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Claims-Made versus Occurrence Policies

There are two different kinds of liability policies on the market today. The difference between the two forms can best be described by giving an illustration.

The occurrence policy provides protection through the insurance company that insured you at the time of the incident and must defend you and pay any judgment against you, up to the amount of coverage you purchased, even though the policy may no longer be in effect.

On the other hand, a claims-made policy requires that you not only have a policy in effect when the incident or accident occurs, but also later when you are sued for that accident or incident. If you are not insured with the insurance company when the suit is actually brought against you, you will not have any protection from the policy. As long as you continue to renew your claims-made policy with the same company, it is obligated to defend you for claims arising from incidents that have taken place while you have been insured with the company.

When you cancel or non-renew a claims-made policy, you must buy Tail Coverage, which provides coverage for the tail of claims made against you later for things you did while you were insured with the company. Tail coverage is referred to as Extended Coverage, Extended Reporting period or Extended Reporting Endorsement.

The period of time during which the protection under tail coverage extends varies from company to company. Some agree to continue protection as long as the law in the state allows you to be sued. Some companies provide a tail period of only one year. It is, therefore, important when shopping for this type of insurance to compare the programs you obtain not only for premium, but also for the length of tail coverage that will be offered to you.

Another important consideration is what the company expects tail coverage will cost. This is usually a percentage of the annual premium in effect at the time that coverage is purchased, and may be as much as 100 percent.

The premium charged by a claims-made policy has to be sufficient only to cover claims made against the Insured during that policy year. On the other hand, the premium charged by an occurrence policy has to be enough to cover all claims arising from incidents taking place while the policy was in effect, regardless of when the claim is actually brought against you. In situations where the premium differential is small, you may wish to choose the occurrence policy so as not to worry about purchasing tail coverage in the future.