

LOSS PREVENTION LESSONS

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Bad Wiring

An agent procured a contractor's policy for his customer who was working as an electrician. The underwriting guidelines included a requirement that the risk must comply with state and federal laws and requirements. A question on the application stated, "Does any state in which the applicant operates require the applicant to hold a contractor's license?" The agent answered the question as "No". However, as it turned out, a contractor's license was required in the state of TX, where the electrician operated. Therefore, the question should have been answered as "Yes", which would have prompted the entry of the agent's license number. The underwriting system would have automatically declined a policy for a contractor where no license number could be provided.

A fire occurred at a home where the electrician had provided electrical services. An investigation of the fire determined that the fire had been caused by faulty wiring that the electrician had installed. Apparently, the wiring had not been sized properly and the wiring overloaded a transformer, causing a total loss of the home. The homeowner's carrier responded, but then pursued subrogation against the electrician for the loss.

During the claim investigation, the application was reviewed and it was determined that the agent had made an error in completing the application. He admitted that he had not asked the electrician about his contractor's license. He was under the false impression that no contractor's license was required for electricians in the state of TX so he had answered the question inaccurately based on his own flawed understanding of the law. Unfortunately, this meant that he had bound the carrier to an ineligible risk. It's important to know and understand the underwriting guidelines for all carriers that you represent. Furthermore, if assisting a customer with completion of an application, it's important to have the customer answer all questions. The electrician knew that he was operating without the proper state licenses and if the eligibility question had been answered appropriately, the policy would not have been issued.



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