

RRG TEAMS UP WITH SISTER HMO FOR NEW BUSINESS MODEL

Look for the new **Physhield Insurance Exchange RRG** to begin offering low-limits med mal insurance to physicians and surgeons in both Florida and Texas in 2007. There are some huge dominant writers in both states that will no doubt fight the RRG in an effort to retain their insureds. Another challenge for Physhield will be the base of bare doctors in Florida and whether they are willing to step up to the plate as owners of an insurance facility. Several new facilities have emerged in Florida during the past couple of years. In addition to powerhouse **First Professionals Insurance Co.** (FPIC), other insurers include **Physicians Insurance Co.** (PIC-Florida), **Healthcare Underwriters Group-Florida** (HUG-Florida), **Florida Healthcare Providers Insurance Exchange** (FLHPIX) and **Florida Doctors Insurance Co.** (FDIC), to go along with established writers **ProAssurance Corp. Group** and **MAG Mutual** from Georgia. Neither ProAssurance nor MAG Mutual wrote more than 10 percent of the Florida market in 2004.

As Physhield moves into Texas, it will encounter TMLT, the state's dominant writer, and the **Medical Protective Co.** (Med Pro), which is gaining a reputation as an aggressive writer in the Lone Star State. **American Physicians Insurance Exchange** (APIE) is a growing force in the state and aims to become even stronger with a change in structure. Other newer entrants include Physicians Insurance Co. of Florida and **Advocate, MD Insurance of the Southwest**, which started writing in Texas during mid 2004. Texas was about the fourth largest med mal premium state in 2004 with approximately \$810 million in premiums.

Physhield Uses Unique Strategy

Unique to the Physhield RRG is its affinity to insure only those practitioners and their staffs who have created their own HMOs, IPAs and similar groups tied to Physicians Healthcare Management Group Inc. (Phyhealth). Phyhealth provides the business model for these groups and each Phyhealth plan is licensed as a separate for-profit HMO in which Phyhealth shares ownership with the local physicians. Doctors own the HMO on the income side and share in the RRG for med mal. Phyhealth Underwriters Inc., a subsidiary of Phyhealth, serves as attorney-in-fact for the insurance facility, and USA Risk Group-West is the captive manager. Each Phyhealth plan is projected to generate more than \$50 million in annual premium revenue in its first year and grow to more than \$200 million in five years, with patient membership expanding from 7,200 to more than 25,000 individuals over those five years.

Phyhealth plans to develop nine plans over a five-year period, with the RRG insuring more than 4,000 physicians. Long-time industry participant **Robert Trink**, who was involved in the startup of **The Doctors Company** (TDC), created this concept. He was VP of claims at TDC in 1975, when the company was being created by **Jerry Milton**. After a stint at TDC, Trink was with Alden Life Insurance Co. in the early 1980s, when Alden was then the nation's largest provider of capitation insurance for small HMO facilities and similar groups, and was involved in capitation coverage for HMOs. Physhield RRG picked up approval in Nevada on Feb. 15 of this year, but is not yet writing in the state. The RRG picked up a certificate of authority in Florida in August and in Texas during June. The RRG is accessible to agents but they will be quoted net and need to make their own arrangements with clients for reimbursement.

RRG Wants MCO Physicians Only

Physhield RRG coverage will be offered only on a claims-made form with all physician and surgeon specialties considered. The RRG targets physicians who are or will be part of MCOs, with the doctors bearing 25 percent or more ownership in the organization.

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Policy limits in Florida will be \$250,000/ \$750,000 and in Texas will be \$200,000/\$600,000. These are the most commonly purchased limits in these two states. No program is yet developed for offering coverage in Nevada. There is no provision for consent-to-settle. Arbitration is required. Defense will be offered outside the policy limits. Tail and nose coverages will be available when necessary. Member-policyholders need to participate in capitalizing the RRG through a one-time payment equivalent to one-third of the mature premium. The RRG will operate as a reciprocal totally owned by the physicians and governed by a board comprised of member physicians. The new insurance company will first use outside vendors for services such as claims and underwriting until it has enough premium to support in-house services. The RRG has a budget of \$3 million or more in direct written premium planned for its first year, which is 2007. Management anticipates up to \$12.5 million DWP in 2008 and about \$50 million DWP in the fifth year. Management of the RRG is willing to register the RRG in additional states where physicians are prepared to create their own HMO-type groups.

