HYLANT PRESENTS |

Healthcare Risk Financing – ISHRM

Foundation & Fundamentals

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Presenter

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27 years in healthcare with Hylant

Education

Steve received his bachelor's degree in business administration and marketing from Michigan State University. He holds the designations of Certified Insurance Counselor (CIC) and Certified Risk Manager (CRM).

Industry

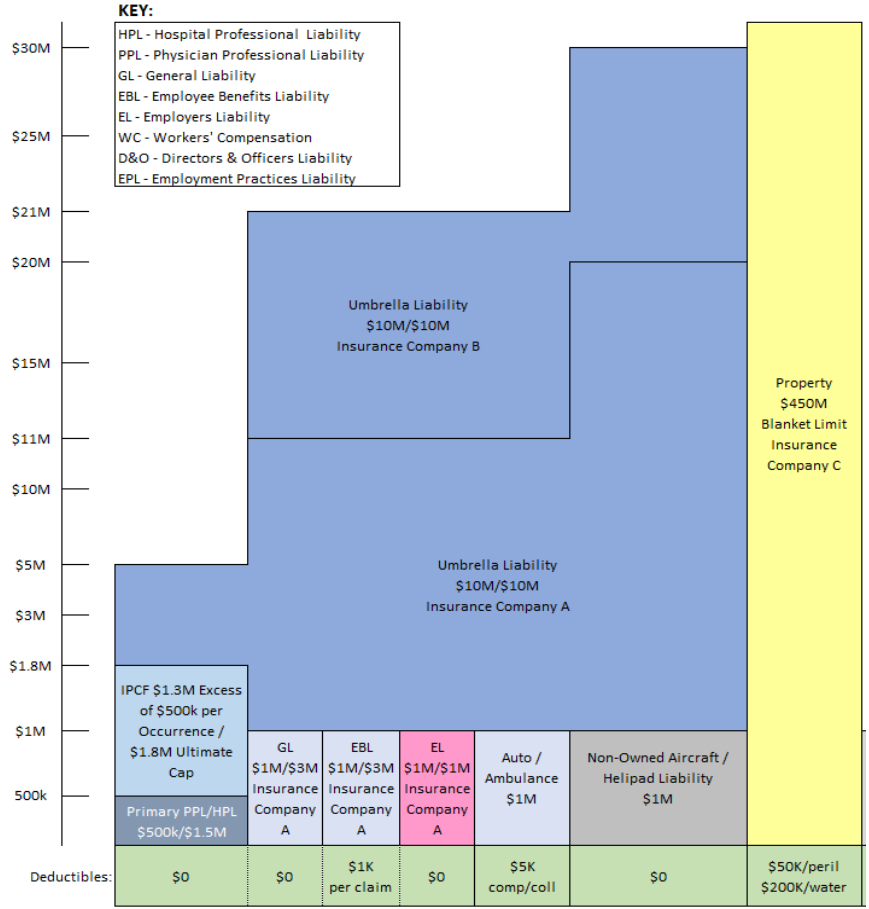
Steve is a member of the American Society for Healthcare Risk Management (ASHRM) and the Professional Liability Underwriting Society (PLUS). He participates in healthcare panel discussions and has presented on the topics of healthcare risk and insurance issues at industry conferences. Steve is also a contributing author to the ASHRM Risk Financing Playbook.

