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# Risk Retention Reporter

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## **RRG Is Part of Turnkey HMO Program for Physicians**

A Nevada-domiciled risk retention group — **Physhield Insurance Exchange, A RRG** — licensed on February 15, 2006, will provide medical malpractice insurance to physicians who participate in **PhyHealth Plans** established by **Physicians Healthcare Management Group, Inc., (PhyHealth)**, a public company whose stock is traded under the symbol PHYH on the OTC Pink sheets. The RRG, formed as a reciprocal insurer and owned by its subscriber/insureds, is part of the Phyhealth family of corporate subsidiaries and affiliates. **Phyhealth Underwriters, Inc.**, a Phyhealth subsidiary, serves as the RRG's attorney-in-fact and performs underwriting, subscriber services, and claims functions.

Robert Trinka, chairman and chief executive officer of Phyhealth, who has spent much of his thirty year management career in the healthcare industry, views the Phyhealth model as “one that gets to the root of the problem.” He explains that while healthcare developments and initiatives have wrought both positive and negative results, “all have failed to fully recognize that healthcare is delivered by physicians to patients, not by drug companies, not by government, and not by insurance companies.” Based on this premise, says Trinka, “Phyhealth has established Phyhealth Plans that are built on the foundation of the physician-patient relationship.”

The basic way in which Phyhealth Plans work is that each plan is formed as a separate, state-licensed for-profit HMO in which Phyhealth and local physicians share ownership. Each plan costs \$4 million to establish with run costs of approximately \$1.5 million after the plan begins operations. Trinka explains that in order for the HMO to be licensed, at least \$2.5M of capital and surplus must be deposited at the time the application is submitted to the state. Plan ownership is allocated initially according to the respective capital contributions made by physicians and Phyhealth, with physicians ultimately able to own 70% of the Plan and Phyhealth 30%.

The target market for Phyhealth Plans, explains Trinka, are physicians who currently practice in managed care settings, such as IPAs (independent practice associations), physician-owned HMOs (health maintenance organizations), and provider-owned PPOs (preferred provider organizations). He explains that one of

the key differences between Phyhealth Plans and other managed care settings is that physicians in Phyhealth plans “own” the patients whereas in other types of managed care plans, patients are, in effect, owned by the managed care organization who can move them to other physician groups at will. Membership in the RRG is not limited to physicians who have established Phyhealth Plans, says Trinka, but is also open to physicians who practice in managed care settings who intend to form Phyhealth Plans.

Trinka points out that by “incorporating all of the elements of healthcare delivery and financing into a single plan, and empowering physicians through plan ownership to manage all aspects of patient care,” Phyhealth Plans offer first rate healthcare services coupled with lower costs.

Physicians establishing Phyhealth Plans are not required to be shareholders of Phyhealth. However, Trinka says that, “We invite physicians to be shareholders of Phyhealth and would be delighted with a high level of physician participation in the ongoing funding, ownership and operation of the company.”

Since Phyhealth is currently in a development stage, no Phyhealth Plans have yet been established nor does Physhield have any insured physicians. Trinka expects Physhield will begin insuring physicians in the first quarter of 2007 and that Phyhealth Plans, which he notes take time to establish, will become operational in the first quarter of 2008, with Florida and Texas being the initial target markets. He says, “We are looking to start plans with the right groups of physicians in the right markets in communities across the country where the companies can operate profitably. The key factor is the motivation and commitment of the local physicians.”

The RRG's capital and surplus of \$600,000 cash was provided under an arrangement with Bahamas-based **Atlas Insurance Management**, an independent captive management company, in exchange for equal ownership of Phyhealth Underwriters, Inc., and a Surplus Note from Physhield. Capital contributions required for RRG membership are equal to one-third of a physician's mature claims-made premium calculated at the time the subscriber enters the program.

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The RRG provides claims-made policies with limits of \$250,000 per occurrence and \$750,000 aggregate in Florida and limits of \$200,000 per occurrence and \$600,000 in the aggregate in Texas. Trinkka says that higher limits can be offered depending upon the needs of the physicians in the states where they practice.

The RRG has no reinsurance at this time, says Trinkka, explaining that, "Our actuaries determined that it is prudent for the RRG to retain this level of risk." In addition, he says, "The RRG's current limits fall at or under the retention of reinsurance in the current market." However, he says that the RRG anticipates that members of a Phyhealth Plan may wish to segregate — at least to some extent — their medical liability risk from that of members of another Phyhealth Plan. To achieve that, he says, "We would reinsure that group's

risks to a cell within one of Atlas's affiliated segregated portfolio companies, probably in Cayman. The RRG thus becomes a very flexible facility and not a 'one size fits all' solution."

In addition to Phyhealth Underwriters, Inc., other service providers include: **USA Risk Group**, from its Scottsdale, Arizona office, which is providing captive management services; **Johnson Lambert**, from its Charleston, South Carolina office, which is providing auditor services; **Jones Vargas**, based in Las Vegas, Nevada, which is providing legal services; **Financial Risk Analysts, Inc.**, from its Florida office, which is providing actuarial services; and **Merrill Lynch**, based in Scottsdale, which is providing banking and investing services.

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