payment ratios provide hospitals with a basis for determining how much expense costs contribute to overall costs. Expense costs are those that are allocated to the handling of the associated claim. While overall claim costs may vary over the years, expense to indemnity ratios have been stable.

Average severity by organization structure and location

We evaluated severity by type of organization structure, community description and facility type. For this analysis, the losses were not capped and are calculated as they were in the severity analysis in Exhibit 2.

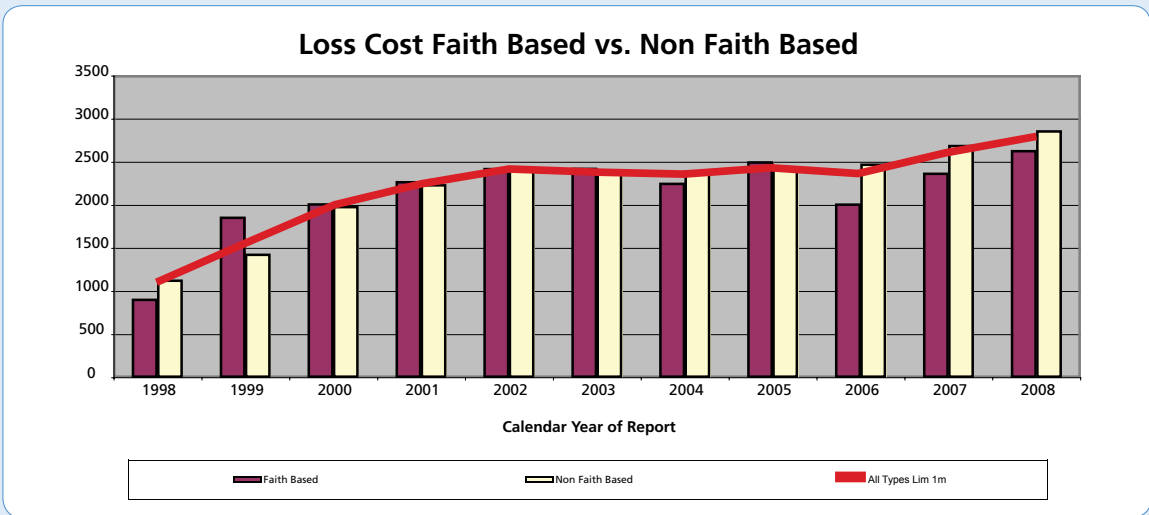
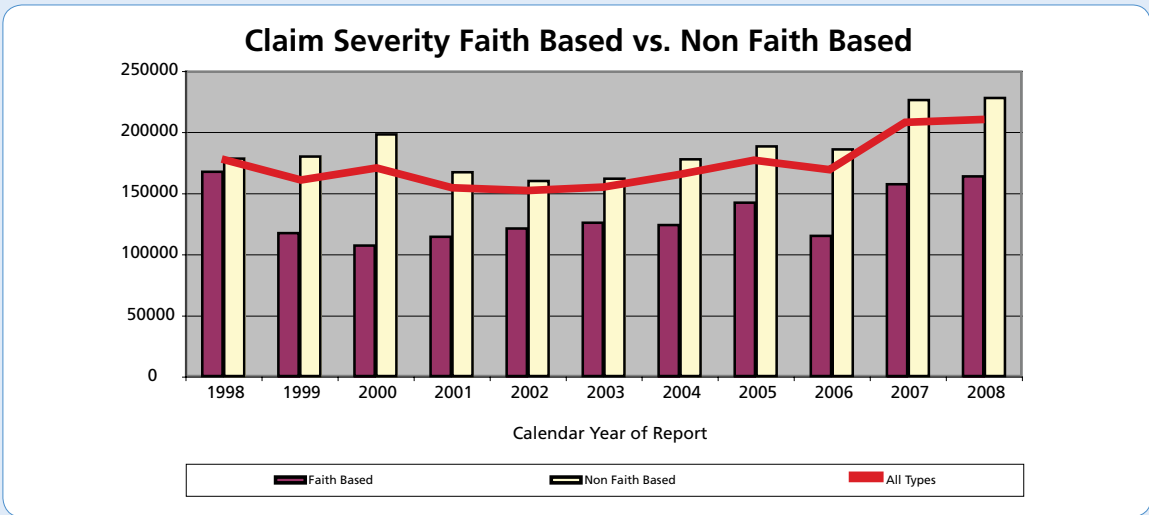
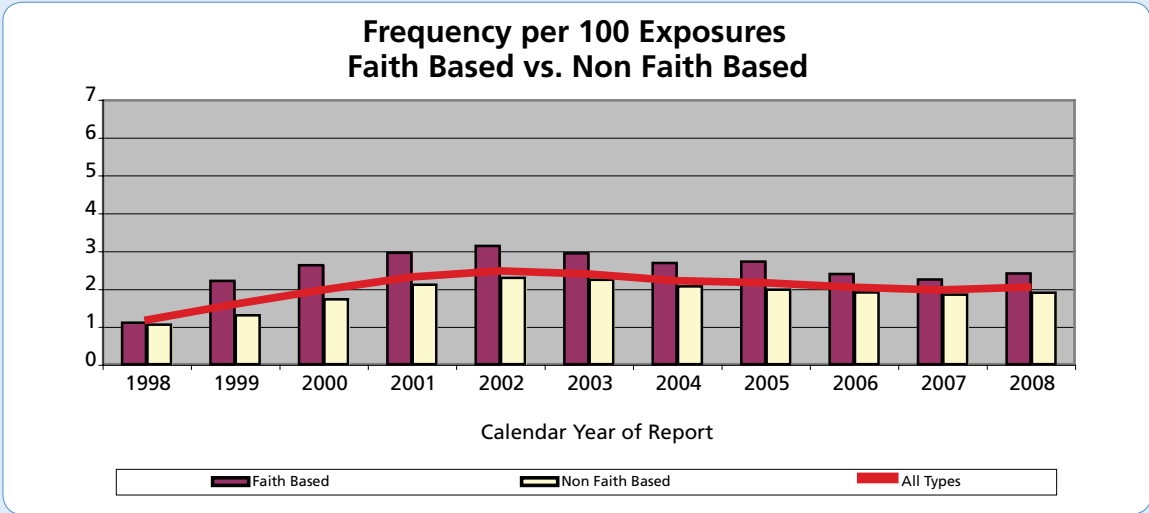
Exhibit 7 – Average severity by profit status

