

January 17, 2007

Briefing Note

Re: HIROC premium increase

In December 2006, Eastern Health was notified that the HIROC premiums for liability insurance for 2007 will be increased 5.6%, as was all other subscribers but that EH would have an additional 25.8% increase based on actuarial recommendations and a high loss ratio. After consultation with HIROC representatives, I am able to provide more details on the rationale behind this increase.

Loss ratio is a critical indicator in determining insurance premiums. It is defined as:

$$\frac{\text{Total cost of claims over the past 5 years}}{\text{Premium paid}}$$

This total cost includes all costs i.e. lawyers fees, reserves and compensation. HIROC has determined that a loss ratio benchmark of 70% allows them to cover their costs; being a reciprocal their goal is not to make a profit, just to cover costs. Eastern Health's loss ratio is █%.

We do have a high number of total claims at 221, but that is not the most significant contributing factors.

ER/PR is the biggest claim and the prime factor affecting our loss ratio and subsequently our premiums. █ The practice of the insurance industry, when there are large claims, is to utilize reinsurance services; in other words, the insurance company buys insurance from another company. The rationale being that the premiums for the reinsurance is less than the compensation to be paid out. HIROC does this on all claims over \$1 million. However, a criterion to avail of these services, if there is more than one event making up the claim, is that the events have to occur within 36 hours. The ER/PR claim is not eligible and even if each claim was considered separately, the compensation for one claim is estimated at most to be █ and again not eligible. HIROC is, therefore, entirely responsible for the █

We do have several opportunities to work towards decreasing our loss ratio and thereby decreasing our premiums:

1. Increased staffing in Quality and Risk Management Department
 - The appointment of a claims manager will enable us to have a regional focus on claims and allow other staff to address proactive risk management initiatives.
 - Also, this would allow the development of standard criteria for claims reporting.

2. Occurrence reporting
 - The consolidation of Eastern Health's occurrence reporting system, either electronic or paper based, will allow for education to all staff on the importance of reporting actual or potential adverse events, along with an increased awareness of preventing adverse events.
3. RMSAM
 - This proactive risk management initiative currently underway will allow programs and departments to review their practices and identify risk issues and develop a plan to address them. Through this process we can expect a 5% premium discount.
4. Laboratory and Diagnostic reports
 - Historically we have had numerous claims regarding the timeliness, accuracy and communication of reports. Although we have addressed each claim at the time through process improvement activities, we have had repeated claims and compensation payouts for very similar issues. A working group has been established to look at the issues around DI reporting.
5. Property claims
 - Again, this is an area in which we have had numerous, similar claims. Unfortunately, a key to reducing compensation is a "property audit" and a preventative maintenance program. It is important that these initiatives be implemented and consideration is given to settling these claims ourselves and not through the insurer.