

Medical Indemnity Forum

24th August



Lessons from the ISA Database

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Overview

- A policy and claim database – why bother?
- Lessons from other classes of insurance
- Particular issues for medical indemnity insurance in Australia
- What have we learned so far?
- What about the future?

Why collect data?

- Stakeholder demand
 - Governments
 - Policy development
 - Transparency
 - Practitioners
 - Risk management initiatives
- Insurer interest
 - Managing stakeholder expectations
 - Support risk management for clients

Some background

- Insurance Statistics Australia established in 1989 by insurers
- Started with four classes of business and about 20% of the Australian market
- Now represents 5 classes of insurance and 90%+ of personal lines motor and house written in Australia

Some lessons from other classes

- Development does not occur overnight
 - Particularly in a purely voluntary environment
- Need to balance many issues
 - Detail versus confidentiality
 - Complexity versus delivery in 'real time'
 - Cost of resources versus value of insights

Medical indemnity insurance

- Total of 5 insurance groups at July 2007
 - 4 commenced as MDOs
 - 1 new commercial insurer
- 3 groups contribute to ISA MI database
 - Represent about 80% of the market
- Heavily regulated insurance environment
 - Products offered, solvency and financial reporting requirements

Characteristics of environment

- Many small specialist medical groups
- Historically, state-based insurers
- Claims reported/recognised long after incident
 - Cost of claims difficult to estimate accurately
 - Revised estimates result in fluctuations on annual basis
- Inconsistencies in data collection
 - Considerable differences in approach
 - Effects time required to develop database

Implications of environment

- Data must be de-identified and not reported on geographically
 - Risk of identification of doctor
- Consistency of coding
 - Considerable time required to recode
 - Impact on trends if there are late entrants
- Expansion of specifications over time to collect more relevant data
- Full participation would reinforce validity

Limitations of the data

- Specialty coverage:
 - Anaesthetists
 - Non-procedural GPs
 - Procedural GPs
 - General surgeons
 - Obstetricians
 - Gynaecologists
 - Physicians
 - Psychiatrists
 - Neurosurgeons
 - Orthopaedic surgeons
 - Plastic surgeons and cosmetic practitioners
- Some pressure to expand this

