Aon/ASHRM
Hospital and Physician Professional Liability
Benchmark Analysis, October 2020

Executive Summary
# Table of Contents

- Introduction .................................................. 1
- Letter to Our Readers ........................................ 2
- Executive Summary ........................................... 4
Introduction

Aon’s actuaries are pleased to release the 21st annual edition of the Aon/ASHRM Hospital and Physician Professional Liability Benchmark Analysis.

We thank our participants for taking the time and effort to provide their data and responses to us, especially given the challenges the COVID-19 pandemic has brought upon healthcare systems this year. Similar to past years, Aon’s National Healthcare practice has supported the production of this benchmark report which serves to inform the healthcare industry on medical professional liability claim cost trends.

This benchmark study report is produced under a co-marketing agreement between Aon and The American Society for Health Care Risk Management (ASHRM). Participation in this edition of the benchmark study was open to all ASHRM members.

The actuarial analysis is designed as a hands-on tool to provide healthcare risk managers with a better understanding of their cost of risk compared to an industry benchmark. Through measurement, analysis, and comparison of the claim and exposure data, risk managers and other stakeholders are able to develop proactive strategies to reduce risk-related costs and ultimately improve outcomes.

The database of hospital professional liability (HPL) and physician professional liability (PPL) claims that underpins the 2020 actuarial analysis contains over 99,000 non-zero claims that amount to $20.6 billion in incurred losses.

In addition, the database also includes approximately 16,300 non-zero general liability (GL) claims that represent $537 million in incurred losses.

The database contains historical claim information for ten calendar / accident years that span from 2010 to 2019.

This report provides actuarial analysis and insight pertaining to medical professional liability costs from varying perspectives including:

- An overview of medical malpractice verdicts rendered since 2001 that has been conducted by TransRe.
- A closed-claim analysis of hospital professional liability loss costs pertaining to advanced practice providers by Coverys and a description of best practices it recommends to manage this exposure category.
- An analysis of insurance program features and changes brought upon by insurance market conditions in the past year.
- Healthcare risk management department characteristics, including insights on risk professionals and Certified Professional in Healthcare Risk Management (CPHRMs) employed, claims handling procedures, insurance buying habits, and days cash on hand.
- Benchmark statistics by hospital service line, demographics, and by type of claim disposition.
- Benchmark statistics for twenty-two individual states as well as territory breakouts for Florida, Illinois and Pennsylvania. The data volume for each of these geographies lends itself to credible actuarial analyses.

This report examines trends in ultimate frequency, severity and overall loss rates related to hospital and physician professional liability exposures. Unless noted otherwise, the metrics that appear throughout the report are defined as follows:

- **Frequency**—number of non-zero claims per occupied bed equivalent (OBE) or per class 1 physician equivalent.
- **Severity (limited to $2 million per occurrence)**—average loss per claim, where loss comprises indemnity and defense costs.
- **Loss Rate (limited to $2 million per occurrence)**—annual ultimate loss dollars per OBE or per Class 1 physician equivalent.
- **Occupied Bed Equivalent**—a standard measure of overall hospital professional liability risk comprising a weighted contribution from 11 hospital volume metrics.
- **Class 1 Physician Equivalent**—a standard measure of physician professional liability risk based on the risk represented by one full-time Family Practice (no surgery) physician over the course of one year.

ASHRM’s contribution towards the production of this Benchmark Analysis is limited to providing promotion and distribution support. Aon is solely responsible for the design, execution and interpretation of this Benchmark Analysis and holds the copyright thereto.
Letter to Our Readers

The purpose of this report is to provide a data-based tool to risk managers and financial leaders of healthcare systems in the United States to help them better understand hospital and physician professional liability (HPL and PPL) cost trends. We hope that you will find this study to be a helpful guide to understanding your organization’s cost of risk relative to those for your peers, as presented in this report.

With each annual edition, we strive to focus on emerging and noteworthy areas of interest regarding the hospital and physician professional liability environment. The 2020 report provides analysis and insights into telemedicine claims, medical malpractice verdict awards, a cause-of-claim analysis and best risk management practices pertaining to advanced practice providers, as well as an analysis of medical professional liability insurance program features.

Our current analysis is based on data for accident years 2019 and prior. As the COVID-19 pandemic is known to have entered the U.S. in early 2020, it has no bearing on the claim cost trends contained in this report. A quantification of the effect of this pandemic on the medical professional liability cost of risk is likely to be known with some certainty in a few years after any pandemic-related claims have been reported and have made their way through the claim settlement, including judicial, process.

The succeeding sections present detailed findings from our benchmark analysis including countrywide historical loss rates, frequency and severity, statistics by cause of loss, claim lag statistics, as well as claim cost trends by service line, demographic, claim disposition and state.

We are confident the insights included in this report that pertain to numerous risk management department characteristics will enable you to understand how your organization relates to your peers and may even help you in improving risk management practices.

Finally, this report aligns with and supports Aon’s mission to provide data driven insights that combine robust, credible healthcare data and leading analytical approaches to drive industry insights for clients and industry peers. We would like to thank all healthcare providers for participating in this year’s study, which marks the 21st year of its publication. It is our participants’ efforts that make this benchmark analysis a credible and comprehensive source of medical professional liability claim cost trends. We are deeply appreciative of the time and effort participants took in submitting their response to us this year, given that it was in the backdrop of COVID-19 which has created an immense burden on healthcare providers.

