How to identify a financially stable insurer?

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Choosing an insurer with financial security is important for healthcare indemnity

Insurer security is something that healthcare practitioners ought to consider when choosing their indemnity insurer. Some practitioners will recall the 'calls' that were made on members by medical defence organisations during the medical indemnity crisis of 2002.

These 'calls' were made to cover the cost of claims liabilities because some indemnity providers were found to be at risk of not being able to meet future liabilities for claims. In other words, they didn't have enough money reserved to pay for claims members were expected to make in the future. Choosing an insurer with a high level of security is important to ensure that all eligible claims will be met.

Short tail vs long tail

Insurer security is important for healthcare indemnity insurance organisations because healthcare claims can take many years after an incident to be reported and finalised.

Some insurance covers such as car insurance are sometimes referred to as 'short-tail' because the claims usually occur within days of an incident and can mostly be finalised in a short period of time.

Incidents with a 'long-tail' such as healthcare indemnity can take years to report and even longer to finalise. Obstetricians, for example, can be at particularly high risk because a child may not show signs of a birth related injury for many years after their birth.

For insurers, this makes the task of allocating funds to cover healthcare indemnity claims more complicated.

How much money is enough?

Presently, MIPS has funds put aside that are conservatively invested that are used to pay for claims. This is formally known as a claims reserve.

Arguably the most important easily accessible metric is the Australian Prudential Regulation Authority's (APRA) Prescribed Capital Amount Coverage Ratio (PCACR).

In simple terms the PCACR measures the solvency of an insurer – in effect the ability of an insurer to withstand unexpected capital shocks. A minimum ratio is set so insurer's have the necessary **capital** to meet the **coverage** (expected claims).

The current minimum requirement for an APRA regulated trading general insurer is a PCACR ratio of 1, however, there is an expectation that insurers will incorporate additional solvency buffers and have appropriate capital management plans ready to activate to ensure that an appropriate solvency margin is maintained.

Although somewhat counter-intuitive size doesn't always parallel security as seen with the distress of very large insurers. Despite their large size HIH (in Australia) collapsed in 2001 and the US Government bailed out American International Group in 2008.

The PCACR is calculated using a prescribed APRA methodology that includes the various liabilities of an insurer along with additional capital margins required to be held to ensure there is a high likelihood that claims on the insurer will be met.

The PCACR of an individual insurer can be easily accessed through the reports that APRA publishes on the Statistics section of the APRA website. To see the individual insurer reports go APRA's website to the 'General Insurance Institution-level statistics' then open the Excel report and view the capital ratio columns in tables 1e for each insurer. In the reports there is a column showing the PCACR for each insurer including MIPS Insurance and other indemnity providers.

Of the 95 insurers listed in APRA's data for the 12 months to 31 March 2018, MIPS Insurance (the underwriter for MIPS and a 100% MIPS owned subsidiary) had the 5th highest PCACR and the highest of any specialist healthcare indemnity insurer.

MIPS’ ratio was 7.09 as at 31 March 2018, compared with the average of 2.64.

Some of the largest insurers in the world have a ratio less than 2 (in Australia). However, for healthcare indemnity, MIPS believes a high ratio is essential to provide members appropriate stability given claims can occur years after an event, unlike other industries. Additional capital reserves (solvency) help to ensure that claims can be paid well into the future.

Total assets/net assets, financial stability/performance and other metrics all help in assessing the likely resilience of an insurer, however, PCACR is arguably the most important factor. This is a significant measure that the Australian Prudential Regulation Authority (APRA) uses to asses insurers and it provides an objective and independent way for healthcare practitioners to assess their own indemnity insurer.

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