

Medical Indemnity
Industry Association of Australia

forum

MIIAA

MEDICAL INDEMNITY INDUSTRY ASSOCIATION OF AUSTRALIA

Novotel Melbourne
on Collins
270 Collins Street
Melbourne

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2008

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VICTORIAN MANAGED INSURANCE
AUTHORITY

Taking care of risks

Trial of MI premium allocation model in Victoria

Presented by:

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Victorian Managed Insurance Authority (VMIA)

The Current Situation

- DHS pays VMIA the total MI premium
- No 'real' financial impact to hospitals
- Disconnect between claims costs & premium
- Budget premium in December
- Final premium in following April/May

Objectives of the PAM

- Reflect the risk & cost of MI claims
- Incentive for risk management
- Does not penalise hospitals for events beyond their control
- Accepted as being fair/equitable
- Does not endanger the delivery of important health services

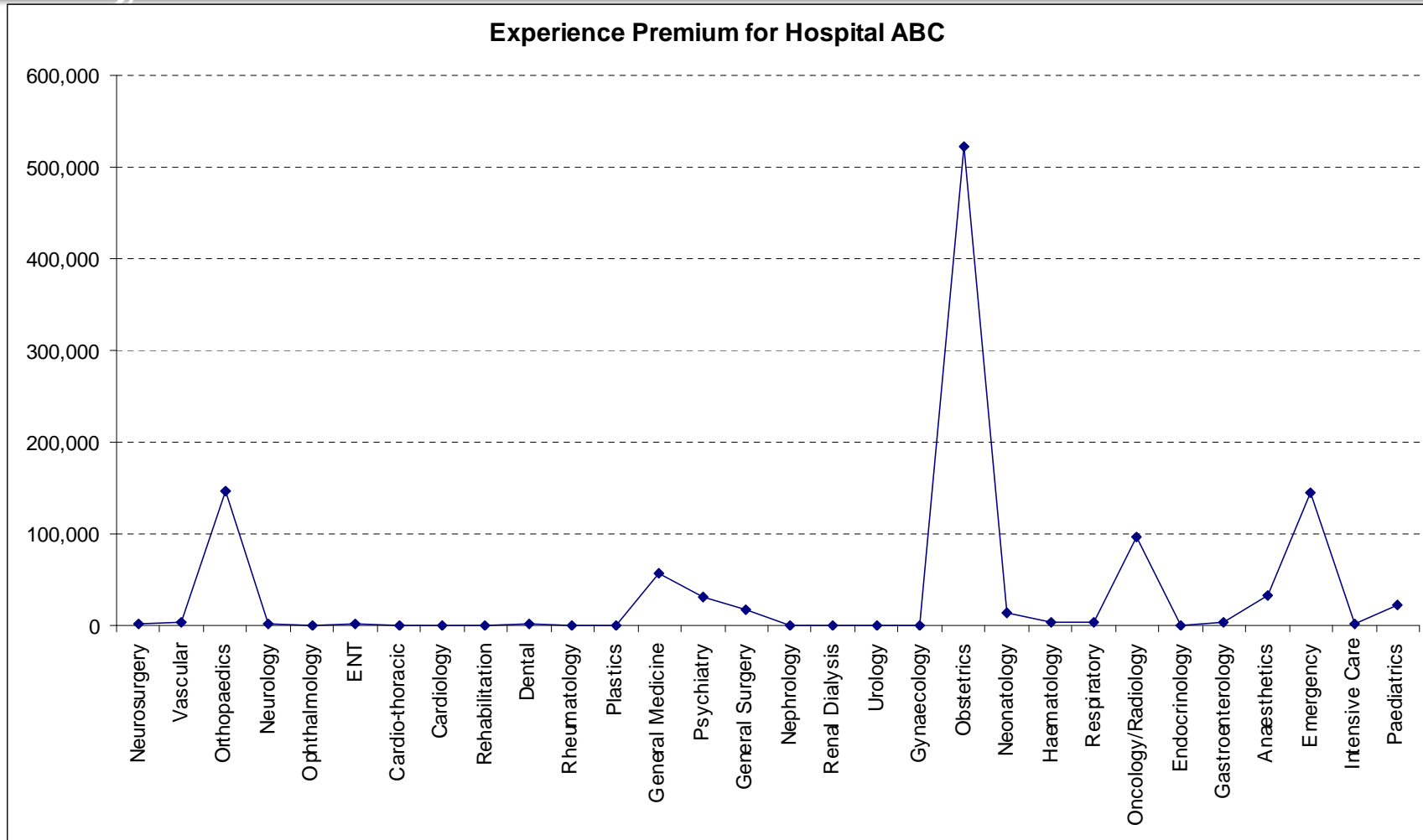
Key Features

- 4 year claims experience - capped claims
- Cost based on exposure to each speciality
- State-wide averages & individual hospital experience
- Revenue neutral for VMIA
- Surplus or deficits to hospitals **MUST BE REAL**
(up to 10% of premium)

