

3rd Medical Indemnity Forum
Medical indemnity issues for 2009



MIIAA

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MEDICAL INDEMNITY INSURANCE

Australia is part of a Global Financial and Insurance Environment

What does all this mean for Australian Medical Indemnity Insurance?

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Peter Forbes

- Managing Director of MDA National Insurance and CEO of MDA National
- Non Executive Director of Law Cover Insurance (Compulsory Indemnity Scheme for NSW Solicitors)
- Chartered Accountant

Who are the main providers of Medical Indemnity in Australia?

Doctor Owned Mutuals (in order of premiums written annually)

- Avant
- MDA National
- MIPS
- MIGA

Commercial Insurer

- QBE (through an underwriting agency Invivo)

What products do the MI Insurers offer?

- Professional Indemnity Policy (Core Product)

\$20 million policy:

- Each and Every
- In the aggregate

All cover medical negligence claims, with competition occurring at the edges.

- Practice Policies & Corporate Policies

Where does Medical Indemnity fit into the Australian General Insurance space?

- Net premium revenue for year ended 31 March 2009:
 - All General Insurers (including MIIIs) \$23.9 billion
 - Medical Indemnity Industry \$300m
- Medical Indemnity annual premiums are 1.2% of all General Insurance premiums

In the Financial Services Ombudsman's space?

- General Insurance Complaints – 2,046 (2008)
- Medical Indemnity Complaints – 4 (2008)

Employees involved in the medical indemnity space?

- 450?

The role of the Government in Medical Indemnity Insurance

The Federal Government provides the following support:

- Funded by the Commonwealth
 - High Cost Claims Scheme (HCCS) – 2008/09 Commonwealth Apportionment \$93m
 - Premium Support Scheme (PSS) – 2008/09 : 3539 doctors benefited
- Managed by the Commonwealth, but funded by a levy on the insurers
 - Exceptional Claims Cover Scheme (ECCS) (No claims to date)
 - Run off Cover Scheme (ROCS) – (Self funding)

What are the key challenges facing the General Insurance Insurers in 2009?

As identified in PwC 2009 *Insurance Facts and Figures*
(applicable to the GI market)

- Capital Management
 - Sensitivities?
 - Mitigation of future Risks?
- Responding to Increased Claims Activity
 - Slight increase in frequency?
 - Increase in investigations
- Adequate Pricing
- Investment Earnings

Ernst & Young Research into Top 10 Business Risks

1. *Financial Market Crisis*
2. *Model Risk*
3. *Regulatory Intervention*
4. *Managing the non-life underwriting cycle*

*Relevant to
Medical Indemnity
Issues*

And....

5. Geopolitical shocks
6. Demographic shifts in core markets
7. Emerging markets
8. Channel management
9. Legal risk
10. Climate change and catastrophic events

What do I see as the key challenges for MI Insurers going forward?

1. Maintaining Adequate Capital

- Longevity of government support schemes?
- Competitive environment?
- Further industry consolidation?

2. Ongoing Regulatory Intervention

- Costs?
- Changes to meet international requirements?

What do I see as the key challenges for MI Insurers going forward? *(Cont'd)*

3. Claim Frequency

- Roll back of Tort Reform?
- Mandatory Reporting?

4. Changes in Health Delivery System

- Corporatisation?

5. Adequate Pricing of Risk

- Underwriting
- Premium Adequacy

APRA and Reinsurers Role: MI Industry and Key Challenges

APRA

- **Supervisory**

Reinsurers

- **Capital and capacity providers**

Is there a common linkage between the roles of APRA & the Reinsurers and MIIs?

- Both play an integral role in the capital management
 - APRA – Supervisory
 - Reinsurers – Capital and capacity providers
- Both play an integral role in the operational functionality of an MII
 - APRA – through its Prudential Standards
 - Reinsurers – through their own underwriting standards
- Both are there for the long term with the MII
 - APRA – licensing
 - Reinsurers – long tail liability coverage

Is there a common linkage between the roles of APRA & the Reinsurers and MII's *Cont'd?*

- Both can “add value” to improving the operation of an MII

APRA :

- On site supervisory visits
- Ensuring a high prudential standard is in place throughout the industry

Reinsurers:

- International experience and support

But will this ensure that there will not be a repeat of the 2002 medical indemnity crisis?

The 2002 crisis occurred:

- **in an unregulated environment**
- **in an environment in need of Tort Reform**
- **and when the industry was significantly under-capitalised**

However, while the industry is now well capitalised and regulated, we need to remain proactive in assessing risk and managing it.

Some predictions for the MDO/MII industry going forward

- Rationalisation of the Industry
 - There should (ideally) be further MDO/MII consolidation
- Competition
 - Will continue at the very highest levels as occurred with the 30 June 2009 renewals
 - Will continue to keep pricing very competitive but most likely at the cost of a diminution in capital
- Members will continue to expect “gold standard service”
 - Particularly with regard to support for regulatory investigations etc
- APRA and the Reinsurers
 - Both will continue to play a vital role within the industry

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PETER FORBES

- Mr Forbes is a Fellow of the Institute of Chartered Accountants in Australia (FCA). He commenced his role with MDA National in a part time capacity in 1981 while practising as a chartered accountant in public practice.
- In 1995, Mr Forbes took on the role of Chief Executive of The MDU, Australasia, with responsibility for Australia, New Zealand, Singapore and Malaysia. Mr Forbes was responsible for the formation of MDUAIL in 1997, a wholly owned captive insurer for The MDU in Australia and was a foundation Director. During this period he maintained his CEO role with the MDA National Group.
- Mr Forbes is also a non-executive Director of Law Cover Insurance Pty Ltd, the compulsory indemnity insurer for NSW solicitors.
- A founding Director of MDA National Insurance Pty Ltd in 1992, he is currently CEO of the MDA National Group, comprising MDA National and MDA National Insurance and has responsibility for all group operations.