

# LOSSPREVENTION LESSONS

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## A Builder's Risk

One day, an agent received a call from a bank manager to inquire about obtaining a course of construction policy for a new customer's home. The customers were moving from a different country and would be having their home custom built, while financing the deal through the bank. The bank quickly put the customer in touch with the agent and shortly thereafter the customer and agent were discussing the coverage needed for the home. Unfortunately, this was the first course of construction policy that the agency had ever been asked to write so nobody at the agency had expertise regarding this type of policy. The customer specifically wanted to ensure that flood damage would be covered because the home would be located in a floodplain. An endorsement was available for flood coverage so the agent made sure to include that with the quote. The agency quoted a policy, but the premium came out to \$3,000 for full replacement value of the finished home. The customer believed that this premium amount was excessive and asked the agency to shop the policy to other carriers to see if they could obtain a more competitive quote.

After doing some legwork to find out what other carriers offered course of construction policies, the agent phoned the customer and the two went through the application process together. The agent asked all of the questions on the application and as the customer provided the answers, the agent entered the information into the online application. At the end of the process, the total premium amount due came out to only \$1,100. This amount seemed much more reasonable to the customer so he agreed to bind coverage. Before binding, the customer specifically inquired about flood coverage and the agent confirmed that there was not an exclusion for flood coverage on the policy.

A couple months later, as the home was nearing completion, flood warnings were issued in the area surrounding the home. Although the contractors tried their best to protect the home, significant damage was caused to the structure. They discovered that part of the reason that the new policy had been so significantly cheaper was that flood coverage was NOT included as the agent had represented. In fact, flood coverage was specifically excluded from this policy and there was no option available to add an endorsement for flood on the particular policy that was sold to the customer. Unfortunately, in the agent's effort to quickly service her customer, she had missed the exclusion related to flooding. Due to her unfamiliarity with builder's risk policies, she was not aware that those policies routinely exclude flood damage unless the policy is specifically endorsed to include that coverage. The customer directed his rage at the agent, who quickly reported the matter to the E&O carrier for handling.



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