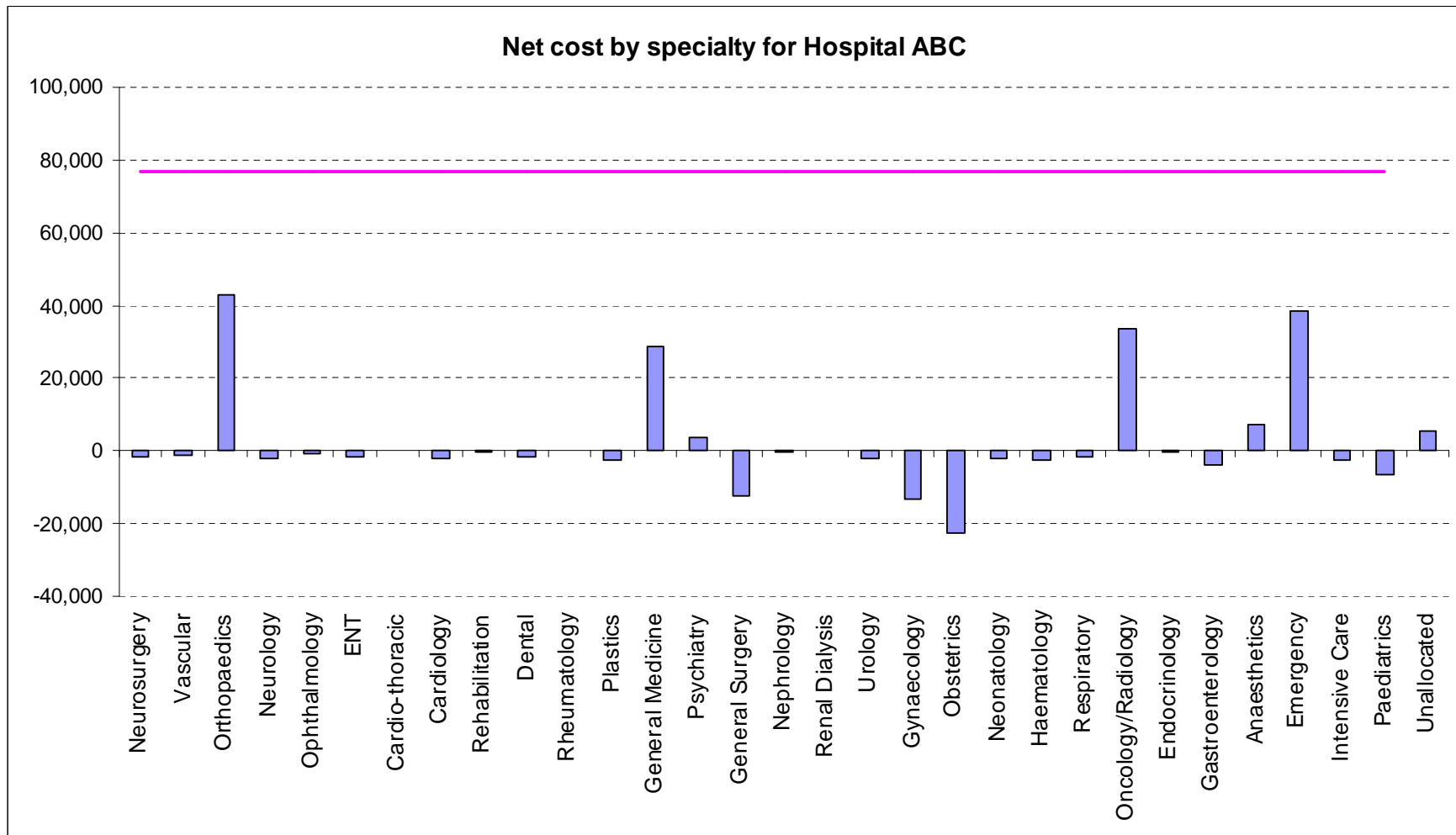
The Formula

- For each hospital, the Final Actual Premium (FAP) is determined in the following steps :
 - Final Budget Premium (FBP)
 - Experience Premium (EP)
 - $FAP = FBP \times (1 - K) + EP \times K$
- K is a size factor that varies for each hospital approximately in line with its size:
 - E.g. Large size factor = 0.932 (Mercy Hospital for Women)
 - E.g. Small size factor = 0.019 (Boort District Hospital)
- The difference between FAP and FBP equals real 'surplus' or 'deficit' to the hospital (+ or - 10% of FBP)

Experience Premium for Hospital ABC



Net cost by specialty for Hospital ABC



Two-year Trial

- Enable full understanding by the Sector
- Steering Group to oversee trial
- Detailed Communication to Health Services
- First “dummy” invoices in August 08
- Review, refinement of the model over 2 years

Emerging Risk Issues

- Financial imperative
- Reduced incident notification
- VMIA claims process
- Systemic causes of claims cost

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Questions