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Introduction

In the interest of continuing to recognize trends in health care professional liability, Aon’s actuarial and analytics specialists, with support from Aon’s National Health Care Practice, have produced the 20th annual edition of the Aon/ASHRM Hospital and Physician Professional Liability Benchmark Analysis.

This benchmark study is produced under a co-marketing agreement between Aon and The American Society for Health Care Risk Management (ASHRM). Participation in this edition of the benchmark study was open to all ASHRM members.

The study is designed as a hands-on tool to provide health care risk managers with a better understanding of their cost of risk compared to an industry benchmark. Through measurement, analysis, and comparison of the claim and exposure data, risk managers develop proactive strategies to reduce risk-related costs and ultimately improve outcomes.

The database of hospital professional liability (HPL) and physician professional liability (PPL) claims underlying the industry benchmarks contains 105,000 non-zero claims, representing over $20.7 billion of incurred losses. In addition, the database also includes 17,600 non-zero general liability (GL) claims, representing over $606 million of incurred losses. The database contains historical claim information for ten accident years (2009 to 2018).

The study provides actuarial analysis and research related to professional liability costs from varying perspectives including:

• Countrywide HPL, PPL, and GL benchmark claim costs—expressed in frequency and severity components—based on the entire database of 127 systems.

• Medical malpractice insurance market trends – provided by Aon and Beazley Group.

• Physician extenders and their impact on medical malpractice liability, specifically Physician Assistants (PAs) and Nurse Practitioners (NPs).

• The relationship between patient satisfaction measures and professional liability claims.

• Health care risk management department characteristics, including insurance buying habits, claims handling procedures, and other risk management department characteristics.

• Best practices in insurance policy review.

• Benchmark statistics for hospital service lines, demographics, and claim disposition types.

• Benchmark statistics for 23 individual states having sufficient data volume and credibility, including breakouts by territory for Florida, Illinois, and Pennsylvania.

The study examines trends in frequency, severity and overall loss rates related to hospital and physician professional liability exposures. Unless noted otherwise, these statistics are defined as follows:

• **Frequency**—number of non-zero claims per occupied bed equivalent (OBE) or per Class 1 Physician Equivalent

• **Severity (limited to $2 million per occurrence)**—average loss per claim, where loss includes indemnity and expense

• **Loss Rate (limited to $2 million per occurrence)**—annual incurred loss dollars per OBE or per Class 1 Physician Equivalent

• **Occupied Bed Equivalent**—a standard measure of overall hospital professional liability risk including weighted contribution from 11 hospital volume metrics

• **Class 1 Physician Equivalent**—a standard measure of physician professional liability risk based on the risk represented by one full-time Internal Medicine (no surgery) physician over the course of one year.

The participation of ASHRM in the Benchmark Analysis is limited to providing promotion and distribution support. Aon is solely responsible for the design, conduct and interpretation of the Benchmark Analysis and holds the copyright thereto.
Letter to Our Readers

The purpose of this report is to provide risk managers and financial leaders of health care systems in the United States with a data-supported tool to help them better understand medical malpractice cost trends. We hope that you will find this study to be a helpful guide to understanding your organization’s cost of risk relative to various peer statistics contained in this report.

With each annual edition, we strive to focus our research on emerging and noteworthy areas of interest regarding the medical malpractice liability environment. For the 2019 study, we have a number of contributors providing educational value regarding medical malpractice insurance market trends, physician extenders, and best practices for insurance policy review.

In addition, the sections that follow present detailed findings of our benchmark analysis including historical loss rates, historical frequency and severity, statistics by cause of loss, risk management department characteristics, as well as trends by state, demographic, and service line. We are confident that you will find insights into a number of risk management questions that may be of concern to your organization or operations.

Finally, this report aligns with and supports Aon’s mission to provide metric-driven insights that combine robust, credible health care data and leading analytical approaches to drive industry insights for clients and industry peers. We would like to thank all the participants of this study, now in its 20th edition, for making this benchmark analysis such a credible and comprehensive source of health care liability claim trend data. We understand that it takes time to prepare and submit information to our benchmarking effort and we acknowledge that this analysis could not be done without our participants.

Lastly, we would like to thank our dedicated health care benchmarking team here at Aon, as well as our outside contributors to various articles within this report.

Should there be any questions regarding this report, we would be happy to discuss them with you.

Respectfully submitted,

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Executive Summary

Key Findings

Hospital and Employed Physician Trends
The frequency of hospital professional liability claims shows a stable trend in recent years. We project a flat annual trend of 0% in the number of HPL claims experienced by health care organizations. Claim severity, including defense costs, is growing at a 2% annual rate.

