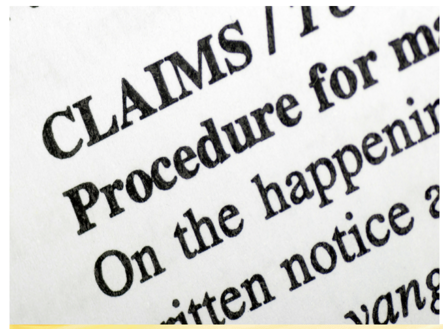
LOSSPREVENTION
LESSONS

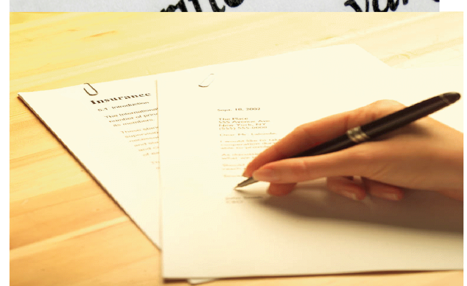
February 2022

Provided by CalSurance® exclusively for Farmers Agents

Keeping You
Informed & Protected

Coverage Varies Between Carriers





A longtime customer decided to open a detox and rehabilitation business. The agent wrote a package policy covering CGL, professional liability, and commercial automobile coverage on the single location that he had opened. Within several years, the customer was ready to expand and eventually added ten additional houses to service people with substance abuse problems. As the business boomed so did the costs to insure his business. The agent needed to find his customer a policy with better rates so he began shopping the risk to different carriers. To the customer's delight, the agent found a carrier who was willing to offer a similar package policy at a substantially lower premium. The agent assured the customer that the coverage was comparable to what he currently had in place so there was little downside to making the switch.

Unfortunately, this is a story that E&O claims adjusters hear often. A customer is looking for lower rates and the agent secures a policy, pledging that the coverage is similar in scope to the policy being replaced; only to discover that is far from the truth when a loss occurs. That is exactly what happened in this instance. Within the first year of the new policy being bound, a loss occurred at one of the detox houses. The prior policy had included business income loss coverage without any additional endorsement required. However, this was not the case on the replacement policy. A large storm struck one of the houses causing significant roof damage. The property damages, totaling over $20K were paid by the carrier without issue. However, the loss of business income for the time the roof was being fixed were not since the business loss endorsement had not been added.

The customer was very upset when he found out that the policy would not cover the loss of business income. The agent, realizing his error, reported the claim to the E&O carrier, which ended up being a six figure E&O loss. If a rate is substantially less expensive than what other carriers are willing to write the business for, it is common sense that the coverage could be less as well. Regardless of the pricing, it is vital to carefully review an alternative policy for coverage limitations as well as any additional endorsements, which may be needed.

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681 S. Parker Street, Suite 300, Orange, CA 92868
Phone: (866) 893-1023 Fax: (866) 893-1198
E-mail: farmers@calsurance.com
California License # 0B02587