T
he goal of AANA Insurance Services has always been to develop
and provide innovative insurance products to meet the ever-
changing professional liability insurance needs of the AANA’s
membership. As part of that initiative, AANA Insurance Services
worked with the insurance companies it represents to provide CRNAs
with the option of converting their claims-made policies to occurrence
policies without having to buy an Extended Reporting Period endorse-
ment, also called a “tail.”

For the past two years, thousands of CRNAs have taken advan-
tage of this conversion option, and they no longer have to worry
about purchasing a tail. The opportunity to convert from claims-made
to occurrence coverage and be provided with free prior acts cover-
age (meaning there’s no need to buy a tail and the cost of that tail is
eliminated) is virtually unheard of in the professional liability insur-
ance marketplace. But note, this opportunity won’t last forever. For
that reason, we strongly recommend you take advantage of this option
while it is still available. Not only will you avoid the cost of a tail in
the future, but you will also have occurrence coverage, which is
the best type of liability coverage available.

This claims-made to occurrence conversion option is available to
all eligible CRNAs with claims-made policies. This includes individ-
ual CRNAs, CRNA groups and even CRNAs who are part of physician
groups or are hospital employees. As such, even if you don’t purchase
your own professional liability insurance, you will probably want
to make your employer aware of this product. In most cases, your
employer’s policy is providing you with coverage on a claims-made
basis. Unless you’ve specifically addressed it by contract, there’s no
guarantee that your employer will buy a tail on your behalf when you
leave their employ or that your employer will buy a tail if the business
cesses. In either case, you would be left without coverage for the time
you worked for that employer. By taking advantage of this new con-
version option, not only will your employer have the opportunity to
save a substantial amount of money, you will have the peace of mind
in knowing that you’ll always have coverage for the time you worked
for that employer.

It is important to note that this conversion policy is only available
from AANA Insurance Services. That said, this product was developed
strictly for the benefit of our members. There is no financial gain or
advantage for AANA Insurance Services if you convert; actually it is
just the opposite. If you leave your claims-made policy in force, there
is at least a possibility that you will need to buy a tail from us in the
future. However, if you take advantage of the conversion, you will
have no need ever to buy a tail from us.

Reasons to Convert

The primary reason to convert is simple—to save money, sometimes a
lot of money.

For example, the charge made by admitted insurance companies
(like the companies represented by AANA Insurance Services) for an
unlimited tail is normally 100 percent of the policyholder’s premium.
If a CRNA’s policy premium is $4,500, it would cost that CRNA
$4,500 to purchase an unlimited tail from his or her admitted insur-
ance company policy.

So by taking advantage of this convertible option, the CRNA would
be saving $4,500. And not only would the CRNA be saving a substan-
tial amount of money, he or she would now also be covered by the
simpler, more consumer-friendly occurrence form policy. The advan-
tages of occurrence coverage provide even more reasons to convert.

Understanding Occurrence Coverage

You are probably already familiar with occurrence coverage even
though you may not be aware of it. If you purchase either homeowners
or automobile insurance, the liability coverage provided by those poli-
cies is occurrence coverage and not claims-made. Given how consumer
friendly occurrence coverage is, claims-made coverage is never avail-
able as an option on homeowners or automobile insurance policies. If
you don’t have claims-made coverage on any of your other policies, why
would you want it on your professional liability insurance policy?

An occurrence policy requires the insurance company to defend
and/or pay a claim on a policyholder’s behalf for a wrongful act that
took place during the policy period. Just like a claims-made policy, the
wrongful act in question must have happened during the policy period.

However, unlike a claims-made policy, there is no requirement
that the claim must also be reported to the insurance company during
the policy period. Regardless of when the claim is actually reported,
the insurance company is always obligated to defend the occurrence
policyholder as long as the wrongful act occurred during the occur-
rence policy period. On the other hand, if a claims-made policyholder
wants additional time in which to report claims after the policy has
expired, he or she must purchase a tail. And the cost of this tail can
be expensive.

With occurrence coverage, even if a claim is not reported for 10 or
more years after it happened, the insurance company must defend the
policyholder as long as the wrongful act occurred during the policy
period. Since the occurrence insurance company is obligated to defend
the policyholder for an unlimited period of time after the policy has
expired, the policyholder never has to worry about buying a tail.

If given the choice between claims-made and occurrence cover-
age, occurrence coverage should always be an insurance buyer’s first
choice. Claims-made insurance was introduced long after occur-
rence coverage was established. Claims-made coverage was developed

Have You Made the Switch Yet?
Converting From Claims-Made to Occurrence Polices

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to benefit the insurance company (and not the insurance buyer) by reducing the insurance company’s potential to pay claims.

