Avoiding Malpractice

Tips for Social Workers to Manage Risks

April 2020

Insurance – A Brief History

... 5,000 Years Ago on a Page (or two)

We buy insurance for many reasons to mitigate our risk. Insurance policies come in many forms, variations, and sizes, such as risk protection for life, health, auto, home, and liability.

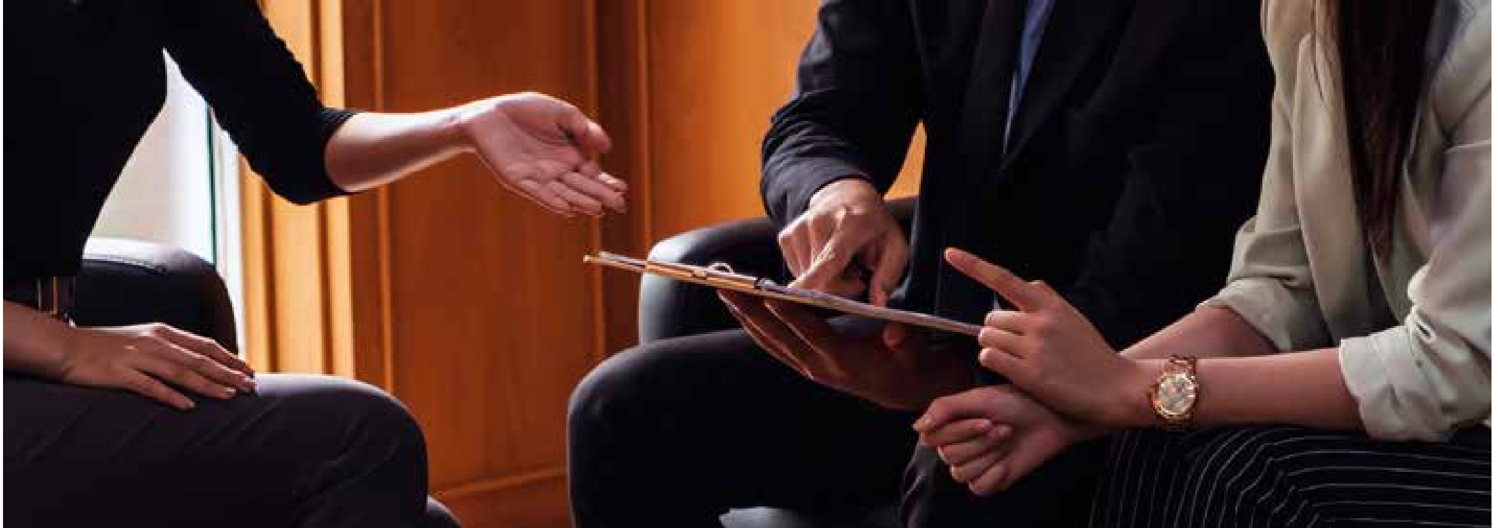
The one thing that they all have in common is shifting risk to another party in exchange for premiums paid.

Insurance is an integral and well-established risk mitigation tool in our global society. According to S&P Global Market Intelligence, in the U.S. alone during 2018, over $1.22 trillion in premium was paid. Liability insurance coverages, including professional liability, general liability, and cyber liability, accounted for 51% of the total.

The U.S. Bureau of Economic Analysis reported that in 2018, insurance carrier activity contributed 2.8% of the nation's gross domestic product (GDP). With an impact so significant to the public welfare and economy in general, it is no wonder that the insurance industry is highly regulated and taxed by the states.

Insurance is understandably a highly regulated industry that is supported by laws that protect the public through state and federal regulations. The Insurance Information Institute reported in 2018 that the National Association of Insurance Commissioners accounted for 5,965

Avoiding Malpractice is a publication of NASW Assurance Services, Inc.
as part of our mission to educate social workers on the benefits and importance of liability insurance.
For more information visit www.naswassurance.org. © 2019 NASW Assurance Services, Inc.



insurance companies in the U.S., which also include Risk Retention Groups, such as the NASW Risk Retention Group.

