

LOSS PREVENTION LESSONS

Provided by CalSurance® exclusively for Farmers Agents

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*Keeping You
Informed & Protected*

The Apartment Fire

An HOA manager called their insurance agent to procure a commercial umbrella policy to provide excess coverage for an apartment complex that they managed. The business was outside of Farmers underwriting appetite, so it was placed through an outside commercial carrier. Several years later, the apartment complex burned down in an evening fire. While most of the residents were able to escape the fire without injury, one unfortunate couple escaped with significant burn injuries. The loss was tendered to the carrier for the commercial umbrella policy and the claim was quickly denied. The claim investigation determined that there had been multiple misrepresentations made on the application when the policy was written. Therefore, the claim was turned over to the E&O carrier for handling.

The E&O investigation showed that an employee producer had bound the policy. In the application, it was represented the roofs, HVAC, plumbing, and electrical systems had been either renovated or replaced within the last 25 years. However, that was inaccurate. When the employee that bound the policy was interviewed, she stated that the previous HOA manager had assisted with completion of the application. They had mentioned that the HOA was doing renovations on the property and even though they had not directly discussed those specific issues, she had assumed everything was getting updated. Therefore, she had answered the application questions accordingly.

This was an instance where an employee made assumptions during the application process rather than directly asking all questions on the application to the customer. It is important to remember that application questions exist for a reason; to ensure that carriers are only bound to risks that are within their underwriting appetite. An insurance agent or employee / producer should not attempt to complete or interpret application questions on behalf of a customer. All application questions should be directly answered by the customer. Had the application been completed properly, the policy would not have been bound with the carrier and this costly E&O claim could have been avoided.



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