

Health Care RRGs Push Loss Control Rx

Member-insureds, sharing losses, have big incentive to aggressively manage risks

BY KAREN CUTTS

THERE'S A GROWING TREND among risk retention groups providing professional liability coverage in the health care sector to require adherence to risk management and loss prevention programs as a condition for RRG membership.

While RRGs formed in other business areas also focus on risk management and loss prevention, the requirement in the health care sector—including physicians, hospitals and nursing homes—is of particular interest, since more than 60 percent of RRGs have formed in this business area since 2002.

Enabled by passage of the 1986 Liability Risk Retention Act, RRGs are insurance companies owned by their policyholders. RRG insureds, as owners of the entity, typically provide a capital contribution in addition to paying premium for the liability insurance coverage.

In effect, each RRG insured takes a risk on fellow owners, for all members share in the losses in the risk retained by the RRG.

Thus, adherence to stringent risk management and loss prevention programs is fundamental to the financial viability of the RRG—potentially benefiting all members.

While it may be difficult to quantify

the results of these programs, many RRGs report that claims are down because of their focus on risk management and loss prevention. In a few cases, RRGs are able to quantify results. For some RRGs,

financial incentives are used as an effective tool in reducing claims frequency.

Some examples follow:

► **Superior Insurance Company** is a South Carolina-domiciled RRG that provides medical professional liability to member-insureds consisting of emergency room physicians affiliated with Emergency Medical Associates, a professional association based in New Jersey comprised of board-certified emergency physicians.

Superior's risk management program is mandatory for all members. A key part of the program is a template and charting system using electronic recording and tracking of data.

Physicians are required to review

charts with their colleagues from a critical standpoint. According to Dr. Michael Gerardi, president of the RRG, the program forces physicians to look at their own practice. He likens the centralized data-keeping system to a "cockpit," creating a "much less chaotic environment" in an emergency department.

Dr. Gerardi—who also serves as vice president of a newly established physician-owned and managed consulting firm that will offer loss prevention services to health care captives—said that RRGs, commercial malpractice carriers and third-party administrators observe that compulsory chart review helps ensure quality medical care and improves patient safety. It also provides a foundation for defense in the event a claim arises.

► **Alliance Insurance Company**—a Vermont-domiciled RRG licensed in January that provides primary professional medical malpractice to gastroenterologist physicians and endoscopic ambulatory surgery centers with which they are affiliated—has retained the services of Stevens & Lee, an experienced legal and risk management firm.

Stevens & Lee assisted in the RRG's formation to develop standards and best practices that can be implemented by GI physicians at all EASCs in which they practice.

Scott Spencer, a partner in the firm, said the thrust of these services helps the physicians improve their practice and the quality of what they do. The motivating force behind the RRG's formation was not unaffordable premiums or even lack of availability of liability coverage, he said. Rather it was an opportunity for physicians to realize significant cost

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► **Karen Cutts** is editor and publisher of the "Risk Retention Reporter" in Pasadena, Calif. Visit www.rrr.com for information on risk retention groups and purchasing groups.

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savings by funding their own insurance vehicle.

► **Controlled Risk Insurance Company**—a Vermont-domiciled RRG owned by the Harvard Teaching Hospitals that insures 10,000 physicians and 18 hospitals—has implemented a risk management program coupled with financial incentives for anesthesiologists that was so successful, it has been developed for obstetrics.

Jack McCarthy, president of the Risk Management Foundation—which oversees the insurance program for the Harvard-affiliated medical institutions—explained that under a premium discount program begun several years ago, insured anesthesiologists completing simulator training received a 10 percent premium discount when they trained on a mannequin-based simulator for anesthesia-related claims.

The program's success was demonstrated with a 20 percent premium rate differential for anesthesiologists with the training.

FAST FACT

More than 60 percent of RRGs have formed in the health care sector since 2002.

Based on the success of the program for anesthesiologists, a similar program developed for obstetrics beginning in 2003 is also showing promise. While it will take several more years to train all of the insured OBs and to evaluate the actual impact on claims, Mr. McCarthy said that preliminary results at BI Deaconess Medical Center—the location for the first team training—are very encouraging.

He noted that in the three years post-training, claims and lawsuits dropped from seven to two, and high-severity claims from five to one. Another measure—the Adverse Outcomes Index, a quality indicator database of adverse maternal/neonatal outcomes—showed a 55 percent drop over the same period of study.

The unique nature of RRGs provides incentives for their owners and insureds to develop and implement effective risk management and loss prevention programs that are not always feasible when insurance is purchased from traditional insurers.

With 240 RRGs now operating (as reported in the April issue of the *Risk Reten-*

tion Reporter, and profiled in detail in the just-published 18th annual edition of the "Risk Retention Group Directory & Guide, 2007"), RRGs are not only fulfilling the role Congress intended for them when it passed the legislation 21 years ago, but they are providing the impetus for insureds to bring best practices into their respective professions. ■



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