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EXPOSURES CHANGE ASSISTED LIVING PROFITABILITY

Expect carriers to ask more questions and push for rates that better match exposures in assisted living facilities, even with an expected pricing squeeze from an influx of capacity. Industry consolidation — mainly larger long-term care systems merging with and buying smaller or single-location operations — will make it more difficult for carriers to grow their books. The remaining accounts present greater risk as they offer more services. ALFs are holding on to patients longer to counter declining bed counts and care for high acuity patients. Some have added home health operations to take care of patients and others have added memory care units to house dementia and Alzheimer's patients requiring extra supervision. While these new exposures offer an opportunity to collect added premium, lax regulation of facilities has allowed ALFs to place patients of all age and acuity levels in a single facility, creating a headache for insurers. These facilities also present staffing challenges as ALFs that positioned to take care of residents outside of the facilities' capabilities.

Expect ALF pricing to be relatively stable through the rest of the year with slight increases, depending on venue and additional services. Although claims frequency has been relatively low in this segment, severity has been quite high due to claims of elopement with dementia patients. **The Hartford**, **Beazley** and **Allied World** are among the carriers to recently exit the LTC marketplace due to the high cost of claims. The types of claims that **James River** sees in its ALF book are falls and a lack of supervision. Burn injuries from baths that are too hot have been a consistent cause of loss for both ALFs and home care. A recent **CNA** study found that falls were the top allegation within its ALF book, making up an average total payout of $183,125. Elopement costs rank among the highest in terms of severity, with an average total payout of $378,312.

Limited Growth Possible

James River, **Colony** and **Kinsale** will be among the carriers offering competitive ALF programs, but they could still face challenges in growing their books as new markets emerge and the LTC industry consolidates. Carriers such as **Ironshore**, **GuideOne**, CNA, and **OneBeacon** have been more successful with ALFs tied to skilled nursing facilities and could see increased business as more ALFs move to offer services that would typically be the purview of SNFs.

Expect **Lloyd's of London**-backed Sapphire Blue to boost its premium volume as merger and acquisition activity ramps up within the assisted living segment. The underwriter has already seen an increase in demand for tail coverage because of mergers. One of the largest LTC companies, Brookdale Senior Living, acquired Emeritus earlier this year, making it the largest assisted living chain with more than 1,100 locations. Large chains are also purchasing ALFs with one or two locations. Sapphire Blue typically writes larger ALFs.

New Consortium Covering Risk

Look for Lloyd's syndicates **Hiscox**, **Dale** and **Catlin** to gain more assisted living accounts since Sapphire Blue's parent company Ryan Specialty Group created a consortium by adding these syndicates to its healthcare program on June 1. The wholesaler also combined its PL underwriter Sapphire Blue and LifeScienceRisk business to create RSGUM Healthcare. This allows the underwriter to provide up to $25 million in capacity. Additional syndicates within this program include **Amlin**, **Chaucer**, **Atrium** and **Ren Re**. Each syndicate offers insurance via quota share agreements for ALFs and other healthcare facilities. Sapphire Blue will maintain the brand name for healthcare PL coverages.

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James River expects minimal growth in its ALF book due to new competition that's expected to chip away at pricing. Accounts that do end up with James River's underwriters will face additional scrutiny to ensure proper underwriting. James River reviews ALFs separately from LTC facilities with the idea that differences in scale weigh against the largest LTC facilities. James River typically focuses on small to midsized ALF risks. Its Small Care Homes program can cover assisted living as well as dementia and Alzheimer's units. It will cover facilities with up to 20 beds per location as well as systems with up to 40 beds and up to three locations. Limits are available up to $1 million/$3 million. Under its Residential Care program, James River can cover ALFs with an average premium of $25,000 and a policy deductible that starts at $2,500. Primary limits of up to $1 million/$3 million as well as excess limits of $5 million are available. The carrier will cover ALFs in all states except Arizona, Nevada and West Virginia.

