Savvy restaurant owners know that operating without an employment practices liability insurance policy in force is like try to run their restaurant with several employees holding a gun to their head each day. The risks are just too great and the costs of failure are epic – you could lose your livelihood. But EPLI is a very different animal from all of the other insurance policies you buy and as such, you must take a little more time to make sure that you understand exactly what you are buying. One of the more difficult concepts for a restaurant owner to wrap his or her head around has to do with the claims made clause in these policies.

Let me start by making it clear that EPLI policies in NC are still not very standardized. The language is certainly moving in that direction but for now, one policy can differ quite a bit from the next. Of course this makes the insurance buying process a bit tougher but the exposures involved are just so great that you simply have to take some time to be sure that you understand what is and what isn't covered.

This blog is part 2 of a 4 part process and what I want to discuss with you in this article is the claims made clause. Most liability policies that you purchase, are based on occurrences, that is, if the loss occurred during the policy term, then it is covered, no matter when the suit is filed or the loss is brought to your attention. That is pretty straightforward and easy to understand. But Employment Practices Liability Insurance is different. These policies are written on a claims made basis. This means that the claim has to be filed while the insurance policy is still in force to be covered. So, if you have this insurance for a year, then decide not to renew it and 4 months later you find out you are being sued for wrongful termination that happened 8 months ago, you will find yourself without coverage. Why does this clause exist in these policies? Well, simply to protect the insurance companies and to help them make the claims process more predictable so that they can create pricing models that are reliable.

So what must you do to protect yourself against claims made coverage gaps? Well the simple answer is to pick an insurance company and stick with them. If you don't change policies, then you should be fine from year to year as your continuous coverage and the extended reporting period built in to most claims made policies should keep your protection consistently in place. But what about when you want to change insurance companies and move your EPLI protection to a new company? The new policy is not going to cover the losses that occurred in the old policy term but that are not reported until much later. In this case, your best bet is to purchase what is called tail coverage from the first insurance company. Generally the rates on these tail coverage policies are no more than 2 times the rate on the original policy and can usually be purchased for a time period up to two years.

As you can see, claims made policies create issues for the insurance buyer that are unfamiliar and unusual. But if you don’t take care of these issues very carefully, you could find yourself with an uncovered claim. And not only can that be disastrous for your restaurant, but extremely frustrating for you after you have spent money, possibly for years, to protect against this type of thing. If you are going to buy insurance to protect against a risk for even one day, then you will of course never want to be without that protection.

Clinard Insurance Group is an independent insurance agency located in Winston Salem, NC. We want all insurance consumers to be informed buyers when it comes to insurance purchases. We insure over 100 restaurants all across NC and SC and would love to help you with your restaurant insurance needs. Give us a call today, toll free, at 877-687-7557 and let us put our experience to work for you. If you would like to visit us on the web, go to www.TheRestaurantInsuranceStore.com
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