**Occurrence Coverage Advantages**

Generally speaking, an occurrence policy functions more simply than a claims-made policy. For example, the premium for an occurrence policy usually remains the same every year (in the absence of any rate increase or changes in the policyholder’s underwriting characteristics), while the premium for a claims-made policy increases every year for four years after the initial year of coverage before leveling off.

Simplicity aside, occurrence coverage has a distinct advantage when it comes to limits of liability. Professional liability insurance policies are usually issued for a 12-month period. When an occurrence policy is issued or renewed, it is considered a separate policy from any other occurrence policy issued before or after it. If a CRNA has occurrence policies in force from Jan. 1, 2012, through Jan. 1, 2017, he or she will have five separate occurrence policies. As is the norm, things aren’t quite as simple with claims-made policies.

Unlike occurrence policies, claims-made policies provide coverage on a continuous basis. If a CRNA has claims-made coverage in force from Jan. 1, 2012, through Jan. 1, 2017, he or she will be considered to have had only one claims-made policy in force for that five-year period of time.

Since claims-made coverage is considered continuous, there is only one policy—the current policy. And because there is only one policy, there is only one set of limits available. Assume that the claims-made policyholder has limits of $1 million/$3 million. As a point of reference, the first number ($1 million) represents the most the claims-made policy will pay out for any one claim. The second number ($3 million) represents the most the claims-made policy will pay out in total (or aggregate) for all claims during the coverage period. So even if a CRNA has had claims-made coverage in force for five years (which means the current policy is providing coverage for a five-year period), the most the claims-made policy is going to pay out for any and all claims that are reported for the five-year coverage period is $3 million.

However, if a policyholder had occurrence coverage over that same five-year period, he or she would have limits of $1 million/$3 million available for each year of those five years since each one of those occurrence policies was a separate policy. Just as with the claims-made policy, the most an occurrence policy would pay out for any one claim would be $1 million. But since the policyholder had five separate occurrence policies, each one of those policies would provide a separate set of aggregate limits of $3 million for its respective policy period. That means the policyholder would have an aggregate of $15 million ($3 million multiplied by 5) in limits available to pay for multiple claims over that same five-year period. Here the separate limits provided by the occurrence policy favor the insurance buyer. The one continuous limit provided by the claims-made policy favors the insurance company.

**Premium Savings in Converting**

As indicated earlier, premiums for occurrence and claims-made policies are charged much differently. While premiums for occurrence policies are generally the same every year, premiums for claims-made policies stair-step up over a five-year period before they level off.

The premiums for claims-made policies start out lower than those of occurrence policies. In most cases, the premium for an occurrence policy is just slightly higher than the fifth-year premium of a claims-made policy. In the case where a fifth-year premium of a claims-made policy is $4,500, the premium of an equivalent occurrence policy would average $4,658 (depending on which one of the insurance companies represented by AANA Insurance Services you choose; one is a bit higher and one is a bit lower).

If a claims-made policy’s first-year premium is $2,475, the premiums for the four successive years would be as follows: $3,600, $4,275, $4,455 and $4,500. After that fifth year, the claims-made premium would remain level at $4,500 (in the absence of any rate increase or any change in the policyholder’s underwriting characteristics).

In order for an admitted claims-made policy to have the same unlimited time to report claims as an admitted occurrence policy (to be considered “equal” on an apples-to-apples basis from a coverage standpoint), a tail must be purchased when the claims-made policy expires (or is cancelled or non-renewed). The cost of a tail is generally 100 percent of the expiring claims-made policy premium. As an example, if the tail is purchased after the fifth year of coverage and the expiring fifth year policy premium is $4,500, the cost of the tail would also be $4,500.

Using the example premiums from above, if a CRNA was starting the fifth year of a claims-made policy (or had a claims-made policy in force for five or more years), his or her claims-made premium would be $4,500. However, if that CRNA decided to take advantage of the claims-made to occurrence conversion option, his or her conversion premium would be approximately $4,658 (or $158 more than the claims-made premium). But since the conversion option eliminates the need to purchase a tail, the CRNA will be saving the cost of the tail, or $4,500. That means the CRNA’s true total savings would be approximately $4,342 ($4,500 – $4,500 + $4,500 – $4,658).

For a CRNA starting a fourth-year claims-made policy, the additional cost of the conversion option over the claims-made policy would be $203 ($4,658 – $4,455), but by eliminating the need to pay $4,455 for a tail, the CRNA would still be saving $4,252 ($4,500 – $203 or $4,455 + $4,455 – $4,658).
Using this same calculation, the savings for third and second year policyholders who take advantage of this conversion option would be $3,892 (4,275 + 4,275 – 4,658) and $2,542 (3,600 + 3,600 – 4,658), respectively.