One trend of note is the narrowing of the difference in claims severity between different types of organizations. For example, we had seen non-profit hospitals having considerably lower severity than for-profit hospitals. Now, non-profit hospitals have higher claim severity than for profits. We have seen continued differences between faith based and other non-profit organizations (see side bar: “Do faith based hospitals have better loss experience?”)



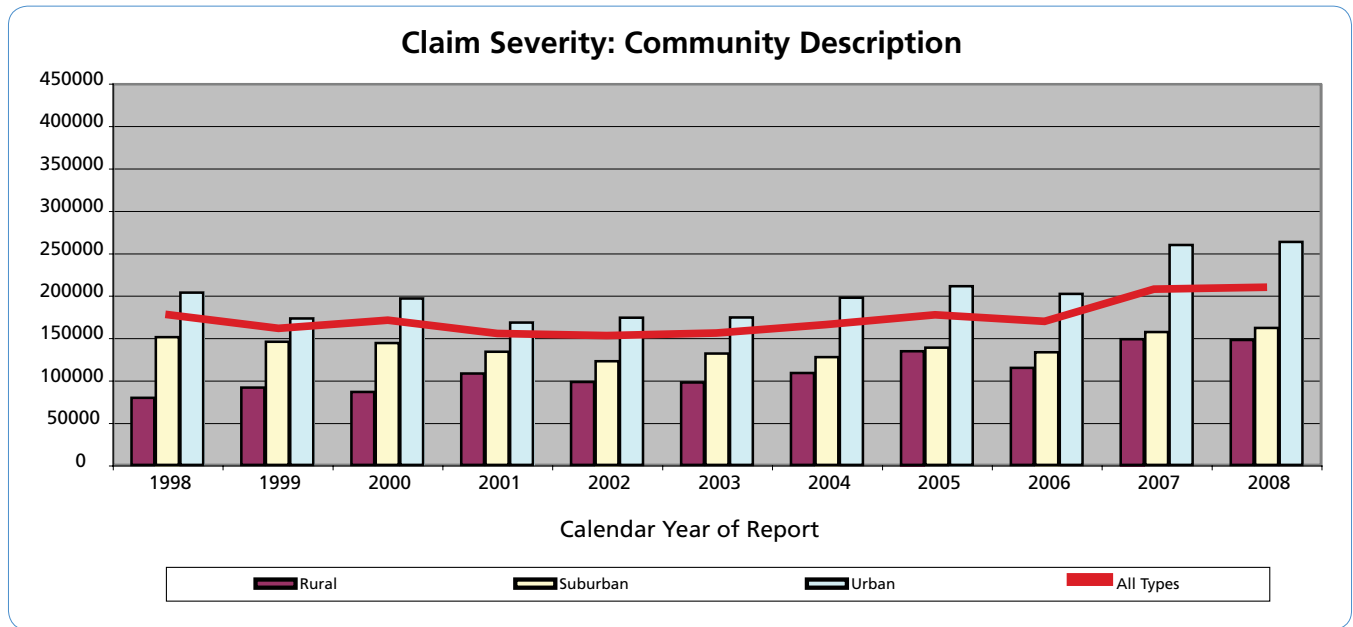
Do faith based hospitals have better claims experience?