Agenda

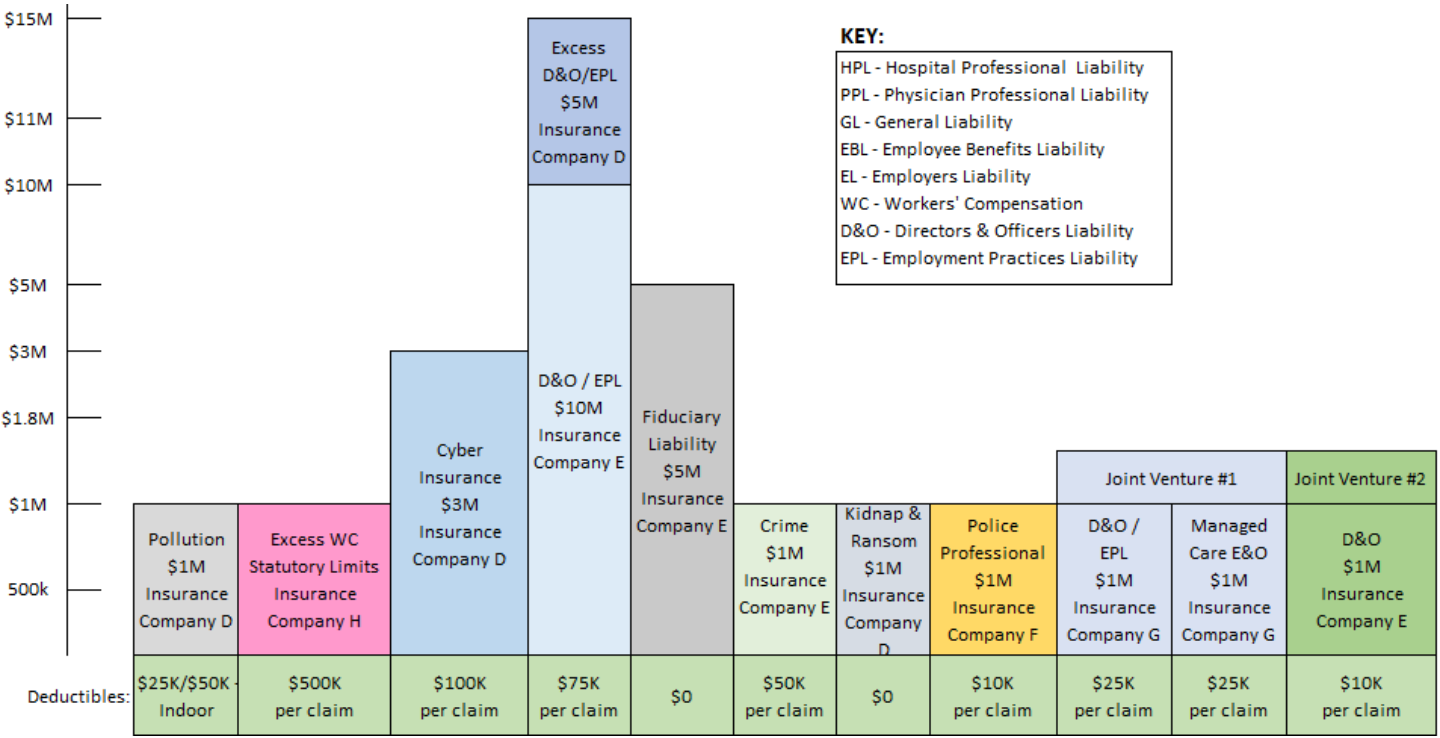
- Key Insurance Coverages for Healthcare
- Limit Structures
- Exposure Considerations
- Terms & Conditions
- Policy Forms – Claims Made vs Occurrence
- Risk Financing Continuum
- Claims
- Market Challenges
- Evolving Risks in Healthcare

Risk Financing Philosophy

Healthcare Organization Coverage Programs



Healthcare Organization Coverage Programs Cont.



Other Possible Coverages

- Builders Risk
- Managed Care E&O
- Clinical Trials
- Equipment Maintenance & Repair
- Provider Stop Loss (Capitated Revenue Contracts)
- Representations & Warranties
- Underground Storage Tank Liability

Limit Structures

- Primary Limits
- Excess vs Umbrella & Reinsurance
- Separate Limits vs Shared Limits - Providers
- Per Occurrence & Aggregate Limits
- Deductibles vs Retentions
  - Treatment of Defense Costs
- Self Insurance Trusts and Captives

Acute Care Exposure Analysis

Exposure Type	2021 Projected	2022 Projected	Relativity Factor	2021 OBEs	2022 OBEs	% Change
Average Daily Occupied						
Acute Care Beds	86.42	91.03	1.00000	86.42	91.03	5%
Bassinets	9.73	7.07	1.00000	9.73	7.07	-27%
Skilled Nursing	36.50	31.00	0.09550	3.49	2.96	-15%
Assisted Living	55.00	37.00	0.04850	2.67	1.79	-33%
Independent	51.00	42.00	0.03400	1.73	1.43	-18%
Intermediate Care	124.00	103.00	0.06150	7.63	6.33	-17%
Rehab Beds (included w/ Skilled)	0.00	0.00	0.70000	0.00	0.00	0%
Psychiatric Beds	6.12	6.60	0.70000	4.28	4.62	8%
Visits						
ER Visits	41,704	44,874	0.00200	83.41	89.75	8%
Other Outpatient Visits	336,733	313,866	0.00035	117.86	109.85	-7%
Psychiatric Visits	17,721	20,815	0.00050	8.86	10.41	17%
Home Health/Hospice Visits	95,625	90,930	0.00040	38.25	36.37	-5%
Rehab Visits	11,387	12,800	0.00050	5.69	6.40	12%
Procedures						
Inpatient Surgeries	3,382	4,536	0.02000	67.64	90.72	34%
Outpatient Surgeries	27,075	27,928	0.00450	121.84	125.68	3%
Deliveries (Total)	1,350	1,285	0.02000	27.00	25.70	-5%
Total Hospital OBE's				**586.49**	**610.12**	**4.0%**

