

AGENCY NAME:	SC Medical Malpractice Patients' Compensation Fund		
AGENCY CODE:	R140	SECTION:	38-79-410



Fiscal Year 2014-15 Accountability Report

SUBMISSION FORM

AGENCY MISSION	<p><i>“To provide excess medical liability coverage to its members who are South Carolina licensed healthcare providers at an affordable cost. The objective is to better serve the citizens of South Carolina through a viable and adequately funded malpractice program for physicians, dentists, mid-level healthcare providers, hospitals, outpatient surgery center and other healthcare facilities. The PCF Board of Governors is committed to strengthening and preserving the Patients’ Compensation Fund in order to assure that the licensed healthcare providers of South Carolina have adequate liability and litigation protection.”</i></p>
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Please identify your agency’s preferred contacts for this year’s accountability report.

	<u>Name</u>	<u>Phone</u>	<u>Email</u>
PRIMARY CONTACT:	Terry A. Coston	803-896-5291	terry.coston@pcf.sc.gov
SECONDARY CONTACT:			

I have reviewed and approved the enclosed FY 2014-15 Accountability Report, which is complete and accurate to the extent of my knowledge.

AGENCY DIRECTOR (SIGN/DATE):	
(TYPE/PRINT NAME):	Terry A. Coston, Executive Director
BOARD/CMSN CHAIR (SIGN/DATE):	
(TYPE/PRINT NAME):	James E. Mercer, DDS, Chairman of the PCF Board of Governors

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AGENCY'S DISCUSSION AND ANALYSIS

The South Carolina Medical Malpractice Patients' Compensation Fund (PCF) is a state agency, which was created by the General Assembly in 1976 for the specific purpose of providing medical malpractice coverage in excess of South Carolina healthcare provider's basic or primary insurance coverage. The PCF is authorized by Sections 38-79-410 through 38-79-490 of the South Carolina Code of Laws. The PCF is self-supporting through annual member fees and assessments when appropriate. The PCF currently receives no federal, state or other funding. The PCF operates under the direction of a thirteen-member Board of Governors. The PCF contracts with the South Carolina Medical Malpractice Joint Underwriting Association (JUA) for professional insurance brokerage and risk management services which are provided through the firm of Marsh USA, Inc. Marsh provides underwriting services, claims & legal services to the PCF and it's Board of Governors.

The PCF issues certificates of membership and collects membership fees. All qualified South Carolina licensed health care providers who meet the eligibility requirements may participate in the Fund and maintain the participation by remitting to the Board the appropriate membership fees and deficit assessments as are required by the Board on or before the provider's membership anniversary date. Annual fees are set by the PCF Board of Governors effective June 1st of each year. Furthermore, the PCF monitors claims and lawsuits against its members, which are investigated, handled and defended by the basic insurance carrier. The PCF pays any portion of settlements and/or judgments that are in excess of the member's basic coverage up to the member's limits of coverage. The PCF affords the same liability coverage that is afforded by the member's basic insurance policy, except for the amounts of liability coverage, which vary depending on the requests of the members. The PCF statute requires members to maintain a minimum basic coverage with limits of \$200,000 per claim and \$600,000 annual aggregate of all claims.

The PCF's vision is to be the premier provider of excess professional liability insurance and risk management services for the licensed healthcare providers of the state of South Carolina. Our values include:

- Focus on the needs of our members.
- Support and respect all healthcare providers and related relationships.
- Establish a culture of consistency and fairness in our performance.
- Provide leadership with knowledge-based decisions and operate with integrity.
- Embrace change through continuous improvement.
- Work together as a team.
- Make a difference in the community.
- Utilize best business practices.

The PCF provides customer services to its members through enrollment of new members, renewal of current members, collection of fees and assessments and payment of claims. It provides credentialing information to hospitals and managed care organizations in a prompt and accurate fashion.

Section II – Organization Profile

The product that is provided by the PCF is excess medical malpractice coverage for licensed healthcare providers in the State of South Carolina. The PCF was established when the majority of medical malpractice carriers left the state, leaving the physicians, dentist and other licensed healthcare providers in the state without sufficient coverage in the event of a medical malpractice claim. During this crisis the PCF established itself as the only excess medical malpractice carrier available to all licensed healthcare providers. Our key customers or stakeholders are physicians, dentist, mid-level healthcare providers, professional associations, and hospitals.