Last year we compared the severity of faith based health care and other non-profit health care organizations. This year we reviewed loss cost, frequency and severity. Overall, loss costs for both are similar. But we find that frequency is higher in faith based organizations, while severity is lower.



Average severity by community description

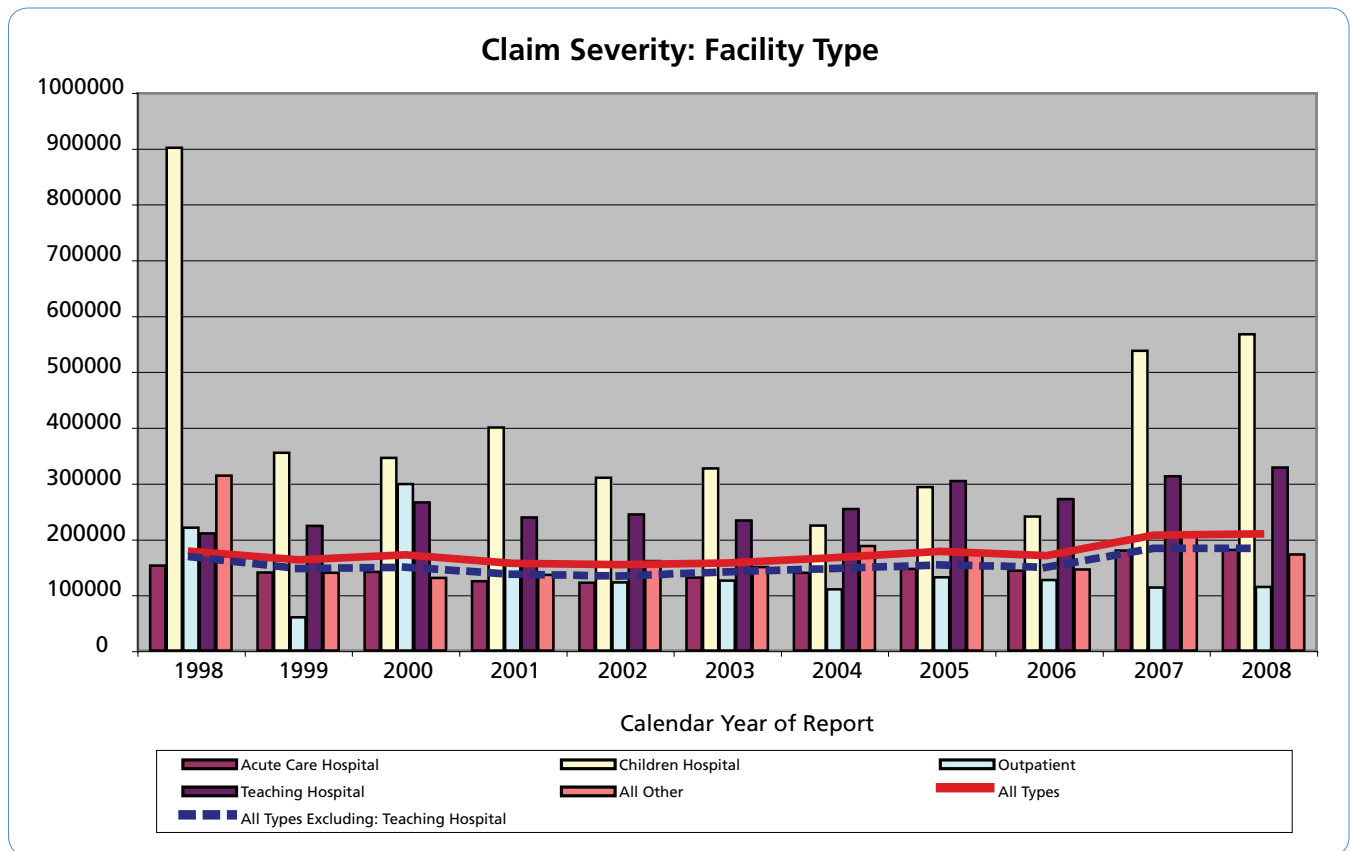
Exhibit 8 – Claim severity by community description



