LOSS PREVENTION LESSONS

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Provided by CalSurance® exclusively for Farmers Agents

Keeping You Informed & Protected

Ineligible Transitional Housing

An agent procured a commercial real estate policy for a family friend who managed the operations at a church. The policy was bound to provide coverage for several buildings on the premises. One of the buildings was used for transitional housing for men coming out of prison or rehab to assist with their transition back into society. Unfortunately, transitional housing was included on the underwriting guidelines as ineligible business. Shortly after the business was bound, a carrier representative inspected the risk and determined that the risk did not meet the eligibility requirements. The policy was setup for non-renewal by the carrier due to ineligibility.

Before the carrier had the opportunity to get off the risk, there was a large claim reported. The loss was reported to the E&O carrier because it quickly became evident that he had bound the carrier to an ineligible risk. The agent was interviewed about the loss during the E&O claim investigation. The agent was an attendee of the church and he was aware that the church had offered transitional housing in the past; however, he was under the mistaken belief that the church no longer offered transitional housing. Since he was under the impression that transitional housing was no longer offered by the church, he acknowledged that he had skipped that eligibility question on the application when coverage was bound.

It's important to be knowledgeable about the eligibility criteria for the carriers that you represent. Binding a carrier to an ineligible risk leaves you vulnerable to an E&O claim. Whenever the underwriting guidelines require you to personally inspect a risk, you should do so. Furthermore, even if you have personal knowledge about a risk, you should still always review all eligibility criteria with the potential policy holder or the individual who is completing the application. If there's ever a question related to eligibility, an inquiry should go to the carrier's underwriting department before coverage is bound and all information related to the inquiry should be documented.

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