RISK strategies

2022 HEALTH CARE OUTLOOK

STATE OF THE MARKET REPORT

INDUSTRY

HEALTH CARE

INDUSTRY INSIGHTS

The health care industry is still dealing with the fallout from the pandemic as businesses remain on the front lines in the fight against the virus. Hospitals, long-term care facilities, and physicians are experiencing a shortage of qualified workers and increased stress on employees' mental wellbeing. Facilities are being stretched thin, leading to widespread staff burn-out.

Health care organizations not staffed to mitigate the virus experienced a significant loss in revenue in an industry already operating on slim profit margins. Elective procedures were shut down for some time, causing many physicians and support staff to be furloughed or laid off. Many have still not returned to work, further straining scarce resources.

Medical leaders had to quickly pivot to treating patients predominantly through telehealth, a trend that is here to stay. For a lot of physicians, this was a new way of conducting business with many unknowns, including what issues could arise from providing this type of medical care.

Beyond pandemic challenges, health care continues to see an historic shift in risk financing. Medicare policy is forcing a move towards value-based care models, wherein health care providers assume some or all of the financial risk associated with care delivery. States, commercial payers and private employers are following this trend. Many organizations are re-evaluating their revenue models and adapting to this new reality.

Healthcare Practices continue to experience an increase in mergers and acquisitions. Physician groups once reluctant to merge or sell pre-pandemic have changed their position. Mergers allow practices to integrate and take a more streamlined approach, providing physicians more time to focus on patient care.

Bob Dubraski
National Health Care Practice

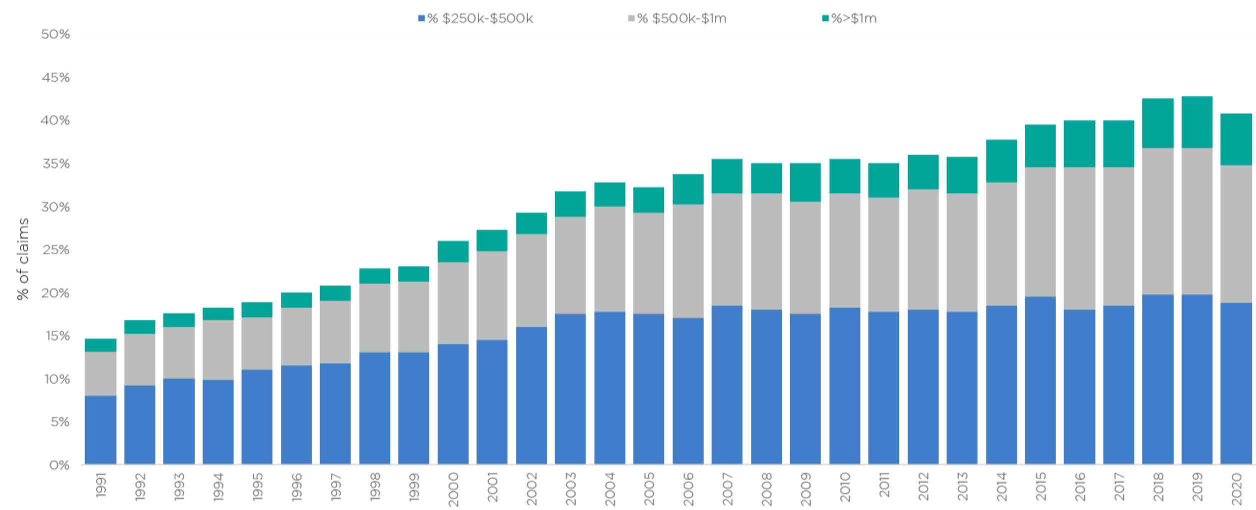
COVERAGE CONSIDERATIONS

2021 saw rates drastically increase, as certain lines of coverage continue to be extremely problematic. Most notably, challenges are being felt within the cyber, management liability, malpractice, and umbrella/excess liability markets.

Reduction in cyber marketplace capacity is creating a huge range for premium increases that are up anywhere between 50% and 125%. Higher retention and stricter underwriting requirements include mandated IT security controls. Fewer markets in the health care space are causing premium spikes for management liability and restrictions in coverage terms and sub-limits.

There are now detailed underwriting questions related to COVID-19. This is on top of excessive fee litigation for equitable compensation and hiring practices. Exclusion for full abuse and molestation are now in place as the market sees a reduction in regulatory coverage grants. Higher coinsurance participation is needed for antitrust coverage and there is more scrutiny of insured financials and submission/ applications.

COUNTRYWIDE: INDEMNITY PAYMENT RANGES



This chart illustrates the percentage of payments above $250K.

