

## Physicians Should Prepare for Increase in Malpractice Premiums

By Vanessa ORR

Physicians who invest in malpractice insurance in Florida have had the benefit of buying in a soft market - characterized by low rates and low claims - but according to insurance specialist Matt Gracey, CEO of Danna-Gracey, the leading independent medical malpractice insurance agency in the state, that is about to change.

"We are expecting the market to become more difficult for doctors as we transition from the soft market conditions that we have now to a harder market as a result of the increase in frequency of claims against Florida doctors, and the severity of judgements against doctors in Florida - both are increasing," he explained.

"The real tell-tale sign is that many, if not most medical malpractice insurers in Florida are now at a combined ratio of 100 percent or over; for every one dollar that they take in, they are spending more than one dollar. That is simply not sustainable."

According to Gracey, the reason that physicians haven't seen more price increases to date is the sheer number of competitors in the market. "No one wants to be the first one to raise prices; we're working in a 'who is going to blink first' environment. But insurers are going to have to start raising prices because of combined loss ratios, and once a few of the larger insurers raise their prices, you can expect all of the others to follow."

A number of factors have combined to contribute to the upcoming market change. "The Florida Supreme Court more or less gutted the tort reforms of 2003-04, almost completely eliminating caps on noneconomic damages in wrongful death cases and making other rulings that were detrimental to claims' defenses for doctors," Gracey said. "We can expect that they will continue to make more rulings that are unfavorable to defending doctors in Florida courtrooms."

"It's also a matter of pricing," he continued. "The market is very competitive right now with approximately 30 companies for doctors' malpractice insurance. But all of these companies are competing for the same doctors, and there are fewer doctors, so many are now providing malpractice insurance for hospital employers, and that has driven prices down to unsustainable levels."



**Matt Gracey**

According to Gracey, the result is that there will be both consolidations and bankruptcies, which are in fact already happening. He gives the example of the 2016 acquisition of Florida Doctors, a small, nonrated company being bought by a large, California-based company.

"We're warning doctors to place their malpractice insurance with a well-valued, financially secure company because small and unnoted insurers will have even more trouble because they are only able to compete on pricing," said Gracey. "Their claims handling is also not as good as that of rated carriers - they are forced to settle claims that a bigger company would be defending."

The only good news is that Gracey doesn't expect to see prices increase as rapidly as they did in the last soft-to-hard market transition in the early 2000s. "At that point, companies were raising their rates by very high percentages; for example, Mag Mutual Insurance Company increased its rates 86 percent in one year for many specialties." Gracey estimates smaller, steadier increases in the 5 to 15 percent range for the next few years.

Doctors considering the captive market should hold off, as over the last couple of years, captives have not done particularly well. "When the market hardens, doctors look at captives as a possible answer, but I believe that it is too early to consider that option," said Gracey, adding that there are still very good stable companies in the market where doctors can purchase reasonably priced coverage.

"In the last couple of years, a number of captives have appeared in the medical malpractice marketplace, but they have not done well and physicians have unwrapped themselves from the product and moved back into the general marketplace," he added.

"The council we're giving our clients is to move to a well-rated company - A.M. Best is the gold standard - and look for group bargaining power," said Gracey, adding that not all rating agencies are created equal. "Join an existing purchasing group or look to your peers to create one."

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