Lastly, we would like to thank our dedicated healthcare benchmarking data team at Aon, as well as our colleagues in the Casualty Risk Consulting division of Aon Global Risk Consulting, The Doctors Company, TransRe and Coverys for their contributions to this report.

We are happy to engage with you if you have any questions on our benchmark analysis.

Respectfully submitted
Aon Global Risk Consulting, Actuarial & Analytics Healthcare Practice, HPL Benchmarking Team

Kanika Vats, FCAS, MAAA
Director & Actuary
Healthcare Practice Leader
Global Risk Consulting
Commercial Risk Solutions
Aon
+1.212.441.1425
kanika.vats@aon.com

Lisa Bellotti
Senior Consultant
Benchmark Participation Manager
Global Risk Consulting
Commercial Risk Solutions
Aon
+1.732.792.9911
lisa.bellotti@aon.com

Molly Rozran, ACAS, MAAA
Consultant and Actuary
Global Risk Consulting
Commercial Risk Solutions
Aon
+1.410.381.2439
molly.rozran@aon.com

Thank You to the Additional Team Members:
Meredith Huskey, ACAS, MAAA
Erik Johnson FCAS, MAAA
Katherine Zhang, ACAS, MAAA
Adam Miller
Jim Moore
Matt Phelps
Meg Kowalski
Feiwen Wang
Jan Surdyka
Kamil Szarkowski
Tornike Kerashvili
Katherine Zmyslowski
Samantha Millner
Timothy Ellis
Executive Summary (Excerpt)

Key Findings

Hospital and Employed Physician Trends
The frequency of hospital and physician professional liability (HPL and PPL), also referred to as medical professional liability (MPL), claims has remained stable in recent years. We project an annual trend of 0% in the number of such claims experienced by healthcare organizations. However, indemnity and defense cost per claim or severity is estimated to increase by 3% annually.

For the 2021 calendar / accident year, we forecast the countrywide annual loss rate limited to $2 million per occurrence, to be $3,850 per occupied bed equivalent and $5,830 per class 1 employed physician for professional liability events.

We forecast that HPL and PPL loss rates are increasing by 3% annually.

Managing the Medical Professional Liability Risk of Telemedicine Claims: A Data Analytics and Risk Control Perspective
Analyses conducted by Aon and The Doctors Company reveal that telemedicine claims currently account for a fraction of MPL claims. However, such claims are expected to grow as telemedicine usage increases significantly in the future. This article provides guidance to healthcare systems on developing a robust coding taxonomy that will enable meaningful claim cost analyses in future years. It also outlines potential areas of risk control to manage the MPL claim cost associated with this growing exposure.

An Overview of Medical Malpractice Verdict Awards
TransRe has conducted an analysis of MPL plaintiff verdicts between 2001 and 2019. While the proportion of cases going to trial have decreased in the last two decades, the severity has increased. The 50th largest verdict size has remained elevated since 2016 when it increased from $6.1 million to $9.4 million in 2019. Similarly, the annual average of the fifty largest verdicts was $22.9 million in 2016-19 which is the first period since 2001 when it exceeded $20 million.

Medical Professional Liability - Cause-of-Claim Analysis and Risk Mitigation Strategies for Advanced Practice Provider Exposures
Coverys has contributed an article to this year’s report that summarizes findings from its analysis of closed claims involving Advanced Practice Providers (APPs). This section provides insights into frequency and severity by APP category for different types of claim allegations and diagnoses. The article also speaks to best practices systems can deploy to manage the MPL risk that emanates from APP exposures.

Analysis of Medical Malpractice Insurance Program Structures
New to this year’s report is an analysis of MPL insurance program structures that is based on the first interim survey that we launched in the first half of 2020. On average, large systems, those located in high cost states and academic facilities maintain high self-insured retentions and purchase large insured limits. Current market conditions in the commercial insurance market have led systems to increase their retentions in the past year. Healthcare providers have also increased their purchase of insured limits from commercial insurers in response to an increased frequency of high severity claims the industry has experienced in the past few years.

Healthcare Risk Management Characteristics
Our annual survey collected the number of full-time equivalents employed by healthcare system risk management departments. It revealed that 1.5 risk management full-time equivalents are employed per 100 occupied beds and work most frequently in the Safety & Security and Patient Safety functions.

Cause of Loss Statistics
Benchmark participants provided text information describing the allegations underlying their hospital professional liability claims. An analysis was conducted to identify the most severe and most common cause of claims. Treatment Related Issues account for the highest percentage of claim occurrences as well as total claim costs while Labor and Delivery (L&D) Related Issues continue to experience the highest claim severity.

Various Demographics
The cost of risk for hospital professional liability is subject to a complicated set of influences. We have analyzed and compared benchmark statistics by venue, for university systems, and for children’s hospitals.

State Trends
Frequency, severity, and loss rate benchmark statistics are published separately for 22 states. State breakouts by territory were also conducted for Florida, Illinois, and Pennsylvania as the data was sufficient enough to lend itself to credible actuarial analyses.
About Aon
Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

© Aon plc 2020. All rights reserved.
The information contained herein and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

GDM12595