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The
Risk Retention
Reporter

From Making Cigars to Managing a RRG—A Success Story

Featuring Anthony Maniscalco, Chief Operating Officer, Lancet Indemnity Risk Retention Group, Inc.

How did Anthony Maniscalco, a former cigar manufacturer, morph into the chief operating officer of Lancet Indemnity Risk Retention Group, Inc., a provider of medical malpractice insurance? It wasn't easy, but a combination of entrepreneurial ambition and managerial know-how led to successes in real estate and finance, outsourcing services to physicians, and, a few years ago, to taking charge of a startup RRG.

Maniscalco thought about law school when he graduated from college, but realized early on that he wanted to run his own business. He bought a small cigar factory in Tampa, Florida. Over almost 10 years, he built it into the largest producer of hand-made cigars in the country. Maniscalco sold the company in 1983 and went into real estate for the next eight years.

After a bad experience with an outside management services vendor that went bankrupt, his brother, Dr. Benedict Maniscalco, a cardiologist, turned to Anthony for help. Anthony set up Medical Group Services, LLC, a medical billing and collection company, that today serves more than 350 medical professionals across the country.

"With 17 years of experience working with physicians as a service provider, I understood the med mal environment. So, when my brother and five local physicians in Tampa became frustrated with the high cost and volatility of their medical malpractice insurance, I agreed to help them take control. They formed Lancet as an RRG, and I became chief operating officer," Maniscalco said. The founders capitalized the RRG in late 2007 with cash and a letter of credit from a local bank.

"From 2008, when we wrote only 10 policies, Lancet has grown to the point that we'll be reporting gross premiums of more than $11 million in 2012 with surplus of some $4 million," he said proudly.

While Lancet's premiums grew impressively in the first four years, net income dropped significantly in 2011. Why? "There were lots of variables. It's not unusual for a maturing program to have some bumps along the way. Claims, defense costs, and raising reserves for future losses all played a part. In the first years, we depended on a small nucleus of brokers," he explained. "Over the last two years, we did more aggressive marketing, and we now have a network of highly qualified brokers. As the company grew, we put capital contributions into surplus, which gives Lancet a strong financial base. We also spent more on marketing—attending medical group meetings and other promotional activities—which paid off. As a result, net income is on the upswing."

Growth Strategy Based on Strong Broker Network

Lancet is licensed in 17 states, but most of the business is concentrated in Florida and Michigan. "We entered California about a year ago and expect to grow substantially there over the next couple of years, but we don't intend to go national any time soon," he stated. The company's growth strategy is based on developing a network of qualified brokers in a target state. One of the founding members owns an independent agency in Michigan, which is how the company gained a strong foothold there. Lancet's governing board will not enter New York, Pennsylvania, or other litigation-prone states.

"We seek respected brokers who specialize in medical malpractice, but we also consider brokers with a broad book of business. We're very selective in appointing brokers. Our chief underwriter and executive vice president, Dennis Watts, has more than 40 years in medical malpractice insurance." Maniscalco pointed out, "He and his underwriters examine the history of every potential broker, and many are turned down."

Anthony Maniscalco
Chief Operating Officer

Company: Lancet Indemnity Risk Retention Group, Inc.

Organizational Structure: Stock insurance company owned by policyholders

Education: Bachelor of Science, University of South Florida, Tampa

Experience: Thirty-seven years in business/five years in RRG management

Proudest Achievement: Managing a variety of businesses successfully in a rapidly changing environment.

What differentiates Lancet from the many other RRGs that write medical malpractice insurance and the traditional companies that are competing once again for this business in some areas? "We're a small fish in a big pond, but we turn this into an advantage by providing a level of service and clinical expertise in underwriting that keeps prices reasonable and relatively stable for our physicians," he explained. "Our members can get quick decisions from senior management unlike dealing with large traditional carriers, and we can price more competitively than many other markets because we have lower infrastructure costs."

Among other competitive points of difference, he said Lancet "offers the best legal advice in the industry." He pointed out that 75% of cases have been settled with no payment and 25% settled with some payment. "Over the five years Lancet has been in business, only a single case went to court. We won a directed verdict." Unlike some med mal insurers, Lancet will insure all specialties, except bariatric surgeons, provided they meet the company's rigorous underwriting standards.

Outside-the-Box Underwriting/Some Non-Traditional Coverages

In a testimonial on the company's website, Rafael Castillo, of Castillo Insurance Services in Fort Lauderdale, said in his opinion, "Lancet has become the leading risk retention group in the USA with outside-the-box underwriting and offering the best premiums." What does he mean by outside-the-box underwriting? "Our experienced underwriters can offer lower prior-acts coverage where justified and, in some cases, we provide coverage on an 'encounter' basis—according to the number of visits—which keeps prices down for some physicians. We don't require deductibles except in higher risk cases," said Maniscalco.

In addition to all the traditional coverages, Lancet offers special and non-traditional coverages. "These represent a small percent of our revenue, but they fill a need for some policyholders," said Maniscalco. Among the options are indemnity-only policies with defense costs in addition, including the option to deal with outside law firms; and two and three-year contracts with guaranteed premiums. Lancet also insures some physicians whose policies have been cancelled, non-renewed, or surcharged by other carriers. Sounds like risky business, but the risk is mitigated by higher deductibles and lack of prior-acts coverage. "We depend on the expertise of our underwriters in this area, and we've been successful insuring this limited class of business."

How serious is the risk of theft, loss, or accidental transmission of patients' confidential data in today's world of Internet communication and electronic medical records? "The risk is increasing. I see it from both sides—as the owner/operator of a medical billing company and COO of an insurer. There are so many systems today. Some of them don't talk to each other. Many older physicians aren't up to speed on today's technology. Hospitals, more and more, require internet and extranet connectivity. All of this creates substantial exposure for physicians. That's why we offer E-med defense coverage. Fifty percent of our physicians buy into this cover, and we've been able to provide it successfully within strict underwriting standards," Maniscalco explained.

Up-Front Risk Management

Lancet has a three-stage risk management program. A Risk Management Committee composed of physicians meets with prospective members to learn about their claims history and current practice. If the Committee has concerns, on-site visits by an independent company are made to review the practice in detail. The on-site report is turned over to a Physicians' Review Committee that evaluates all aspects of an individual case.

Lancet's Future

Looking to the next few years, Maniscalco says the Lancet Board aims to continue steady growth of between 20 and 25% a year to a level of some $20 million in gross written premiums. The Board is committed to plowing profits into surplus to strengthen the capital base as the company grows, instead of declaring dividends.

Based on his experience forming and operating a successful RRG in a tough line of business and operating a medical billing company that deals with physicians across the country, Maniscalco would offer this advice to anyone launching a RRG: "Don't ever think you have enough capital. Surround yourself with the most knowledgeable people in your line of business and stick to strict underwriting standards."

Maniscalco's road to success has taken a number of turns—from making cigars to real estate investment, to medical practice billing, to building a successful RRG in a challenging environment. His career path proves that a combination of entrepreneurial drive, management skills, and the ability to learn a new business will lead to success.

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