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Insurance Physicians Expect

From the Files of MGIS…

Choosing Disability, Medical Liability Insurance for Your Practice

By Jeffrey D. Brunken

The economic crisis has schooled us all against taking financial security for granted. Now more than ever, it is important to apply the “buyer beware” philosophy to decisions about selecting an insurance carrier for your practice, especially for disability and medical liability.

Many physicians and office managers view insurance purchases as commodities — often making the decision solely based on price. In reality, what you are actually purchasing is not a paper contract, but an insurer’s ability to pay claims throughout the duration of your practice — and beyond. There are sharp contrasts between disability and medical malpractice claims. However, they both present long-term risks and insurer financial strength is crucial in such instances.

Let’s consider two possible scenarios. When a carrier signs a long-term disability policy for a doctor, there is about $3.4 million of potential liability (assuming a 40-year-old doctor who becomes disabled and is subsequently paid $15,000 a month for 25 years). Multiply this sum by potentially hundreds or even thousands of claims, and it’s clear that the carrier must have considerable financial strength for you to bet your future economic well-being on them. Second, and perhaps more complex, are medical malpractice situations. If an incorrect diagnosis is given, for example, the impact may take months or even years to surface. Again, the carrier’s financial position must accommodate the potential time horizon involved in such claims.

Therefore, when comparing “apples to apples” features, the insurance company’s financial strength can become the deciding factor.

Here are three recommendations to better prepare you or your office manager for adequately vetting your carrier, plus a few warning signs that may signal current or future instability.

1. Check and evaluate the carriers’ ratings. A.M. Best Company ratings are recognized as the industry benchmark. A company should have a secure rating of "A" through "A++". There are three main types of ‘Best’ ratings that address an insurance carrier’s financial stability:
• *Best’s financial strength rating* — An independent opinion of an insurer’s financial strength and ability to meet its ongoing insurance policy and contract obligations.

• *Best’s issuer credit ratings* — An independent opinion of an issuer/entity’s ability to meet its ongoing senior financial obligations. This rating is assigned to insurance companies and related holding companies and other legal entities authorized to issue financial obligations.

• *Best’s debt rating* — An independent opinion of an issuer’s ability to meet its ongoing financial obligations to security holders when due. The rating is assigned to the debt securities and insurance-lined securities transactions of the entities rated by A.M. Best.

Think about the importance of your practice having adequate savings to weather hard times. Carriers rated below "A" may not have the long-term financial "staying power" to meet policyholder obligations in the face of economic downturns or difficult insurance-market cycles. An "A+" rating is far more likely to indicate long-term financial stability. It is possible that a lower priced product offered by a lower rated carrier may not be the bargain it appears.

Ratings are an indication of not only a carriers' future ability to honor its promises to policyholders but may also signal hidden issues that may be emerging due to short-term decision making in a long-term market. A deeper look can reveal what may be simmering below the surface.

2. Review the company's history. Other indicators of financial and operational stability can be found by quickly searching online for news about the firm. This search can show you if a carrier is experiencing low profitability, had to take Troubled Asset Relief Program (TARP) money, has undergone a major management shake-up (particularly in the group insurance market), if shareholders are complaining, and if top management is laying out a plan to get the company back to profitability. These events can be red flags indicating instability, which could be bad news for you as a policyholder.

3. Investigate the strength of the policy group. There have been situations where policyholders were left high and dry when a major carrier could not pay its claims. Another red flag is when a physician's insurance carrier changes due to an acquisition. Sometimes carriers discover business is not as lucrative as they thought and get out of that line of insurance within a few years, creating uncertainty for policyholders. Again, pricing can provide clues. Even today, some brand-name carriers are fueling sales by offering low prices that will not sustain their financial stability.

Ratings, company history, and policy group strength are key indicators to an insurer's financial stability. Including these three precautionary steps in your evaluation process is a worthy investment and can ensure a harmonious future scenario for your practice and your life. In today's competitive marketplace, physicians have quality options and must explore them.