

3. DATA

3.1 Data collection

3.1.1 For the purpose of preparing this report, certain data were collected from the MIIIs and MDOs by Medicare Australia during late 2011 including:

- details of practitioners who were identified as having become eligible for membership of the Scheme before 30 June 2011;
- details of claims (including incidents) notified to MIIIs and MDOs by 30 June 2011 which might eventually become eligible for reimbursement under the Scheme;
- details of ROC support payments;³
- actuarial estimates of that part of the future claims cost of medical incidents projected to be notified during the 2011-12 to 2014-15 financial years which is expected to be reimbursed under the Scheme; and
- actuarial estimates of that part of the future claims cost of medical incidents occurring during 2011-12 which is expected to be reimbursed under the Scheme.

3.1.2 This report also utilises other data and information including that which was previously provided to Medicare Australia for the purpose of section 34ZW of the Medical Indemnity Act.

3.2 Data verification

3.2.1 The results in this report rely on information provided by MIIIs and MDOs. This information is regarded as the most suitable information available for the current purpose.

3.2.2 Steps were taken to ensure, as far as practicable, that the information provided was prepared on a basis suitable for the purpose. Despite this, it is not possible to guarantee that the information provided is free from material error. The information was not independently audited. As was the case in previous years, there were some notable disparities in the data provided, some of which could not be readily explained. Moreover, there were some inconsistencies between data provided for this review and

3 A database of ROC support payments is maintained by Medicare Australia.

that provided for the previous review. All of this means that figures and estimates provided in this report need to be treated with some caution.

3.2.3 Historically, MDOs have not maintained data in a form which is directly amenable to ROC analysis. For example, it has not been possible to establish a comprehensive list of doctors who were eligible for the Scheme on 1 July 2004. This is not a criticism of the MDOs. It simply reflects that their business and information systems were not developed with a scheme like the Run-Off Cover Scheme in mind. However, in order to monitor the operation of the Scheme effectively, accurate and timely data is clearly important.

3.2.4 Certain information was sought from industry actuaries. Guidance was provided as to the nature of the data, calculations and information required. Discussions with industry actuaries were held to supplement the data provided.

3.2.5 As was the case last year, a range of assumptions was used by industry actuaries. Although some significant assumptions differ by only a few percentage points between actuaries, substantially different estimates of Scheme costs are produced. This is indicative of the highly uncertain nature of estimates of the costs of the Scheme.

3.2.6 It is to be expected that many of the data issues encountered will diminish in time. This is likely to take a few years. Until data issues subside, Scheme projections will be subject not only to the considerable inherent uncertainty which surrounds medical indemnity insurance business, but also to additional uncertainty associated with the amount and quality of the available data.

3.2.7 In general, the results in this report blend estimates provided by industry actuaries with other actuarial estimates based on data provided by the MIs and assumptions and models developed within this office.

3.3 Eligible practitioners

3.3.1 Practitioners performing private practice become eligible for the Scheme by means of permanent retirement at age 65 years or older, cessation of private practice for three years, death, permanent disability or maternity leave. In addition, practitioners who have worked under a subclass 422 (Medical Practitioner) or 457 (Business (Long Stay)) visa under the *Migration Regulations 1994* become eligible for the Scheme when they have permanently ceased medical practice in Australia and ceased to reside in Australia.

3.3.2 Appendix 2 describes the test of eligibility for the Scheme and the process of issuing and notifying compulsory run-off cover to eligible practitioners. Eligible practitioners are entitled to receive notification of the terms and conditions of compulsory run-off cover from their MII. MIIs are also required to notify Medicare Australia of the details of the compulsory run-off cover provided.

3.3.3 There are inherent lags involved in notification of the details of eligible practitioners to Medicare Australia. As a result, it will be possible only to estimate the number of practitioners who have become eligible for the Scheme at any time. For example, there will often be a delay between the time that a practitioner becomes eligible for the Scheme and the time when the insurer becomes aware of this. More generally, it is also very possible that there will be circumstances where an insurer is unsure of the eligibility status of a practitioner indefinitely; for example, where a practitioner has not renewed their insurance for, say, three years. For all of these reasons, the numbers of eligible practitioners reported by insurers need to be treated with caution.