NEW SETTINGS SPUR GROWTH OF FACILITY COVERAGE

The development of new healthcare facility settings will spark interest among carriers looking to prop up sagging premium in the facility sector. Insurers will ramp up not only coverage, but also optional endorsements or enhancements, with the idea that more diverse forms will make it easier to write coverage for new types of facilities cropping up in the market. This area is one of the few remaining med mal sectors with a steady stream of new accounts that can still withstand rate actions. Carriers are eager to dive in, hoping to offset dwindling physician and hospital business.

Arch and **CNA** are frontrunners in the facility sector, with the former focusing on both facility and hospital accounts. Both carriers have steadily established their presence in the sector, with **ProAssurance**, **Medical Protective**, **Coverys**, **Lloyd's of London**, **Hiscox** and **Beazley** trailing closely behind. The last three London-based markets tend to target high-risk accounts and have a reputation within the medical professional liability market of being more liberal with underwriting standards. Regardless, their growth in the facility segment parallels that of markets with more stringent underwriting.

Pricing will be the main concern for carriers writing in this market as rates will remain stable to slightly negative throughout the next few months, curtailing an expansion of capacity. Profitability has improved over recent years as demand rose for these policies. Flat claims frequency and severity have made coverage relatively easier to write. Rates will move toward moderation by the end of the year, but Arch doesn't expect any drastic change in the market or pricing anytime soon.

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MED MAL BRIEFS

…**Pharmacists Mutual Insurance Co**. increased direct written premium by 4 percent to $29.9 million during the first quarter of 2014 compared with $28.7 million in the year ago quarter. Its surplus rose to $91.1 million during the quarter, compared with $82.2 million the same time last year.

…**State Volunteer Mutual Insurance Co**. declares a dividend of $7.5 million for policyholders renewing in the 12-month period after May 15. The carrier has doled out dividends for the past seven consecutive years. Dividends will be returned as a credit on renewal. SVMIC returned a total of $335.5 million to physician policyholders since its inception. Rates will also remain stable for 2014.

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ProAssurance and MedPro lead the pack in terms of changes to facility policies, which include coverage enhancements aimed at attracting new business. ProAssurance filed to introduce several endorsements for its Health Care Facility Liability Policy in Wisconsin, which went into effect earlier this month. It now offers a Limited Network Related Coverage among other enhancement forms that will provide liability coverage for network security, patient notification and violations of privacy regulations including HIPAA. Limits will be set at $50,000 per claim for multimedia liability, security and privacy liability, privacy regulatory defense and penalties, privacy breach response costs, patient notification expenses, and patient support and credit monitoring costs, network asset protection, cyber extortion and cyber terrorism. MedPro also filed several revisions and endorsements that went into effect a couple of weeks ago in Wisconsin. The adjustments target 24-hour care facilities as well as physicians moonlighting in an alternative care setting, such as a retail clinic. By taking a specific approach, MedPro could easily stake out its own niche within the facility segment, something it hopes for as physician premium dries up across its book.

Coverys will attempt to build a presence in the facility segment through subsidiaries **MHA Insurance Co.** and **ProSelect Insurance Co.** It made its first step to do so with a revised rating algorithm, several form revisions and maintained rates. While the algorithm will impact rates slightly — MHA will lose $7,615 of premium with the change — it will put the carriers on the same level as heavyweights in the market. Coverys currently has 23 policies on its books in North Carolina, where it filed to make the changes, and writes more than $1.5 million of premium. Standard limits for its Entity Professional Liability program are $1 million/$3 million. Coverys covers surgery centers, clinics, community health centers, cardiac stress facilities, sports medicine/rehabilitation facilities and primary medical treatment centers, among others. Minimum premiums for facilities with fewer than 100 beds start at $1,000 per $1 million in coverage. The changes will go into effect on Aug. 4 for new and Nov. 1 for renewal business.

