

Statement of

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before the

**HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE**

March 23, 2004  
State Capitol, Conference Room 325, 4:00 pm

in consideration of

**SB 2957 SD2 HD1**

**RELATING TO HOSPITAL AND PROFESSIONAL LIABILITY RISK FINANCING**

Chair Hiraki, Vice Chair Herkes, and Committee members.

Thank you for this opportunity to testify on behalf of the John A. Burns School of Medicine of the University of Hawai`i in strong support of SB 2957 SD2 HD1. This bill would establish a domestic captive insurance company to provide malpractice coverage for Hawaii Health Systems Corporation (HHSC), the Department of Health (DOH), the John A. Burns School of Medicine (JABSOM) and other government entities of the State involved in the provision of healthcare. As the State's only medical school, JABSOM has the responsibility for preparing the next generation of physicians to serve Hawaii's healthcare needs. The training of physicians is necessarily a hands-on process. Thus, our faculty physicians, in the course of training medical students, residents and fellows, provide direct patient care as a central part of their professional responsibilities. The provision of adequate malpractice insurance coverage is thus an important issue for our faculty as well as for the School. Without malpractice insurance, it would be impossible for us to train physicians.

Hawaii has not been immune to the malpractice insurance crisis which is sweeping the nation. Like many other communities across the country, Honolulu has seen a dramatic increase in malpractice insurance rates for physicians and hospitals over the course of the past two years. The increased costs of providing malpractice insurance coverage is becoming a serious strain on JABSOM's budget. For example, after many years of paying yearly stable malpractice insurance premiums, last May JABSOM's malpractice insurance carrier informed us that premium costs would double for the policy year starting July 1, 2003. It was only after protracted negotiations with the insurance carrier and with our agreement to change several key coverage provisions that JABSOM was able to secure a policy renewal at a 25% increase in premium. JABSOM's total insurance premium cost for the contract year ending June 30, 2004 is approximately \$800,000. Changes in the conditions of coverage which were required included increasing the deductible

from \$150,000 to \$300,000 per claim, restrictions on coverage of patient care encounters where no resident physician or medical student is present and the assumption by the university of some of the malpractice insurance defense costs related to claims made against JABSOM physicians. As JABSOM's current policy is for a one-year term, the School anticipates a further significant problem in securing malpractice insurance for the period July 1, 2004 going forward.

A captive insurance company domiciled in the State of Hawaii and organized under Hawaii's state law would be a significant benefit to JABSOM as well as to the other government and quasi-government entities of the State involved in the provision of healthcare. Based on JABSOM's experience in the current malpractice insurance market, we anticipate that the cost of malpractice insurance will continue to escalate if the School is forced to purchase a commercially available policy. We believe that a captive insurance vehicle, as proposed by SB 2957 SD2 HD1, can provide the necessary coverage in a cost effective way ensuring that the School of Medicine and other government entities to whom the provision of healthcare is a central mission will continue to be able to fulfill our obligations to the people of Hawaii. Thus, we stand together with HHSC and the DOH in urging the Legislature to support SB 2957 SD2 HD1.

Thank you for the opportunity to testify on this measure.