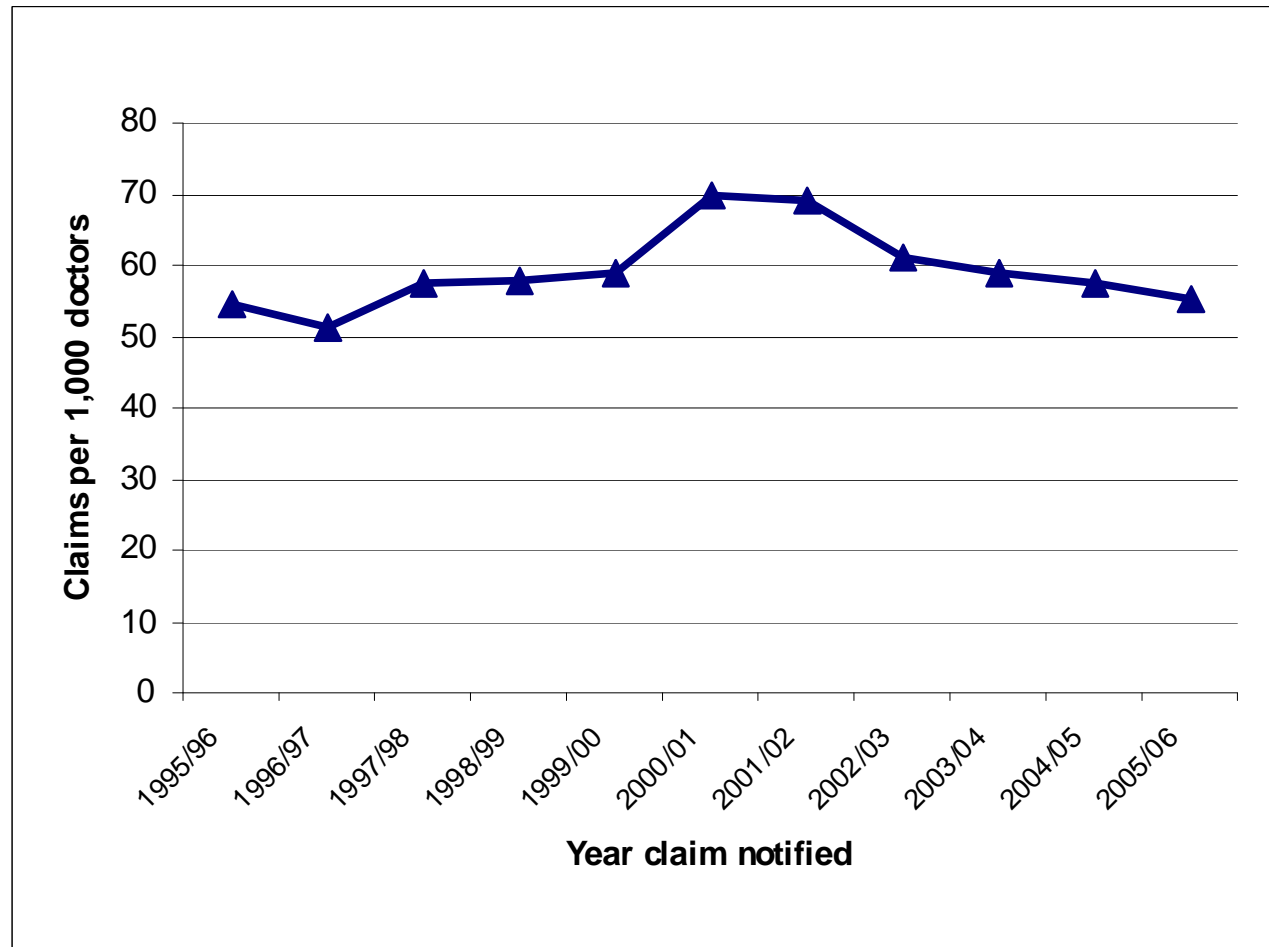
Limitations of the data

- More information often sought by smaller groups than database can provide
 - Confidentiality of data – privacy, commercial
 - Size of group
 - Reliability and inherent randomness of data

Observations from latest data

- Executive summary released 22 August 2007
 - Available on ISA and MIIAA websites
- Data analysed to 30 June 2006
- Interesting trends include
 - Decreasing frequency of claims
 - Total cost of claims not increasing greatly
 - Decreasing average premiums paid
 - Improving net cashflow to insurers

