2023 US Healthcare Market Outlook

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The healthcare insurance market is facing an unsettled future, with a challenging economic landscape, rising costs and diverging carrier business strategies increasing the uncertainty in the marketplace.

Social inflation remains an issue for insurers, but the rise of economic uncertainty—both in the US and abroad—means that a new pressure has emerged as the leading issue for many insurers in the market.

And RPS area president, James McNitt argues that economic inflation, which is already greatly increasing the pressure being applied to insurer profitability, should now be the greatest concern for carriers in this space.

“When you look at claims made policies, which are around 90% of what we do, we usually see around a four to six year tail lag on these claims being paid,” he says. “But the problem is that when insurers collected the premiums to pay these claims five years ago, the value of the dollar was much less than what it is today.

“This means that insurers have not collected enough premiums to pay those claims—sometimes as much as a 10% to 15% difference, and that’s a mega difference on a large book of business.”

But rising economic inflation does not mean that social inflation is no longer a challenge for insurers.

Indeed, RPS senior vice president Margaret Jacobs, says that social inflation is leading to carriers withdrawing from some areas of the market.

“Certain venues within the market are presenting difficulties when it comes to social inflation and claims inflation,” she warns. “Insurers are looking at this when setting their reserves, and some are stepping back from the market as a result of what they are seeing.”

Meanwhile, RPS healthcare broker Kyle Pass says regulation is also having an impact on costs.

“We are seeing significant new regulation that is changing the caps that some states have on damages,” he says. “For some, this means that the amount that can be paid out on claims is going to increase every year, and that is making some areas of the country harder to write certain types of business in.”

Indeed, this has already led to an increase in the frequency of nuclear verdicts, with RPS area senior vice president Karen Bennett describing such verdicts as a “serious issue” for carriers to contend with.

This is particularly true in areas with fragile patient populations such as hospitals, senior living and behavioral health.

“Insurers are being extremely nervous when it comes to handling these claims as they are wary of the increased costs they are facing if a claim goes to trial,” she says. “This means that insurers are avoiding going to trial altogether in some venues, meaning that they are now having to settle and fund claims that otherwise may have been disputed simply because they are afraid of what the trial outcome may be.”

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ALLIED HEALTHCARE

While a multitude of pressures are making the healthcare insurance market a challenging space to operate in, the allied healthcare sector is certainly a bright spot in the market.

With a more benign claims environment compared to sectors with a fragile patient population, allied healthcare continues to operate largely free from the threat of widespread nuclear verdicts.

The allied healthcare arena is also full of exciting new startups that typically experience lower visit counts and lower revenues.

This means that the frequency and opportunity to make a claim is much lower, and when this is combined with the propensity for many procedures in this sector to be elective or cosmetic, the overall risk exposure to an insurer is much lower.

This results in less pressure being applied to underwriting profitability, meaning that capacity continues to be easier to come by and premiums are not rising as fast as in other areas of the market.

MARKET DIVERGING ON STRATEGY

Despite the cost challenges facing the healthcare insurance market, McNitt argues that citing economic inflation as a reason for raising premiums is a difficult proposition for insurers, but says that the combination of economic inflation and social inflation means that price increases are somewhat inevitable.

In the hospital space, for example, Jacobs says that price increases could rise by as much as 15% next year.

"While this is less than the 20% increases we saw last year, the important thing to remember is that hospital exposures have gone down," she says. "So when you take that into account, rate increases might actually be more than you think."

Despite this, some carriers in the market are still pricing for market share—particularly in areas such as senior living—even in the face of the long-term difficulties insurers are experiencing when it comes to profitability.

And this irrationality means that several carriers are pricing risks that they should not be quoting for, and this is a concern for the industry.

"There's not a bright future for profitability in the sector, and many of the senior living facilities are also facing their own challenges," McNitt points out. "But they are still being rated as if times are good, and carriers are still being competitive on price.

"For some, this has led to a race to the bottom on price as they look to bring in additional premiums to pay for historic claims, but this will create additional challenges for the future."

At the same time as this undercutting of the market, several carriers are instead limiting their exposure by limiting the availability of 'carte blanche' policies that had been commonplace in previous years.

"Historically we were used to seeing things like cyber coverage or hired nonowned auto included in a policy, but that is becoming less common," McNitt points out. "Now we are seeing a lot of supplemented or even excluded coverages for elements such as this that hadn't been properly underwritten for."

