

APPENDIX 5: HIGH COST CLAIMS

THE HIGH COST CLAIMS SCHEME

A.5.1 The HCCS is part of the broader package of Australian Government measures announced on 23 October 2002 that were designed to address problems with the medical indemnity insurance industry.

A.5.2 The HCCS is governed by Division 2 of Part 2 of the *Medical Indemnity Act 2002*. Under the HCCS, MIs and MDOs are reimbursed for part of the costs of large claims notified to them on or after 1 January 2003.

A.5.3 The HCCS meets 50 per cent of the excess above the threshold (currently \$300,000) of the cost of individual large claims, before the operation of the Scheme.

A.5.4 The HCCS threshold and the percentage used to calculate the amount of indemnity can be changed by way of regulation. The HCCS threshold has been changed by way of regulation as follows:

- \$2 million for claims notified between 1 January 2003 and 21 October 2003;
- \$0.5 million for claims notified between 22 October 2003 and 31 December 2003; and
- \$0.3 million for claims notified 1 January 2004 and later.⁹

A.5.5 For example, for a claim which costs \$1 million notified on 1 April 2012, the HCCS will pick up:

$$50 \text{ per cent} \times (\$1,000,000 - \$300,000) = \$350,000$$

DATA COLLECTION

A.5.6 Medicare Australia collects data in relation to the HCCS, in addition to the Scheme data described in section 3.

A.5.7 Data collected in relation to the HCCS include:

- details of claims/incidents notified to MIs and MDOs by 30 June 2012 which might lead to recoveries under the HCCS;

⁹ Since the Scheme commenced on 1 July 2004, the relevant HCCS threshold is currently \$300,000.

- actuarial estimates of that part of the cost of claims relating to incidents which occurred before 30 June 2012 and are expected to be recoverable under the HCCS; and
- an estimate of that part of the future claims cost of medical incidents notified during the 2012-13 to 2015-16 financial years which is expected to be recoverable under the HCCS.

RELEVANCE OF HIGH COST CLAIMS SCHEME DATA TO THE RUN-OFF COVER SCHEME

A.5.8 A small proportion of medical indemnity claims are larger than \$300,000. These high-cost claims have a noticeable influence on the total cost of medical indemnity each year.

A.5.9 Claims which take longer to report tend to be bigger on average. In addition, the longer the delay involved in notifying a claim, the more likely the claim will be notified at a time when the practitioner is eligible for the Scheme.

A.5.10 Thus, the small proportion of large claims made by retired practitioners will have a marked impact on the total cost of the Scheme.

ANALYSIS OF LARGE CLAIMS

A.5.11 HCCS data collected by Medicare Australia provide some insight into the likely profile of large medical indemnity claims.

A.5.12 According to the data collected, as at 30 June 2012, 882 claims/incidents had been notified to MIIIs and MDOs which were expected to be covered by the HCCS.

A.5.13 The cost estimates available for HCCS claims/incidents represent total case estimates, including amounts already paid as at 30 June 2012. This figure is around \$754 million. Of this, around \$390 million had already been paid by insurers as at 30 June 2012, and around \$364 million remained outstanding.

A.5.14 The HCCS data provides a reasonable but imprecise measure of the likely profile of large medical indemnity claims.

A.5.15 The distribution of estimated costs of HCCS-eligible claims notified between 1 January 2004 and 30 June 2012 is shown in Table 16. The distribution is presented in terms of the proportion of total estimated claim cost attributable to each claim size band. For example, about one fifth of the total estimated cost of HCCS-eligible claims was attributable to claims expected to cost between \$0.3 million and \$0.5 million.

Table 16: Distribution of High Cost Claims Scheme-eligible claims

Claim size (\$'m)	Proportion of claims (per cent)
0 to 0.3	N/A
0.3 to 0.5	19
0.5 to 2.0	48
>2.0	33

A.5.16 The HCCS data illustrates the pattern of delay between a relevant negligent medical incident and the date that a large claim/incident is notified to the MII or MDO. The claim reporting pattern (based on claim numbers) observed in relation to HCCS claims is compared in Figure 7 to the general medical indemnity claim reporting pattern assumed for the purpose of undertaking the Scheme cost analysis. Note that eligible claims are included which were notified between 1 January 2004 and 30 June 2012, with an applicable threshold of \$0.3 million.

Figure 7: High Cost Claims Scheme claim reporting pattern