OBE = Occupied Bed Equivalent

Physician Exposure Analysis

Physician Exposures	2021 FTEs	2022 FTEs	Relativity Factor	2021 Physician Exposure	2022 Physician Exposure	% Change
Allergy & Immunology	2.00	2.00	0.60000	1.20	1.20	0%
Anesthesiology	6.25	7.25	1.50000	9.38	10.88	16%
Cardio Thoracic Surgery	1.25	1.25	4.50000	5.63	5.63	0%
Cardiology	2.00	2.00	1.25000	2.50	2.50	0%
CNM	2.00	1.00	2.40600	4.81	2.41	-50%
CNP & PAC	80.00	86.00	0.40000	32.00	34.40	8%
CRNA	17.25	19.00	0.75000	12.94	14.25	10%
Emergency	5.25	5.25	3.00000	15.75	15.75	0%
Endocrinology	1.00	1.00	1.25000	1.25	1.25	0%
Family Practice & Pediatrics	18.50	15.00	1.00000	18.50	15.00	-19%
Gastroenterology	2.25	4.25	2.00000	4.50	8.50	89%
General Surgery	6.00	7.00	3.00000	18.00	21.00	17%
Hematology & Oncology	2.50	2.25	2.50000	6.25	5.63	-10%
Hospitalist	8.25	11.75	1.00000	8.25	11.75	42%
Medical Director	0.00	0.25	0.60000	0.00	0.15	100%
Neurology	1.25	1.25	1.25000	1.56	1.56	0%
Neurosurgery	2.00	2.00	7.00000	14.00	14.00	0%
OB/GYN	8.25	7.50	5.50000	45.38	41.25	-9%
Occupational Medicine	0.00	0.00	0.60000	0.00	0.00	0%
Orthopedics	2.00	3.00	3.00000	6.00	9.00	50%
Osteopathic Medicine	0.00	0.00	2.50000	0.00	0.00	0%
Otolaryngolgy	3.00	3.50	2.00000	6.00	7.00	17%
Pain Management	3.00	3.00	1.50000	4.50	4.50	0%
Physical Medicine	1.00	0.00	1.00000	1.00	0.00	-100%
Plastic Surgery	0.00	0.00	3.00000	0.00	0.00	0%
Psychiatry	2.00	3.00	0.60000	1.20	1.80	50%
Psychology	0.50	0.50	0.11100	0.06	0.06	0%
Pulmonary-Critical Care	3.25	3.50	1.25000	4.06	4.38	8%
Sleep Medicine	1.00	1.00	0.60000	0.60	0.60	0%
Sports Medicine	0.50	0.50	0.75000	0.38	0.38	0%
Urgent Care	0.25	0.25	1.25000	0.31	0.31	0%
Urology	3.25	2.50	2.00000	6.50	5.00	-23%
Total Physician Exposure	**185.75**	**196.75**		**232.50**	**240.11**	**3.3%**
Convert Physicians to OBE's				**697.54**	**720.33**	

OBE = Occupied Bed Equivalent

Premium Drivers

Exposures

Rating basis by line of coverage

Rates

Depending on carrier appetite and performance

Claims Experience

Individual Hospital

Industry Wide

Key Terms & Conditions

1. *Consent to Settle Authority*
2. *Deductibles* – Indemnity & Defense vs. Indemnity Only
3. *Defense Costs* – Inside or Outside the Limit
4. *Duty to Defend* – Insurer or Insured?
5. *Incident Sensitive Claim Trigger* – Claims Made Forms
6. *Other Insurance Provisions / Coordinating Coverages with Multiple Policies*
7. *Sexual Abuse & Misconduct*
8. *"Batch" Claim Provisions*