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CHEAPEST NOT ALWAYS BEST

Pass says that these changes could also lead to exits from the market—something he says could happen as early as the first or second quarter of 2023—although new entrants may ease the capacity struggles that could arise as a result of these exits.

"Some of these new players could look to undercut the market to grow their market share, but that can't be sustainable, and could lead to large rates at renewal for these newer entrants," Pass warns. "So you need to rely on the experts in the market to find the right type of insurer partner—someone that can offer a long term and stable partnership."

"This means that the cheapest policy is not always the best option," he adds.

McNitt says that this means understanding a policy—and explaining that clearly to customers—is essential for any broker or agent.

"Making sure you fully understand what is and isn't covered is essential, because the days of blanket coverage have gone," McNitt warns. "The saying if it's not excluded it's included does not apply anymore, and that is a difficult tightrope to walk."

It is important to have a full review and understanding of current and prospective coverages—and what it might mean to switch—as coverage gaps could be created.

Bennett agrees with this warning, and says that brokers and agents need to be aware of any gaps in coverage that may arise as a result.

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FACILITIES UNDER PRESSURE

In addition to the pressures facing the insurance market, medical facilities are also facing a number of trends that are negatively affecting their risk profile—and therefore their insurability.

Staff costs, for example, are increasing significantly, with some hospitals budgeting upwards of $100 million

for additional staff costs next year, reducing the available budget for ensuring proper risk management and risk controls are in place.

In addition to being expensive, hiring new staff also introduces additional risks for facilities and insurers to consider.

“There are still major staffing problems at a number of facilities, with hospitals and senior living facilities in particular finding it hard to find the right people,” McNitt says. “This means that some hospitals are having to bring in large numbers of outdoor staffing, using people who may not be as highly trained or even familiar with the facility or what to do in the event of a bad outcome.”

This, in turn, means that claims become more likely, and potentially more costly.

“We live in a world of bad outcomes, and split seconds go by that could lead to a $0 claim or a multi-million dollar claim,” McNitt adds.

Bennett says that the rise of historical claims around abuse and other high-catastrophic claims in the senior living market are increasing insurer concerns about underwriting the sector.

“We are seeing more underwriting questions around protocols and the resident profile they are accepting, as well as the risk management these facilities have in place,” she says. “Sublimits are also becoming more commonplace for certain types of coverages, and some classes are being denied coverage altogether by certain carriers.”

But Bennett says new and emerging technologies are beginning to help when it comes to improving risk management, particularly in helping to prevent falls in residential settings—one of the largest areas for claims.

“AI is really exciting,” she says. “There’s a lot of interesting technology that can sense movement and detect falls without invading privacy, and that can have a significant positive impact on claims in this space.

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We are still placing risks successfully across all sectors of the healthcare insurance market, and that is not going to change.

"Some of the carriers are now partnering with vendors of these technologies to offer discounts on premiums, or even write risks or facilities that they might not have previously been interested in."

And Jacobs says that changes in the hospital sector are also creating challenges for insurers.

"The Dobbs decision and the law changes around abortion rights is a big topic for insurers at the moment, and carriers are reviewing their policy forms in response," she says. "Many of them are now relying on exclusions for violation of state statutes, as well as criminal acts in order to provide a defense in certain cases as they arise."

COMMUNICATION KEY

And with so much going on in the market, Pass says that clear communication is key to ensure that risks are thoroughly prepared for renewal.

"Communication needs to be carried out early and often," he says. "When looking at a renewal you really should have everything sorted out 90 to 120 days in advance—that way we can have proper conversations with the insurer and warn the client of any potential rate increase.

"That means the conversation with the client is much easier because everyone is on the same page, we aren't going to them a week before the renewal date and saying that their premium has increased by $10,000."

Equally important is for agents to work with their insureds to find the right solution for covering their risks, and with the market facing an unsettled and challenging future, McNitt says that this is important now more than ever.

"It is definitely a challenging market in which to operate at the moment, but that doesn't mean that the outlook is entirely bleak," he says. "We are still placing risks successfully across all sectors of the healthcare insurance market, and that is not going to change.

"Here at RPS, we have a strong knowledge base to draw on and take pride in our ability to place any risk despite the challenges facing the market. It is about working with our insureds and with our agents to find the best solution on a case-by-case basis, finding the right insurer to do business with over the long-term for a strong and sustainable partnership to help our customers move forward, safe in the knowledge that their business is properly protected."

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