



GB Healthcare: Industry Insights

**How outsourcing claims management
can significantly reduce a health
system's total cost of risk**

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Defining total cost of risk (TCOR) and determining the methods and means to reduce it can be a challenge to many organizations. Generally, TCOR refers to the cost of managing risk and incurring losses.

Seems simple enough, but the definition can vary among organizations and, before an organization can set a path to reduce total cost, it needs to understand its entire risk portfolio.

In recent years, due to segment disruption, hardening insurance markets, higher retentions, etc., organizations are taking on more and more risk, thus changing their portfolio, changing their definition of TCOR and, by necessity, changing how they approach reduction of TCOR.

The healthcare space is a perfect example. Decades ago, many hospitals and healthcare organizations defined TCOR as the insurance premiums they paid. Most, if not all, of their indemnity risk was transferred to the insurance carrier, along with the cost of managing those claims, maintaining claim files, and paying staff.

With the recent shifts in the healthcare industry, with more and more organizations taking on greater risk and seeking to have greater claims control, TCOR now has a much broader definition than simply "premium paid." Total cost includes the cost of funding the organization's captive, purchasing reinsurance, establishing an infrastructure to manage claims, and investing in a risk management information system (RMIS) to appropriately manage those claims. And, a broader definition of risk comes with more opportunity to reduce it.

While, fundamentally, there are a number of ways to approach, and achieve, risk reduction, one comprehensive way in which an organization can reduce that total cost of this broadened risk portfolio is through the use of a third-party administrator (TPA) to manage those claims. While, historically, clinical risk management has been a part of hospital system operations, managing claims and litigation is not part of a hospital's core business. Outsourcing claims management through a qualified TPA provides numerous benefits that can reduce TCOR.

Healthcare organizations that are assuming greater amounts of risk essentially have two options for claims management: self-administration or retention of a TPA. If an organization is thinking of self-administering a program, there are several significant costs to consider.

1

There is the capital outlay in building a claims and litigation infrastructure. This infrastructure will include head count across multiple areas, including claims management, accounting, compliance, and the like. Establishing a claims team requires retention of individuals with a particular skill set. Simply moving staff from clinical risk management to claims management will not suffice. Hiring, and retaining, the right level of talent is essential but not without cost.

2

For almost all organizations seeking to self-administer, a robust RMIS will be needed. This system will allow the organization to maintain claim files, monitor financial information, store documents, create reports (such as loss runs and bordereau reports), etc. However, an efficient RMIS will require a considerable capital outlay, along with licensing fees and maintenance.

3

Organizations that self-administer their claims assume the exposure for errors and omissions related to management functions. A failure to report a matter to an excess carrier or reinsurer could put coverage in jeopardy and can result in significant and unexpected exposure. Similarly, claims administration requires knowledge of, and compliance with, various state and federal reporting requirements. An organization's failure to comply can result in significant fines and penalties.

To avoid the expensive and exposure-laden prospect of self-administration, many organizations have been able to minimize exposure and reduce TCOR by retaining a qualified TPA. This allows for seamless, professional, turnkey claims management services at a fraction of the cost of establishing an in-house claims management program. The retention of talent, the establishment of the RMIS system, and the risk of errors and omissions are all borne by the TPA. Further, professional administration of claims can significantly reduce overall indemnity and expense.

GB Healthcare is a recognized industry leader in the provision of healthcare professional liability claims and risk management services. The deep expertise of our professional staff, which includes former defense attorneys, insurance claims executives, registered nurses, and certified healthcare risk managers, makes us a critical asset to our clients. GB Healthcare partners with healthcare organizations to provide custom risk management solutions and mitigate professional liability claims while optimizing your TCOR.



Meet the Expert



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