

# Professional Indemnity insurance – The costs of claims

Professional Indemnity insurance. We begrudge having to pay for it, but are thankful for its protection when that claims arises. It is an accepted business cost in the life of a lawyer in Australia and in most other countries in the world.

And, as you would be very well aware, your clients are more informed of their rights and avenues for recovery against their professional advisors. For lawyers, this is good on the one hand, as it creates more business, but bad on the other as lawyers are indeed the professional advisors that invite the most claims against them.

There has been a serious decline in the claims history of the Northern Territory over the past several years, and whilst premiums have been maintained for Northern Territory practitioners at the most competitive level in Australia, claims over the past five years have actually exceeded the premium that the insurer has received. This means that premiums will need to increase to allow for the expected losses as signified by current trends.

Graph 1 shows the comparison of the cost of claims to premium received by insurers. It is obvious that for insurers to sustain their involvement in this business that premiums need to increase.

And, whilst the 98/99 and current policy year may look pretty good, these years are yet to develop. The insurer only makes estimates against reports that have eventuated in a formal claim against the insured, and do not make estimates on reports only. As such, there are a high number of circumstances notified in the 98/99 and current year that will develop into claims over the next few years. As Professional Indemnity claims tend to develop relatively slowly, the first year or two is actually a poor indication of the likely ultimate result for the policy year. For example, the 1992/1993 has only just finalised at a total amount paid of over \$1.2 million dollars, yet in 1995, the "reserve" for this policy year was only \$273,000.

Graph 2 demonstrates the pattern of development of the cost of claims over the past five years for policy years from 1992.

Graph 2 demonstrates that the first two years are invariably not a very good indicator of the ultimate losses likely to occur for each policy year. So whilst the 98/99 and 99/00 may look pretty good at the moment, they will deteriorate and insurers will be wanting to increase premiums for future years to accommodate expected losses for each new policy period.

## The Future

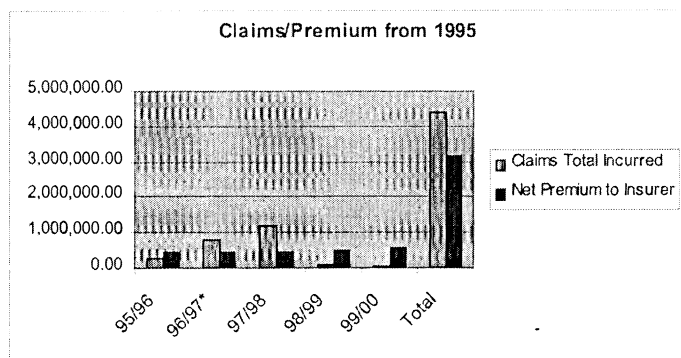
In the past five years, premiums in the NT have been up to \$500 lower for the compulsory limit than the premium paid back in 1994. It is expected that premiums will not exceed this 1994 threshold this year, however practitioners and firms need to be aware that premiums will increase.

So what is the longer term future for Professional Indemnity insurance premiums in the Northern Territory? Ultimately it is up to you. The less claims against practitioners and the lower the cost of claims, the lower the premium will ultimately be. It is as simple as that. If the insurer doesn't have to pay as much, they don't have to charge as much.

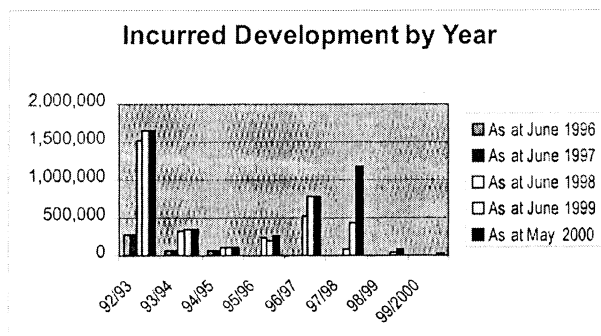
So how do we reduce the number of claims? It does assist to understand where the common types of claims are happening and what the causes are, and over the next few months we will provide information on the practice areas and common causes of claims to assist you in identifying your own exposure areas, and to develop strategies to minimise that exposure.

Article provided by Cheryl Richardson of Marsh Pty Ltd

Graph 1



Graph 2



\* Total Incurred includes payments made and reserves for expected losses on known claims