General Liability – What is the difference between Claims Made and Occurrence?

NOTE: *This document is descriptive only. The precise coverage afforded is subject to the terms, conditions and exclusions of the policies as issued. The applicability of coverage depends on the circumstances of each claim as well as the precise coverage provided.*

While there are two forms of General Liability coverage, historically the Occurrence form has been used to cover products liability exposures while the Claims Made form is commonly used to cover Professional Liability and Directors & Officers Liability.

Basically, the Claims Made form provides liability coverage for claims that are made during the term of the policy. Coverage for losses that are reported after the policy term are **not** covered.

On the Occurrence form, the policy will pay for bodily injury or property damage that occurs during the policy period, but not necessarily reported during the term. An insurer may be called upon to pay a claim years after the policy has expired – this is known as a "long tail". This "tail" can result in large losses years after the fact. The premiums charged during the term may not be adequate to cover these losses.

In some difficult or unusual products liability exposures, insurers may offer general liability terms on a Claims Made basis, rather than the more usual Occurrence form. This allows the insurers to charge what they feel is a more adequate premium for the exposure and the opportunity to limit their risk of losses to the one-year term, rather than the uncertainty of a potential "tail" many years down the road. Insurers are more able to accurately estimate the premium required to pay the losses that are being reported.

While the Claims Made premiums may have an advantage regarding pricing, there are also a number of disadvantages that should be considered, as follows:

- Losses must be reported during the policy term as these will **not** be honored after the expiry date.
- **All** losses or incidents must be reported on renewal applications as known prior acts are excluded from the new policy term. Incidents that may give rise to a loss must be reported to the expiring insurer before renewal in order to have coverage. If a known incident is not reported, the new insurer may decline to provide any coverage, including defense.
- Switching from one policy form to another can result in complications. If you have coverage on a claims made basis and renew on an occurrence form, there is a potential gap where coverage would not be provided unless special arrangements have been made to cover these prior acts. There is a short time period (30 to 45 days in most cases) to request an Extended Reporting period, which can cover some of this gap – an additional premium does apply. This endorsement may be required to stay in effect for many years, particularly if a product is considered hazardous. The premium for this may negate the reduced premium charged for the Claims Made form at inception.

Claims Made policies are more commonly offered during harder market cycles in the insurance industry as insurers see this form as a way to offer coverages that they may otherwise have to decline, but at premiums that reflect what they feel the exposure is for a limited time period.