High Risk Jurisdiction Severity Trends, Time to Closure & Obstetric Claims Trends

Analysis and Findings Provided by Beazley Group

Excerpt taken from:

Aon/ASHRM Hospital and Physician Professional Liability 2013 Benchmark Analysis
Beazley Group’s Large Claim Analysis

One of the main purposes of this study is to provide health care providers with the tools to fully understand their cost of risk. In effort to obtain this goal, Aon and Beazley have partnered to utilize Beazley’s insurance knowledge to focus on the cost in excess layers. Using their robust claims database, Beazley provides large claim analytics on: high risk jurisdictions, amount of time to closure, and obstetrics claims.

Beazley has been underwriting U.S. risks since the company’s formation in 1986. Today, the bulk of its U.S. business continues to be underwritten in London by its Lloyd’s underwriters, but it also has a rapidly growing local presence in the United States. With total gross premiums written approaching $2 billion, Beazley provides a wealth of information on topics of interest to the health care industry.
High Risk Jurisdiction Severity Trends

Each year, Beazley uses its claims database to evaluate current claims trends. In particular, the data is scrutinized to identify jurisdictions that have displayed the highest severity of medical malpractice claims. The venues with the highest severity are shown in the map below.

Beazley’s data shows that the national frequency of closed claims exceeding $2M, from 2001 to 2012, was 3.7%. For the high severity jurisdictions identified, however, the proportion was more than twice as high (7.6%), with peaks of over 8% in the Washington DC, Philadelphia County and Cook County locations. This differential is even more pronounced considering the exclusion of pediatric hospitals from this year’s study, as their severity tends to be much larger than their adult acute care counterparts.
Beazley’s study indicates that the increase in severity is not confined to the more established challenging venues, but appears to have spread to jurisdictions that have historically been considered more benign. The chart below compares the average severity on closed claims from high risk venues against Tort Reform states, which we define as those states with some form of cap (on either non-economic or overall damages). As we noted last year, the average value of the claims has increased for both overall and tort reform categories in recent years. As shown in the magnified area of the graph, the severity trend over the past four closing years shows a higher rate of increase in the tort reform category.

Average Severity for Closed Claims with Indemnity - Unlimited

Beazley’s actuarial findings are corroborated by its claims handling experiences, with its claims professionals reporting a continued trend of large and often record-setting verdicts. Moreover, the Beazley claims team confirms that the escalation of verdict values has not been confined to high severity jurisdictions.
Below we highlight two specific Tort Reform states, California and Maryland, where severity appears to be increasing significantly. Both states have recently experienced some of their largest ever medical malpractice verdicts. Parts of Maryland, in particular, are becoming extraordinarily difficult venues, especially within the Baltimore City area. Specifically, the average claim closed in Maryland has nearly doubled in the last seven years from $385,000 in 2005 to $750,000 in 2012.

**California**

**California Average Severity for Closed Claims with Indemnity – Unlimited**

![California Average Severity Graph](image)

**Maryland**

**Maryland Average Severity for Closed Claims with Indemnity – Unlimited**

![Maryland Average Severity Graph](image)
Time to Closure

Beazley has used its closed claims database to evaluate the average time required to resolve (i.e. closure/settlement) by incurred value and jurisdiction. Average time to closure/resolution is based on the number of months from the date the claim is reported to the date the claim is settled or resolved.

The chart below shows the average number of months taken to close claims incurred above $500,000 by state and over a 12 claims made year period (2000 to 2011). Only states with a statistically credible sample size are displayed.

Average Time to Closure for Claims Greater than $500,000

As expected, large claims take longer to close, but there is wide variance depending on jurisdictions. Nationwide, the average time to close a claim was 21 months. Claims incurred below $100,000 took on average 18 months, while claims incurred above $500,000 took almost 36 months. Generally, it appears that there is a corollary between disposition time and a state’s severity.

High severity venues such as Connecticut, New York, Washington D.C., and Illinois are among the venues with the longest time to closure. Among the Tort Reform states, claims appear to be disposed of most rapidly in Florida, Texas, Maryland, West Virginia, and Virginia.
Obstetrics Claims

Obstetrics claims are of particular interest as they continue to present the greatest liability exposure, regardless of jurisdiction. This section seeks to analyze obstetrics claims trends and explain some of the reasons why they are of interest, not only to health care providers, but also to insurers.

Insurers like Beazley have a particular interest in obstetric claims as they are a significant part of the claims covered by excess insurance, as the charts below demonstrate.

The chart below depicts the average incurred cost (including defense payments) of claims closed with indemnity payments of obstetric claims versus all other claims.

Average Severity for Closed Claims with Indemnity - Unlimited

Notably, the chart above reveals that not only have the incurred costs of obstetric claims steadily increased over time, but their rate of increase has significantly outpaced the rate of increase for non-obstetric claims.
The significance of obstetrics claims to an excess insurer is highlighted by the chart below which demonstrates that the impact of obstetric claims becomes disproportionately higher as the attachment point increases.

**Proportion of Obstetrics Claims to All Claims by Layer**

![](chart.png)

In light of this disproportionate exposure presented by obstetric claims to excess carriers, as well as the increasing severity of these claims, many insurers place great emphasis on an insured’s focus on obstetrical patient safety and quality, and effective risk and claims management.

Benefits can be gained from team training and simulation techniques, the deployment of technology, and the monitoring of OB patient safety indicators.

Beazley is keen to be able to better actuarially analyze the impact of these methodologies and identify emerging trends at an earlier stage, but is limited by the dataset typically captured at this time. Beazley is in the process of developing claims codes that should facilitate such analysis and would welcome health care providers’ input in this regard.