Claim frequency trend

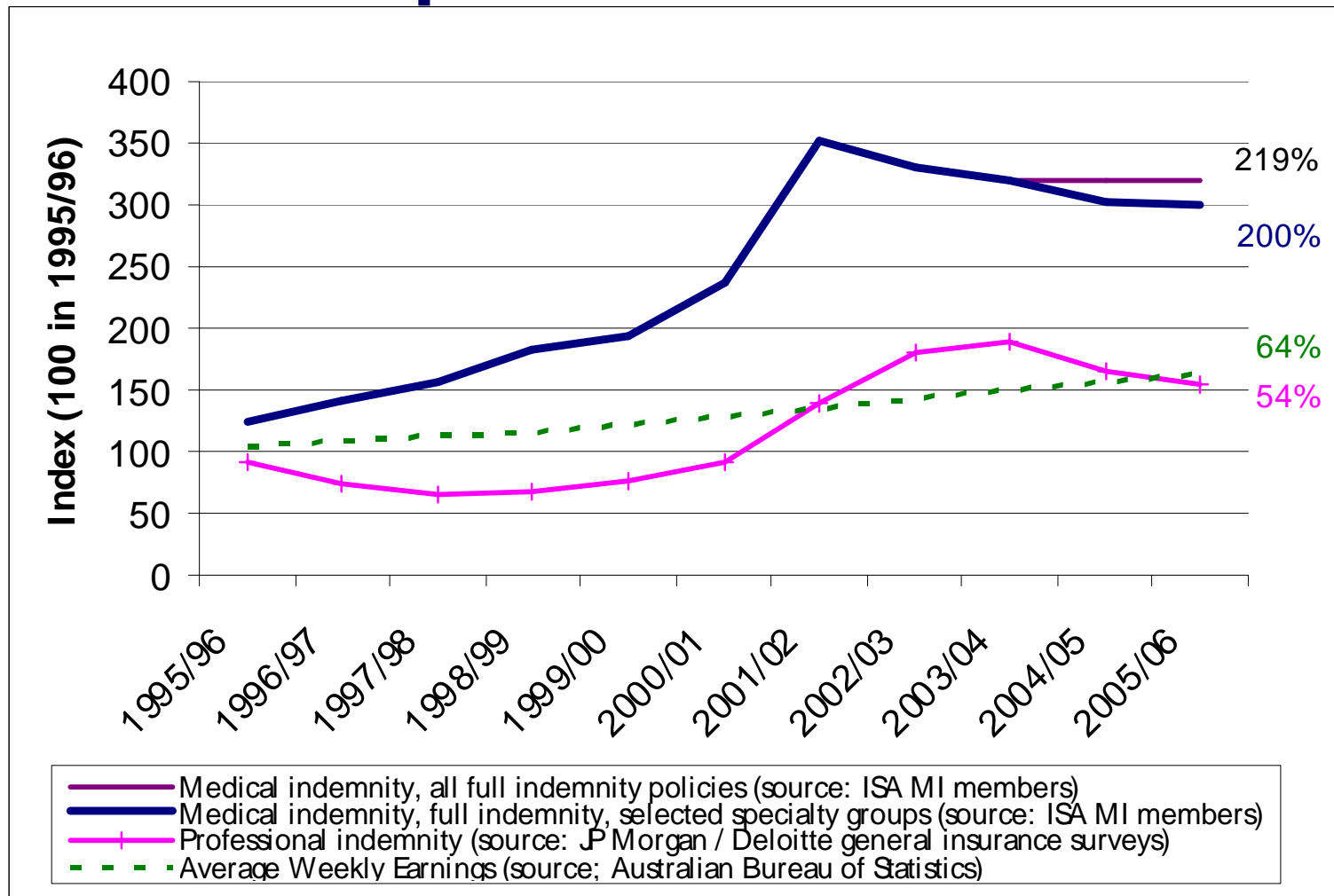


- Importantly, assumes speed up converting notifications to claims

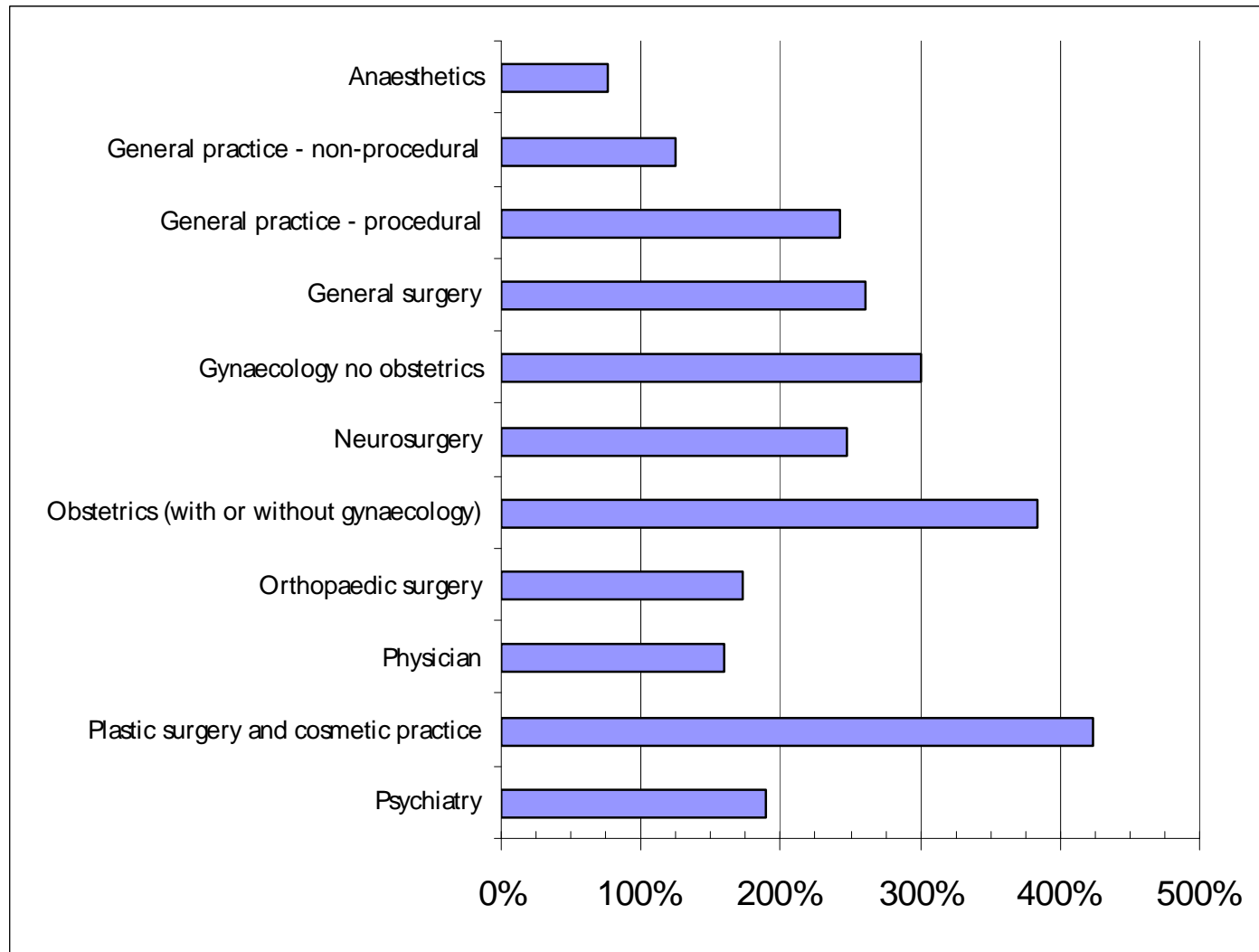
Claim frequency by specialty group

	Claims per 1,000 doctors reported in		
	1995/96	2003/04	Change
	-1997/98	-2005/06	
Anaesthetics	57	44	-23%
General practice - non-procedural	27	41	52%
General practice - procedural	63	80	27%
General surgery	159	146	-8%
Gynaecology no obstetrics	129	155	20%
Neurosurgery	378	234	-38%
Obstetrics (with or without gynaecology)	228	280	23%
Orthopaedic surgery	255	191	-25%
Physician	32	24	-25%
Plastic surgery and cosmetic practice	238	335	41%
Psychiatry	31	28	-10%
Above specialty groups combined	54	57	6%
Other	20	34	70%
All specialty groups including 'Other'	45	51	13%