The difference between rural and suburban hospital severity is much smaller than it has previously been. As the health care industry consolidates, patients may no longer feel strong ties to “their” local hospital, and may be more willing to engage in litigation when adverse outcomes occur.

Claims severity by facility type

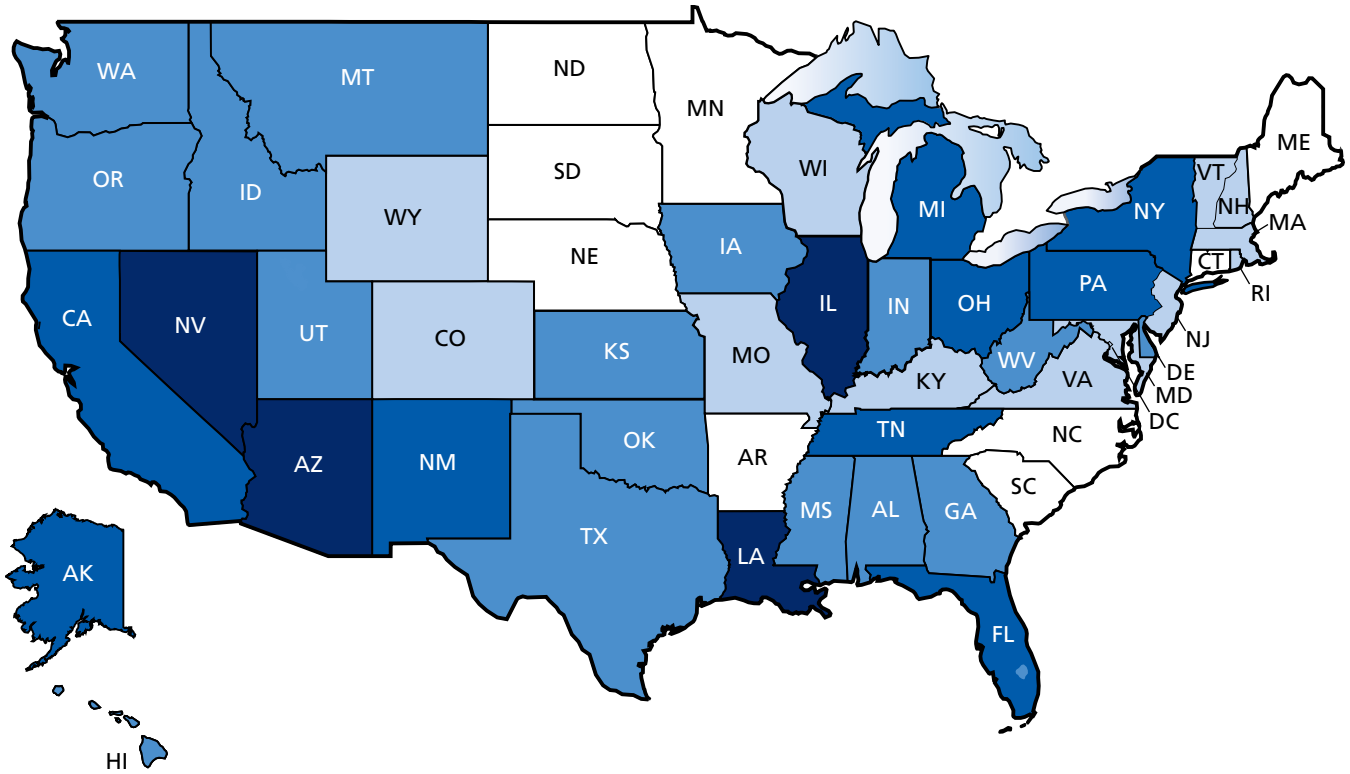
Exhibit 9 – Claim severity by facility type