3.3.4 The number of practitioners eligible for the Scheme in this report is based on:

- data provided to Medicare Australia by the medical indemnity industry relating to practitioners identified as having become eligible between 1 July 2004 and 30 June 2011; and
- industry estimates of practitioners eligible for the Scheme as at 1 July 2004, provided for the purpose of the 2004-05 report.

3.3.5 The data provided for this review contained a number of apparent errors in respect of one MII for 2009-10 and earlier. Since the apparent errors were significant, we sought further information from Medicare Australia and have made a number of adjustments to the data as a result. The adjustments were made after considering all of the information provided by Medicare Australia, together with the historical data provided for earlier reviews. Although we believe the adjustments to be reasonable, it is possible that some errors remain. Table 1 summarises the data provided by the industry, after adjustment.

Table 1: Run-Off Cover Scheme eligible practitioners

	This year's data^(a)	Last year's data
Practitioners eligible for the Scheme as at 1 July 2004	2,112	2,112
Practitioners who became eligible for the Scheme during the 2004-05 financial year	447	450
Practitioners who became eligible for the Scheme during the 2005-06 financial year	608	603
Practitioners who became eligible for the Scheme during the 2006-07 financial year	763	747
Practitioners who became eligible for the Scheme during the 2007-08 financial year	850	863
Practitioners who became eligible for the Scheme during the 2008-09 financial year	840	828
Practitioners who became eligible for the Scheme during the 2009-10 financial year	786	735
Practitioners who became eligible for the Scheme during the 2010-11 financial year	972	N/A
Total number of practitioners eligible for the Scheme at 30 June 2011	7,378	6,338

(a) Note that these numbers have not been reduced in relation to practitioners whose eligibility has subsequently ceased.

3.3.6 According to the data provided by the industry, 972 practitioners became eligible for cover under the Scheme during 2010-11. This is in line with the number of practitioners that would be expected to have become eligible based on our projection models (that is, 986).

3.3.7 In addition to the errors referred to above, there was some apparent inconsistency in the data provided for this report, as between MIIIs. Reported rates of eligibility varied substantially between MIIIs when considered in aggregate and by reason for eligibility. The data reported here has not been adjusted to take account of this. As well, we have based our estimate of the number of doctors eligible at 1 July 2004 in Table 1 on previous industry estimates, as noted above. As a result of the inconsistencies mentioned above, the estimates are subject to considerable uncertainty.

3.3.8 Table 2 below illustrates the breakup of the 2004-05 to 2010-11 new entrants by reason of eligibility, based on the data provided by the underwriters. Also shown are the projected new entrants during 2011-12 from the population of practising at-risk doctors⁴ produced by our model.

4 At-risk practitioners are defined in paragraph A.4.13.

Table 2: Run-Off Cover Scheme new entrants by reason of eligibility

	Industry data							Model
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Retired	178	292	268	325	291	224	354	354
Maternity	69	118	210	185	216	229	234	375
Permanent disability	21	17	26	24	16	13	30	29
Died	90	74	93	107	82	77	73	99
Resigned	72	56	120	99	127	124	128	166
Other ^(a)	17	51	46	110	108	119	153	-
Total	447	608	763	850	840	786	972	1,023

(a) Overseas trained doctors who had permanently ceased practice under a 422 or 457 visa.

3.3.9 We have not projected any new entrants in the 'other' category. Historically, practitioners in this category have paid very low premiums. Accordingly, we have assumed that medical negligence claims against them are likely to make an immaterial contribution to the Scheme costs.

3.3.10 The table above shows that our valuation model is projecting somewhat higher numbers of new entrants than have been reported by the insurers. However, as noted above, the insurer data varies quite significantly between insurers and between reasons for eligibility.

3.4 Claims eligible for Run-Off Cover indemnity payments

3.4.1 MIIIs and MDOs are entitled to reimbursement from the Australian Government for the costs of claims which:

- are first notified to the MII or MDO on or after 1 July 2004;
- relate to a practitioner who is eligible under the Scheme at the date of notification⁵; and
- meet the other requirements for 'payable claims'.⁶

3.4.2 MIIIs provided details of individual medical incidents which they have identified as potentially being eligible for the Scheme. The data provided was not wholly consistent with that provided for last year's report. Moreover, there were some apparent internal inconsistencies within the data. It is quite possible that other medical incidents have been notified to MIIIs since 1 July 2004 which were not included in the data but which will be eligible for the Scheme. It is also possible that some of the incidents notified will not be eligible for the Scheme. Accordingly, these numbers should be treated with caution.