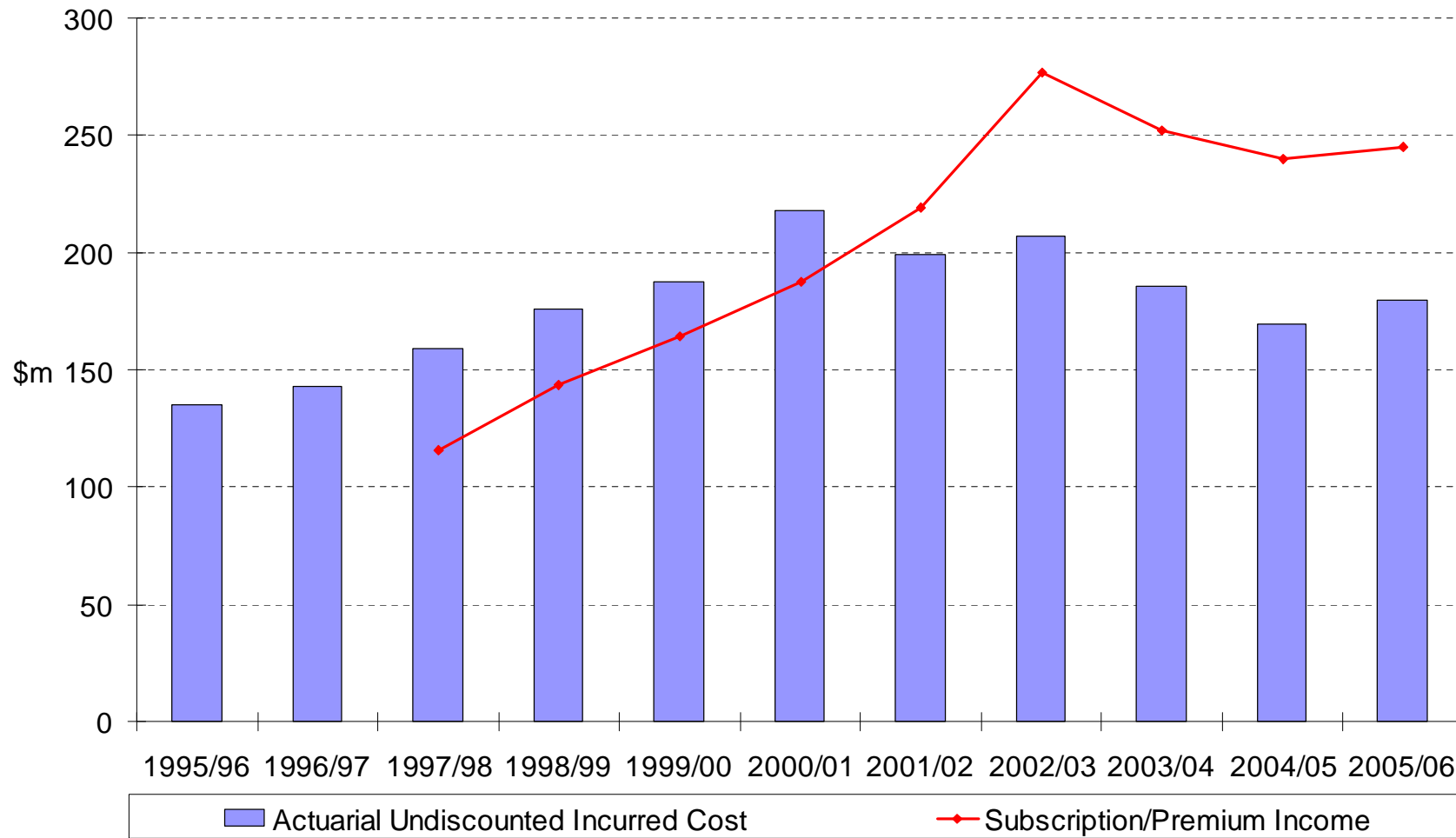
Average increase in cost to practitioners



