

LOSSPREVENTION LESSONS

Provided by CalSurance® exclusively for Farmers Agents

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*Keeping You
Informed & Protected*

Autopay Is Not Always an Option

An agent procured a homeowners policy along with a CA FAIR plan policy for his customer. The customer made an initial down payment and both the customer and the agent were under the impression that future installments would continue to be automatically drafted from the customer's account. In fact, the customer had specifically requested to be setup on automatic drafts and a staff member within the agency had confirmed that he would be setup on automatic drafts.

Several months after the first payment, the policy canceled. Within days of the cancellation of the policy, a total fire loss occurred at the customer's home. The claim was quickly reported to the E&O carrier for evaluation. During the claim investigation, a CA FAIR Plan representative stated that they had sent out cancellation notices to the customer. The customer admitted that he may have received the notices; but had failed to open his mail so he was unaware of any impending cancellation. He stated that he had no reason to believe that his policy would cancel for failure to pay premiums because he had plenty of funds in his bank account and the agency had confirmed that he was on autopay. It's important to note that the state of CA follows a pure comparative negligence rule. This allows a plaintiff to claim damages, even when they are partially at fault for the issue. Given that the customer had been sent the notices, there was an argument that he had comparative liability in this case; however, the larger issue was that he had been told by the agency that he was setup on autopay.

The agent was admittedly new to selling CA FAIR plan policies. During the investigation, it was revealed that the CA FAIR plan does not have an option for automatic drafts. Furthermore, the customer did not sign any documentation allowing the policy to be setup with automatic drafts. Cancellation notices were sent to the agent as well, but had to be manually accessed through the CFP website. The agent and her staff members were unaware of this procedure so the cancellation notices had not been accessed. Given these issues, the E&O claim was settled. This claim illustrates the importance of understanding the payment options that are available for your customers and implementing practices within your agency to obtain the proper documentation related to policies and payments.



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