

**Committee Presentation:
Susan Voss, Iowa Insurance
Commissioner**

WEDNESDAY, OCTOBER 5, 2005

IOWA STATE CAPITOL

Presentation by Susan E. Voss, Insurance
Commissioner

BACKGROUND

A Short History of Medical Malpractice Insurance

1970s—Here We Go

- Increase in litigation
- Massive losses 1970-75
- Many insured exited the market
- Claims-made coverage introduced
- Dr. owned carriers formed

BACKGROUND cont

1980s—They're Baaacckkk!

- Crisis of affordability
- Rapid increase in frequency and severity of claims
- Large increases in premiums to cover claims
- Some JUAs created

BACKGROUND cont

1990s-The Perfect Storm

- Frequency and severity of claims continues to rise
- Investment yields decline
- Falling Interest rates
- Large increases to make up for the above

BACKGROUND cont

2001-A Med Mal Space Odyssey

-St. Paul—Exits the market

\$1 billion loss

42,000 Providers

750 Hospitals

In Iowa—

-2039 Doctors

-1154 Other providers

-40 hospitals

-174 Other facilities, I.E. nursing homes

INSURANCE DIVISION ACTIONS

2002 Series of Meetings on Med Mal

June-August 2002-Providers, agents, insurance companies, legal community and others

-Examine the med mal insurance market in Iowa, the trends in cost and availability and comparison nationally, and what solutions can be found.

Presentations from all interested parties.

3 Options for further review:

- (1) Pursue other carriers or expansion of existing carriers
- (2) Market assistance by agents
- (3) Review of possible JUA in the event one is needed

What did we find?

1. Carriers not interested in expanding at that time.
2. Market assistance by agents not easy due to lack of interested carriers
3. Commissioner Vaughan determine JUA not needed.

PROFILE OF IOWA MARKET TODAY

- 4 Carriers with majority of coverage

MMIC-40.5%

PIC Wisconsin-19.6%

Preferred Professional-6.9%

Medical Protective-5.9%

About 15% market not licensed in Iowa

(St. Paul had 22.2% market in 2000)

PROFILE cont

Rates:

2001-2002 double digit rates: 14-15%

2002-2003 double digit rates: 10-54.6%

2003-2004 double digit rates: 13-125%

2004-2005 0-15%

2005-2006 rates-being filed: single digits to
some decrease.

PROFILE cont

Rate issues:

- -Med Mal has a long tail unlike other types of coverage: development beyond 10 years
- -Fewer carriers-selective
- -Increase in frequency and severity
- -Uncertainty in market and who is writing
- -Investment income concerns

PROFILE cont

Iowa-small market

actuarially difficult to price

few carriers with large capacity

when one large carrier exits-large impact

IOWA INFORMATION

Incidence and frequency of med mal cases-

-Division doesn't maintain information

Survey of carriers in 2005-\$1million + cases in past 10 years

3 carriers responded

19 cases in past 10 years with greater than \$1 million or great in verdict or settlement

IOWA INFORMATION cont

8 cases with non-economic damages over \$250,000

\$1 million awards broken down by specialty-with physicians-
(from two major carriers in Iowa)

Obstetrics-7

Family Practice-7

Orthopedics-4

Pediatrics-4

General Surgery-1

Anesthesiology-3

Sports Medicine-1

Plastic Surgery-1

PREMIUM INFORMATION

Premiums-2005 (approved rates of major carriers)

Pediatrics

No surgery--\$6,000-14,000

Surgery-----\$9,000-19,000

Anesthesiologists \$8,000-22,000

Emergency Room

No surgery---\$13,000-\$34,000

Surgery-----\$17,000-42,000

Orthopedic Surgery

Excl spinal--\$25,600-51,000

Incl spinal---\$32,000-54,000

OB/GYN-----\$35,000-\$63,000

INSURANCE REGULATORY REQUIREMENTS

Property Casualty Insurance Carrier

Chapter 515

\$2.5 million Capital-minimum

\$2.5 million Surplus-minimum

Subject to risk-based capital

Financially examined by domestic regulator (at least once every 5 years.)

Rates-pre-approved by Division actuary

Cannot be based upon activity in another state with certain exceptions

Iowa allows surplus carriers to sell in the market. (Not licensed in Iowa)

IOWA CODE CHAPTER 519A

Known as JUA Chapter-joint underwriting authority

1. Provide “temporary” relief through state run insurance mechanism
2. Commissioner determines that med mal insurance is too expensive AND unavailable.
3. Premiums and losses associated with coverage are shared by the association.
4. Servicing carrier issues the policy, settles the claims and provides policy holder services.

5. Rates will be higher.
6. Premiums and losses are shared by an association of the entire admitted market.
7. Creation of JUA-timely. Policies must be written and approved. Plan of operation must be approved. Annual reports, financial examinations. It's a new company.

PATIENT COMPENSATION FUND

Provides mechanism to pay claims over a certain fixed amount.
(\$1 million/\$3 million)

Generally a part of an overall reform package.
(including caps, mediation, etc.)

Can be voluntary or mandatory for certain provider groups.

2005 Legislation-Mandatory for physicians and nurse practitioner.

Assessments to all members of the group-determined by several factors.

Health claim procedure created to file claims with the fund.

Commenced the program with \$1 million appropriation.

CURRENT ACTIONS OF DIVISION

1. Surveyed Carriers that have left the state
 - Who left
 - Why did they leave
 - What would make them return
2. Discussions with Carriers
3. Continued review of the market
4. Review of other states' activities

FINAL THOUGHTS

1. Insurance-cyclical in most property/casualty markets
2. Other issues surrounding medical malpractice
 - Evidentiary issues
 - Medical errors
 - Risk Management
3. Med Mal costs-2% of total health care spending-Actuarial Digest/Winter 2005
4. Many factors influence med mal: geographic difference, state regulation, characteristics of providers and organizations, culture and legal practices, difference in cost of defending claims, population size and degree of competition.

More Thoughts

Our goal---healthy, strong companies to pay claims as approved and appropriate.

Questions?