Life and property & casualty insurance companies paid $22.5 billion in premium taxes to the states in 2018, which is $69 per person living in the U.S. (U.S. Department of Commerce). As reported in other NASW Assurance Services Tip-of-the-Month articles, the burden to protect the public spreads among many categories. Those categories include:

- standardizing insurance policies and coverage,
- maintaining insurance company solvency requirements to pay claims,
- preventing illegal trade practices and fraud,
- controlling market conduct,
- preventing discrimination,
- verifying loss ratios, frequency, and severity of perils through highly sophisticated actuarial statistical and predictive loss analysis,
- regulating premium rates that limit profits,
- and requiring producer agents and agencies to be licensed and regulated by a set of established laws.

The complex insurance world that we have today was born over 5,000 years ago in simpler times. But the one key element then still exists today, which is RISK. Risk always exists, and there is always a need to mitigate it.

According to Essurance's research, there are four markers regarding the history of insurance –

China in 3000 B.C.;

Babylon in 1790 B.C.;

Italy in 1343 A.D., and

Europe in circa 1600.

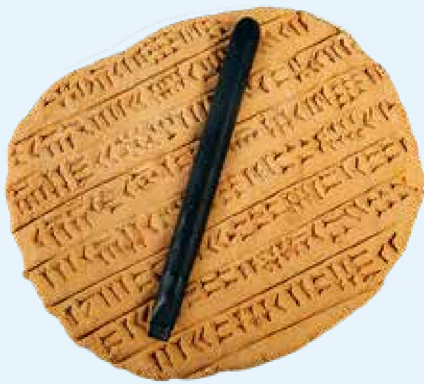
The Chinese merchants mitigated their loss risk from shipwrecks and pirates by distributing their cargos across many ships – this was a "spread the risk" play.

Today we call this the "Law of Large

Numbers" in statistical actuarial loss analysis. This Law is a statistical probability used in the premium rate calculation.

The principle is that the larger the number of occurrences exposed to a similar type of risk exposure, the more likely future losses become. In other words, if you flip a coin ten times, there will likely be more variance from the mean, and the outcome may not be 50:50. But if you flip the coin 100 times with 90 additional data points involved, the result will more precisely fit the 50:50 probability.

The Babylonian approach took insurance



to the next level by enabling merchants to finance their cargo and ships through loans, which included interest and premiums for losses.

Their plan was more of an informal contractual approach with objective risk assessment but agreed to subjectively. Though no footnotes supporting the Essurance research, the first reported and signed insurance contract (in Genoa, Italy in 1343), set forth formally in a written-contract, the provision of the merchant loan, financing, and insurance premium covering a potential loss.

During the 1600s, with the development of statistical mathematics and probabilities led by de Fermat and Pascal, premiums and more precise risk assessment to enable customized premium pricing and loss assumptions paving the way for insurance commercialization. For example, in 1666, the first fire insurance company was founded by Nicholas Barbon called "The Fire Office," arising from the great London fire.

According to Britannica.com, two of the most critical and successful English insurance companies formed in the 1600s called the Royal Exchange Assurance Company and the London Assurance Corporation. Thus, began the current liability and property insurance businesses. Liability insurance is the basis of the NASW Risk Retention Group.

Britain evolved into the leading seagoing nation and significant sea power, with ships and cargo trading worldwide with exposure to loss risks. Within this environment, came the birth of the international insurance market called Lloyd's of London.

In the mid-1600s, insurance was written by individuals when a shipowner or merchant published a sheet of information or "slip" naming the ship and describing the ship's cargo destination and other pertinent information. The individuals who accepted the insurance risk, or part of the insurance risk, wrote and signed

their names under the agreed-upon terms printed on the sheet or "slip" on Ed Lloyd's coffeehouse wall. What is that?!!

In 1686, Edward Lloyd's coffeehouse on Tower Street in London was the place to go for sailors, merchants, and ship owners to gather to hear shipping news. Ed had the same goal (to sell coffee), as a Starbucks store manager does today. Except Ed did not have a latte machine! Being an enterprising coffeehouse proprietor seeking to keep customers in his chairs drinking his coffee, Ed devised a strategy to keep his customers sitting in his store, spending money for his wares. Founding the insurance industry was secondary.

It all started in the Tower Street coffeehouse owned by Edward Lloyd, where bankers, merchants, and insurance underwriters met. Ed supplied his coffee to customers with lists or "slips" of shipping information gathered from the docks and other sources, which grew into the "Lloyd's List" that exists to this very day. Underwriters "hung out" in Ed's coffee shop to participate in marine insurance markets.

