PHYSICIAN GROUP
2021 STATE OF THE COMMERCIAL P&C MARKET

The past year has been challenging across the board, to say the least, especially in commercial property & casualty (P&C) insurance for physician groups. Physician groups have likely experienced rate increases, restricted coverage, increased deductibles, and decreased competition in the market environment regardless of loss experience. This P&C market report will shed insight into each coverage line specific to physician groups and offer tips for navigating uncertain insurance renewals.

CORE RISKS

MEDICAL PROFESSIONAL LIABILITY

- Filed rate increases range between 3% and 15%. The main factors driving rate increases are combined ratios (primary profitability metric for insurance companies) in excess of 100%, low-interest rates yielding low carrier investment income, continually increasing reinsurance rates, and market concentration which reduces competition.
- Given this rise in medical professional liability rates, physician groups are pursuing alternative risk financing strategies such as profit sharing, experience-rated, hybrid captive, and captive platforms to reduce the economic stress on their balance sheet.
- Social inflation is driving increased claim severity in litigated cases. Social inflation refers to the public's perception and impact on medical malpractice cases. Plaintiff-friendly juries, heavy legal advertising, larger compensatory jury awards, and anti-corporate sentiment all contribute to the continued rise of social inflation.
- Carrier capacity is limited, with many underwriters now requiring increased deductibles or imposing non-renewals, especially for physician groups with adverse loss history.
- Telemedicine brings additional risks into play due to its effect on the standard of care. Physicians need to establish informed consent, relationship commencement & dissolution, and protect patient privacy. The drastic increase in telemedicine utilization due to the COVID-19 pandemic presents an overlap of risk between medical malpractice and cyber liability.

PROPERTY

- Natural catastrophes caused $76B in global losses in 2020, up 40% from 2019. The main contributors were convective storms, wildfires, and civil unrest.
- High frequency and severity of catastrophic property events, coupled with anticipated loss activity related to COVID-19, form a perfect storm for insurers. Physician groups will likely experience property rates increasing by 10-30%, and for some high hazard risks, 30% + rate increases.
- Building material inflation and shortages may be causing real property values to be undervalued and thus inadequately insured.
- Larger physician groups with numerous geographically spread locations should consider structuring a loss limit to save premium and enhance cash flow. Property modeling should be utilized to make an informed limit decision.

CYBER LIABILITY

- Ransomware attacks cost healthcare organizations $20.8B in 2020. This figure includes all costs associated with a ransomware events such as forensics, data restoration, business interruption, ransom payment, defense costs, regulatory fines, and legal damage awards.
- The average premium increase across the board was 18% in Q1 2021. The cyber market hardening is attributable to frequent and more severe claim activity, especially within the healthcare industry. However, this market fluctuation is relatively new because physician groups have enjoyed low cyber premiums prior to 2020 despite the significant, inherent risk for the healthcare industry.
- Many underwriters are requiring Multi-Factor Authentication (MFA) to offer renewal quotes for physician groups. If MFA has not been implemented; beware of outright non-renewals. This increased underwriter scrutiny leads to supplemental application requirements, vendor management review, and cyber incident response plan verification.
- Security awareness training is a key risk management measure to reduce human error risk. Periodic education is important, but the real value lies in simulated phishing testing on both clinical and non-clinical employees.

EXECUTIVE LIABILITY (D&O, EMPLOYMENT PRACTICES LIABILITY, FIDUCIARY, CRIME)

- Directors & Officers (D&O) Liability recorded a significant average price increase of 15.1% for Q1 2021. Physician groups with specific risk drivers such as substantial debt or bankruptcy concerns, continuing COVID exposures, or groups with recent losses will experience premium increases in excess of 15%.
- Rates, terms and capacity will continue to see upward pressure into 2021. Underwriters are concerned about a practice's liquidity/solvency, guidance and responsiveness to COVID-19, revenue disruption, and business plan changes in the wake of the pandemic.
- Employment Practices Liability (EPLI) rates for Q3 2020 increased anywhere from 8% to 21.9%, according to the highly regarded Council of Insurance Agents & Brokers Survey (CIAB).
- Employers are collecting more information about employees as they test for COVID as part of their reopening practices. This may lead to more employee privacy claims and ADA claims. In response to these types of actions, physician groups should anticipate high retentions, hard-market pricing and conservative terms to continue in the future.
- Healthcare providers are facing continual challenges related to COVID-19 and declining reimbursement rates. A hardening executive liability market further exacerbates the stress on their financial position.

LIABILITY (GENERAL LIABILITY, AUTO, UMBRELLA)

- The liability marketplace continues to experience significant liability losses stemming from many sources, including auto accidents, sexual abuse and molestation, traumatic brain injuries, and a number of large class actions suits (wildfires, active shooter, and opioid cases).
- Unsustainable combined ratios (the primary profitability metric for insurance companies) for the health care industry are the primary driver of firming rates.
- Expect to see GL rate increases continue throughout 2021. This is based on healthcare industry trends and recent reports that anticipate a continuation of rising medical costs, social inflation, increased attorney involvement and funded litigation as well as higher jury awards.
- Since the pandemic, communicable disease exclusions have been added to most renewal programs, particularly for highly exposed industries such as healthcare, retail, and hospitality.

WORKERS' COMPENSATION

- Workers' Compensation remains flat through the tightening market, although we are now seeing slight rate increases, the first since 2015.
- There is some uncertainty around the future cost of COVID-19, and presumptive state legislation could contribute to rate increases in the future.
- Sprain and strain injuries from patient and resident handling continue to drive the majority of workers' compensation claims amongst healthcare employees.
- In general, workers' compensation rates are set by NCCI and other states, therefore carriers create competition in the marketplace by offering dividends. Assuming relatively good loss experience, physician groups should look for dividends in excess of 10% and containing a fixed structure, rather than a sliding scale.

TIPS FOR NAVIGATING THE MARKET

- **Depending on size and complexity, start the renewal planning process between 4-6 months out.**
- **Craft a carrier RFP that highlights your positive risk characteristics and gains preferential treatment.**
- **Utilize analytics to project renewal pricing and improve negotiation leverage.**
- **Consider using video conferencing to meet with competing underwriters and personalize the process.**
- **Demand a detailed coverage analysis to avoid punitive exclusions being added to your program at renewal.**
- **Request a detailed service plan after binding the renewal to ensure a return on broker compensation.**
- **Work with a broker who understands the nuances of an evolving healthcare landscape and has strong relationships within the medical professional liability community.**

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