FPIC, the largest med mal insurer in Florida, held onto 94 percent of its insureds during the first six months of this year. During this time, the company sold 81 percent of its policies in Florida with limits of \$500,000 or less and 64 percent with limits of \$250,000 or less. FPIC's combined ratio was running near 93 percent during these six months. FPIC wrote about 27 percent of the Florida market's approximately \$859 million in total premium during 2004. Florida was the third largest med mal premium state that year.

PIC-Florida has begun to look at opportunities in Texas. The firm pays Florida producers commissions of about 10 percent. The carrier started up during the hard cycle during mid 2003 and made some territory and class changes to its Florida pricing this past March. The company was staked in part by APCapital, the regional med mal writer headquartered in Michigan and led by President **Kevin Clinton**. PIC-Florida bought out APCapital's position in late 2004. CEO **Dan O'Neal** heads up PIC-Florida, which by the end of 2005 was collecting about \$10 million in premium from about 750 physician insureds. PIC-Florida pays commission up to 10 percent to its agents in Texas. The carrier issues policies on a claims-made form.

The FLHPIX requires its insureds to provide early reporting of adverse outcomes, agree to a coordination of legal defense, accept a mandatory risk management education program and comply with office practice audits. Early this year, FLHPIX had slightly more than 400 policies in force with earned premium of \$2.1 million. The reciprocal, which uses a claims-made form, requires a one-time capital contribution based on specialty and location. The exchange received approval in Florida in November 2003 and is managed by the Florida Healthcare Providers Insurance Services Co. Physician-owned-and-operated FLHPIX was formed with sister companies during the hard-market cycle in Maryland, New Jersey and Pennsylvania.

FDIC sells only through agents, paying a commission in the neighborhood of 9 percent. The firm, which received its certificate of authority in Florida on Nov. 3, 2005 and started writing business earlier this year, writes professional liability coverage on a claims-made form. The policy matures in five steps. The carrier, where founder **William Russell** is president and CEO, starts limits at \$100,000/\$300,000 for physicians with no hospital privileges and goes to \$250,000/\$750,000; \$500,000/\$1.5 million and \$1 million/\$3 million. Incident reporting of possible claims is preferred.

HUG-Florida is available to agents and pays commissions. The doctor-owned and governed non-profit and non-assessable reciprocal received its license on March 24, 2004. All physician/owners of the company contribute to capitalization with a one-time capital payment equal to the insured's premium for one year, based on a claims-made policy at the mature rate. Five-year financing of the contribution is available. HUG-Florida is managed by Global Insurance Management Co.

Carrier Relies on Purchasing Groups

Advocate uses its MD purchasing group for Texas business, similar to Med Pro and APIE using purchasing groups to insure doctors. The PGs give the insurers a better footing in competing with TMLT, a trust not governed by the insurance department. Advocate will consider any type of physician risk. The company started writing business in June 2004 and in its first year picked up \$13 million of premium on a claims-made form with defense costs paid outside the policy limits.

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TMLT is the largest writer in Texas, carrying about 50 percent of the market from its 13,220 insured doctors at the end of 2005, for a gross premium volume of \$186 million. The carrier firm has reduced its med mal rates three times since Texas passed reform. The Trust, where Bob R. Fields has stepped in as interim president, offers coverage in all jurisdictions in the state and is open to all specialties.

Med Pro lowered its Texas rates by 6 percent in July — its third decrease in 18 months — bringing its rates down by a total of 13 percent. The insurer also expanded its underwriting appetite in Texas to include additional practice specialties. It has been a med mal writer in Texas since 1916 and insures more than 10,000 Texas policyholders. The company offers both claims-made and occurrence policies.

APIE offers a claims-made form and gets the bulk of its business from agents. It pays a 7.5 percent commission. APIE is in the process of converting from a reciprocal exchange to a stock company and will get the new name of **American Physicians Insurance Co.** The change should allow the company to gain access to capital previously unavailable, and that will accommodate expansion and the carrier's pursuit of more Texas physician and large medical group business.

CONTACTS

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