LOSSPREVENTION LESSONS

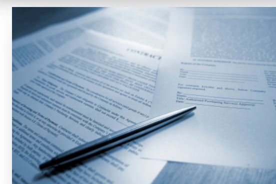
October 2018

Provided by CalSurance® exclusively for Farmers Agents

Keeping You Informed & Protected

The FAIR Plan

FAIR Plans and state-run plans are created to make sure coverage is available to consumers that may have high risk exposures. You may have encountered this during the course of your business if you have ever had a customer that you were unable to obtain coverage for through traditional means. When insurance companies won't write a certain risk, the only choice may be to procure coverage through a FAIR Plan.



Several years ago, an agent wanted to write a homeowners policy for a customer. However, the policy excluded fire losses and the customer had been having difficulty obtaining fire coverage. The Agent was forced to write two policies for the customer, a homeowner's policy, excluding fire losses and a dwelling policy written through a FAIR Plan to cover the fire exposure.

The house burned several years later and determined to be a total loss. When the loss was reported to the FAIR Plan, it was discovered that the limits on the FAIR Plan were significantly lower than the limits on the homeowner's policy. The homeowner's policy had limits of roughly $1,000,000 while the FAIR Plan policy had limits of only $750,000. The agent had a very simple explanation for this discrepancy. The FAIR Plan would not allow higher limits than what was procured and the customer was OK with the lower limits because they were very sensitive to premium costs.

Unfortunately, this interaction was not specifically documented anywhere. The customer disputed the agent's statement and contested that he had requested the same limits from the homeowner's policy to be listed on the dwelling policy. He maintained that as far as he knew, those limits should have been in place since the inception of the policy. As is often the case with these types of claims, it turned into a contentious disagreement.

It is a best practice to always document all customer interactions. In particular, you should always be especially cautious when writing high risk exposures or unfamiliar carriers to avoid potential issues down the line. In the event that higher limits cannot be procured, make sure to specify this to your customer in writing so that documentation is accessible in the event that it is needed in the future.

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