Beazley has found that Affordable Care Act-triggered changes offer growth opportunities in terms of new care settings, structural changes and, most of all, higher demand for facility coverage. Healthcare, including facilities, makes up 12 percent, or $99.6 million, of Beazley's overall book. The carrier plans to grow in the facility sector with the launch of new products that can be tailored to each account, a goal for all of its MPL books. Packaged products will be highlighted, incorporating Beazley Breach Response to address growing demand and the expectation that cyber liability will be included in package policies.

With increased consolidation and rampant competition on the hospital side of its med mal book, Arch views its facility business as much more profitable and rich with opportunity, in part because of the ACA and health insurers emphasizing shortened patient stays in hospitals. The carrier expects additional distribution methods to surface in healthcare, something already reinforced by the increase in the number of retail clinic, outpatient medical center, employee health center and sleep lab accounts crossing Arch underwriters' desks. It anticipates that as long as there is a focus on preventative care, wellness and lower healthcare costs, smaller facilities that are more efficient at delivering care will remain in high demand. Arch also points toward various telemedicine exposures and an increased reliance on physician extenders as bolstering facility growth. The insurer expects both exposures to remain top issues during the next few years.

Medical director coverage has offered an easy transition for multiple carriers into facility segment from the physician market. Arch, Coverys, ProAssurance, Lloyd's and MedPro have already begun offering specific policies for these providers. **Mutual Insurance Co. of Arizona** will chase this business with a new endorsement offering coverage for medical directors of any facility on its books. A medical director can be anyone employed by, volunteering for or acting under the direction and control of the named facility. The endorsement will go into effect in California this October for both new and renewal business.

CARRIERS SHIFT FOCUS BEYOND HPL

Expect hospital carriers to increasingly look to D&O, cyber liability, billing and other non-professional liability coverages to both cover exposures created from the Affordable Care Act and build premium. If limited to general and professional liability, hospital carriers will struggle to grow organically in a market shaped by low pricing, fierce competition and a shrinking account base. Even with rampant M&A activity, kicked up by the ACA, hospitals are still not purchasing additional excess limits. Hospitals with limits upwards of $50 million or even $100 million are still asking for the same limits even as they take on additional facilities or providers. Most of the time, a new entity does not change the risk profile of the hospital system that acquires it. Even if they did add a few extra high excess layers, it would not be a huge benefit to carriers' bottom lines; high excess limits remain cheap, with premiums running $4,500 to $6,000. Competitive pressure and lack of significant claims activity — except for the occasional birth-related claim that can pierce these high layers — have kept excess coverage inexpensive.

Some HPL carriers may turn to offering D&O to hospitals because, unlike HPL, D&O premium remains plentiful as carriers have been able to attain acceptable prices during the past few years. An influx in anti-trust claims created by industry consolidation boosted demand for D&O. Small community hospitals are entering into partnerships or merging with regional health systems to create economies of scale and to combat additional administration burdens under healthcare reform. Concern that consolidation of regional health systems will create monopolies is growing. Many hospitals will turn their focus toward coverage for expensive D&O exposures. But this could be costly business for carriers; several are facing hefty losses running into millions of dollars. Carriers such as **Beazley**, **Travelers**, **Chubb**, **Allied World**, **OneBeacon**, **AIG** and **ACE** will push for more play in excess D&O layers to avoid big losses hitting primary layers. Allied World is pushing rates up and modifying terms after taking several million-dollar hits in 2013 for healthcare D&O.

Following the expectation that integrated programs will be key to the success of hospital carriers, more carriers will push for programs that incorporate multiple coverages beyond PL/GL. Integrated products will also address many costly exposures since they often include D&O, cyber and billing E&O. The push toward more accountable care organizations and integrated delivery models will also motivate carriers to offer comprehensive products. **Ironshore**, Allied World and **Lloyd's of London** via NAS Insurance launched products for ACOs within the last few years. **Zurich** specializes in integrated delivery systems and can offer a wide range of products to these systems, including property, network and data security, as well as more than 20 additional coverages. Ironshore's product for integrated delivery organizations, which came out last year, can offer PL/GL, D&O, EPL, managed care E&O and other coverages.

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