

# IBNR Coverage

## Why Is This Coverage Necessary?

Mergers, acquisitions, consolidations, and spin-offs occur in all industries everyday. Business is constantly changing, and so must the insurance industry in order to satisfy the needs of clients.

- Joe Inventor sold his company to Mega, Inc. and now three years later is buying it back. By the terms of the contract Joe will be responsible for claims that may have occurred over the three years but are not known as of the date of sale.
- OldCorp had its product liability coverage with The OverlyAggressive Insurance Company which has since been declared insolvent. OldCorp wants to sell its business, however the buyer wants assurances that potential unknown prior liabilities are properly covered.
- Universal Widget Corp's. products coverage is claims made, however Mammoth Mart refuses to stock its widgets because its insurance does not meet Mammoth's requirements. Universal would move to an occurrence form, but its claims made carrier, Grouchy Mutual, offers an extended reporting period only at an extremely punitive cost.

Purchase agreements almost always require the transfer of risk from one party to another. Often that risk is for events that have already occurred but of which neither party is aware. The requirement can often be satisfied by the purchase of insurance for Incurred But Not Reported (IBNR) claims.

## Unique Risk Characteristics

The obvious question for the underwriter is, "Why does the insured wish to purchase coverage today for losses that may have already taken place?" Are they aware of a potential problem? Is there a valid reason for us to consider this coverage?

The answer to the latter question in many cases is yes.

## Our Target Market

We prefer to consider coverage for manufacturers of a product but may offer coverage for contractors under certain circumstances.

## How We Do It

We offer a one day claims made policy with a retroactive date providing coverage for losses that may have occurred between the retro date and the effective date, and an extended reporting period of up to five years during which time claims for those losses must be reported. Aggregate Limits are not reinstated annually. A Known Loss or Incident Exclusion is attached. Premium must be paid prior to our agreement to bind the coverage, and is earned over the one day policy period.

## What We Want To Avoid

We are not interested in covering known losses or changes in reserves. Nor are we interested in filling gaps left by exhausted underlying limits. There must be a demonstrated, logical business reason for the purchase of this coverage.

## **Berkley Specialty Underwriting Managers – Providing Innovative Solutions**

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