
The

Risk Retention Reporter

How to Succeed Writing Medical Malpractice Insurance?

*Featuring Stewart Tetreault, President & CEO
Oceanus Insurance Company, A Risk Retention Group*

How to succeed writing medical malpractice? An improbable question given that the Med Mal insurance market has been in turmoil for the last 25 years. Yet, it was the obvious question to ask our CEO of the month for July, Stewart Tetreault, President of Oceanus Insurance Company, A Risk Retention Group.

His success story building Oceanus from its first policy issued January 15, 2005 to an expected profitable premium volume approaching \$30 million by the end of this year has lessons for anyone in the RRG business. The lawsuit crisis that began in the eighties drove companies that had been writing Med Mal for decades out of the business and caused others to withdraw from litigation-prone states or jack up prices to the point they were driving physicians and surgeons to move or to abandon practice.

Tetreault not only waded into this jungle, he took on—what many believe to be the toughest state of all to succeed in as a writer of medical malpractice insurance—New York. With a legislature dominated by the plaintiff's bar, efforts to enact tort reform failed time and time again. As traditional carriers moved out of the market, physicians' mutuals were formed, but it wasn't long before they got into trouble and had to be propped up by the State or granted draconian rate increases that caused havoc in the medical community.

The first question we asked the Oceanus CEO was:

RRR: How did you succeed in New York when so many others had failed or given up?

Tetreault: We were attracted to New York because of the demand and believed that without the burden of past losses and, free as an RRG to price coverage to the individual physician or group's experience, we could meet a tremendous need while making a profit. We were able to give physicians with good records the lower prices they deserved. It worked.

RRR: Tell us more about the principles that guide Oceanus in the other states where you operate, not just New York.

Tetreault: There are three prime keys to our success—the quality of our distributors, the ability to price to the exposure, and the fact that insurance people run the company. These principles work in all the states

where we do business. We rate to the exposure versus off-the-shelf rates or the one-size-fits-all rates the admitted carriers charge in New York under the state regulated system.

RRR: Let's take these one by one. How do you select distributors?

Tetreault: We write insurance through independent agents, but we only choose agents who specialize exclusively in medical malpractice. Six agents who are recognized as experts in the field handle the bulk of our business. We have a relationship of trust with these agents. They bring us only quality submissions. They do field underwriting before submitting risks to us. We like to write the large groups these agents bring to Oceanus. Some 60 percent of the Company's revenue comes from groups with premiums of \$500,000 or more.

Stewart Tetreault President & CEO

RRG: Oceanus Insurance Company, A Risk Retention Group

Organizational Structure: A stock company owned by policyholders

RRG Member/Insureds: Physicians and Surgeons

Education: B.A. University of Connecticut; Master of Finance, Wharton School, University of Pennsylvania

Experience: 25 years in liability insurance brokerage and management

Proudest Achievement: Growing profits in medical malpractice insurance in states where the market is soft

Biggest Challenge: Finding quality insurance agents who specialize exclusively in medical malpractice insurance and who bring Oceanus only good business rather than feeding us lots of submissions we have to decline

RRR: What about pricing to the exposure? What discipline do you apply to the selective underwriting process?

Tetreault: We only take the top 25 percent of physicians' groups in the market. We price to the specific insured, not the aggregate market. For example, when an agent submits a group of 10 orthopedic surgeons, our actuaries study the group. Then we review it with regulators in our domicile state of South Carolina. Each risk is rigorously analyzed to be sure it meets our strict guidelines.

RRR: You say it's important that insurance people run the company. How do you convince physicians who own the company that it should be managed by insurance pros?

Tetreault: Our members are physicians and surgeons. They want dependable, affordable liability insurance. They don't want to run an insurance company. They understand that when you're sick you go to a doctor, and when you need insurance you go to an insurance professional. We have two physicians on our seven-member board. They give us the important medical perspective and give the insured physicians a voice. We also have two CPAs and two lawyers. I serve on the board to represent management.

RRR: How active is your board?

Tetreault: Very active—or, I should say interactive. We chat every two weeks and seek their advice on specific claims.

RRR: Please explain your management structure.

Tetreault: We outsource management and underwriting to Healthcare Risk Services. I'm the president of HRS so I'm the chief underwriter. As of April 1, we brought claims in-house and hired an attorney and support staff to manage this important function.

RRR: What about so-called "skin in the game?" Does Oceanus require a capital contribution from new members now that the Company has built a solid capital foundation? If a member opts out to obtain insurance from a carrier that offers lower rates, do you return the capital contribution?

Tetreault: We require a capital contribution from all new members of one third of the member's annualized premium for the first two years. In the beginning, this guaranteed the Company a three-to-one premium to surplus (or capital) ratio. We continue to require capital

contributions to build surplus. The Company now has close to a two-to-one ratio. That's a measure of our financial strength. If a member leaves after three years—and by the way, Oceanus has a 96 percent retention ratio—the member gets 50 percent of the capital contribution back and 100 percent after four years.

RRR: Some complain that non-domiciliary states are placing undue burdens on RRG operations within their states. Oceanus is domiciled in South Carolina and registered in 31 states. What's your experience?

Tetreault: Currently, Oceanus is writing business in 16 states. None of the states where we're registered have given us burdensome hurdles to overcome. We work closely with the South Carolina department and consult with them frequently. If you run a successful, well-managed RRG, you won't have problems with regulators.

RRR: What are your growth goals?

Tetreault: Our goal is to write \$30 million in premium by the end of 2009 while maintaining our profit ratio. In the first half, Oceanus has booked some \$21 million so we're well on the way. We write a considerable amount of business in New York because physicians with clean records are looking for coverage at prices that won't drive them out of business, and we only take doctors or groups with low loss ratios. However, we primarily target states with less litigation, especially where tort reform has been enacted. We only expand to a new state when we have secured a relationship with a broker who writes med mal exclusively and brings a substantial book of profitable business.

RRR: We heard you spend time racing fast cars when you're not managing Oceanus. Have you learned anything from racing that helps you in business?

Tetreault: I've been sports car racing since 1993—driving everything from vintage cars and Corvettes to my Porsche 934. Racing certainly has taught me adaptability and that's important to business. Most important, racing is about having fun. I have fun racing, and I have fun in business. If you don't enjoy what you're doing, find another job.

*Reprinted from the July 2009 Risk Retention Reporter —
Volume 23, Number 7*