5 Refer paragraph A.2.1.

6 Refer paragraph A.3.2.

3.4.3 As at 30 June 2011, MIs and MDOs reported 234 medical incidents relating to eligible medical practitioners since the commencement of the Scheme and 127 of those have either led to a payment or have a case estimate⁷ attached to them.

3.4.4 Of the 234 incidents, 25 relate to the 2004-05 new entrants to the Scheme, 26 relate to 2005-06 new entrants, 33 relate to 2006-07 new entrants, 25 relate to 2007-08 new entrants, 21 relate to 2008-09 new entrants, 42 relate to 2009-10 new entrants and 12 relate to 2010-11 new entrants. Thirty incidents relate to those practitioners who were eligible at the commencement of the Scheme on 1 July 2004. The doctor's ROCS eligibility date was missing for the remaining 20 incidents.

3.4.5 196 of the incidents were present in last year's data, and the total estimated incurred cost of these incidents was approximately 12 per cent higher than the corresponding amount last year. Of the other 38 incidents, 33 were notified in 2009-10, and 5 are reported as having been notified in prior periods although they were not present in any previous data.

3.4.6 71 incidents which were included in the data used for compilation of the first four reports were not included by insurers last year or this year. We have previously checked the reasons for this with the insurers and were advised that some claims had initially been incorrectly assumed to be ROCS-eligible claims.

3.4.7 The number of medical incidents notified to MIs and MDOs which could potentially give rise to a future ROC indemnity payment is lower than perhaps might have been expected. At this point we are not assigning full credibility to the data, given the inconsistencies in it and its relatively small volume.

3.5 Run-Off Cover indemnity payments

3.5.1 ROC indemnity payments are the payments made by the Australian Government to MDOs and MIs as reimbursement of the costs of eligible claims.

3.5.2 The Scheme also provides for payments in respect of compliance costs and indirect claims handling expenses under the ROC Claims and Administration Protocol (section 34ZN of the Medical Indemnity Act).

3.5.3 ROC indemnity payments totalling \$9.3 million (including indirect claims handling expenses) had been made up to 30 June 2011, all of them since 1 July 2007. Specifically during 2010-11, \$4.5 million in ROC indemnity payments were made, of which \$3.3m was paid in respect of a single claim.

⁷ Estimate of likely cost to the insurer.

3.5.4 \$6.0 million compliance cost payments have been made to MII's up to 30 June 2011, while we have estimated that a further \$1.1 million relating to periods prior to 30 June 2011 is yet to be paid.

3.5.5 The Commonwealth's own administration costs are Budget-funded and so are not considered in this report.

3.6 Run-Off Cover support payments

3.6.1 ROC support payments are paid to Medicare Australia in the form of an annual lump sum imposed as a tax on each MII from 1 July 2004 under the MI ROCSPA.

3.6.2 The amount of ROC support payments is calculated using a method set out in the MI ROCSPA. Appendix 1 describes the calculation in detail. Very briefly, it is based on:

Applicable rate × (premium income less taxes and charges) ÷ (1 + applicable rate).

3.6.3 In 2010-11, the applicable rate was 5 per cent for all insurers.

3.6.4 Table 3 below summarises the ROC support payments received during the 2010-11 financial year. The total amount decreased from that received last year (\$14.568m). It is noteworthy that average medical indemnity premiums have reduced noticeably compared to previous years.