For the upcoming 2020 accident year, we project that hospitals will experience an annual loss rate of $2,960 per occupied bed equivalent and $5,260 per Class 1 employed physician for professional liability events. This projection applies at the countrywide level, assuming a $2 million per occurrence limit.

We project that HPL and PPL loss rates are increasing at a 2% annual rate.

Medical Malpractice Insurance Market Trends
While self-insured layers continue see modest annual trends, the frequency and average severity of losses greater than $5 million continues to increase. After an increasing number of large medical malpractice verdicts following years of premium decreases, all stakeholders in malpractice liability are under pressure. These pressures include premium rate increases, self-insured retention increases, and insurance carrier capacity reductions.

Employing Physician Assistants and Nurse Practitioners and the impact on MPL
New to this year’s study, CRICO provides a deeper dive on the impact of employing physician assistants (PAs) and nurse practitioners (NPs) on medical professional liability costs. While PAs and NPs have a small impact on overall MPL exposure, they are involved in higher-severity cases, involving diagnosis-related or communication failures.

Health Care Risk Management Characteristics
Our annual survey collected the number of full-time equivalents employed by the health care system risk management department. As expected, we found those with more occupied beds employ more risk managers. This trend can be translated to an average rate of approximately 1.0 risk management full-time equivalent for every 100 occupied beds.

In addition, our survey provides details on insurance buying habits, including attachment points and limits, as well as, various claims handling practices.

Best Practice in Insurance Policy Review
New to this year’s study, Honigman recommends that conducting a comprehensive review of insurance policies every few years is certainly a best practice and may also be precipitated by experiences with claims handling, changing market conditions, purchasing other types of insurance, and recent legal decisions. Their article provides more details on evolving risks to explore from an insurance coverage perspective and questions to ask when conducting a policy review.

Cause of Loss Statistics
Benchmark participants provided text information describing the allegations underlying their Medical Professional Liability claims. This data was used to identify and list the circumstances leading to the most severe and most commonly occurring claims. Labor and Delivery (L&D) Related Issues, with an average total cost of over $450,000, continue to be significantly more severe than claims related to other allegations.

Patient Satisfaction and PL Claim Frequency
As shown in previous analyses, we find those hospital facilities with a higher number of satisfied patients tended to also have lower PL claim frequency. This helps support the conclusion that there is clearly a human element, a broken relationship, or an unfulfilled expectation underlying many PL claims.

Various Demographics
The cost of risk for medical professional liability is subject to a complicated set of influences. We have analyzed and compared benchmark statistics by venue, for university systems, and for children’s hospitals. Beazley Group provided additional data showing higher severity trends for children’s hospitals in high-risk venues.

State Trends
Frequency, severity, and loss rate benchmark statistics were published separately for 23 states where there was sufficient state information to perform a credible analysis, including breakouts by territory for Florida, Illinois, and Pennsylvania.
Advisory Benchmarks for Hospital Professional Liability

The database underlying this analysis includes 127 health care systems in the United States. The facilities in the study reported an annual total number of 198,978 occupied hospital beds (physical beds, not OBEs). The American Hospital Associations “Fast Facts on U.S. Hospitals” reports (2017 Survey) a total number of 931,203 staffed hospital beds in U.S. hospitals. Combined with the CDC’s estimated 65.5% countrywide occupancy percentage (2015), we estimate 609,938 occupied hospital beds in the U.S. Based on these statistics, our participant base represents 33% of the total U.S. hospital industry.

The following table shows the hospital professional liability frequency, severity and loss rate projections for claims occurring in 2020. The severity and loss rate statistics are shown subject to a $2 million per claim limitation.

2020 HPL Benchmarks and Annual Trends for Losses Limited to $2 Million per Occurrence

<table>
<thead>
<tr>
<th>Advisory benchmark</th>
<th>Projected 2020 benchmark</th>
<th>Selected annual trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall frequency*</td>
<td>1.50%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Severity</td>
<td>$197,000</td>
<td>2.00%</td>
</tr>
<tr>
<td>Loss rate*</td>
<td>$2,960</td>
<td>2.00%</td>
</tr>
</tbody>
</table>

*per occupied bed equivalent

The study tracks service-specific exposure and claim statistics for two key areas of hospital operations. The following table presents accident year 2020 loss rates for exposures related to Obstetrics Units and Emergency Departments.

