

LOSS PREVENTION LESSONS

Provided by CalSurance® exclusively for Farmers Agents

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*Keeping You
Informed & Protected*

Conversion Option Expiration

An agent procured a 10-year term life insurance policy with a \$1,000,000 face value for a neighbor, who was a successful and wealthy doctor. Upon the sale of the policy, the agent explained that the policy could be converted to a whole life policy as long as the conversion happened before the 10-year term had expired. The agent primarily focused on P&C insurance and although he had his life and health license, it did not make up a significant portion of his business. In fact, the agent had very few life insurance policies in his book and he had minimal experience in writing that line of business.

Shortly before the expiration of the policy, the customer reached out to the agent to exercise the option to convert his policy to a whole life policy. By that time, tragically, he had been diagnosed with terminal cancer and he didn't expect to live much longer. Unfortunately, when the agent reached out to the carrier to request conversion of the policy to whole life, he was advised that the conversion option had expired. The carrier confirmed that they had sent a notice to the agent in the year before the conversion option was set to expire, but the agent claimed to have never received the notice. The option was required to be executed by the eighth anniversary of the policy. The customer was very upset because the agent had not represented the conversion option properly upon the sale of the policy. The customer passed away shortly after the term policy expired and a claim was submitted to the E&O carrier due to the agent's misrepresentation.

Claims like this demonstrate the importance of understanding the features of the policies that you sell and representing those features properly to your customers. Errors are more likely to occur when you are selling products that are outside of your normal appetite. When doing so, it's especially important to review the policy features closely so that you understand those provisions and are able to explain all aspects of the policy properly to your customer. Had this agent taken some additional care to understand how the conversion option worked, he could have advised the customer properly and avoided this costly situation.



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