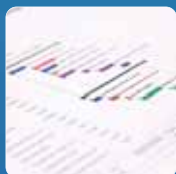


DRIVING DOWN LIABILITY PREMIUMS

Integrated Approach to Risk Management Yields Major Returns

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RADIOLOGY



PHYSICIAN BILLING — PRACTICE MANAGEMENT

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The cost of professional liability insurance for most radiologists is finally coming down after years of spiraling increases. The decline reflects a combination of factors, including the implementation of much-needed tort reforms, third-party vetting of malpractice claims and the growing use of risk mitigation strategies by physician groups.

This welcome bit of good news in an otherwise bleak economic environment has led some practice managers to turn their attention away from liability costs and focus on other, seemingly more pressing financial concerns. The old adage, "if ain't broke, don't fix it," aptly characterizes the prevailing attitude among many radiology groups today when it comes to liability insurance purchasing.

Yet even with costs reduced by 3-to-15 percent, liability premiums can still represent a significant percentage of total practice revenue. Because ongoing reimbursement cuts are expected to only intensify in the years ahead, radiology groups that hope to maintain current income levels would do well to revisit all major practice expenses, including liability insurance, in an effort to pull overhead lower.

AN INTEGRATED APPROACH

Fortunately, new integrated purchasing strategies are helping practices further reduce premium expense by as much as an additional 25 percent. These strategies depend on a combination of strong practice financials, aggressive risk management and data-driven purchasing to gain leverage with insurance carriers.

This methodology requires a sustained commitment to risk abatement and a thorough understanding of insurance pricing. Consequently, the process typically requires the assistance of a qualified insurance broker or consultant. But the payoff can be substantial. A 25 percent reduction in premium for a typical, 20-doctor radiology practice could translate into savings of more than \$100,000 annually.

What's more, the timing for adopting a more sophisticated approach to insurance purchasing couldn't be better, given the emerging "soft" market for liability coverage. With both claims and rates coming down, carriers increasingly are willing to negotiate with individual practices, providing the groups have done their homework and can clearly demonstrate a reduced risk profile.

SOUND FINANCIALS

An integrated insurance purchasing strategy begins with a foundation of solid practice fundamentals. Profitable, well-managed groups typically present better risk profiles than less-efficient, financially vulnerable ones. Stronger groups also tend to recruit and retain the highest quality physicians. In addition, they're better positioned to implement the latest advances in clinical technology. And because they're frequently on good terms with payors, financially healthy practices are more likely to be involved with joint quality control programs, physician productivity measures and improved clinical outcome evaluations. These types of initiatives are becoming increasingly important as the health care system shifts to a pay-for-performance model.

Optimizing financial performance not only strengthens a group's negotiating stance with liability carriers but, in today's market, it has become a necessity and virtue in its own right. Groups that fail to take systematic steps to improve efficiency, physician documentation, coding and claims can not expect to survive, let alone prosper, in an environment characterized by relentlessly falling reimbursements.

PREVENTION AND FAILURE MITIGATION

Proactive prevention efforts that incorporate evidence-based clinical protocols, pathways and best practices are the primary lines of defense when it comes to eliminating grounds for future claims.

Technology also can play a significant role in mitigating risk. Teleradiology "nighthawk" services, for example, can provide a second set of eyes and additional expertise for on-call reads and thus helps minimize the risk of physicians missing critical radiographic features or diagnoses.

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And when adverse clinical events do occur, experience has shown that early intervention and rapid, good-faith efforts aimed at keeping patients informed can go a long way toward pre-empting litigation and claims. A well-conceived risk abatement and patient communication process, therefore, represents the second primary building block in an integrated risk management program.

DATA-DRIVEN PURCHASING

Insurance pricing and risk analysis can seem incomprehensible to those not in the field. But a basic understanding of how insurance coverage is calculated and priced will put purchasers in a far stronger position when it comes to selecting a broker and carrier.

In essence, the cost of insurance reflects a carrier's estimate about the amount of claims they expect to pay out for that individual or group, plus expenses, plus profit. For physician practices, the objective therefore becomes finding ways to narrow the gap between premiums dollars paid in and claims paid out, since the difference -- after expenses and reserves -- represents the carrier's profit.