Source: National Practitioner Data Bank Public Use Data File, December, 2020.

The story is much the same for the umbrella and excess marketplace, as well as in medical malpractice coverage. It is challenging to find insurers willing to maintain expiring limits, and health care organizations choose to buy lower limits because of increasing prices.

Medical malpractice premiums continue to rise due to claims severity, reference the graph above illustrating the increase in severity of indemnity payments over the last decade.

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In 2021, carriers gave premium credits to businesses not practicing because of the pandemic. And they also had to adapt to quickly develop guidelines for telemedicine coverage.

All these factors are creating bottlenecks slowing down underwriting and renewals.

On the financial risk side, an uptick in both frequency and severity of catastrophic claims continues. Additionally, numerous emerging therapies, producing amazing clinical results, come at a very high cost. Combined, these issues have contributed to hard market conditions as evidenced by more restrictive terms and conditions and increased premiums.

In 2022, given the current climate, we project health care organizations will see continued rate increases per the following table:

2022 Projected Health Care Premium Rate Changes

Management Liability	↑ 15%-25%
Managed Care E&O	↑ 15%-25%
Medical Malpractice	↑ 10%-20%
Excess Liability	↑ 10%-20%
Property Non-CAT Exposures	↑ 5%-10%
Auto	↑ 10%-15%
Excess WC	↑ 0%-5%

* dependent on pending COVID-related litigation

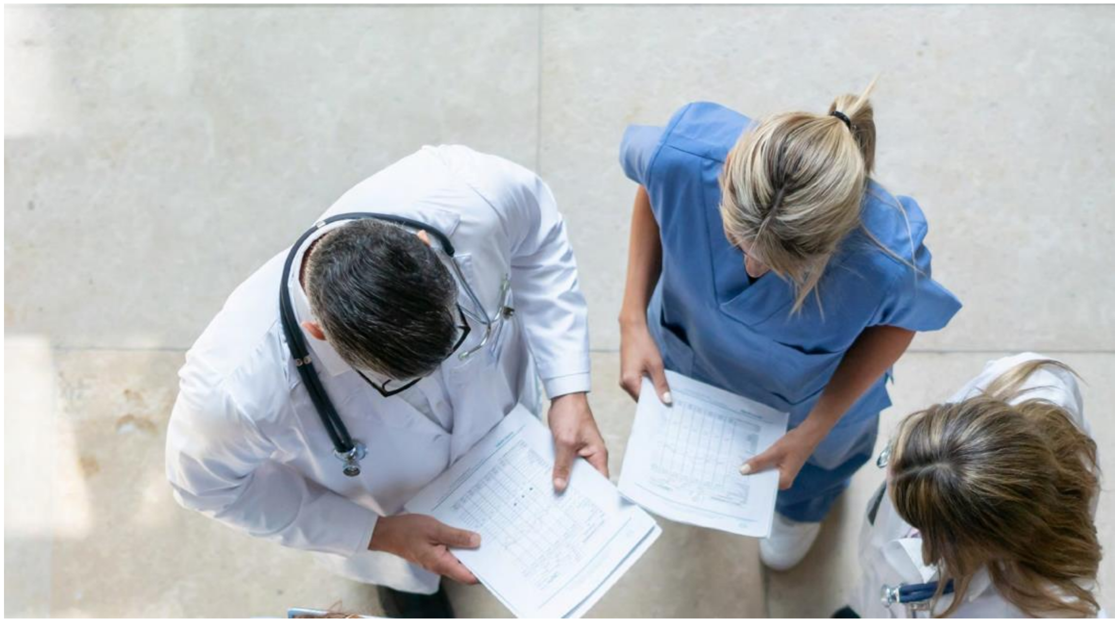
RECOMMENDATIONS

It is important to stay focused on controlling what you can and plan ahead for what you cannot. Start the renewal process earlier than usual. Regular communication is a must as there are frequent changes in the marketplace including new capacity, products, and coverage enhancements when possible.

Enhancing claims review with carriers will help form strategy with defense counsel and will effectively help manage outcomes to ensure favorable outcomes.

Health care organizations should consider the following alternative program structures based on claim activity and possible cost-saving impact:

- Purchase guaranteed cost commercial insurance
- Add small deductibles for cost savings
- Review incurred/paid loss retroactively rated programs that do not traditionally require collateral
- Evaluate increase deductibles or retentions
- Look at becoming qualified self-insured where permitted by law
- Consider group or single-parent captive
- Look at adding other risks/deductibles into an existing captive program
- Evaluate integrating excess liability programs
- Continue to be vigilant in safety and claims management practices
- Focus on internal risk control procedures, including better IT controls



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