Who Owns It? - Insurable Interest

A pre-requisite for any insurance policy is that the person acquiring the policy must have an insurable interest in the subject to be insured. A person is said to have "insurable interest" in property when loss or damage to the subject would cause the person to suffer a financial loss.

With the economic downturn we’ve endured, many individuals are trimming back their cost of living by either moving back with family, in with friends or taking on roommates/tenants. These societal shifts in the household occupation makeup should provoke increased agent awareness of insurable interest conflicts, so that property damages incurred by clients do not end up uncovered due to an insurable interest issue that could have been avoided. Additional complications can arise if after a loss it is determined that the agent (or agency staff) was aware of the conflict. For property and casualty insurance, the named insured’s insurable interest must exist both at the time the insurance policy is purchased and at the time a loss occurs.

Often these types of situations easily go unnoticed until a loss occurs. Claims involving a conflict of insurable interest most commonly involve property disputes where the owner of the property is not the named insured on the policy. The insured person has to be the owner. One example of a claim involving a property dispute involves two friends moving in together and becoming roommates, the friends decide to consolidate their auto insurance policies onto one policy in order to save money. It is necessary to clarify to the customer that personal auto policies are not designed for group discounts. If the named insured does not own the vehicle, they have no insurable interest. Although there are circumstances where a family can qualify for a multi-car discount, this only happens when the named insured has insurable interest in all the vehicles insured.

Agents should always make sure they take the extra step in asking who owns the subject property (automobile, home, building, etc.) your client is looking to insure. Whether it’s friends trying to get a premium discount by combining policies or a parent trying to help their son or daughter get a lower premium, if the insured doesn’t own the car, they don’t have insurable interest. When reporting a claim involving a property loss, you can bet on your claims representative asking, “Who owns it?”

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