Important Information
about Claims-Made Policies and Pricing

What does Claims-Made and Reported Coverage mean to me?

For over a decade most accountants professional liability insurance policies, including the AICPA Professional Liability Program policies, have been written on a claims-made and reported basis. When insurance companies underwrite a line of business “claims-made and reported,” they are defining their liability each year to apply only to claims made and reported on policies issued in that year. This enables them to more accurately estimate their reserves, and to respond more promptly to changes in the industry. Professional liability policies for doctors, lawyers, architects, accountants, etc. are usually written in this way.

In order for claims-made coverage to respond to a claim, the incident that led to the claim must have happened on or after the initial effective date of a policy, and the claim must be first made against you and reported to the insurance company while the policy is in force.

The requirement that a claim be made against you and reported to the insurance company during a period that the policy is in force necessitates the maintenance of continuous coverage. If a policy is not in force when a claim is made, no coverage will be afforded. By maintaining continuous coverage, you ensure that services performed during previous policies’ periods will be covered should a claim arise.

One advantage to claims-made coverage is that it allows policy limits to be increased over time. The liability limits in force at the time a claim is made will apply, regardless of when the act, error or omission occurred, provided it happened after the initial effective date, or prior acts date of the policy. This way, insureds can select policy limits that reflect the current liability environment.

What is Prior Acts Coverage?

Coverage for services performed prior to the effective date of the policy is available under most claims-made policies. This is called prior acts coverage.

The prior acts date establishes the initial effective date for coverage to be extended to the services a firm performs. Usually this date is established as the policy inception date of a firm’s first claims-made policy (if claims-made coverage has been maintained continuously) or to some date that a firm and the insurance company agree upon for pricing or underwriting reasons. Generally, the prior acts date will remain the same with each subsequent renewal. If an act, error or omission happened before the prior acts date, it will not be eligible for coverage.

Prior acts coverage allows insured firms to move coverage from one insurance company to another without losing protection for covered services performed in the past.

How does Claims-Made Coverage affect my premium?

Typically, professional liability claims are made a number of years after the service or incident that caused the claim. The amount of time between when services are rendered and when a claim arises varies, depending upon the type of services provided. Consequently, with each successive year of claims-made coverage, the likelihood of experiencing a covered claim increases. To reflect this actuality, insurance companies significantly discount claims-made policy premiums in the first year of coverage, and then gradually “step” the premium rate through yearly increases. This process is called step rating. The percentage of these increases and the number of years “stepped” varies among insurance carriers and policies. However, a mature premium rate for a claims-made policy is generally established in the third through eighth years of continually maintained coverage.

Once a claims-made policy is considered mature, that is, the premium no longer reflects a reduced risk, the insurance company will rate the policy at a steady level; however, premiums could change for other reasons. It is important to note that the position in the step rating process is not the only consideration in determining a firm’s premium. Areas of practice, annual billings, the number of professionals, quality control procedures, claim history, as well as other factors are taken into consideration when assessing the risk and determining appropriate premium.

What can I do to reduce my firm’s insurance premiums?

You have a role in the determination of your firm’s premium. The AICPA Professional Liability Insurance Program offers a range of premium credits that rewards risk reducing activities such as: use of engagement letters; peer or quality review of a firm’s accounting or auditing practice; voluntary tax practice review; and attendance at a CNA risk management seminar.

This summary is for illustrative purposes only and is not a contract. It is intended to provide a general overview, at the time distributed, of the topics and Program described. Only the insurance policy can give actual terms, conditions and exclusions.

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