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In 2008 the PCF Board of Governors moved from a direct write organization to the use of independent agents to write excess medical malpractice insurance, in an effort to establish cohesive relationships with the independent insurance agents in South Carolina. The PCF Board continues to review and enhance the commission rate structure. The PCF Staff works closely with the PCF approved agents to provide the best customer service to its new, current and former members. The PCF currently pays 8% commission to its insurance agents/brokers.

The Patients' Compensation Fund continues to function with a staff of four full-time equivalent employees. Included is one Administrative Assistants, one Program Coordinator, one Program Manager and the Executive Director. The main and only office location of the PCF is in Columbia, SC.

At the close of the fiscal year, the PCF had a membership total of 2,988. This includes one nursing home, 31 Clinics & Hospitals, 187 professional associations, 2,020 physicians, 592 dentists and oral surgeons, 140 Midlevel healthcare providers, 18 pharmacists and other healthcare providers. The PCF paid a total of \$13,125,161 for claims, settlements and judgments during the fiscal year. This represents 30% increase in claims payments made from the prior fiscal year. The PCF collected \$11,142,183 in membership fees which constitutes an approximate decrease of 10% from the prior fiscal year.

The PCF is an organization that works extensively with legal counsel for claims defense, expert witnesses, and claims investigations, all in conjunction with the primary carrier. The effective selection, coordination and management of these professionals are critical to the success of the PCF. It requires professionals with special skills and a high work ethic. For all of the PCF claims that went to trial during this fiscal year, 99% of the claims resulted in defense verdicts. This fiscal year will continue to show a downward trend in the total number of claims paid as well as their severity. This appears to be in line with the national trend, which has resulted in a soft market for Medical Malpractice insurance.

With the passage of S.669 the PCF Board is beginning to work toward stabilizing the Fund by capping its exposure. S.669 clarified the PCF Board's authority to set limits of coverage. At the end of this fiscal year the PCF memberships consisted of the following limits:

10 Million per occurrence/12 Million annual aggregate	27%
5 Million per occurrence/7 Million annual aggregate	7%
3 Million per occurrence/6 Million annual aggregate	17%
2 Million per occurrence/4 Million annual aggregate	2%
1 Million per occurrence/3 Million annual aggregate	47%

The Fund provides a high level of customer services to its members through enrollment of new members, renewal of current members, collection of fees and payment of claims. It provides credentialing information to hospitals and managed care organizations.

The Board has authorized the revision of the membership agreement and the development of applications to better serve its members. The Board continues to allow its members to pay their annual membership fee on a quarterly basis, with a small administrative fee.

The PCF website now allows new members to apply on-line for a PCF membership, existing members to pay membership fees, and direct access to renewal information for hospitals and managed care organizations credentialing agents. This past fiscal year we have added the ability to pay by electronic fund transfer (EFT). We continually look for ways to may our website more interactive for our members.

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As previously stated, the PCF consists of five full-time employees. The Executive Director, along with the Board of Governors, closely monitors the staff's ability to meet the demands and needs of its members, which continue to increase. The PCF is a highly complex organization that works extensively with legal counsel for claims defense, expert witnesses and claims investigations, all in conjunction with the primary carrier. The effective selection, coordination and management of these professionals are critical to the success of the PCF. It requires a staff with specialized skills and a high work ethic.

Section III – Leadership

The Board of Governors is composed of three physicians, two dentists, two hospital representatives, two insurance representatives, two attorneys, and two representatives of the general public, all appointed by the Governor. The appointed members serve a term of six years. Currently we are awaiting the replacement of one physician member and the trial lawyer member. The Governor recently appointed two physicians and a trial lawyer to the PCF Board of Governors. With these appointments it completes the PCF Board roster.

The Board continues to amend its Plan of Operation and Manual of Rules and Rates for efficient administration of the Fund, consistent with the provisions of the Plan of Operations and Article 5 of the enabling legislation.

The Executive Director is charged with the day-to-day operations of the Fund. Quarterly newsletters are sent to the members/stakeholders giving updates to underwriting changes, news, risk management initiatives and spotlights on our members.

Strategic Planning

The Board continues ongoing revisions to the Plan of Operation, the Manual of Rules and Rates and Claims Handling Procedures. The Board continues to review and consider legislative changes that will allow for the more efficient operation and management of the Fund. One initiative that the Board successfully supported is clarification of the PCF's governing statute as it relates to the PCF's ability to eliminate unlimited coverage and set specific limits of coverage offered to PCF members.

