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Malpractice Insurance: The Lowest Rate Might Not Be the Best Deal

Charles E. Cline, DC

Purchasing a malpractice policy is not a bargain-hunting procedure. Sometimes, in an attempt to reduce overhead costs, you can eliminate obvious extras or find an already depreciated piece of equipment. That makes good business sense. But before buying or changing your malpractice insurance, you need to weigh all facts.

Although you can select malpractice insurance from several companies, you only have two kinds of coverages to pick from: occurrence and claims-made, each significantly different in their effect and protection.

Occurrence

The first, occurrence, is standard and traditional. National Chiropractic Mutual Insurance Company (NCMIC) offers only this coverage. You're covered for all claims that arise out of an occurrence which takes place during the policy period. If, for some reason, you decide to cancel your occurrence coverage, you will still be covered for the period in which the premium was paid.

Example: If you retire or die, your estate and savings will be protected, up to the limits of your coverage, against any occurrence during the policy period.

Although occurrence coverage bears a higher initial rate, you know from the beginning what your premiums will be for each policy period. Plus, there are no additional costs tacked on later. Occurrence policies also provide for accumulation of two aggregate limits: the per occurrence and the annual aggregate. Each year the policy is renewed a new aggregate limit will be assigned but will not reduce any coverage existent during prior policy years. It is also easier to change or alter your coverage without additional costs or gaps.

NCMIC markets the occurrence coverage exclusively.

Claims-Made

The second kind of coverage is claims-made. The premiums are lower at the inception of the policy but increase on each successive renewal. These policies offer protection only for those claims filed while the policy is in effect. Thus, claims reported this year are covered by this year's policy, claims reported next year, by next year's policy.

Consequently, a claim made one day after you cancel the policy for whatever reason (retirement, death or changing to another insurance company), will not be covered regardless of the fact that the suit is based on a malpractice claim that occurred while you were paying the premium.

Claims-made policies were developed by some companies in order to reduce premiums and be more competitive. However, these lower rates are only temporary. Claims-made rates go up every year for five years. As a result, they quickly approach or exceed companies like NCMIC that offer traditional occurrence rates. It is wise to ask in the beginning where the rates are going.

Claims-Made Options

Insurance companies providing claims-made policies generally offer, at an additional cost, options or riders for those instances when a policy is canceled, replaced by an occurrence policy, or simply not renewed.

The first option is an extended reporting period endorsement. It provides protection for claims presented after the policy has expired.

The second option is a prior-acts coverage for those who had a claims-made policy with another insurance company, and those who didn't purchase a tail endorsement. Unfortunately most of these riders have strict time limits so that all possible claims may not be covered.

With both of these options, additional premiums are required. Some times this may be as much as 200% of the current premium.

The third option is no coverage at all; thus leaving your career, finances and peace of mind open to disaster.

Another significant drawback of claims-made coverage is that these policies may undergo changes on a year-to-year basis, which can substantially affect the nature of the coverage provided.

Five Year Rates

The rate development for a claims-made policy is typically based on a five year period. The following chart illustrates the rates of a one million/one million policy in California for an NCMIC occurrence policy, and a possible scenario for a claims-made policy:

Policy Period	NCMIC Occurrence Premium	Claims-Made Premium
1	$4,127	$1,651
2	4,127	2,682
3	4,127	3,301
4	4,127	3,797
5	4,127	4,127

The above information utilized actual reporting factors of a competitor to NCMIC. If you are paying higher rates for comparable limits than what is shown here, you should sincerely review the policy you're currently carrying.

Now you can see how rates can be deceiving and why you need to make an educated assessment of your malpractice insurance. If you are considering a claims-made policy, find out what the rating schedule is for the full five-year period, what will the options be, and how much will they cost?

With this information to guide you, you will get the most cost-effective insurance for your business.

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