

Insurance Policies Are you really covered?

Most nonprofits carry hefty amounts of insurance to shield them from liability. Carefully developed, they should be adequate. But more and more organizations are finding out that what they thought was adequate did not protect them at all.

In general, most liability insurance policies fall into one of two categories, “claims made”, or “occurrence” policies. The difference in coverage can be significant. A “*claims made*” policy limits coverage to claims made against the insured during the policy period. Under a “claims made” policy, the insurer is responsible for loss resulting from claims made during the policy period no matter when the liability-generating event took place. In contrast, an “*occurrence*” policy provides coverage for any acts or omissions that occur during the policy period, even though the actual claim may be made after the policy has expired. It is critical that your ministry understand the difference between the two and what it can mean for your organization.

Occurrence policies: these only cover injuries that occur during the policy period, regardless of when a claim is made. For example, a wrongful death claim against a ministry filed in 2018 for an incident that occurred in 2016 would be covered by the policy in effect during the time the occurrence was alleged to have occurred. And then, only if the coverage in place in the prior period was an “occurrence” policy.

Claims made policies: these only cover injuries for which a claim is made during the period for which the policy was in force. And then, only if the insured has continuously been covered with “claims made” policies with the same insurer since the time the injury occurred (e.g. if coverage is allowed to lapse for any reason, coverage is lost). If you switch carriers with this type of insurance be sure to insist that the new carrier include coverage for “prior acts” so that claims made in the current period for prior acts will be covered.

The main disadvantage of “claims made” policies is that it only covers claims that are actually made while the insurance is in force. When such a policy expires or is terminated for any reason, coverage ceases (even for claims made for injuries that occurred during the coverage period). Additionally, coverage for prior claims is lost if the organization switches from a “claims made” to an “occurrence” policy, since coverage ends at policy termination.

UNDERSTANDING YOUR INSURANCE POLICY

An insurance policy is a legal contract between the insurance company (the insurer) and the person(s), business, or entity being insured (the insured). Reading your policy helps you verify that the policy meets your needs and that you understand your and the insurance company's responsibilities if a loss occurs. Many insureds purchase a policy without understanding what is covered, the exclusions that take away coverage, and the conditions that must be met in order for

coverage to apply when a loss occurs. Reading and understanding your policy can help you avoid problems and disagreements with your insurance company in the event of a loss.

There are four basic parts to an insurance contract:

- **Declaration Page**
- **Insuring Agreement**
- **Exclusions**
- **Conditions**

It is important to understand that multi-peril policies may have specific exclusions and conditions for each type of coverage, such as collision coverage, medical payment coverage, liability coverage, etc. You will need to make sure that you read the language for the specific coverage that applies to your loss.

Declaration Page

The Declaration Page is usually the first part of an insurance policy. It identifies who is an insured, what risks or property are covered, the policy limits, and the policy period (i.e. time the policy is in force). This is usually where you will discover whether yours is a “claims made” or “occurrence” contract. For example, the Declarations Page of an automobile policy will include the description of the vehicle covered (e.g. make/model, VIN number), the name of the person covered, the premium amount, and the deductible (the amount you will have to pay for a claim before an insurer pays its portion of a covered claim). Similarly, the Declarations Page of a life insurance policy will include the name of the person insured and the face amount of the life insurance policy (e.g. \$25,000, \$50,000, etc.).

Insuring Agreement

The Insuring Agreement summarizes the major promises of the insurance company, as well as indicating what is covered. In the Insuring Agreement, the insurer agrees to do certain things such as paying losses for covered perils, providing certain services, or agreeing to defend the insured in a liability lawsuit. There are two basic forms of an insuring agreement:

- *Named-perils coverage*, under which only those perils specifically listed in the policy are covered. If the peril is not listed, it is not covered.
- *All-risk coverage*, under which all losses are covered except those losses specifically excluded. If the loss is not excluded, then it is covered.

Life insurance policies are typically all-risk policies.

Exclusions

The Exclusions take coverage away from the Insuring Agreement. The three major types of exclusions are:

- Excluded perils or causes of loss
- Excluded losses
- Excluded property

Typical examples of excluded perils under a homeowner's policy are flood, earthquake, and nuclear radiation. A typical example of an excluded loss under an automobile policy is damage due to wear and tear. Examples of excluded property under a homeowner's policy are personal property such as an automobile, a pet, or an airplane.

Conditions

The Conditions are provisions inserted in the policy that qualify or place limitations on the insurer's promise to pay or perform. If the policy conditions are not met, the insurer can deny the claim. Common conditions in a policy include the requirement to file a proof of loss with the company, to protect property after a loss, and to cooperate during the company's investigation or defense of a liability lawsuit.

Most insurance policies will also have sections dedicated to definitions; endorsements, riders, and even supplemental terms that for one reason or another did not make it into the general body of the document.

It should go without saying that you should maintain copies of all insurance policies until you are absolutely certain the policy terms have expired, which in some cases may mean keeping them in perpetuity. Have questions about your policy? Don't be afraid to call in your representative and have them explain any areas you are not sure of so that you can understand them. Finally, shopping policies can be a good idea if pricing is of importance to you but remember changing from one insurance carrier to another may have serious implications on your coverage if you neglect to read and understand your policy conditions.

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