

# LOSSPREVENTION LESSONS

April 2014

Provided by CalSurance® exclusively for Farmers Agents

*Keeping You  
Informed & Protected*

## *Definitions: Every Policy's Built in Dictionary*

Long ago, insurance companies grew weary after having their policies twisted and turned by opportunistic lawyers who challenged policy language as ambiguous and unclear. Insurance companies began to combat these confrontations by including an index of definitions within the policies and incorporating those terms within the policy text. This clear and concise language prevented the wholesale re-interpretation of the policy, which had previously generally resulted in the expansion of coverage beyond what was obviously the intent, also allowing customers without a law degree to read and understand their policies.

Customers need to know and understand the basic parameters of their insurance policy, but agents should have a more comprehensive understanding of policy language so that they are equipped to answer questions from their customers. When faced with such a situation, the agent must know when to draw the line at being helpful in a discussion with the customer versus interpreting the policy language. Consider the following:

A customer came to the agent's office looking for quotes on a homeowner's policy as their current carrier had levied a 20% rate increase at renewal. The customer brought along a copy of his current policy to review with the agent.

The agency producer provided competitive quotes to the customer. The customer took the quotes and called back with more questions as his wife wanted to make sure that they would be able to obtain a jewelry floater. The agent explained that they could get a jewelry floater as long as they had current appraisals (within the last 3 years). The agent assured them that as long as the item was scheduled, it was essentially covered for anything.

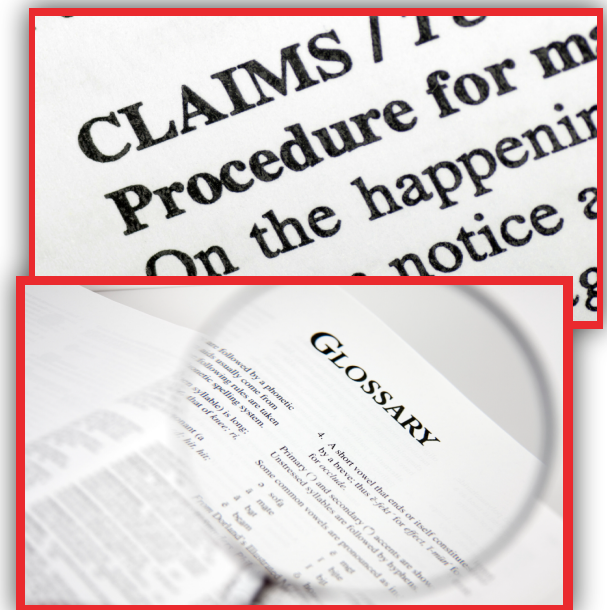
A few days after binding coverage, the wife took her jewelry to be cleaned and maintained. She was advised that the 3 carat stone in her ring was marred. She filed a claim for the stone with her



insurance carrier. The carrier denied the claim as its jewelry floater excluded marring as a cause of loss with "marring" defined as "injury or damage to an item that made it less attractive". The customers filed an E&O claim against their new agent based on his representation that the floater would cover them for any loss to the jewelry. During the E&O investigation, it was learned that the original policy would have replaced the damaged stone in the ring. E&O settled that claim for \$32,000.

In another instance, the owner of a small accounting business asked for quotes for professional liability that matched the terms of their expiring policy. He provided the current policy information to the agent. The agent responded with the requested quotes and was awarded the business. Shortly thereafter, an exclusive independent contractor was named in a claim alleging a misrepresentation of services. The claim was denied because the replacement policy did not include exclusive independent contractors in the definition of insured. As it turned out, the prior policy did not contain such a restrictive definition. E&O settled the claim for \$150,000.

The function of definitions in the insurance policy is to clarify the meanings of terms so that outside interpretation does not expand or restrict the intended coverage. The inclusion of definitions, and/or a glossary reduces the length of the insurance contract and provides a measure of consistency. Once a word or term is defined, its singular meaning is applicable throughout the policy.



To most people, an insurance policy is something that is purchased to provide financial protection for a catastrophic event such as an automobile accident, fire, or the sudden death of a spouse or loved one. Many people never read the policy form because they expect it to be filled with mind boggling "legalese" that no one wants to be bothered with. While no insurance policy would ever be a captivating read, smart consumers and agents alike will take the time to read their policies.

## LOSS PREVENTION TIPS

Agents are encouraged to become familiar with the basic terms of the policies that they offer to their customers. Such familiarity can aid in the sales process to ensure the accuracy of representations made to customers. After the sale is made, it can enhance customer service levels and increase customer retention. Oral misrepresentations typically will not lead to an expansion of coverage, however, they are likely to result in an E&O claim if an uncovered loss arises.

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