Claims-Made Versus Occurrence Policies

Occurrence policies cover claims arising from injury or damage occurring while the policy is in force, regardless of when the claim is first made.

Claims-made policies cover claims that arise from injury or damage occurring during the policy period and reported to the insurer during the policy period. Claims arising from events outside the policy period or claims reported to the insurer outside the policy period are not covered unless special coverage is purchased or arranged with the insurer. This special coverage comes in two forms:

1. **Prior acts (“nose”) coverage** covers claims that arise from injury or damage occurring before the policy period, but reported to the insurer after the policy period begins.

   Prior acts coverage is provided by establishing a “retroactive date” covering injury or damage occurring after the retroactive date. The retroactive date usually appears in the declarations page accompanying your policy. It may be the effective date of the policy or an earlier date. Prior acts coverage does not cover claims that were known at the time your policy began.
2. **Run-off (“tail”) coverage**, also called *extended reporting period*, pays for residual claims made after your policy expires. A typical claims-made policy provides a short reporting period of 30 or 60 days after the policy’s expiration date to file claims that arose too late to report before the policy expired. Run-off coverage starts when the 30- or 60-day period ends and is provided for an additional premium. The extended reporting period may be one, three, or five years, or even unlimited.

If a claims-made policy does not continue (expires, cancels, or nonrenews), you should purchase either run-off coverage from your previous insurer or prior acts coverage from your new insurer to prevent coverage gaps. Generally, claims-made policies may be less expensive in their early years as the potential for claims increases as policy years accumulate.

The differences between claims-made and occurrence policies are best illustrated by the following examples:

Assume you operate a business located in a building that you own. Your customers may enter the building and shop for merchandise in a showroom. On April 15, 2010, a customer slips and falls in your showroom. The customer reports the incident to you but says he does not believe he is injured. On December 15, however, you receive notice that the customer has filed a claim for injuries sustained in the fall.

Occurrence Policy: An occurrence policy with a policy period from June 1, 2009, to May 31, 2010, will cover the claim because the incident occurred during the policy period.

Claims-Made Policy: A claims-made policy with a policy period from June 1, 2009, to May 31, 2010, will not provide coverage because the claim was made after the policy expired. If, however, you purchased an extended reporting period from your insurer when your policy expired, the claim may be covered.