

Get your practice insurance right

By Lee Davidson, Business Unit Manager, Dental Essentials

Dentists are like most people in life in that they dislike insurance. Reviewing covers that are currently in place is unrewarding and anyhow, what's the point? Chances are, you will not need to make a claim on the policy because history says you won't need to.

Spending time speaking to a new insurance broker may well save you a couple of hundred dollars on your current premium, but so will seeing another patient and that is what you spent six years at dental school doing and it's what you enjoy.

These are comments we hear everyday. They can however, prove to be costly and the purpose of this article is to highlight what can go wrong with adopting this attitude and to point out several areas you should review your practice insurance to avoid costly disappointment when you need your policy most.

Getting your insurances right makes financial sense. It helps to provide peace of mind to the holder. Many dentists I speak to for the first time are unaware of an insurance industry term called Average. The Average clause is used in claims. It means insurance companies can and regularly do, under payout on your insurance claim by the percentage that you are under insured. For example, you are insured for contents of your practice at \$200,000, but on inspection of the premises by the loss adjuster appointed after the claim has been lodged, it is discovered you actually have \$400,000 worth of contents in the practice. Most clients believe they will receive \$200,000 in the event of a claim, when in fact the insurer can pay you \$100,000, leaving you \$300,000 out of pocket. I will explain how this works but firstly this rarely happens because in the event of a total loss a loss adjuster will not see what you had in the practice, so you would more than likely receive \$200,000, but how will you replace all your items and be in the same position you were pre loss when you have an exposure of \$200,000?

What happens in most instances is a claim occurs which does not result in a total loss, such as a small fire which gets put out before all contents are lost. You may need to claim for an amount of \$100,000 but get back only half that amount because the average clause has been applied. Some policies we see on the market have the average clause applied to all of the contents value. Others cap this exposure to 80%. Even this would still leave you with a gap in what you need to replace the lost items and what you will receive from the insurer.

It is my opinion that this is the number one reason why insurance companies get a bad name. In truth however, it is brokers or agents of the insurer that explain the policy badly in the first instance. Get your practice insurance right and there should not be any problems when needing to make claims. What's more it will help your claim get settled quicker too.

The Average clause is just one of the things you need to be aware of as a professional buyer of insurance. We regularly see new clients' insurance files that have not been reviewed for years. Instead they have just renewed without much thought going into what has changed within the practice. It is not uncommon to hear of practices that have changed ownership and the new owner has simply renewed the cover based on the sums insured of the previous owner. This is particularly dangerous because a large claim can leave you significantly under insured. It's not as though you can then go and complain to the previous owner either! Ensuring the cover meets your own needs and objectives are a must for any business owner, especially during this economic climate where financial institutions are not exactly queuing up to lend money.

I always ask clients, whether they are new or old clients, to consider how much their business has changed within the past 12 months. With the Governments capital funding package coming to an end mid 2009, have you invested in new equipment? If you have purchased new equipment, have you notified your insurance broker to adjust your sums insured?

Now consider how much your practice has changed in the past three years. Many practices simply renew the current policy without even a discussion with their broker. The policy met the needs of the practice in how it operated three years ago, but not today or tomorrow, which is when a claim will occur. In my opinion all businesses should put their insurance out to tender at least every three years to ensure your broker is acting in your best interest. All practices should have a renewal review, be it face to face or over the telephone prior to the anniversary date of the policy every year.

Many practices simply view getting quotes to be a hassle they can do without and albeit indirectly, are showing their current broker loyalty. Is your current broker rewarding your loyalty? The way to check if this is the case is if your current insurer has not changed for a number of years via your broker. For example has your policy been via the same insurer and the same

broker. This means you may have a policy wording where the cover is not as broad as it could be. This can have a significant impact should you need to make a claim. Many new clients we speak to have a business policy rather than professional persons, or better still a specialist practice insurance wording.

Insurers have been making losses for a number of years now due to disasters occurring domestically and on the world stage. To reduce the amount of money they spend on claims, insurers are appointing loss adjusters more frequently in an effort to reduce this cost. It is worth remembering that loss adjusters get paid by the insurer to investigate claims and legally look to reduce the cost of your claims. One easy way for them to do this is to apply Average, which we have already explored.

Another common myth is that the figure you are insured for is acceptable to be lower than what it would be to replace all the items in your practice as new, because you can replace them with second hand goods. This is another area you need to be cautious of, because most policies work on a replacement basis rather than one of indemnity, meaning you need to insure them on a new for old basis. A Cerec machine on the second hand

market may be able to be sourced at approximately \$80,000 but a new one would be between 40-50% more than this.

I recently visited a practice that was significantly under-insured. Having visited over 300 practices, you can quickly tell if this is the case. I asked the practice manager, (who was responsible for arranging the cover) "How do you know what to insure for?" The practice manager replied that it had been like this for several years since her predecessor arranged it. It transpired that the policy had not been reviewed for four years when the previous PM was in post. I agreed to help the PM create an inventory for insurance purposes. During the day I learned two important lessons that help me in my dealings with practices:

1. Practice managers are busy people. One minute it's a finance issue and then HR, then stock queries, the list is endless.
2. Practices have lots of equipment that gets forgotten about when it comes to insurance.

Your accountant may have a list of your business assets. This will be different to what you require for insurance purposes, as your accountant will depreciate these for tax purposes, whereby we have already highlighted

the need to cover these on a new for old basis.

The practice I visited had insured for \$300,000. It actually had contents within the practice worth \$550,000. A fire at this particular practice would have left them with a significant gap between what the insurer was going to give them in the event of a claim and what they would have required to replace their contents.

The benefit of creating the asset list to establish a correct sum insured is two fold. Firstly, it will provide you with a correct amount to insure against for insurance purposes. Secondly it will provide something that insurance is designed to do, provide peace of mind that, when disaster strikes (and one day it will) you will get your contents/goods replaced as quickly as possible.

If you would like to contact me to request a copy of the Dental Essentials contents calculation guide or to discuss your insurance policy, then please do so.

In my next article I will tell you why it is so important to create and test a practice continuity plan; so that you can begin to practice from other premises should your business not be able to trade from its location due to amongst other things fire or impact damage. ♦

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