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# Insight & Perspectives

A publication of Sompo International Insurance's Healthcare Practice

## ABOUT US

Our U.S. and Bermuda teams provide healthcare professional liability coverage to non-profit and for-profit hospitals and other healthcare organizations.

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We are pleased to offer our latest installment of **Insight & Perspectives**. This newsletter is dedicated to sharing healthcare news, trends and developments impacting our brokers and insureds.

This installment features Kathleen Shostek's article *The Business Case for Patient Safety*, citing numerous industry sources that demonstrate the correlation between measures to improve patient safety and financial value for healthcare organizations.

As always, we appreciate your continued support and thank you for selecting Sompo International Insurance to be a part of your risk and insurance programs.

## The Business Case for Patient Safety

*By Kathleen Shostek, Vice President, Healthcare Risk Management, Sedgwick*
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Speaking at an educational webinar for the Society for Healthcare Risk Management of New Jersey in 2015, Faye Sheppard, now president-elect for the American Society for Healthcare Risk Management (ASHRM) said, "There are two abiding truths in healthcare. One is that patient safety makes sense. The other is that money gets attention."[1] Whether from medical errors resulting in healthcare liability claims, the risk of payment reduction due to iatrogenic injuries, or incentives for quality care, there has never been a more compelling business case for patient safety in healthcare organizations.

### Medical Errors: The Numbers

In 1999, the Institute of Medicine published the report, *To Err is Human*, attributing 98,000 annual deaths to medical errors. In 2013, researchers published a revised estimate of the number of patients who die every year from preventable medical error in the United States and the increase was dramatic. The newer estimate – ranging from 200,000 to more than 400,000 annual deaths – did not take into account the number of patients that are seriously harmed, which is estimated to be ten to twenty times higher.[2] An even more recent study, published in 2016 by Johns Hopkins University School of Medicine, put the number of annual deaths from medical error at 250,000.[3] Regardless of which estimate is correct, all are equally alarming.

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## Cost of Liability Claims

Controlling liability losses through measures aimed at providing safer patient care is a foundational business strategy of healthcare risk management. The 2016-2017 Aon/ASHRM Hospital and Physician Professional Liability Benchmark Report, an annual healthcare industry analysis that provides data on the cost of risk, projected the loss rate for hospital professional liability to be $2,620 per occupied bed equivalent (OBE). The frequency of claims was projected to be 1.55 per 100 OBE and the severity of claims to be $169,000 per claim.[4] These costs are associated with malpractice liability claims that often occur when patients experience negative clinical outcomes due to medical errors or as a result of unsafe systems in hospitals.

In the first ASHRM white paper on eliminating preventable harm, *Serious Safety Events: Getting to Zero*, the financial connection to both serious safety events and patient safety was clearly demonstrated. One example from the Children's National Medical Center in Washington, D.C. calculated the cost savings from safety improvements and prevention of patient harm. It established the correlation between a decreasing rate of serious safety events with increasing dollars saved based on average indemnity payments for closed liability claims.[5]

In 2015, a study by the University of Central Florida School of Medicine affirmed the significant financial case to be made for improving safety and reducing all-cause harm in hospitals. Over a three year period, researchers monitored the impact of inpatient harms on hospital finances across 24 hospitals in a large healthcare system. They found that systemic identification and reduction of patient harm led directly to significant financial benefit. The health system saved more than $100 million by improving the safety and reliability of the healthcare they delivered during the study period, reinforcing the significant relationship between a hospital's safety practices and financial well-being.[6]

## Risk of Payment Reduction

Beginning with the Inpatient Prospective Payment System 2009 Final Rule, the Centers for Medicare and Medicaid Services (CMS) designated certain categories of conditions for the Hospital Acquired Condition (HAC) payment provision. The term "hospital acquired" means that the patient's condition was not present upon admission to the hospital, and thus acquired while a patient was in the hospital – sometimes resulting from deficiencies in safe patient practices. This provision, which eliminates additional payment or a higher rate of payment to hospitals when these conditions occur in hospitalized patients, incentivizes hospitals to prevent HACs, and provides a strong business case for avoiding harm and keeping patients safe. HACs include, but are not limited to, conditions and injuries such as unintentionally retained objects after surgery, pressure ulcers, fractures from falls, certain infections, deep vein thrombosis, and iatrogenic pneumothorax.[7]

## Reduced Incentive Payments

The Affordable Care Act of 2010 created the Value-Based Purchasing Program (VBP) whereby hospitals who can demonstrate they deliver highly rated quality care can receive incentive payments from Medicare for services rendered to Medicare beneficiaries.[8] Hospitals must report on a cadre of quality measures capturing clinical outcomes as well as adherence to evidence-based care. These measures include a composite score based on patient safety indicators such as in-hospital complications and patient experience of care. Hospitals' incentive payments are reduced when they fail to meet established thresholds of performance in quality, safety and performance. There is no doubt that healthcare organizations will continue to face unrelenting financial pressures to deliver value in terms of quality of care and efficacy – another reason that keeping patients safe is a sound business strategy.

Improving patient safety and reducing patient harm due to adverse events has always been viewed as a moral imperative. Evidence is now available to support what many risk managers and healthcare providers have long believed: keeping patients safe from harm is not only the right thing to do – it is also cost-effective. With demonstrated financial benefits, delivering quality care should be part of all healthcare organizations' strategies for success.[9]

[1] Sheppard, Faye, "ROI for Patient Safety: Demonstrating Value of Risk Management," Webinar at the Society for Healthcare Risk Management of New Jersey, December 18, 2015.

[2] James J.T., "A New, Evidence-based Estimate of Patient Harms Associated with Hospital Care," *J Patient Safety*, September 2013.

[3] Makary M., "Medical error—the third leading cause of death in the US," *BMJ*; 353:i2139, May 3, 2016. http://www.bmj.com/content/353/bmj.i2139.

[4] *Aon/ASHRM Hospital and Physician Professional Liability Benchmark Report* (2016-2017). https://ams.aha.org/EWEB/DynamicPage.aspx?WebCode=ProdDetailAdd&ivd_prc_prd_key=baf2d153-0c0f-4e3f-bb16-6fe1831fe960.

[5] American Society for Healthcare Risk Management [ASHRM] White Paper, "Serious Safety Events: Getting to Zero," 2012. http://www.ashrm.org/pubs/files/white_papers/SSE%20White%20Pape_10-5-12_FINAL.pdf.

[6] Adler L., et, al., "Impact of Inpatient Harms on Hospital Finances and Patient Clinical Outcomes," *J Patient Safety*, March 23, 2015. http://journals.lww.com/journalpatientsafety/pages/articleviewer.aspx?year=9000&issue=00000&article=99687&type=abstract.

[7] Centers for Medicare & Medicaid Services, "Hospital Acquired Conditions," 2015. https://www.cms.gov/medicare/medicare-fee-for-service-payment/hospitalacqcond/hospital-acquired_conditions.html.

[8] Department of Health and Human Services Centers for Medicare & Medicaid Services, "Hospital Value-Based Purchasing Fact Sheet," 2015. https://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNProducts/downloads/Hospital_VBPurchasing_Fact_Sheet_ICN907664.pdf.

[9] American Society for Healthcare Risk Management [ASHRM], "Preface. Patient Safety Risk Management Playbook," 2015. www.ashrm.org.