

Aon/ASHRM Hospital and Physician Professional Liability

Benchmark Analysis, October 2018

Executive Summary



Introduction

In the interest of continuing to recognize trends in health care professional liability, Aon's actuarial and analytics specialists, with support from Aon's National Health Care Practice, have produced the 19th annual edition of the Aon/ASHRM Hospital and Physician Professional Liability Benchmark Analysis.

This benchmark study 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 study is designed as a hands-on tool to provide health care 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 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 underlying the industry benchmarks contains 107,419 non-zero claims, representing over \$20.2 billion of incurred losses. In addition, the database also includes 16,801 non-zero general liability (GL) claims, representing over \$578 million of incurred losses. The database contains historical claim information for ten accident years (2008 to 2017).

The study provides actuarial analysis and research related to professional liability costs from varying perspectives including:

- Countrywide HPL, PPL, and GL benchmark claim costs—expressed in frequency and severity components—based on the entire database of 118 systems.
- Discussion of trends for catastrophic professional liability claims – provided by Aon and Beazley Group.
- Root-cause analysis and benefits – provided by Coverys.
- Discussion of the relationship between patient satisfaction measures and professional liability claims.
- Health care risk management department characteristics, including insurance buying habits, days cash on hand information, and number of risk management department full-time equivalents by hospital size.
- Benchmark statistics for hospital service lines, demographics, and claim disposition types.
- Benchmark statistics for twenty-five individual states having sufficient data volume and credibility, including breakouts by territory for Florida, Illinois, and Pennsylvania.

The study examines trends in frequency, severity and overall loss rates related to hospital and physician professional liability exposures. Unless noted otherwise, these statistics 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 includes indemnity and expense
- **Loss Rate (limited to \$2 million per occurrence)**—annual incurred loss dollars per OBE or per Class 1 Physician Equivalent
- **Occupied Bed Equivalent**—a standard measure of overall hospital professional liability risk including 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 Internal Medicine (no surgery) physician over the course of one year.

The participation of ASHRM in the Benchmark Analysis is limited to providing promotion and distribution support. Aon is solely responsible for the design, conduct and interpretation of the Benchmark Analysis and holds the copyright thereto.

Letter to Our Readers

The purpose of this report is to provide risk managers and financial leaders of health care systems in the United States with a data-supported tool to help them better understand medical malpractice 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 various peer trend statistics contained in this report.

With each annual edition, we strive to focus our research on emerging and noteworthy areas of interest regarding the medical malpractice liability environment. New to the 2019 study, we have partnered with Coverys and Beazley to dive deeper into areas such as root-cause analysis, and catastrophic claim trends.

In addition, the sections that follow present detailed findings of our benchmark analysis including historical loss rates, historical frequency and severity, statistics by cause of loss, risk management department characteristics, as well as trends by state, demographic, and service line.

We are confident that you will find answers, or context, to a number of risk management questions that may be of concern to your organization or operations.

Finally, this report aligns with and supports Aon's mission to provide metric-driven insights that combine robust, credible health care data and leading analytical approaches to drive industry insights for clients and industry peers. We would like to thank all the participants of this study, now in its 19th edition, for making this benchmark analysis such a credible and comprehensive source of health care liability claim trend data. We understand that it takes time to prepare and submit information to our benchmarking effort and we acknowledge that this analysis could not be done without our participants.

Lastly, we would like to thank our dedicated health care benchmarking data team here at Aon, as well as our outside contributors to various articles within this report.

Should there be any questions regarding this report, we would be happy to discuss them with you.

Respectfully submitted,

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Executive Summary

Key Findings

Hospital and Employed Physician Trends

The frequency of hospital professional liability claims shows a stable trend in recent years. We project a flat annual trend of 0% in the number of HPL claims experienced by health care organizations. Claim severity, including defense costs, is growing at a 2% annual rate.

For the upcoming 2019 accident year, we project that hospitals will experience an annual loss rate of \$2,860 per occupied bed equivalent and \$5,540 per Class 1 employed physician for professional liability events. This projection applies at the countrywide level, assuming a \$2 million per occurrence limit.

We project that HPL and PPL loss rates are increasing at a 2% annual rate.

Trends for Catastrophic Professional Liability Claims

While the bulk of this study is focused on the self-insured layer, Aon partnered with Beazley Group to study trends in large claims, specifically above \$5 million and \$10 million. After a couple years of consecutive years evaluating the trend in large claims, the frequency of catastrophic type PL claims has become more definite and trends at a higher rate than the typical self-insured PL claim. Some of the drivers of these trends are obstetrics claims, higher risk jurisdictions, and jurisdictions which are more litigious.

Coverys Discussion of Root-Cause Analysis and its Benefits

New to this year's study, Coverys provides an in-depth discussion of how to approach root-cause analysis and the benefits that result from such analysis. Coverys describes how to make medical professional liability data 'actionable' and discusses insights on claim allegations derived from their closed claim database.