2020 Service Line Benchmarks and Annual Trends for Losses Limited to $2 Million per Occurrence

<table>
<thead>
<tr>
<th>Advisory benchmark</th>
<th>Exposure basis</th>
<th>Projected 2020 loss rate</th>
<th>Annual loss rate trend</th>
<th>Annual overall frequency trend</th>
<th>Annual severity trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obstetrics</td>
<td>per birth</td>
<td>$179</td>
<td>2.0%</td>
<td>0.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Emergency department</td>
<td>per visit</td>
<td>$5.92</td>
<td>2.0%</td>
<td>0.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
Advisory Benchmarks for Employed Physicians

Employed physicians represent a growing self-insurance risk for hospital systems. Employed physician claim and exposure data were collected and separately analyzed as a part of this benchmark study. The following table highlights the projected professional liability losses associated with employed physicians for accident year 2020.

### 2020 PPL Benchmarks and Annual Trends for Losses Limited to $2 Million per Occurrence

<table>
<thead>
<tr>
<th>Advisory benchmark</th>
<th>Projected 2020 benchmark</th>
<th>Selected annual trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall frequency*</td>
<td>3.63%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Severity</td>
<td>$145,000</td>
<td>2.00%</td>
</tr>
<tr>
<td>Loss rate*</td>
<td>$5,260</td>
<td>2.00%</td>
</tr>
</tbody>
</table>

*per class 1 equivalent

Advisory Benchmarks for General Liability

General liability claim data was collected and separately analyzed as part of this benchmark study. The following table highlights the projected general liability losses for accident year 2020. As seen below, general liability losses represent a small portion (approximately 5%) of the combined HPL and GL loss rate.

### 2020 GL Benchmarks and Annual Trends for Losses Limited to $2 Million per Occurrence

<table>
<thead>
<tr>
<th>Advisory benchmark</th>
<th>Projected 2020 benchmark</th>
<th>Selected annual trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall frequency*</td>
<td>0.34%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Severity</td>
<td>$45,000</td>
<td>2.00%</td>
</tr>
<tr>
<td>Loss rate*</td>
<td>$153</td>
<td>2.00%</td>
</tr>
</tbody>
</table>

*per occupied bed equivalent
State Findings for Hospital Professional Liability

The hospital professional liability benchmark database includes claims from 48 states, including the District of Columbia. In this report, we provide benchmark statistics for states having the necessary volume of experience to make the resulting benchmark statistics credible. In measuring credibility, we review bed counts, claim counts, and the volatility of the year-over-year results.

The following table provides the benchmark statistics by state for the individually reviewed states in the database. The yellow dashed line represents the 2020 countrywide advisory loss rate ($2,960).

### 2020 Loss Rates per OBE by State*

<table>
<thead>
<tr>
<th>State</th>
<th>Loss Rate (2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>$2,140</td>
</tr>
<tr>
<td>California</td>
<td>$2,760</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>$3,280</td>
</tr>
<tr>
<td>FL - South Florida</td>
<td></td>
</tr>
<tr>
<td>FL - Remainder of State</td>
<td>$5,310</td>
</tr>
<tr>
<td>Georgia</td>
<td>$2,810</td>
</tr>
<tr>
<td>IL - Cook County</td>
<td>$4,920</td>
</tr>
<tr>
<td>IL - Excl. Cook County</td>
<td>$2,190</td>
</tr>
<tr>
<td>Indiana*</td>
<td>$870</td>
</tr>
<tr>
<td>Maryland</td>
<td>$2,870</td>
</tr>
<tr>
<td>Michigan</td>
<td>$2,090</td>
</tr>
<tr>
<td>Minnesota</td>
<td>$1,810</td>
</tr>
<tr>
<td>Mississippi</td>
<td>$1,510</td>
</tr>
<tr>
<td>New Jersey</td>
<td>$1,890</td>
</tr>
<tr>
<td>New York</td>
<td>$2,790</td>
</tr>
<tr>
<td>North Carolina</td>
<td>$1,730</td>
</tr>
<tr>
<td>Ohio</td>
<td>$2,930</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>$2,560</td>
</tr>
<tr>
<td>PA - High Risk*</td>
<td>$4,250</td>
</tr>
<tr>
<td>PA - Remainder of State*</td>
<td>$2,720</td>
</tr>
<tr>
<td>South Carolina</td>
<td>$2,660</td>
</tr>
<tr>
<td>Tennessee</td>
<td>$2,570</td>
</tr>
<tr>
<td>Texas</td>
<td>$1,980</td>
</tr>
<tr>
<td>Virginia</td>
<td>$2,470</td>
</tr>
<tr>
<td>West Virginia</td>
<td>$3,030</td>
</tr>
<tr>
<td>Remainder of States</td>
<td>$2,840</td>
</tr>
</tbody>
</table>

*All states limited to $2 million per occurrence except IN and PA are limited to PCF primary limits:
IN limits indemnity to $500K plus unlimited expense; PA limits indemnity to $500K plus unlimited expense.
About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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