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Business Insurance 101: Back To The Basics

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Insurance coverage cases often involve complex or unusual issues. Similarly, blogs and insurance newsletters typically revolve around breaking decisions or new trends in the market. In this realm, insurance basics and best practices can be overlooked. Because insurance policies and insurance law can be murky for those who don't deal with it frequently, I recently gave a presentation about the basics of insurance for businesses. This post summarizes some high level points that we discussed.

What are common types of policies for companies?

Commercial general liability, products liability, property, directors & officers, professional liability, employment practices liability, crime and cyber, to name a few. A company should work closely with its broker to identify the types and limits of coverage it should consider obtaining and then re-evaluate every year based on changes within the company and claims history. Watch out for the exclusions in your policies to make sure you have the type of coverage you think you have and understand how the limits and sublimits work.

What is the difference between a claims-made and an occurrence policy?

A claims-made policy insures against events that become claims and are reported during a specified period of time only (typically during the policy period or an extended reporting period). The insurer's position is that it is off the hook once the time period expires. On the other hand, an occurrence policy never expires. An occurrence policy insures against events that occur during the policy period regardless of when the claim is ultimately made so they can be valuable for long-tail claims like asbestos and environmental pollution.

Additional insured basics:

A company needs to do more than just ask to be added as an additional insured today. There are many different additional insured endorsements in the market – approximately 31! Many are limited to the terms of the parties' contract, so it is important to carefully evaluate what coverage is needed and expected as an additional insured. Best practice is to request to be added to the policy by endorsement and be provided with a full copy of the policy to determine if the proper coverage was obtained; receiving a mere certificate of insurance showing your company as an additional insured likely will not provide a complete picture of the coverage that will be provided. By obtaining a copy of the policy, you will be able to review the coverage and any nuances, such as if an additional insured will have to pay a deductible.

Claims-handling basics:

If your company has an incident or is sued, give thought to whether insurance might apply and ignore conventional wisdom that you could wait to give notice. Whether something is a "Claim" or a "Suit" largely depends on the language of the policy and sometimes the insurance company may owe you a defense even if it is not ultimately liable for indemnity. It's always best to provide notice as soon as possible directly to your insurance company. If you rely on your broker to provide notice, consider following up with them to ensure timely notice was actually provided. Also, if you get a denial letter, it's important to evaluate the denial and seek coverage counsel if you need help doing so. Renewal time is also a great opportunity to put pressure on your carrier if you are not satisfied with how they are handling a pending claim.