

LOSS PREVENTION LESSONS

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Too Many Apartment Unit Vacancies

A customer called his agent to request an insurance policy for an apartment complex that he owned. Unfortunately, he had been having financial difficulties and the apartment was in foreclosure at the time that the policy was purchased. Furthermore, the building had less than 50% occupancy at the time that the policy was bound.

Shortly thereafter, a fire occurred at the apartment complex. Luckily, none of the tenants were injured. The loss was reported to the carrier for evaluation and the claims investigation quickly determined that the vacancy rate of the building made the business ineligible. Underwriting guidelines on habitational apartment policies through this carrier required that the unit have an occupancy rate of 85% or higher. Unfortunately, the occupancy rate on the building was nowhere near that threshold. Therefore, the claim was reported to the E&O carrier.

The agent acknowledged that he was unaware of the occupancy rate requirement for coverage to be bound on an apartment and had not asked the customer about the status of the unit. In fact, this policy was the only apartment policy that he had in his whole book of business. If an agent gets the opportunity to write business for an exposure they are unfamiliar with, it is vital that they closely review the underwriting guidelines to make sure they are binding the carrier to an eligible risk. It is all too common for agents to bind a carrier to an ineligible risk and then to comment that they were unaware of the specific underwriting guideline that caused the risk to be ineligible. Unfortunately, this must be fully evaluated prior to binding a policy.



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