Claims-Made vs Occurrence Based Policy Form

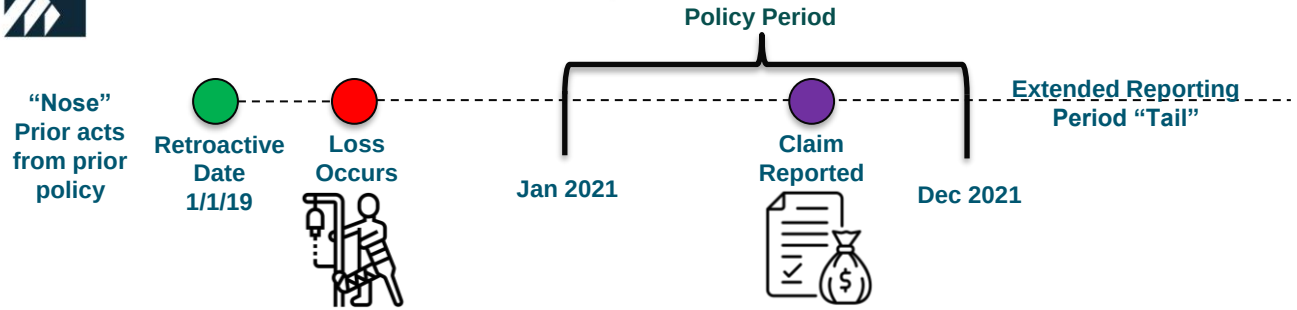
Claims-Made

- Policy in Force Responds when **Claim Reported**
- Medical Incident must Occur on or After Retroactive Date
- Incident Sensitive Trigger
- Nose vs. Tail
- Premium Maturity Steps

Occurrence Based

- Policy in Force when **Incident Occurred** Responds
- No Retroactive Date Applies
- Tails and Noses do not Apply
- Premiums Higher than CM in Earlier Years – No Steps

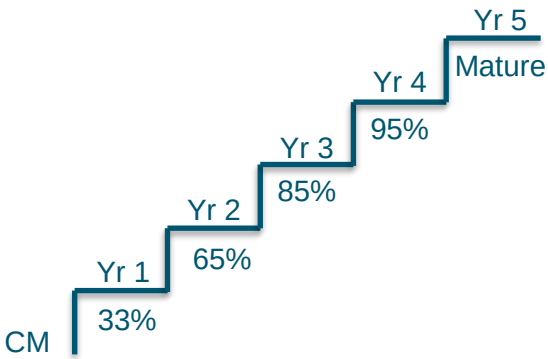
Claims-Made Example



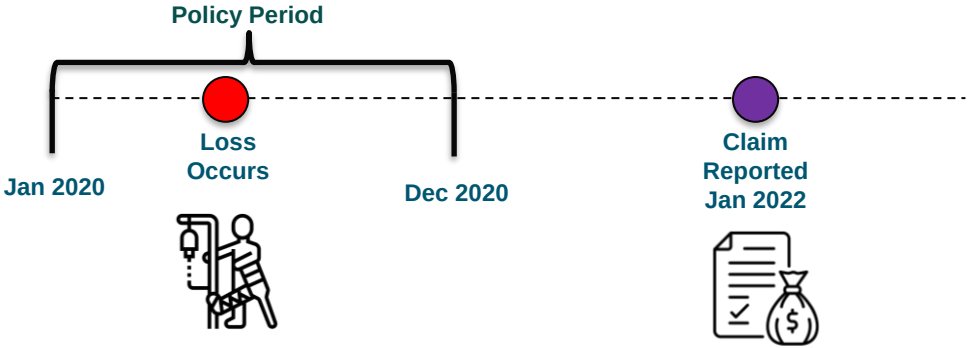
The policy in force when the **claim is made** responds if the loss occurred after the retroactive date on the policy. If a claim is brought after the policy's expiration, it can get coverage if it's reported within the extended reporting period = "Tail".

Standard Claims-Made Funding Example

- Starts year 1 at 33% of mature funding
- Premium matures or steps up over 5 year period:
  - Year 2 = 65%
  - Year 3 = 85%
  - Year 4 = 95%
  - Year 5 – Mature
- Prior Acts "Tail" is not pre-funded
- When providers depart or policy is terminated a prior acts "tail" exposure exists – tail purchase or "nose" secured



Occurrence Based Example



The policy in force when the medical incident **occurred** responds to the claim even though it was reported after the policy's expiration date.

