

LOSSPREVENTION LESSONS

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*Keeping You
Informed & Protected*

Understanding Endorsements

An endorsement is a written document attached to an insurance policy that modifies the base policy form. It can be implemented to either add, restrict, or clarify the intent of coverage as needed. Some endorsements are attached to the policy at inception, while others are added during the policy period. Endorsements can be used in many ways to enhance an insurance policy or to provide individualized coverage to your clients.

Endorsements used in insurance policies can differ depending on the insurance company and the type of insurance to which the endorsement is applied. It is important to understand what endorsements are available for a policy along with how the endorsement will change the current insurance policy. When reviewing a policy for a client, it is vital that you review all endorsements in addition to the base form.

When endorsements provide coverage for losses that were not covered in the original policy, they can be viewed as a welcome addition by a customer. On the other hand, since endorsements can restrict coverage for losses that were included in the original policy, they can also lead to an E&O claim if the client (and agent) is unaware of their content. It is prudent to offer any additional coverages, including endorsements, in writing. If your client declines such coverage, you should make sure that the declination is also in writing. It is also very important to understand and be aware of endorsements issued by insurance carriers that decrease coverage and to convey in writing such reduction in coverage to your clients.

When your client needs to increase the amount of coverage they have for their assets and possessions, you may be able to assist by offering them an endorsement to their current policy. For example, Personal Property Replacement Cost is an endorsement available on many Homeowners policies to make sure that customers are covered for the cost of replacing their personal possessions beyond the limit under their current Homeowners policy.



Insurance carriers sometimes issue endorsements to decrease coverage for perils that were specifically included in the prior insurance policies. For example, some Homeowners policies exclude marring coverage for metal roof damage as a result of hail loss. This reduction in coverage is a common pitfall for insurance agents as oftentimes they do not become aware of such endorsement until a claim is filed and it is too late. As such, it is very important to keep updated regarding all changes made to current policies, especially with regard to endorsements that reduce coverage and to notify your client timely of the reduction to avoid E&O claims.



Special endorsements are designed to provide your client with additional insurance coverage to fill in the gaps of an existing policy or provide coverage for perils that are not covered under the terms of an insurance policy. Endorsements like these are designed to provide your client with the assurance that the insurance company will pay your client enough to replace, rebuild, or repair your property.

One common exclusion in a commercial property is sewer or drain back up. If your client's commercial property policy contains a sewer and drain exclusion (often part of the flood exclusion), they will likely not be covered for that peril. The effect of the sewer and drain exclusion usually means there is no coverage regardless of whether the clog was located in a drain on their premises or if the source of the backup was located outside their property in a utility or municipal sewage/drainage pipe. Many insurance carriers offer an endorsement that eliminates the normal exclusion for sewer or drain back ups and overflows.

The sewer and drain exclusion is often overlooked by business owners as well as their insurance agents. Most business owners think they already have the coverage in their basic policy and oftentimes the agent neglects to mention that fact when binding coverage. Furthermore, it is also important to understand the various sub-limits offered by the insurance carrier and to offer the limits to your client. Many times, clients purchase the sewer and drain backup coverage endorsement with inadequate limits.

Here is an example of an E&O claim involving sewer and drain. A new agent had just sold his first commercial policy. Prior to binding the policy, the client inquired about whether he was covered for all perils. Without thinking twice, the agent responded that he was covered for all damages. This was a costly lesson for a new agent. Not only should the agent avoid making overly broad statements such as you are covered for all damages but he should have used this as an opportunity to review the coverage with the customer. If he did, the customer would have been able to express his concern for the sewer and drain exclusion and request coverage before a loss occurred. In this case, it would have avoided an E&O claim of over \$75,000.



Insurance policies and their endorsements can complement each other to provide your client with the protection they need and deserve. An E&O claim can be avoided if your client's business is properly protected by the endorsements. On the other hand, if your client declines such coverage endorsements and if the proper documentation is in place evidencing the declination, an E&O claim can also be avoided.

LOSS PREVENTION TIPS

Loss prevention related to endorsements boils down to a few key points. Understand the coverages that are available under a given policy through endorsements, document the endorsements that you offer to your client, and make sure the client documents the declination of any endorsements that they do not wish to bind.



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