Health Care Risk Management Characteristics

New this year, our survey collected the number of full-time equivalents employed by the health care system risk management department. As expected, we found those with more revenue or more occupied beds employ more risk managers. This trend can be translated to an average rate of approximately 1.0 risk management full-time equivalent for every 100 occupied beds.

In addition, our survey shows that smaller systems have lower attachment points and lower total PL insurance limits, inclusive of the self-insured retention.

Cause of Loss Statistics

Benchmark participants provided text information describing the allegations underlying their Medical Professional Liability claims. This data was used to identify and list the circumstances leading to the most severe and most commonly occurring claims. Labor and Delivery (L&D) Related Issues, with an average total cost of over \$400,000, continue to be significantly more severe than claims related to other allegations.

Patient Satisfaction and PL Claim Frequency

As shown in previous analyses, we find that patient satisfaction survey scores, which reflect overall impressions of the patient experience, are linked to claim frequency results for hospital facilities. Meaning, those hospital facilities with a higher number of satisfied patients tended to also have lower PL claim frequency. This helps support the conclusion that there is clearly a human element, a broken relationship, or an unfulfilled expectation underlying many PL claims.

Various Demographics

The cost of risk for medical professional liability is subject to a complicated set of influences. Frequency, severity, and loss rate benchmark statistics can vary significantly for different peer groupings. We have analyzed and compared benchmark statistics by venue, for university systems, and for children's hospitals.

General Liability Costs

In 2019, we project that health care organizations will incur General Liability (GL) claims at a rate of \$145 per OBE.

State Trends

Frequency, severity, and loss rate benchmark statistics vary significantly by state. We have separately analyzed 25 states where we had sufficient state specific information to perform a credible analysis, including breakouts by territory for Florida, Illinois, and Pennsylvania.

Advisory Benchmarks for Hospital Professional Liability

The database underlying this analysis includes 118 health care systems in the United States. In 2017, the facilities in the study reported a total number of 194,738 hospital beds (physical beds, not OBEs). The American Hospital Associations “Fast Facts on U.S. Hospitals” report (2016 Survey) a total number of 894,574 staffed hospital beds in U.S. hospitals. Combined with the CDC’s estimated 64.8% countrywide occupancy percentage (2014), we estimate 579,684 occupied hospital beds in the U.S. Based on these statistics, our participant base represents 33.6% of the total U.S. hospital industry.

The following table shows the hospital professional liability frequency, severity and loss rate projections for claims occurring in 2019. The severity and loss rate statistics are shown subject to a \$2 million per claim limitation.

2019 HPL Benchmarks and Annual Trends for Losses Limited to \$2 Million Per Occurrence

Advisory benchmark	Projected 2019 benchmark	Selected annual trend
Overall frequency*	1.58%	0.00%
Indemnity frequency*	0.72%	0.00%
Severity	\$181,000	2.00%
Loss rate*	\$2,860	2.00%

*per occupied bed equivalent

The study tracks service-specific exposure and claim statistics for two key areas of hospital operations. The following table presents accident year 2019 loss rates for exposures related to Obstetrics Units and Emergency Departments.

2019 Service Line Benchmarks and Annual Trends for Losses Limited to \$2 Million Per Occurrence

Advisory benchmark	Exposure basis	Projected 2019 loss rate	Annual loss rate trend	Annual overall frequency trend	Annual severity trend
Obstetrics	per birth	\$182	2.0%	0.0%	2.0%
Emergency department	per visit	\$5.73	2.0%	0.0%	2.0%

Advisory Benchmarks for Employed Physicians

Employed physicians represent a growing self-insurance risk for hospital systems. Employed physician claim and exposure data were collected and separately analyzed as a part of this benchmark study. The following table highlights the projected professional liability losses associated with employed physicians.

2019 PPL Benchmarks and Annual Trends for Losses Limited to \$2 Million Per Occurrence

Advisory benchmark	Projected 2019 benchmark	Selected annual trend
Overall frequency*	3.55%	0.00%
Indemnity frequency*	1.25%	0.00%
Severity	\$156,000	2.00%
Loss rate*	\$5,540	2.00%

**per class 1 equivalent*

Advisory Benchmarks for General Liability

General liability claim data was collected and separately analyzed as part of this benchmark study. The following table highlights the projected general liability losses for accident year 2019. As seen below, general liability losses represent a small portion (approximately 4.8%) of the combined HPL and GL loss rate.