Here's an example: A group's cost of claims over a 10-year period totals \$4.4 million. During the same period, they've paid \$10 million in premium. Thus, the percentage of claims-to-premium, or the undeveloped loss ratio, is 44 percent. That means that 66 percent of the physician group's premium revenue is going to a combination of future claims development, expenses and profit.

Because most liability carriers can still make money with a developed loss ratio in the 70-80 percent range (e.g., 70-to-80 cents of every premium dollar going to pay claims) groups with stellar claims histories often have significant leverage to negotiate lower premium rates. This is particularly true if the group is able to demonstrate that even at the lower rate, the insurance company will still make money.

It consequently becomes critical that groups equip themselves with concrete information about the group's loss experience over a multi-year period. This information is available from the carrier and is provided in exchange for a release signed by the insured doctor. Because the quality of this data can vary significantly from carrier to carrier, it is important that the information be evaluated with the assistance of a qualified professional.

RISK TOLERANCE

As part of the overall insurance assessment and purchasing process, groups should give careful consideration to the level of risk they're comfortable carrying. In other words, they should resolve -- well before initiating discussions with a carrier -- key questions about whether they would prefer a higher deductible and lower premium or visa versa. They should also decide the limits per event and per physician that they're comfortable with. Hospitals and carriers frequently impose limit and/or deductible requirements as part of their contractual agreements, so it is important that those mandates be taken into account if applicable.

CHOOSING THE RIGHT BROKER

Many professional liability insurance brokers will assert that they provide comprehensive risk assessment as part of their brokerage services. But this is not always the case. Too often, a broker will base a purchasing recommendation primarily or solely on cost comparisons and forego the detailed risk analysis that is essential to effective price negotiation. To mitigate this problem, a practice manager should insist from the outset that the broker provide copies of risk assessment calculations and all relevant supporting data. An unwillingness or inability to do so means it's time to find another broker.

SHOPPING AROUND

Radiologists, like many physicians, have grown accustomed to purchasing liability insurance through mutual companies owned by their physician members. These regional mutual firms emerged as an early response to the liability crisis in the 1970s and 1980s and served a valuable purpose in their day. But they may not be the best solution in the current market. Most mutuals can not match the financial wherewithal of larger carriers and thus present a higher risk of instability. And because the

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physician-member is, in effect, an owner, they may be subject to financial assessments from the company in lean years. In addition, political and consumer influences may adversely affect the management of the company. Finally, more carriers are now underwriting professional liability policies, thanks to the increasingly stable market. Identifying the ones that provide coverage in your state is as easy as placing a phone call to the state department of insurance. Department of insurance web sites also can be very useful.

NEGOTIATION

Negotiation ultimately is the only avenue for securing a rate that accurately reflects the group's risk profile. Therefore, practices and brokers should push back if insurance company representatives assert that rates are not subject to discussion. The group's broker or consultant should contact a senior individual at the carrier, such as a lead underwriter, and carefully explain why the group's risk analysis justifies a discounted rate. With most companies, this approach should merit, at the very least, a counteroffer.

Groups and/or brokers can gain valuable insight into the range of premium rates charged by a specific carrier by accessing the company's rate filings, which are publicly available from state departments of insurance.

PULLING THE PIECES TOGETHER

Insurance is an abstract product that can seem inherently difficult to assess and select. Yet groups should not allow the mystery surrounding insurance to mask fundamental economic realities. Like any other product or service, the price of insurance ultimately reflects the cost of the goods. Hence, groups able to clearly demonstrate that their "cost", e.g., risk profile, is significantly below the norm are in a position to gain a significant pricing advantage.

Indeed, data-driven purchasing -- coupled with strong practice fundamentals and a comprehensive risk abatement process -- can give practices a qualitative edge over the insurance carrier and those radiology groups that simply accept the rate they've been quoted. Given the downward economic trend in radiology, this advantage could potentially prove decisive in the years ahead.

Kathleen Pinkham, BA, serves as a vice president and executive board member for CBIZ Medical Professional Solutions and has more than 30 years of experience in the design and management of insurance programs for healthcare providers and institutions. Her responsibilities include program and service development, risk identification and coverage negotiations, technical underwriting and placement of coverage with diverse insurance markets. Ms. Pinkham earned her Bachelor of Arts from the University of Missouri and is also a Property & Casualty Licensed Agent.

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About MMP

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