

LOSS PREVENTION LESSONS

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Keeping You
Informed & Protected

What is not Covered is Equally as Important as What is Covered

In theory, all policyholders should read, understand, and appreciate all material aspects of an insurance policy, whether it be home, auto, life, or business. In reality, we know that does not always happen. Historically, insurance policies were written in legalese, highly specialized jargon understood by precious few coverage specialists and lawyers. Thankfully, in recent years insurers have simplified policy language so that lay people and insurance agents alike are able to read and understand policies with greater ease.

A Definitions section is now typically included within insurance policies to define material terms. Definitions provide a common reference to terms that are often utilized throughout the contract. These terms include: Insured, Policy Period, Deductible, Damages, Expenses, Policy Period, and Retroactive Date.

There are many claims that demonstrate the importance of a thorough review of the Definitions Section in an insurance policy. For example, an agent was asked by an existing client to procure a dwelling fire policy on a second home. The agent was told that the newly acquired home was being renovated and refurbished and would be unoccupied for approximately ninety (90) days after it was acquired. The agent procured a policy for the home. Shortly after all renovation was completed, a raging fire engulfed the house and burned it to the ground. The carrier reduced the indemnity payment for the property loss to only 60% of the available limit since the home had been unoccupied for more than 60 days prior to the fire loss. The customer called the agent to inquire why he was not told about the reduction in coverage as the agent had previously assured him that the home was not vacant per the definition in the policy. The agent admitted that when he read the policy, he did not review the definition of “unoccupied”. He only reviewed for the definition of “vacant” which did not apply in this situation (definitions related to both vacancy and occupancy were included in the policy as they are two separate issues). E&O settled the claim for \$80,000.



There are an estimated 4,200 different insurance terms in Black's Law Dictionary. You aren't necessarily expected to know each and every term. However, when it comes to the business that you sell and service, a working knowledge of the following commonly used terms is necessary:

Actual Cash Value (ACV)	Covered Property	Occupied
Bodily Injury	Coverage Territory	Personal Injury
Business Personal Property	Damages	Property Damage
Claim	Extended Reporting Period	Replacement Cost (RCV)
Co-insurance Penalty	Insured/Name Insured	Suit
Contents	Loss	Vacant
Covered Automobile	Occurrence	Policy Period

Referring to the Definitions section can help uncover hidden gems of information when it comes to available coverage. A definition can clarify certain aspects of coverage and often provides valuable guidance to your customers. For instance, knowing the definition of insured in the context of a personal automobile liability policy would be invaluable when responding to a customer call regarding who is covered under a policy.

On the other hand, an exclusion is a provision within an insurance policy that eliminates coverage for certain acts, property, types of damage, locations, etc. Exclusions are generally in a policy for one of three reasons. The exclusion relates to coverage that is available elsewhere, the excluded matter is uninsurable, or the coverage is available for the exposure at a cost that many customers are unwilling to pay for. At times, a carveback is included within an exclusion. Carvebacks reinstate coverage under certain circumstances which at first glance appears to have been removed by the exclusion. Therefore, it is important to read all exclusions very carefully.



For example, a customer called his agent to report a fight at his nightclub. Two patrons were involved in a physical altercation so the club security guards intervened to prevent the fight from turning into a brawl and risking injury to bystanders. One of the aggressors fell and hit his head on the pavement, later dying at a local hospital. The carrier denied the claim on the basis that the policy excluded claims arising out of assault and battery. The agent reported the matter to E&O. E&O reviewed the policy and found that within the aforementioned exclusion for assault and battery, there was language stating that the exclusion did not apply to claims arising out of the reasonable use of force by security personnel. When E&O referred the claim back to the underlying carrier, the carrier reversed its coverage determination and agreed to defend the wrongful death claim.

In simplest terms, exclusions in insurance policies remove coverage as provided in the Insuring Agreement. An exclusion can apply to a person or exposure for which coverage is being exempted or for other certain occurrences for which the policy will not respond. Some exclusions are very common and appear in nearly all insurance policies and some are mandated by public policy or are particular to certain jurisdictions; yet others are policy specific. Some examples are provided below:

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| Intentional Acts | Earthquake |
| Criminal Conduct | All risk jewelry and fine arts coverage in excess of inside limits |
| Theft | Commercial Auto in non commercial auto policies |
| Vandalism | Food Delivery |
| Mold / Microbial Abatement | Water Damage |
| Auto liability in property policies | Water Damage |
| Worker's compensation in general liability policies | Water and Sewage |
| Liquor Liability | Backup |
| Products Completed | Glass |
| Operations | Aquariums |
| Flood | Wind and Hail |
| Code Upgrades | Abatement |

Exclusions provide a wealth of information and are key guides to what is material to a customer. For instance, if you are soliciting a customer that owns and operates a bar, you should be able to discuss what is or is not covered by the general liability policy currently in force. You want to remind the customer that their policy does not provide coverage for exposures related to employment practices or workers' compensation and it may or may not cover liquor liability or assault and battery claims, common occurrences in that particular industry for which endorsements are available at an additional premium. Your customers who own a pizza delivery service should be reminded that many commercial auto policies exclude food delivery and/or food trucks. Daycare providers should be informed that they may not have coverage in the basic policy form for sexual abuse and molestation.

Knowing both the definitions and exclusions of the policies you sell can provide you with a leg up on your competition. A working understanding of these important policy components means that you are more effectively equipped able to service your existing clients. It also decreases the likelihood that you will have an E&O claim brought against you.

Loss Prevention Tip

If there is an existing policy that you did not procure and have not reviewed, obtain it. In addition, you are reminded to read quotes and policies with the disclosed needs of your customer in mind. Notify your customer regarding material exclusions and/or reductions in coverage. Do not make promises or guarantees of coverage; when giving your opinion as to claims handling or coverage, tell the customer you will submit a claim or instruct the customer to put their questions in writing so that it can be referred to the carrier.



**All statements, contained herein are subject to all terms, conditions, exclusions, and endorsements of the actual policy. To obtain a copy of the policy, visit <http://www.farmersagentsbenefits.com>, click Resources, then click on the Errors & Omissions tab.*

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