1111 W. San Marnan Drive
P.O. BOX 1328
WATERLOO, IA 50704
PHONE: 800-362-3363 FAX: 319-235-6656
EMAIL: info@vgminsurance.com

POLICY MATCHUP: CLAIMS-MADE VS. OCCURRENCE

There is no shortage of risks facing your business these days—from workplace injuries to property damage, cyber liability to employee fraud, to you-name-it. Fortunately, there are plenty of options available to protect you and your business.

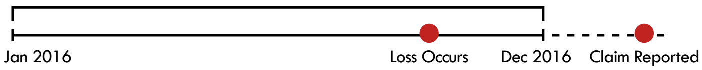
1111 W. San Marnan Drive
P.O. BOX 1328
WATERLOO, IA 50704
PHONE: 800-362-3363 FAX: 319-235-6656
EMAIL: info@vgminsurance.com

There is no shortage of risks facing your business these days—from workplace injuries to property damage, cyber liability to employee fraud, to you-name-it. Fortunately, there are plenty of options available to protect you and your business. It's important to remember, though, that insurance policies tend to fall into two main categories: occurrence and claims-made. But, how do these two categories stack up against each other when it comes to coverage?

OCCURRENCE POLICIES

In the blue corner, we have the occurrence policy—so named because the insurance company covers occurrences during a specific time period (e.g., policy period) regardless of when a claim is made. So, for example, let's say you had an occurrence policy from Jan. 2016 through Dec. 2016. If you report a claim in Jan. 2017 for a loss that occurred in, say, Oct. 2016, that occurrence policy would cover that loss even if time expired on the policy period.

Occurrence Example



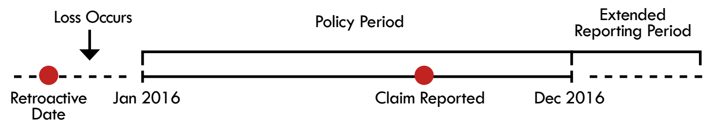
WHERE IT CAN GET COMPLICATED

While occurrence policies are usually less complicated than their opposition (i.e., claims-made policies), it doesn't mean they're without their quirks. Consider the concepts of manifest versus exposure as they pertain to bodily injury. Say a worker was exposed to a harmful substance, but the injury didn't manifest until years later (e.g., asbestos exposure linked to mesothelioma). Did the injury occur when it manifested or when the worker was exposed? The answer can vary from carrier to carrier as each insurer can define what an occurrence is. So, be sure to discuss this with your insurance professional to make sure you fully understand the coverage.

CLAIMS-MADE POLICIES

In the red corner we have the claims-made policy, which covers claims made while you're within your policy period. This can make a couple of situations easier. For example, there's no need to determine when injury or damage occurred. Plus, the claims you make are covered by your current policy, so you won't have to deal with having, for instance, a lower policy limit, which may have been the case in the occurrence policy.

Claims-made Example



WHERE IT CAN GET COMPLICATED

There are, of course, a couple of items to keep in mind when it comes to claims-made policies, namely tail coverage and retro-dates.

Tail Coverage: Also known as an extended reporting period (ERP), this is coverage you purchase to cover claims after your policy expires. With tail coverage, you can report claims for incidents that occurred during the period you had your claims-made policy, but you are also able to report the claims after your policy expires.

Retro-date: More formally called a retroactive date and found on most claims-made policies, this date indicates how far back an occurrence will be covered. So, your claims-made policy that runs Jan. 2016 through Dec. 2016 may have a retro-date of Dec. 15, 2015, meaning you can report a claim for an event that occurred at any point after that date.

1111 W. San Marnan Drive
P.O. BOX 1328
WATERLOO, IA 50704
PHONE: 800-362-3363 FAX: 319-235-6656
EMAIL: info@vgminsurance.com

AND THE WINNER IS…

It should come as no surprise that in the matchup of claims-made vs. occurrence policies, it's a draw. The policy type you choose comes down to a few considerations.

Premium cost: For the first five years of coverage, claims-made policies tend to be less expensive than occurrence policies. However, as your business faces more exposures, your premiums will increase. Typically, after five years, the cost of a claims-made policy begins to even out with occurrence policies.

Coverage Amount: Because a claims-made policy covers you while your policy is active, your claims are covered at your current levels. An occurrence policy, on the other hand, covers you at the amount of coverage you had during your policy year. So, if your occurrence policy period was years ago, your coverage level might be significantly less than today's coverage level when you consider inflation and the rising cost of claims.

Business Type: When determining which policy best suits your needs, consider your line of work. If you foresee future claims coming out of the business transactions you have with current customers, an occurrence policy might just fit like a glove.

This publication covers just the basics of the two types of insurance policies. The insurance professionals at VGM Insurance Services can provide you with more detailed information and help you find the policy that's right for your business.