In this analysis we compared acute care, children's hospitals, teaching hospitals and outpatient facilities. Teaching hospitals are defined as those that are part of academic institutions or sponsor resident education programs. Children's hospitals continue to have the highest severity over time. This is likely due to the high costs of providing medical care over the child's lifetime. A contributing factor for the spike in 2007 and 2008 may be the increased cost of life plans due to a low interest rate environment. Teaching hospitals contribute significantly to overall severity.



Claims frequency by state



Average claims frequency (1998-2008) pwe 100 OBEs ranked lowest to highest:



0.71 – 1.17



1.27 – 1.66



1.871 – 2.00



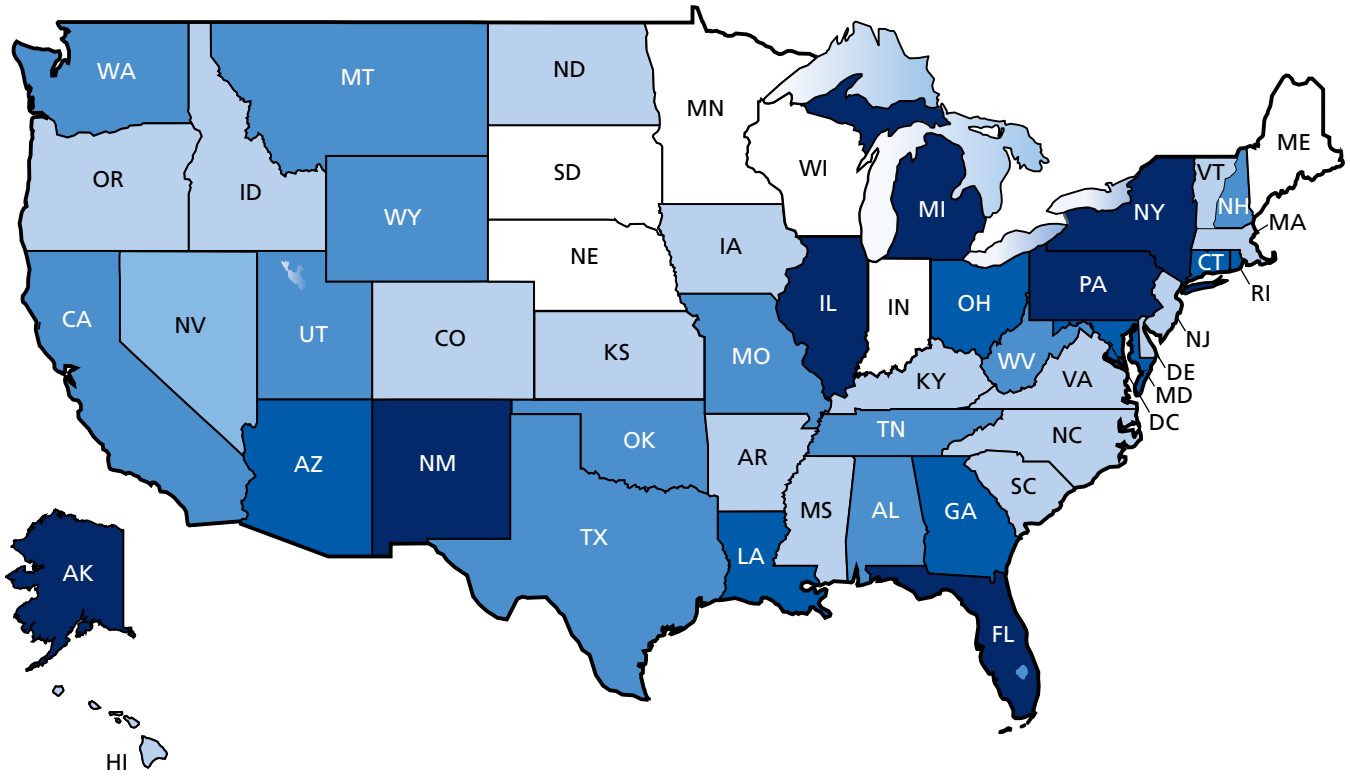
2.18 – 2.66



2.77 – 5.60

AK	2.66	GA	1.86	MD	1.49	NH	1.45	SC	0.93
AL	1.76	HI	1.74	ME	0.71	NJ	1.46	SD	0.84
AR	1.13	IA	1.85	MI	2.45	NM	2.20	TN	2.18
AZ	3.55	ID	1.75	MN	0.80	NV	3.47	TX	1.88
CA	2.64	IL	2.77	MO	1.62	NY	2.50	UT	1.98
CO	1.64	IN	1.82	MS	1.71	OH	2.24	VA	1.57
CT	1.15	KS	1.72	MT	1.85	OK	1.99	VT	1.66
DC	1.40	KY	1.49	NC	1.07	OR	2.00	WA	1.81
DE	1.80	LA	5.60	ND	1.04	PA	2.55	WI	1.28
FL	2.51	MA	1.33	NE	1.17	RI	1.54	WV	1.98
								WY	1.27

Loss costs by state



Average loss cost (1998-2008) per OBE ranked lowest to highest:



866 – 1,422



1,435 – 1,992



2,106 – 2,577



2,602 – 3,295



3,899 – 5,513

AK	3,903	GA	2,988	MD	3,030	NH	2,222	SC	1,459
AL	2,125	HI	1,896	ME	1,422	NJ	1,651	SD	1,212
AR	1,508	IA	1,576	MI	3,899	NM	4,620	TN	2,198
AZ	3,295	ID	1,504	MN	1,012	NV	1,944	TX	2,414
CA	2,405	IL	5,300	MO	2,106	NY	5,513	UT	2,229
CO	1,529	IN	1,214	MS	1,828	OH	2,602	VA	1,630
CT	2,869	KS	1,435	MT	2,480	OK	2,335	VT	1,895