Conversion aside, consider someone who is purchasing professional liability insurance for the first time. While claims-made coverage may seem the cheaper way to go initially ($2,475 vs. $4,658), once you add in the cost of the tail ($2,475) in order to make the claims-made policy equivalent to the occurrence policy, the claims-made policy actually costs $292 more (2,475 + 2,475 – 4,658). Even if you consider total costs over a five year period, the true cost of a claims-made policy ($23,805, or 2,475 + 3,600 + 4,275 + 4,455 + 4,500 + 4,500) is more than that of an occurrence policy (23,290, or $4,658 x 5). As long as you recognize the cost of the tail in the calculation (which is necessary to make an accurate comparison), occurrence coverage is always more cost effective over time.

Help for Non-Admitted Policyholders
AANA Insurance Services has worked diligently to select insurance companies that are financially sound and can provide quality insurance products to AANA members on a national basis. To that end, both of the companies AANA Insurance Services represents provide coverage to our members on an admitted basis (and of course this includes the claims-made to occurrence conversion policy).

Unfortunately, not all insurance agents are so concerned about their clients’ best interests. Some insurance agents will surreptitiously offer non-admitted coverage in lieu of admitted just so they can make a sale. (And in most cases, this coverage is being offered illegally.) Many times, the initial cost of a non-admitted policy can be less than that of an admitted policy. However, given the significant coverage differences between admitted and non-admitted policies, a non-admitted policy should only be purchased when the policyholder has been declined for coverage by an admitted insurance company.

For CRNAs who are currently insured by non-admitted companies (and really shouldn’t be because they don’t have any underwriting issues like claims, substance abuse or licensure issues), the claims-made to occurrence conversion policy provides a rare and beneficial opportunity.

As indicated earlier, a CRNA with an admitted claims-made policy can expect to pay 100 percent of his or her policy premium for an unlimited tail. However, non-admitted insurance companies normally charge a minimum of 125 percent for a tail (and in some case it can be as much as 250 percent). And no matter how much the CRNA pays, the tail from a non-admitted insurance company is almost always a limited tail. That means the CRNA will only have a limited period of time in which to report claims on that non-admitted policy. As an example, it’s not unusual for a CRNA with a non-admitted policy to have to pay 125 percent of the policy premium for a tail that only provides a one-year reporting period. When you recognize that the conversion option will not only provide you with an unlimited reporting option, but will also do so at no cost, you can see why the value of this conversion policy to a non-admitted policyholder is immeasurable. But that’s not the only advantage for non-admitted policyholders who convert.

The coverage provided by a non-admitted insurance policy is generally inferior to that provided by an admitted insurance policy. Non-admitted policies often contain restrictions and exclusions not found in admitted policies. For CRNAs currently insured by non-admitted insurance companies who take advantage of the conversion option, it will be like they were never insured by the non-admitted insurance company. This is because their new admitted occurrence policy will be providing a free unlimited reporting period for the time they were insured by their non-admitted insurance company.

If you are purchasing professional liability insurance, it’s imperative that you make an informed decision on this subject. For more information about the differences between admitted and non-admitted insurance companies, see the articles “Choosing the Right Liability Company” and “Buyer Beware: What You Don’t Know About Professional Liability Insurance Can Hurt You” which appeared in the December 2010 and March 2013 issues of AANA NewsBulletin, respectively. These articles are also available in the Insurance section of the AANA website (www.aana.com) under the “News” heading.

Eligibility
Since the insurance companies represented by AANA Insurance Services are admitted insurance companies, they must have their policy forms and the rates they charge approved by the departments of insurance in each state in which they do business. While the conversion policy has been approved in the vast majority of states, it has not been approved in Kansas, Louisiana and New York. In addition, to be eligible for the conversion policy, you must meet the insurance company’s underwriting guidelines.

AANA Insurance Services
In case you weren’t aware, AANA Insurance Services is wholly owned by the AANA. Access to coverage provided by AANA Insurance Services is a benefit of AANA membership.

Revenues generated by AANA Insurance Services go to support AANA activities that would otherwise be unavailable to the membership or would require other sources of funding. When you purchase your professional liability insurance through AANA Insurance Services, you are supporting the AANA and its activities.

Please call AANA Insurance Services with your insurance questions. We welcome the opportunity to be of service and to tell you about the products and coverages designed specifically for CRNAs. Our phone number is (800) 343-1368.