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# 6 KEYS

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TO UNDERSTAND AND TAKE CHARGE OF YOUR PROFESSIONAL

# LIABILITY INSURANCE

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Do you feel comfortable that you understand what your Professional Liability Insurance covers? Do you want to be paying a lower premium or be offered better coverage? If this is the case, it is time to take ownership of your liability insurance and know that you have the insurance that best suits your needs for the best premium. Contained within the next few paragraphs are six keys to understanding your professional liability insurance policy that could save you time and money. *Educate yourself with these six keys, apply them to your own policy, and finally take ownership of your insurance coverage.*

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**4    Being Smart About Aggregate Limits**

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# Avoiding a Claim Denial

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Do you know the difference between a claim and a circumstance and the reporting requirements for both? The biggest challenge in reporting claims without having them denied is understanding your reporting obligations under your policy. The key things to look for are the definitions of a claim and a circumstance and understanding the possible triggers for both.



Today, circumstance reporting requirements are much more stringent. In order to avoid forfeiting coverage, businesses need to know these requirements as well as owning their mistakes if and when they take place. The worst thing a business or individual can do is not report a claim or a possible claim because they trust that their client would never sue them.

Think of it this way, would you want to be stranded in the middle of the road without a tire iron or spare tire? Educating yourself on claim and circumstance reporting requirements is as necessary as being prepared for a flat on the road. Mistakes or errors in judgement eventually happen. Handling them appropriately and in a timely fashion is the first key in saving money with your professional liability insurance.

## TAKEAWAY

*Take out your policy and gain a full understanding of its claim and circumstance reporting requirements. You may be just in time to preserve coverage for that circumstance should it develop into a claim later.*

# Being Smart about Aggregate Limits

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The next key in saving money on your professional liability insurance is understanding how the per claim limit of liability and the aggregate limit work. Regardless of what you do for a living, if you have a professional liability claim, 60% of every dollar paid under your insurance policy will go towards the cost to defend you. That leaves just 40% available to cover an actual judgment or settlement. When defense costs reduce the limit of liability like this, it is commonly referred to as a “shrinking limit” policy. If you have a policy where defense costs reduce the limit of liability, you need to take that into consideration when choosing a limit of liability. Minimum limits are generally not enough to resolve the typical professional liability claim, so any shortfall comes out of your pocket, not out of the policy’s aggregate limit.

Conversely, be smart and don't pay for coverage that you'll never use when choosing the policy's aggregate limit of liability. The aggregate limit only comes into play if you have another claim or claims in the same policy term. The chance of having two claims in the same policy period is pretty rare. The chance of having a third is really unlikely, so be smart about what aggregate limit you need. Instead of paying for an aggregate limit that is two or three times the per claim limit like \$2,000,000 / \$5,000,000 look into the cost of increasing your per claim limit to help offset the cost of defense or buy claim expenses in addition to the limit.

Before your next policy renewal date, look at how much coverage you need on a per claim basis as well as on an annual/aggregate basis. Don't let the insurance carrier give you a false sense of security with a large aggregate limit only to be caught short on a shrinking per claim limit.

# TAKEAWAY

*Knowing that defense costs reduce the amount available to pay a judgement and that the aggregate limit cannot be used to pay for any shortfall in the per claim limit as a result, will allow you to hold your insurance carrier accountable to provide a policy that best suits your needs.*

# Knowing your Insurance Carrier as Well as Their Competitors

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Third in our list is knowing your insurance carrier as well as its competitors. It might take some effort, but gathering information on all available insurance carriers within your region and/or state is very important. It's easy to stick with the same insurance carrier for a long period of time. It's comfortable and less work. What if there was a carrier that could lower your premium or provide you with better coverage that actually pays for all of your claim. How would you know that your policy is keeping up with inflation, the rising cost of defense, and is offering you the latest coverage features available in the marketplace that really can save you money?



As an example, What if we told you that there is one company that offers Lawyers a deductible abatement fund that rewards claim free status and customer loyalty by crediting up to \$2,500 per year towards the deductible. As the pool of deductible savings dollars grows, the policyholder can opt for a higher deductible amount at renewal and lower the annual premium, not to mention that the insurance company is funding all or a good part of the deductible should there be a claim. This is just one example of how a competing carrier can save you money. If it's too difficult to search on your own, contact a professional liability insurance broker and have them do all the heavy lifting for you.

## TAKEAWAY

*Investigate local insurance carriers and don't assume bigger, national companies mean better. Determine which one has the best overall value for you.*

# Reporting Average Revenue

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Have your revenues fluctuated greatly over the last several years just like the economy? Have you ever “paid through the nose” for your professional liability insurance premium just because you had one good year out of the last five! And... has your premium ever come down in an off year? Hardly!

What you should know is that professional liability premiums (generally for other than lawyers) are often based on the applicant’s annual revenue which can be averaged over the last several years. This helps to ease the impact of an atypical year where revenue is uncharacteristically high. The best thing to do is tell your insurance carrier you are using an average in your application which is more representative of your typical annual revenue. Most insurance companies will work with you.

# TAKEAWAY

*If your policy is rated based upon your annual revenue, averaging revenue for the last several years can better represent your typical annual revenue.*

# Reporting Additions and Deletions of Professional Staff

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Businesses often experience licensed staff coming and going from year to year. If you are a lawyer or real estate broker for example, your claims made policy is rated based upon the number of fulltime and parttime licensed professionals. It's important to know that reporting the changes in staff midterm can be a policy requirement, and it also can lower your premium cost per professional on your next renewal.

Insurance companies often figure renewal premiums months in advance of your renewal date based upon rating information in the file from last year. If that information is updated timely it can be taken into consideration at renewal. With the way claims made policies are rated, losing a seasoned professional that has been with the firm for many years and replacing he or she with a new associate could lower premiums for everyone by reducing the overall prior acts step factor for all professionals combined.

# TAKEAWAY

*Report additions and deletions of licensed staff members during the policy year so your next renewal premium is figured with current information.*

# Keeping Track of Average Annual Premium Costs Per Professional

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Reporting staff changes midterm is important and keeping track of your premium per professional is a tool you can use to double check the insurance company's math. At the same limit and deductible as your current policy, note the difference in the average premium charged per professional from one year to the next. Does the resulting difference make sense given the overall change in the firm's exposures? If not, ask for a premium review and an explanation for the change in the average premium per professional. Insurance carriers will generally be reasonable and will reduce a premium to retain a good customer. Take ownership of your policy and hold your insurance carrier accountable.

# TAKEAWAY

*Check to see if your renewal quote makes sense given exposure changes over the last year. If not, ask for a premium review and require your insurer to explain the quote to your satisfaction.*

# Review

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Remember these keys the next time your professional liability insurance policy is due to renew. It all starts with taking ownership of your insurance policy. Taking the time to review your insurance documents and to understand the factors that determine your premium gives you control and with that comes peace of mind knowing you are getting the most value for your premium dollar. And, if keeping track of all of this information proves to be too much of a drain on your valuable time, reach out for help from a professional liability insurance broker. There are specialists like *LiabilityPro Insurance Advisors*, that will be your advocate and not allow your insurance carrier to take advantage of your good nature.



# Next Steps

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Let the licensed insurance professionals at LiabilityPro Insurance Advisors act as your advocate at renewal. They'll work with you to analyze your current insurance coverage and recommend improvements, if they can, that you can take back you to your current insurer and/or secure competing coverage for you with one or more of their “A Rated” insurance companies, all at no cost to you.

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