The Benefits of “Risk-Sharing” in the Rapidly Evolving Healthcare Industry

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Healthcare in America is changing. How this transition will finally play out is anyone’s guess, but the foundation of the industry is undergoing a seismic transition, and many healthcare providers are unsure how to prepare themselves for the inevitable changes on the healthcare horizon.

In the wake of these changes, hospitals and healthcare providers are employing physicians and merging with physician groups at ever increasing percentages. While this transition provides benefits to both parties, it also inevitably increases a provider’s exposure and risk of loss, particularly as it relates to professional liability. While many entities are moving these physicians into their existing captive or trust, there are other issues to consider and the use of “risk-sharing” or increased “risk-sharing” is one option available to hospitals, groups and/or clinics. Simply put for the purposes herein, a captive or trust is a subsidiary insurance company owned by a parent organization, designed to cover the risks of its parent organization.

Captive and “Risk Sharing” Basics

Industry providers describe “risk sharing” as a method by which a captive/trust acts as a small reinsurer to the larger entity. Normally, an insurance company or reinsurance company can, and often will, act as the primary entity in this type of arrangement. Under certain circumstances, the industry will accept “ceding” of part of the premiums and losses from a captive/trust in exchange for a portion of the premiums and losses. The theory is that this transfer or sharing of risk can provide balance sheet relief for the captive/trust and allow for further growth or financial relief. In some cases the entity can even issue policies directly, handle claims in a variety of
capacities, and assist in risk management initiatives. According to the industry, “risk sharing” can even provide expertise for strategic expansion while leaving control in the hands of the captive/trust owner.

Should You Consider “Risk Sharing” in Your Captive/Trust?

The industry has cited the following examples as beneficial situations for those considering the option of “risk sharing”:

- Growth in employed physicians is beyond the provider's capacity to service and understand;
- The increase in the provider's captive/trust exposure makes future growth difficult;
- The increase in the provider's captive/trust exposure has increased our future liabilities;
- The provider would like to access trapped capital currently in its captive/trust;
- The provider growth is out-pacing its ability to service the increase in new physician risks;
- Defending both physicians and the facility is difficult and the provider needs additional expertise.
- The physicians are distrustful of the hospital and/or clinic.

As always, the decision to risk-share depends on the strategic goals and objectives of each individual entity. However, it appears that for many providers, “risk sharing” has resulted in the development of mutually beneficial relationships between health system captives/trusts, physician groups and insurance carriers.

Healthcare systems are continuing to expand and grow with physician mergers and acquisitions. With the benefits that come from such mergers, providers should also evaluate the significant risk of loss they may be acquiring. A solid assessment of actuarial developed losses and balance sheet impact is not only proper, but it could serve to avoid serious losses in the future. “Risk sharing” is one method that is being used to assist in the management of growth and many of the underlying liabilities.

If you have any questions regarding this newsletter, please contact the author(s) at joseph.turano@strasburger.com. To learn more about Strasburger's Health Group, click here.
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