How to Read and Understand Your Insurance Policies: The Policy Itself

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In the last post on insurance, we talked about types of insurance. In this post, we dig into what you will see in your insurance policy itself.

The declarations page provides key information about your coverage.

The Insured
This is the first place to look. The insured can be a company, an individual (or group of individuals), or both. Sometimes there will be a designation of "additional named insureds." These are people or businesses added to the primary insured for coverage under the policy. Note that adding additional insureds is relatively inexpensive and often worth considering.

Policy Limits
The section limits the amount of money the insurance company is obligated to pay. The limits can be per claim but will also be subject to an overall aggregate limit. The amount that will be paid out may be subject to the lower of two different caps; the per claim limit and the total claims made during the policy period.

Deductible/Self-insured Retention
This provision concerns how much you are responsible for before the insurance kicks in. An insured is required to bear some initial cost of a loss. Premiums are lower for policies with higher retentions. The notion of high retention policies is that the policies will cover a large (and potentially catastrophic) lawsuit, but the smaller cases are the responsibility of the insured. Sometimes, making more claims to an insurer, even if matters are within the retention, may result in increased premiums at renewal. Ask your agent this question. If there is a higher self-insured retention, you may be better off not making a claim to your insurer. When in doubt about the potential magnitude of a case against you, fire all weapons. There is little downside to providing notice under any policy which may even remotely provide protection. Sometimes an insurer's response to a claim under a policy is surprising.

Policy Period
On the declarations page, there will be a start date for coverage and an end date for coverage. The first step in analyzing whether a claim is covered under a liability policy is to determine whether the coverage-triggering event took place during the policy period. If it did not, the policy does not provide coverage. Coverage may be written on an "occurrence," (CGL policy) or "claims-made" or "claims-made and reported" basis (D&O/ E&O).

- A common definition for "occurrence" is "an accident, including continuous or repeated exposure to substantially the same general harmful conditions." So for a CGL policy, the coverage-triggering event is the accident, regardless of when you are sued.
- In contrast, a "claims-made" policy focuses on when a claim is asserted against you. Note that a "claim" will be specifically defined in the policy. It does not just mean the filing of a lawsuit; it is usually defined as a written demand for monetary or non-monetary relief (i.e. "cease and desist"). If the policy is "claims-made and reported," it is critical that the claim be reported to the insurance company during the policy period or, in some instances, a very short time after the policy expires. But even late notice will not let the insurance company off the hook under the policy unless it can show actual prejudice from the delay.

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Coverages/forms/endorsements
This is the up-front index and the guts of the policy. It shows coverage and modifications to coverage and the dreaded exclusions which can take away coverage.

The hardest part of reading policies is that all of these provisions must be read and interpreted together. Next time, we will review common insuring agreements, conditions, and exclusions in CGL and D&O/E&O policies.