DC	4,248	KY	1,981	NC	1,743	OR	1,755	WA	2,268
DE	1,729	LA	2,610	ND	1,640	PA	5,083	WI	1,355
FL	4,565	MA	1,992	NE	866	RI	3,189	WV	2,577
								WY	2,210



One Liberty Plaza
30th Floor
New York, New York
10006

A1-20247-A (09/11) 11-2410

Contributors

Vagif Amstislavskiy is Actuarial Director/Vice President at Zurich in North America. Mr. Amstislavskiy joined Zurich in 1999. He is a graduate of Brooklyn College, where he earned a Bachelor of Science degree in accounting. Mr. Amstislavskiy has earned the designation of Fellow of the Casualty Actuarial Society (FCAS), is a member of the American Academy of Actuaries (MAAA) and has passed all Certified Public Accountancy exams.

Peter Del Prete is an actuarial analyst with Zurich's specialty lines in North America. Mr. Del Prete joined Zurich in 2006. He is a graduate of Villanova University, where he earned a Bachelor of Science degree in mathematics and a minor in computer science. Mr. Del Prete has passed his first four actuarial exams and is certified by Microsoft as an expert in Excel.

Susan Salpeter is Vice President, Risk Engineering at Zurich in North America. She is responsible for the management and provision of all healthcare risk management services for Zurich's healthcare professional liability products. Ms. Salpeter was previously risk manager for Loyola University Medical Center. She is a R.N. and received her bachelor's degree from Washington University, and an MBA from the Kellogg Graduate School of Management with a concentration in Health and Hospital Administration and Finance. Ms. Salpeter is certified by ARM and is a Fellow of the American Society for Healthcare Risk Management.

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