According to Thismatter.com, Ed would nail a list or paper slip to his coffeehouse wall with the pertinent shipping information. The individuals writing their name under the printed description of the risk on the slip accepted some or all of the insurance risk, called "underwriters."

The word "Slip" is still used today by the Lloyd's of London syndicate of underwriters. It is the list of the participants agreeing to take all risk, or a portion of the risk under an insurance

NASW does! General Liability Protection is a critical option protecting your practice if injury or property damage occurs to others as a result of your business operations. You can be sued for almost anything ... *even if you didn't do anything wrong!*

For More Information call 888-278-0038 or email asi@naswasi.org

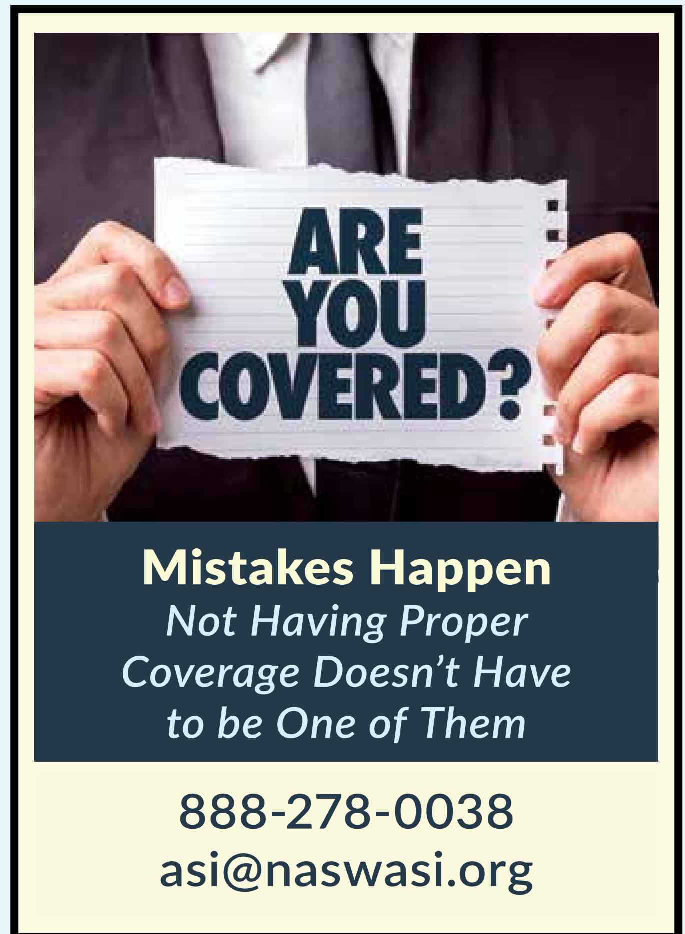
contract called a "Treaty." It can be reinsurance as well.

An Underwriter is a person who uses underwriting processes to evaluate, and then assume another party's risk for a fee or premium. Underwriters work in many financial categories, including banking, equity markets, mortgages, lease and loan finance, and insurance. The goal is to minimize adverse selection by carefully evaluating the applicant's risk profile.

Isn't it fascinating how huge worldwide markets, enterprises, and institutions develop over time from a simple idea and coffeehouse gossip?

The NASW Risk Retention Group was initially backed by a Lloyd's of London syndicate when it began in 2012. It has since moved into a better reinsurance arrangement with SwissRE.

The NASW Risk Retention Group is one of the 5,965 insurance carriers in the U.S., and is A.M. Best rated "Excellent" and reinsured by SwissRE, the #1 reinsurer worldwide with an A.M. Best Company rating equal to A+ "Superior."



Not all professional liability insurance policies cover patient records breaches, so read your policy carefully. The NASW RRG professional liability policy is the most comprehensive in the industry. The NASW RRG also offers a low-cost cyber liability policy that protects the practitioner against third-party information breach for which HIPAA holds the practitioner accountable.

Learn more about our Professional Liability Insurance for social workers by visiting www.naswassurance.org.

Our exclusive program is the only program endorsed by the National Association of Social Workers. To speak with a knowledgeable, licensed insurance representative, call 888-278-0038.

© 2019 NASW Assurance Services, Inc. All rights reserved