2019 GL Benchmarks and Annual Trends for Losses Limited to \$2 Million Per Occurrence

Advisory benchmark	Projected 2019 benchmark	Selected annual trend
Overall frequency*	0.33%	0.00%
Indemnity frequency*	0.27%	0.00%
Severity	\$44,000	2.00%
Loss rate*	\$145	2.00%

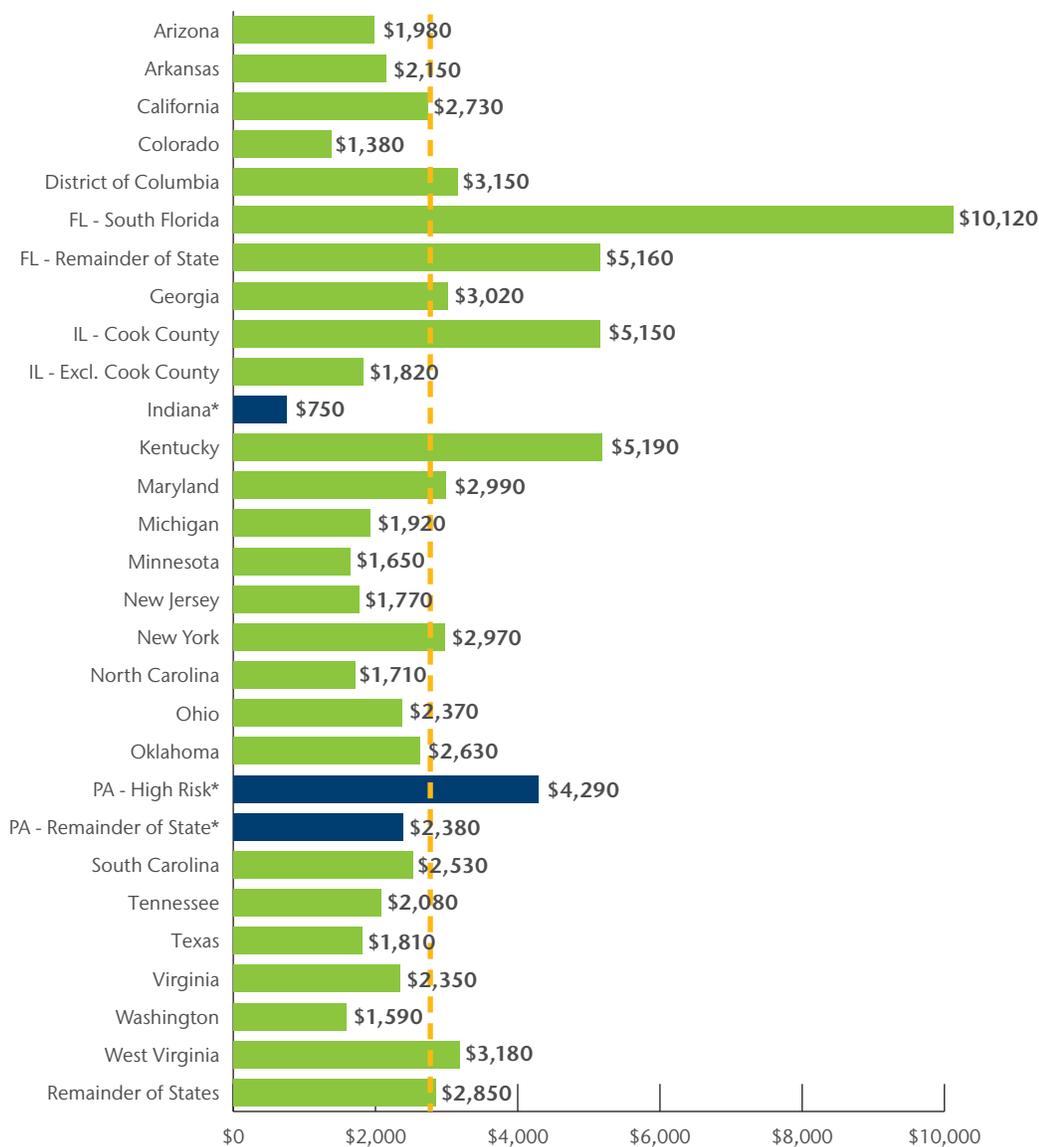
**per occupied bed equivalent*

State Findings for Hospital Professional Liability

The hospital professional liability benchmark database includes claims from 48 states, including the District of Columbia. In this report, we provide benchmark statistics for states having the necessary volume of experience to make the resulting benchmark statistics credible. In measuring credibility, we review bed counts, claim counts, and the volatility of the year-over-year results.

The following table provides the benchmark statistics by state for the individually reviewed states in the database. The yellow dashed line represents the 2019 countrywide advisory loss rate (\$2,860).

2019 Loss Rates per OBE by State*



*All states limited to \$2 million per occurrence except IN and PA are limited to PCF primary limits: IN limits indemnity to \$250K plus unlimited expense; PA limits indemnity to \$500K plus unlimited expense

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.

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