

LOSS PREVENTION LESSONS

Provided by CalSurance® exclusively for Farmers Agents

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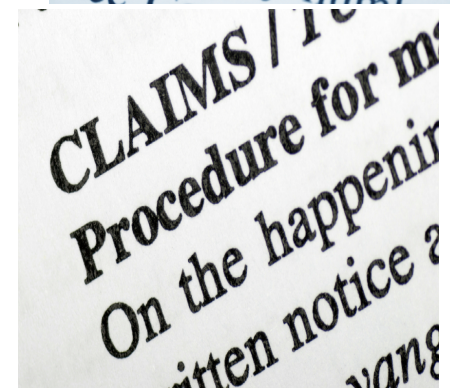
Keeping You
Informed & Protected

A Special Relationship

An agent had a long relationship with a customer and serviced all of his personal lines business for many years. The customer had been a real estate agent and decided to begin a new business venture. He would be buying and selling foreclosed properties, while keeping some of the properties to rent out. Over several years, his business boomed. Eventually, the customer owned over 100 properties that were all serviced through the agent. Due to the very large number of policies connected to this account, the agent arranged for all correspondence and notifications from the insurer for this particular customer to go through his office so that it would be easier for the customer to manage. The agent would then be responsible for passing along all communications directly to his customer. By engaging in this activity, the agent created a special relationship with additional duties that were required of him going forward.

Sometimes an agent will setup a special arrangements with a particular customer, but it is important to note that with such an arrangement comes additional risk and additional duties that leave the agent more exposed from an E&O perspective should something go awry. This particular arrangement worked just fine for several years. However, one day a cancellation notice was issued on a homeowner's policy due to various underwriting violations at a home owned by the customer. This notification was logged in the agencies incoming mail, but somehow became lost at the office.

About 45 days after the policy was canceled, the home burned down. In general, the carrier is responsible for sending cancellation notices directly to the customer. However, in this instance, the agent had taken on a special duty to be responsible for submitting all cancellation notices and other notifications directly to the customer. When the agent received the notification of the loss, he quickly realized that the policy had been canceled. After further review, he realized that the cancellation notice had been logged in the agency's incoming mail, but there was no evidence that the agency had submitted the cancellation notice to the customer. During the E&O investigation, a copy of the letter was located in the office underneath a stack of papers. Unfortunately, by the time the letter was located, the damage had already been done and the E&O carrier had to step in and handle the claim.



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