Occurrence Based Funding

- Policy is fully funded from date of inception
- Limits reset annually, providing a new block of coverage to pay for claims that arise later

OCC →

Premium typically 5% higher than Mature Claims-Made

Claims-Made Coverage

PROS

- May be able to close prior policy years sooner
- Ability to adjust limits as the legal environment changes
- Flexibility to change insurers if incumbent is financially stressed
- Greater market capacity
- More commonly used in healthcare professional liability
- Less debate about which policy is triggered, subject to retro date

CONS

- Purchase of “tail” may be required = expensive
- May require more administration – managing retro dates, departed provider list, and issuing letter/cert of prior coverage
- Premium increases until mature
- Prior acts liability in Buy/Sell transactions

Occurrence Based Coverage

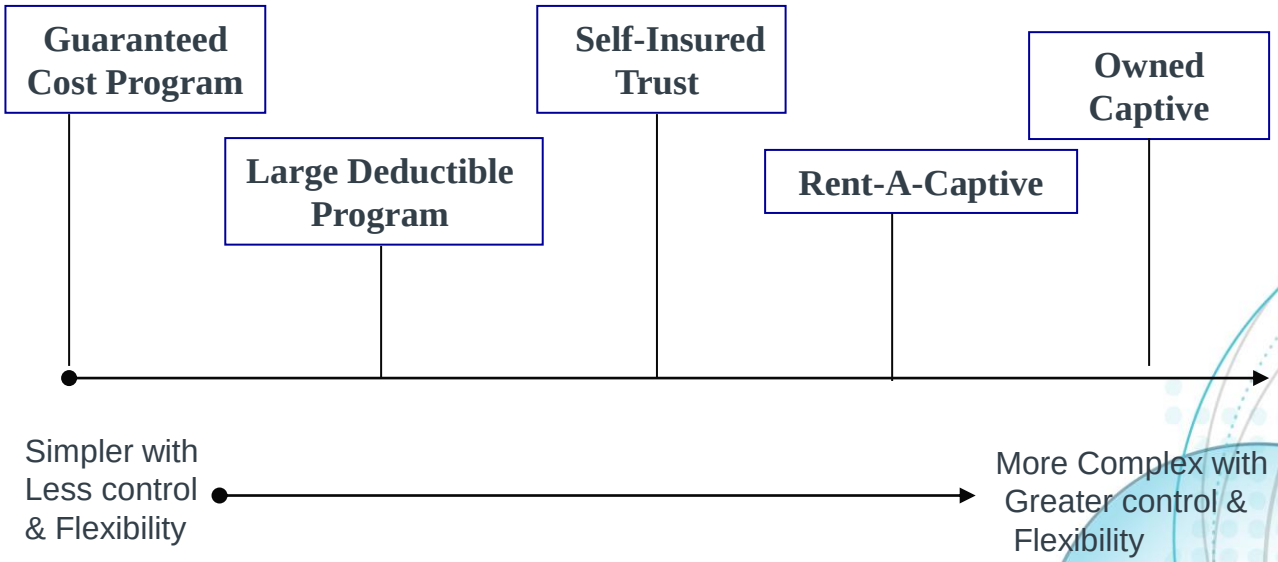
PROS

- No tail needed when policy terminates
- Often viewed favorably by providers and management
- No prior acts liability in Buy/Sell transactions

CONS

- Limits remain available or open for many years to come (unable to take liability off books)
- Often hard to pin-point exact occurrence (e.g. failure to diagnose over multiple years)
- Limited market capacity
- Limits on prior years policies may not be adequate for current legal environment
- Carrier may be insolvent
- More expensive in early years

The Risk Financing Continuum



Risk Transfer ---- Cash Flow -----Control ---- Retained Risk

Claims

- Reporting Provisions – Protecting your rights under the policy
- What to Report?
- Insurer Claim Denials
- Claims Advocacy
- Loss History – How it affects your risk profile
  - Minor vs. Significant
- Historical Claims Analysis – Cause of Loss, Frequency, Severity, & other metrics

Current Market Challenges

- Cyber – Security Controls Mandatory (MFA)
- Rate Increases – All Lines
- Increasing Deductibles/Retentions
- Restricted Terms & Conditions
- Limit Capacity Restrictions
- Executive Liability – EPLI & Antitrust
- Malpractice Claim Severity – Various Factors
- Stringent Underwriting Criteria
- Senior Care Appetite Shrinking

Evolving Risks in Healthcare

Coverage Line Concerns	Human	Clinical/Operational	Environmental & Regulatory
Cyber Coverage – Ransomware, Social Engineering, and Phishing Schemes	Staffing Shortages	New Care Delivery Models – Telehealth, Mental Health, ACOs	Impact of COVID-19 Communicable Disease
Property Replacement Cost Valuation	Workplace Violence	Patient Transport Issues	Regulatory Investigations – False Claims Act, Antitrust Violations
Employment Practices	Sexual Abuse/Misconduct	Advanced Practice Professionals Increased Roles and Responsibilities	Third Party Litigation Funding

Thank you for the Opportunity