The Plan of Operation details procedural information that provides for the economic, fair and nondiscriminatory administration of claims and for the prompt and efficient provision of excess medical malpractice insurance. The Plan contains other provisions including, but not limited to, assessment of all members for expenses, deficits, losses, reasonable underwriting standards, acceptance and cession of reinsurance, appointment of servicing carriers and procedures for determining the amounts of insurance to be provided by the Fund. The Plan of Operation and any amendments to the Plan are subject to the approval of the Board and of the Director of the Department of Insurance or his designee.

Other strategic planning initiatives include:

- Accessibility to excess coverage over all admitted Medical Malpractice Carrier in South Carolina
- Partner with key agents to increase membership in the PCF for licensed healthcare providers.
- New Marketing initiatives that include attendance as a vendor at annual meetings of specialty organizations
- Enhanced the interactive website for PCF members for member services and risk management by allowing members to pay membership fees by electronic fund transfer (EFT)
- Establishing stronger relationships with all admitted medical malpractice carriers
- Continual review and revision of coverages afforded to our members
- New on-line risk management program that will provide free CMEs to our members

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Customer Focus

The Fund provides excellent customer services to its members through enrollment of new members, renewal of current members, collection of fees and assessments, payment of claims and responding to membership inquiries. It provides credentialing information to hospitals and managed care organizations. The Board is pleased to roll out the interactive portion of the PCF website to facilitate payment of membership fees (annual and quarterly), confirm coverage and apply for coverage through the PCF website.

The Board continues to authorize the revision of the membership agreement and the development of applications to better serve its members. The Board continues to allow its members to pay their annual membership fee on a quarterly basis, with a small handling fee.

New Physicians and dentists that attend the New Physician/Dental Risk Management Seminar, which is sponsored by the JUA, receive a discount in their annual membership fee. The discount is equivalent to a maximum of 25% of the base premium, up to a maximum of \$2,000. It is a one-time discount fee. The discount does not apply to a physician's professional association.

Healthcare providers are credentialed by hospitals, insurance companies and managed care organizations. In order to obtain hospital privileges and participate in managed care organizations, healthcare providers must show proof of professional liability insurance coverage, as well as any claims history. The PCF receives approximately 6,000 requests for this information annually and the PCF responds to these requests on behalf of its members with a sense of urgency. The PCF website now allows for approved hospitals, insurance companies and managed care individuals to confirm coverage through the website. Obtaining claims information continues to require a signed authorization from the PCF member.

Business Results

The principal challenge facing the PCF is to retain current members and at the same time, adjust membership fees appropriately to reduce the loss reserve liability. The other significant challenge the PCF faces is to manage the claims process effectively and coordinate with the primary carriers for satisfactory resolution of all claims. The PCF's ultimate goal is to provide medical professionals with effective medical malpractice liability coverage, while ensuring that the PCF is in a sound financial position to pay all of its liabilities. There are no pending judgments on appeal that affect the PCF.

Based on actuarial reviews and recommendations, the PCF Board of Governors feels confident that the rates established this fiscal year are appropriate. The PCF continues to experience rate members for claims experience as well as surcharge members for state licensing issues. New underwriting initiatives have been established to assist in maintaining and improving membership numbers such as discounts based on group size, number of years of continued coverage through the PCF and positive loss experience. Coverage enhancements have also been added which consists of nose coverage for converting a claims-made membership back to an occurrence membership. Step factors for claims-made memberships have been reduced to be more in line with other admitted medical malpractice insurers.

The South Carolina Patients' Compensation Fund shows an overall deficit on its books due to the fact that, since 2002, it has recorded the actuarial liability for unpaid claims as well claims that are "incurred but not reported." Prior to 2002, the Fund's accounts did not reflect such reserves operating on a cash basis. Over the past 10 years the PCF Board of Governors has taken steps to reduce the net deficit of the PCF by \$164,000,000. As a result, the PCF continues to show a positive trend in its overall financial outlook. During the fiscal year, the PCF met all of its financial and legal obligations in a timely manner. The Fund is not aware of any facts, decisions, or conditions that can reasonably be expected to have a material impact on the Fund's economic outlook during the fiscal year beginning July 1, 2015.