Table 3: Run-Off Cover support payments

		ROC support payments (\$'m)
Paid 30 June 2011	Avant ex-AMIL	7.410
	Avant ex-PIICA	0.017
	MDANI	2.522
	MIGA	1.320
	MIPSi	1.718
	QBE	0.741
	Total	13.727

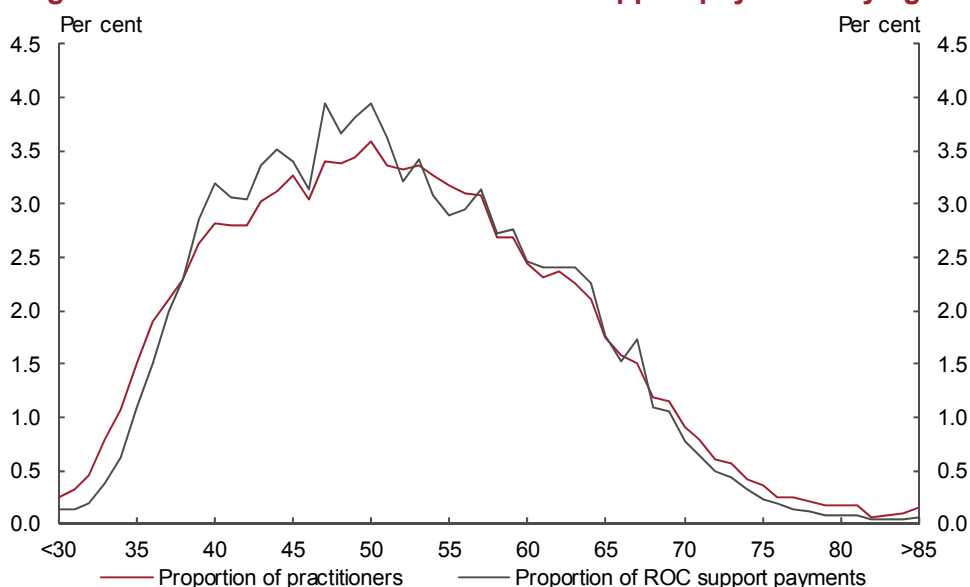
3.6.5 In order to provide full transparency for practitioners, MII's are required to attribute ROC support payments to individual policyholders. Each premium notice specifies the amount that has been included in the policyholder's invoice to meet the MII's ROC support payment obligations. All amounts are reported to Medicare Australia, which maintains a record of each practitioner's total run-off cover credit. Interest is applied to this balance annually at the short term bond rate in accordance with section 34ZS of the Medical Indemnity Act.

3.6.6 Part 2, Division 2B, Subdivision E of the Medical Indemnity Act provides for certain payments, should the Scheme ever be wound up without alternative arrangements being put in place. Thus, doctors who were still practising at the time of

the windup of the Scheme would be entitled to have an amount not exceeding their total run-off cover credit paid to their nominated medical indemnity provider. Practitioners who were eligible for the Scheme at the time of its wind-up would not be entitled to any refund but would continue to be covered for any future claims that might emerge.

3.6.7 Figure 2 below summarises the contribution to ROC support payments by age of practitioner. Note that age and gender were not available for a minority of doctors. In last year's report, the chart included 'at-risk' doctors who paid a premium of at least \$1,500 during 2009-10. In this report, however, we have changed the definition of 'at-risk' doctors to those who paid \$1,700 in respect of both medical indemnity premium and MDO membership fees during 2010-11. The shape of the graph is however almost identical to that produced in last year's report. The proportion of ROC support payments is greater than the proportion of practitioners for doctors aged between 40 and 50, but the relationship is less clear between ages 50 and 70. It reflects the low level of premiums for interns, trainees and hospital indemnified doctors aged in their 20s and 30s and for doctors over age 70 who may tend to wind down their practice hours and possibly perform fewer risky medical procedures (for example, surgery) as they reach more advanced ages.

Figure 2: Contribution to Run-Off Cover support payments by age



3.6.8 Figure 3 below summarises the contribution to ROC support payments by area of specialty. Specialty codes were not available in relation to a small minority of doctors. Similar to Figure 2, this chart only includes 'at-risk' doctors.

3.6.9 Medical indemnity insurance premiums tend to be risk-based. Thus, practitioners operating in higher risk areas of specialty are likely to incur the highest premiums and, accordingly, the highest ROC support payment liabilities. The largest ROC support payments are for obstetricians, gynaecologists, neurosurgeons, cosmetic/plastic/reconstructive surgeons, orthopaedic surgeons, and general surgeons. General practitioners — non-procedural have the smallest average ROC support payments. Note that most medical practitioners not otherwise classified (including interns, trainees and hospital indemnified doctors) are not shown in this chart as they are not included in the 'at-risk' group.

Figure 3: Contribution to Run-Off Cover support payments by specialisation

