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## **Appraiser E&O; Insurance: Understand the Concepts of "Claims Made" and "Prior Acts" Coverage in Your Policy**

By Peter C

When it comes to E&O insurance, all appraisers should take the time to understand the concepts of "claims made" and "prior acts" coverage in their policies.

Let's start with this basic fact -- all E&O insurance sold to appraisers and similar professions is "claims made" insurance coverage. To understand how claims made coverage works, let's consider the following simple claim situation: an appraiser performs an appraisal for a lender in 2006. The appraiser is sued by the lender over that appraisal in 2015. The appraiser had E&O insurance in place in 2006 and continues to have coverage in 2015, when he is sued by the lender.

Since the appraiser's E&O insurance (again like all E&O insurance for professions like appraising) is "claims made" coverage, it is not the policy that the appraiser had in 2006 when he performed the appraisal that will cover the lawsuit. The policy that responds to the claim and that needs to cover his defense is the E&O policy that the appraiser has in 2015, when the lawsuit is filed against him and he reports it to the insurer -- in other words, it's the policy in place at the time the claim is "made" that applies to the lawsuit. This is where the concept of "prior acts" coverage, also called "retroactive date" coverage, comes in. The appraiser's 2015 policy will cover the appraiser's work for as far back as the "prior acts" date, or "retroactive" date, on the policy. That is the importance of prior acts coverage in your policy. Without coverage for prior acts dating back to 2006, the appraiser in this claim example would not have coverage for the claim under his 2015 policy. In general, the prior acts date in an appraiser's current E&O policy should go as far back as the appraiser can show to his insurance provider at the time he or she applies for coverage that the appraiser has had **continuous, unlapsed** coverage in place.

Appraisers need to be careful about maintaining coverage for their prior acts. In particular, because many appraisers purchase their E&O by quick on-line "check box" applications that are used in some programs without review by an insurance underwriter, appraisers too often lose coverage for their prior acts by not understanding these basics; as result, the appraiser either accepts a policy that does not carry over the prior acts date from the appraiser's earlier policy or actually chooses a policy without prior acts coverage because it may be cheaper. Either way, the result is the same when a claim is made about an older appraisal -- no coverage for the appraiser's defense. Appraisers changing from one insurance provider to another should always make sure that if they have had prior continuance coverage in place, the new policy that they purchase includes coverage back to the prior acts date in their old policy.

Appraisers also sometimes lose coverage by allowing their policies to lapse or by cancelling them without considering their options for "tail" coverage. When an appraiser desires to discontinue his or her E&O, the appraiser needs to consider whether to obtain "tail" insurance coverage, also called "extended reporting period" coverage, on the policy that is expiring or being cancelled. Tail coverage extends the time in which a claim may be reported to the insurance carrier on that expiring or cancelled policy. Basically, the tail coverage gives the appraiser the ability to report a claim about work done during the period covered by the policy for a certain number of years after that policy has expired. The period might be anywhere from 1 to 5 years, or maybe for the rest of the appraiser's lifetime, if the appraiser is retiring from appraising. In some cases, under some policies, an appraiser may be entitled to free retirement tail coverage. In any event, whenever an appraiser is cancelling or allowing his or her E&O insurance to expire without replacing the coverage with a new policy covering the same prior work, he or she should have a discussion about tail coverage with the insurance provider at that time.

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