

Liability crisis reaction: Doctor-owned insurance fills gap

Physician-owned insurers are faring better through the latest availability and affordability crisis than are commercial carriers.

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By [Tanya Albert](#), *AMNews* staff. Dec. 23/30, 2002.

“An old idea is new again as doctors look for ways to survive in a tough medical liability insurance climate.

Just as 1970s-style bell-bottoms made a comeback in the fashion world, so, too, has another idea from that decade: insurance companies formed, owned and operated by physicians. Such firms were born in the medical liability crisis of the mid-1970s.

As a new medical liability crisis brews, at least a half-dozen doctor groups in states where medical liability insurance has become unavailable and unaffordable have explored the idea of their own insurance firms.

In recent months, several companies won state insurance department approval and are open for business. The trend is likely to continue.

"We absolutely plan to see more of this in 2003," said Grace Vandecruze, a senior vice president in Fox-Pitt, Kelton's corporate finance department that has worked with one physician capitalized group in New Jersey. "Physicians are yearning for companies that are more focused and can service their needs."

"This is a logical response to fill the void that has been left in the marketplace," added Lawrence E. Smarr, president of the Physician Insurance Assn. of America. "The companies formed back in the 1970s and early 1980s are successful."

Doctor-owned companies insure 60% of U.S. physicians, the PIAA says.

Relying on themselves

Burlington, N.J., general practice physician Albert A. Talone, DO, weathered the medical liability insurance crisis in the 1970s and saw doctors come out on top by starting their own insurance company, MIIX.

The company ran into trouble, though, when it expanded into other states and went public. Now Dr. Talone and colleagues are going back to their roots and helping start a

new nonprofit, physician-owned and governed company in New Jersey, Conventus Inter-Insurance Exchange.

The company, which New Jersey insurance regulators approved in December, has raised more than \$5 million in cash and capital commitments and is accepting applications from New Jersey physicians.

"We had to start all over again with a new company," said Dr. Talone, president of the New Jersey Assn. of Osteopathic Physicians and Surgeons. "But we've done this once, and it was a complete success."

Physicians in Las Vegas started a company there. And in Pennsylvania, the Pennsylvania Orthopedic Society helped lead an initiative to create risk retention group, an insurance company owned by the people who buy the insurance.

The physician-owned advantage

History does show that physician-owned and -operated insurance companies have fared better than commercial companies in tough markets, particularly this one.

In 2001, physician-owned companies paid out \$1.41 for every \$1 they collected, while other companies in the industry paid out \$1.53 for every \$1 collected, according to A.M. Best and PIAA statistics.

"Physician-owned companies are run pretty conservatively, and they are not distracted by other things," Smarr said, noting that physician liability insurance is the sole focus of the companies. When companies charge the rates they need to cover the predicted losses and are focused on physicians in one state, they tend to be successful.

That sharp focus is a key to success, said NIP Management Co. Chief Executive Officer Richard Augustyn. NIP, a subsidiary of National Insurance Programs of Woodbridge, N.J., will administer the Conventus insurance program.

"When you have ownership-based policies that are not focused on profit, you can sell a product at cost, and it enhances stability," Augustyn said. "This is a strategic investment for physicians so they can focus on practicing medicine."
