

# The malpractice hard market is over — for most

**T**he medical malpractice insurance hard market — with tight underwriting standards and high rates — is finally over. How can I tell? With the exception of a few specialties, the policy renewals we've negotiated with incumbent carriers over the past several months have come in at expiring premium levels or lower. New capital flowing into the market is capturing market share the old-fashioned way: by cutting prices. For the first time in more than three years, we are able to offer medical groups a choice of competing carriers and lower premiums. Easier times are ahead, at least for a while.

However, I don't see a softening of underwriting or pricing on the near horizon for those practicing OB/GYN, emergency medicine or telemedicine; for nursing home medical directors; or for a few other special-risk

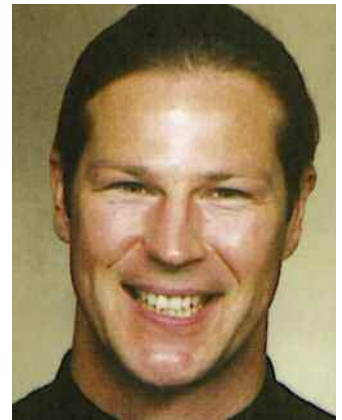
classes. I believe that for some additional time, these classes will have to look to risk-retention groups and Lloyds of London markets for their protection (see box below).

## Prices drive insurance market cycles

While the current softening bodes well for most specialties, no one can tell how long it will last. As we have seen over the past 25 plus years, price is the motor that drives most insurance market cycles. Underwriters would like you to believe that the premiums they charge are determined solely by actuarial analysis of verifiable data. In reality, if policy sales aren't growing fast enough, underwriters manipulate the data to justify lowering their prices to more competitive levels. When this happens, loss ratios rise

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By **Rick Mortimer Jr.**



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## Risk-retention groups

A risk-retention-group (RRG) is a liability insurance company owned by its members. Under the Liability Risk Retention Act (LRRRA), RRGs must be domiciled in a single state. Once licensed by its state of domicile, an RRG can insure members in all states. Because the LRRRA is a federal law, it pre-empts state regulations outside a host domicile state, making it much easier for RRGs to operate nationally.

To learn more about RRGs, visit the National Risk Retention Association Web site at [www.nrra-usa.org](http://www.nrra-usa.org).

## Lloyds of London

It's a common misconception that Lloyd's is an insurance company. In fact, it is a marketplace in which individuals and corporations underwrite severally (i.e., not jointly). They operate through syndicates that perform all underwriting functions for participating members. When you receive a Lloyd's cover note or policy, the underwriting syndicates will be listed by number. Have your insurance broker confirm that each syndicate is on your state's list of approved surplus lines insurers.

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and the market cycle hardens as underwriters tighten their risk-selection standards and raise their rates.


Medical group administrators frequently ask how they can minimize or even avoid the financial hardship imposed by hard market cycles. I believe the best way is to build a relationship with a carrier that has a proven track record in medical malpractice underwriting and has an A.M. Best rating of A- or better.\* As difficult as it may be, resist the temptation to change carriers solely to lower your group’s premiums, and stick with your carrier through thick and thin. Within reason, of course.

### Use a qualified malpractice insurance carrier

There are two ways to find a qualified carrier. You can rely on the services of an experienced and reputable insurance broker or choose your insurance directly. Most state

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medical associations keep a list of active carriers and their phone numbers. Many carriers will work directly with doctors or the administrators. Be sure to check with A.M. Best and your state’s Department of Insurance if your carrier is not familiar to you.

Remember, medical malpractice insurance is not a commodity. Price is only one factor to consider when choosing a carrier. 

\*A.M. Best Company is the leading provider of ratings, news and financial data for the insurance industry worldwide. Its ratings are recognized as the benchmark for assessing the financial strength of insurance-related organizations and the credit quality of their obligations.