



UNDERSTANDING YOUR POLICY – CLAIMS-MADE VS. OCCURRENCE FORMS

Errors and Omissions (E&O) policies are written on either a claims-made or occurrence form. Understanding the differences between these two policy types is important, especially when filing claims.

Claims-made policy

If a policy is a claims-made policy, for the claim to be covered, it must be filed with the insurance company during the policy period. Coverage is triggered when the incident is reported. For example, say your policy period lasts from Jan. 1, 2011 to Jan. 1, 2012. A claim occurred on Dec. 21, 2011, but you didn't find out about it until Jan. 10, 2012. You report the claim to the insurance company on Jan. 10, 2012, but it isn't covered since you have a claims-made policy and the claim was submitted after the policy period.

Occurrence policy

If a policy is an occurrence policy, for the claim to be covered, the events causing the claim must have occurred during the policy period. Coverage is triggered when the incident occurred, not when it was reported. Using the same example given above, the claim would be covered by the insurance company with an occurrence policy, since the claim occurred during the policy period, and it does not matter when the claim is filed.

The below table shows the different claim amounts a company would receive if they filed a claim under each type of E&O policy. With an occurrence policy, the policy limit continuously stacks each year providing a \$200,000 policy limit, compared to a \$50,000 with a claims-made policy.

Effective Date	Claim Amount	Occurrence Policy Limit	Claims-Made Policy Limit
Jan 1., 2008 – Jan. 1, 2009	\$50,000	\$50,000	\$50,000
Jan 1., 2009 – Jan. 1, 2010	\$50,000	\$50,000	\$50,000
Jan 1., 2010 – Jan. 1, 2011	\$50,000	\$50,000	\$50,000
Jan 1., 2011 – Jan. 1, 2012	\$10,670	\$50,000	\$50,000
Claim Reported Jan. 1, 2012	\$160,670		
Total Limit Available		\$200,000	\$50,000

When switching from a claims-made to an occurrence policy, a gap in coverage occurs since you are no longer able to file a claim against your claims-made policy during your occurrence policy period. There are two different ways to protect yourself when switching policy types:

Prior Acts Coverage

One option is to purchase Prior Acts coverage under your new policy, which can be added to either a claims-made or occurrence policy form. This coverage allows E&O claims occurring prior to policy inception to be reported while the policy is in effect.

Extended reporting

Another way to protect yourself is to purchase extended reporting coverage when switching from a claims-made to occurrence policy. This coverage is purchased for a number of days after your old policy expires, allowing you to report claims against your new E&O policy for a set number of days, even if the claim happened during the term of your old claims-made policy. Make sure you are covered for prior claims when changing from one policy type to another. The example on the next page shows how costly it can be for your company if you are not properly covered:

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YOUR GUIDE THROUGH THE MAZE OF INDUSTRY INFORMATION

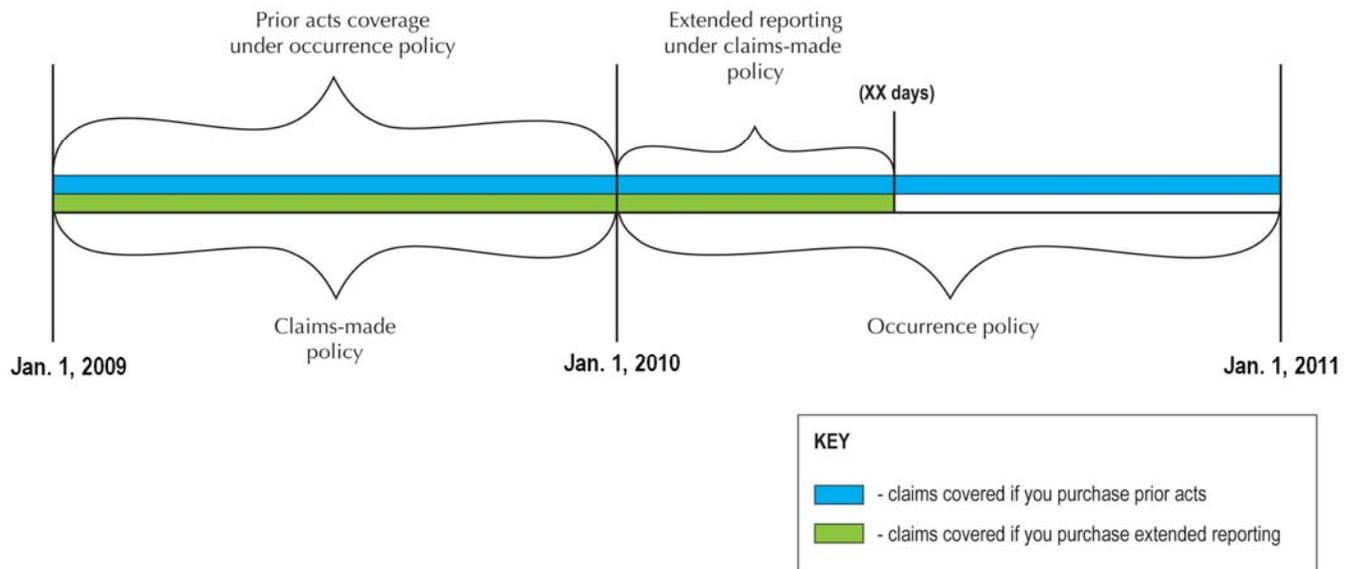


A customs broker had a claims-made policy since Jan. 1, 2005 and purchased an occurrence policy on Jan. 1, 2011. The customs broker received a misclassification duty from CBP for \$350,000 on Aug. 1, 2011 involving several entries with dates ranging from Jan. 13, 2008 through March 15, 2009. The customs broker filed a claim against his E&O policy, and it was denied since his old policy was claims-made, meaning only claims reported during the policy term are covered and he reported the claim over a year after the policy period. The customs broker had to pay CBP the \$350,000. If the broker purchased Extended Reporting under his old policy or Prior Acts under his new policy, his insurance would have covered the claim up to policy limits, saving his business from a costly CBP penalty.

Coverage Options Timeline: Claims-made to Occurrence

The following timeline shows what options are available when switching from a claims-made policy to an occurrence policy. These options include prior acts coverage and extended reporting. The timeline shows when you would be covered with each option:

Coverage options when switching from a claims-made policy to an occurrence policy



Combined Transit Liability Program

Avalon's Combined Transit Liability (CTL) program is written on an occurrence basis and lets you insure professional and cargo legal liability needs through one seamless policy. You can also select from a menu of options to tailor the policy to your specific needs, including first dollar defense, worldwide defense, prior acts coverage, regulatory defense and more.

Avalon review your operations and coverage needs to determine the policy that is best for your company. Contact your local Avalon office for more information or email marketing@avalonrisk.com