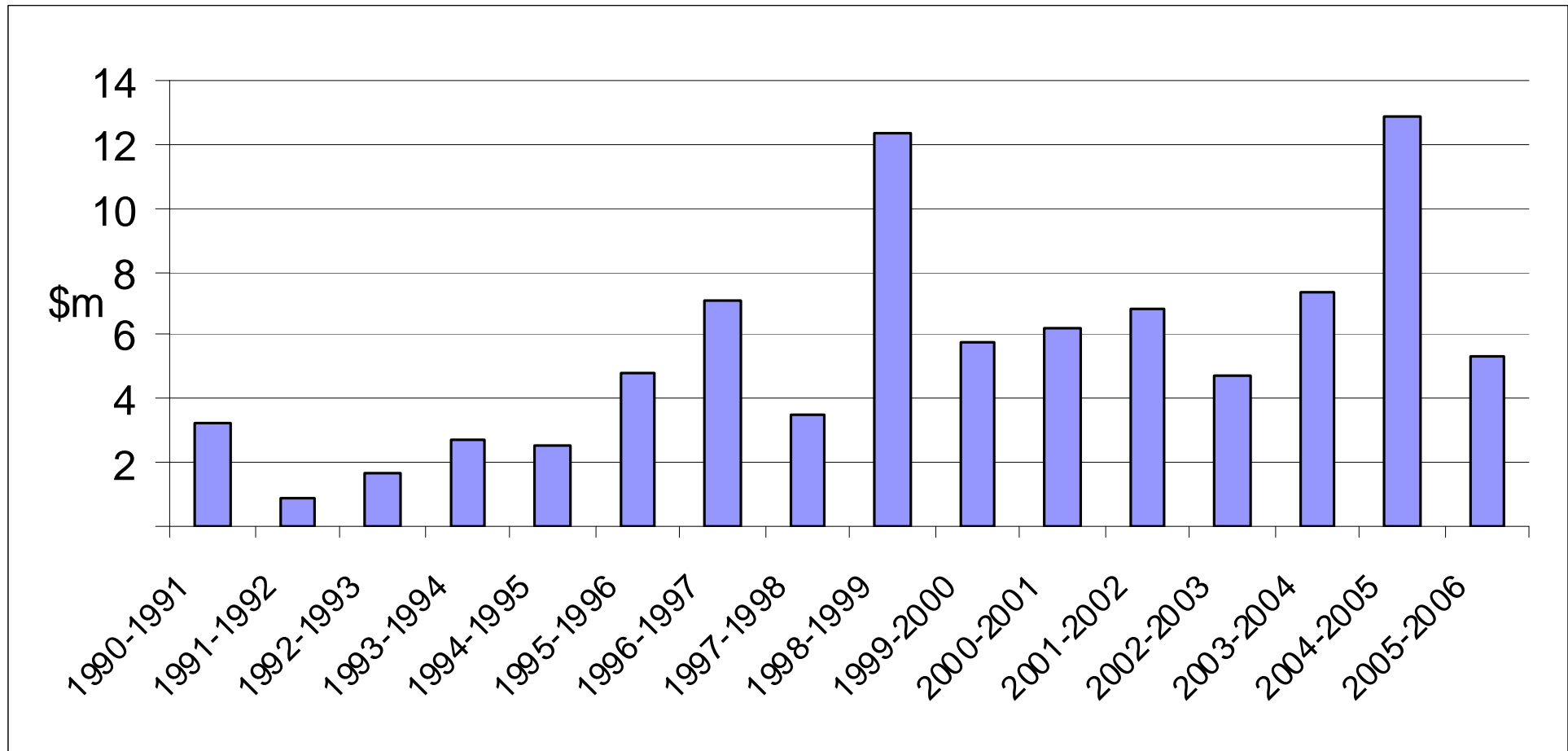
Cost movements by specialty



Premium income versus claim cost



Largest claim settled each year



Next development

- Specialty reports
 - Focusing on risk management issues:
 - Causes of claim
 - Environment where claims occur
 - Severity of injury and body part affected
 - Extending database to understand more about impact on patients is problematic
 - Notifications and incidents
 - Capturing and coding other claim attributes

Lessons

- Recognise limitations
 - Database cannot answer all questions
 - Caveats and limitations need to be clearly stated
 - Unrealistic expectations need to be avoided
 - Commercial sensitivity must be recognised
- Involve all participants
 - Preferable everyone joins when database starts
 - Allows all industry participants to be better informed on claims trends

Further lesson

- Have plenty of time
 - Even with the best will in the world resources are limited – both within insurers and from data available to be collected
 - First report published in March 2004 on data to 30 June 2003 based on simple specifications
 - Continued revision of specifications
 - Report content agreement takes time
 - Cross checking of data to other sources

Further lesson

- Communicate what can't be concluded from the data
 - Too detailed analysis is not possible and can be dangerous
 - Beware not recognising randomness, particularly in a class of insurance such as this
 - “Fooled by randomness” – Nassim Taleb 2004

Conclusions

- Driver for development
 - Crisis probably essential (and not just in MI!)
- Champion
 - Someone needs to take the running
- Cost/benefit analysis
 - Costs high, but benefits greater
- Time – it wont happen overnight!
- Refinement over time

Reliances and limitations

- This presentation has been prepared by David Minty of Finity Consulting and Insurance Statistics Australia Limited
- It is general in nature and may therefore not be applicable to the situation of any particular organisation or individual. You should seek professional advice if you have any question about it.

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