



Occurrence vs. Claims-Made Policies Explained

By Stuart Hoffman, D.C.

Many doctors do not have a proper understanding of the kind of coverage they have under their professional liability insurance, or how their premiums are priced, so in this article I will try and explain as simply as I can the difference between an occurrence policy and a claims-made policy.



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Under occurrence coverage, claims are handled on the basis

of **when they occur**. An occurrence policy issued in 1997 pays claims that **occurred in 1997 only**, even if they aren't discovered and reported as claims until 2000. In other words, once you have paid for coverage for a particular period, you will always be covered for any incident that arises during that covered period no matter when the claim is actually made. That several-year differential between an incident and the reporting of a claim — the so-called "long tail" — means a company writing occurrence policies has to "guestimate" what a claim years down the road will cost.

Under a claims-made policy, which handles claims on the basis of **when they are reported**, the uncertainty of the long tail is greatly reduced. Two things have to be present in a claims made policy; the incident must take place during a paid policy period and an incident must be reported during the paid policy period. A claim that occurred in 1997 but went unreported until 2000 would be paid for under the 2000 claims-made policy. *How, then, does the claims-made policy allow for more accurate pricing?* Since it is a "year-to-year" system, future premiums and limits can be based on current reported claims data, with a one-year projection instead of a several-year projection. As losses are known at the end of each policy year, the uncertainty of the long tail is greatly reduced.

Claims-made premiums are lower and cash flow savings build

Claims-made premiums will be lower than occurrence premiums because the occurrence policy has to cover the long tail, while the claims-

made policy covers current losses with current dollars. Claims-made premiums begin low and go up gradually as the likelihood of incidents emerging as claims increases. These low initial-year premiums offer definite cash flow advantages to the policy holder. After four years of coverage, the claims-made premium reaches "maturity"; that is, it becomes fixed and is the annual rate for subsequent policy years (unless there is a normal rate increase or decrease). In some states the premium does not become fixed until the 5th policy year. The mature claims-made rate is usually lower than the annual occurrence rate.

Comparison: claims-made & occurrence premiums tail coverage

If your claims-made policy is terminated for any reason, you should purchase tail coverage to protect yourself from incidents which may have occurred during your policy period but not reported until years later. Under the ChiroSecure program, tail coverage is available. The premium for a tail policy can range from .8 up to 1.5 times the mature claims-made rate. Generally, over a four-year period, the amount saved on a claims-made policy will be enough to pay for a tail policy. We have switched doctors from other insurance programs to the ChiroSecure coverage without any cost for the tail.

There is no difference in the quality of coverage between a claims-made and occurrence policy. The only difference is in the reporting and pricing procedures.

Summary of claims-made vs. occurrence

ChiroSecure makes both claims-made and occurrence coverage's available. The policy chosen is decided by the chiropractor based on his/her needs and circumstances. A new doctor just starting out may choose a claims-made policy to take advantage of lower premiums in the early years. Other doctors prefer occurrence policies because they provide long-term coverage without the need to pay a tail premium. Ultimately, ChiroSecure makes both policies available to better serve the chiropractor's needs.

STUART HOFFMAN, D.C. is president of ChiroSecure, ICA's malpractice insurance program. For more information, call Dr. Hoffman Toll Free at (866) 802-4476 Ext. 11, or visit chirosecureonline.com.

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