

A Primer in Professional Indemnity Insurance Terminology

By Dr Tham Tat Yean



INTRODUCTION

Generally speaking, professional indemnity insurance for doctors is available in two forms: occurrence or claims-made. Although the protection afforded can be similar, it is important to understand how each form of insurance can respond to a claim.

DEFINITIONS

An occurrence policy responds to a claim if a policy is in force at the time of the occurrence of the medical incident.

A claims-made policy responds to a claim if a policy is in force *at the time a claim is reported*.

CONSIDERATIONS IN INSURANCE POLICY PRICING AND ITS IMPACT ON DOCTORS

The differences in the responses of these two types of insurance policies will result in differences in premiums charged to the doctors.

When a doctor pays for an occurrence policy, the cost to cover ALL medico-legal actions from his practice during a policy year is paid IN FULL. The premium paid will cover all FUTURE claims based upon his practice during that policy year. As a result, no additional premium is required if he cancels his policy.

When a doctor pays for a claims-made policy, he pays only A PART of the cost to cover all medico-legal actions from his practice during a policy year. This is an important consideration which has caused much confusion to many medical practitioners because the implementation of professional claims-made policies has a relatively short history in Singapore. The part of the cost paid is the computed cost for medico-legal actions against the doctor in that POLICY YEAR ONLY. Obviously, the likelihood of such actions is small because patients (historically speaking) usually do not sue for at least a year after the consultation, treatment or outcome. With a relatively small risk, the premium is understandably small in the first year.

In the second claims-made policy year, the doctor now has to pay for medico-legal risks in that year for anything that arises in year one AND year two. Since this is a higher risk situation, the insurance premium will be higher in the second policy year. This "stair-stepping" of insurance premium will continue for a few years until a "mature" or stabilised premium is attained.

There is one more important point to note. Unlike the occurrence policy scenario, if a doctor cancels his claims-made policy, all future claims arising from acts done in the policy WOULD NOT be covered, strictly speaking. This is because a claims-made policy is structured in such a way that the insurance cost is NOT paid in full. However, the doctor can

purchase a "tail" cover before he cancels the claims-made policy. This action is akin to converting the claims-made policy into an occurrence policy.

From a mathematical point of view, the "tail" cost is simply the cumulative difference between the occurrence premium and the claims-made premium at a point in time. The computation of the actual "tail" cost for a doctor would depend on ratings factors applied to his policy and is beyond the scope of this article.

WHAT IS THE DIFFERENCE BETWEEN A "NOSE" AND A "TAIL" ?

A "nose cover" provides coverage for claims that arise from incidents while covered under a previous policy year but first reported under the current policy. Therefore, a "nose cover" and "tail cover" are essentially the same thing. It is a "nose" if you purchase the coverage though the policy you are joining. It is a "tail" if you purchase from the policy you are leaving. Generally speaking, when you are purchasing an occurrence policy, the premium would include the cost of the nose cover. If you purchased a claims-made policy, it would be prudent to purchase tail cover from the policy you are leaving. Therefore, if you purchase nose cover, you do not need tail cover, and vice versa.

ACTUARIAL CONSIDERATIONS

From a simplistic point of view, the cost of a risk to the professional indemnity provider should be about the same regardless of which type of policy is sold to the doctor. Actuarial assessment would ensure that all the risk factors are factored into the doctor's premium depending on the policy that he buys.

It is likely that an indemnity provider will have greater confidence in computation of rates for a claims-made policy because it only has to look at actual claims experience through the current year. Computation of rates for an occurrence policy may have a greater margin of error because the indemnity provider must project the cost of future claims, which is difficult. However, in a stable medico-legal climate with a long history of operating experience, it is still possible for the indemnity provider to have a reasonable assessment of the risk.

CONCLUSION

Both policies serve the purpose of providing professional indemnity coverage for doctors. However, to make an informed choice, the doctor must understand the characteristics, rationale for differential premium pricing and different responses of these two forms of indemnity policies. ■



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