

From Start to Extinguish: Insuring Fire Hazards

Providing proper coverage for fire risks and seeing fire claims through proper adjustment are core functions for many insurance agents. There are a few potential pitfalls associated with fire losses—here are suggestions for avoiding them.


During the application process, it's extremely important to get a fully completed and accurate application. Carriers can avoid covering a loss if the risk as represented on the application turns out to be materially different from the actual risk insured. In some states, the misrepresentation on the application does not even have to be related to the ultimate cause of loss for the carrier to deny the claim and void the policy *ab initio* (back to the beginning). Faced with an uncovered loss, the policyholder will focus on the agent in an attempt to shift blame and recover any damages.

Typically, the policyholder testifies that he gave the correct information to the agent, who then incorrectly filled in the application. The policyholder then says he did not have a chance to review the information and relied on the agent to correctly complete the application. Other claims arise when the policyholder alleges that he told the agent the correct information but the agent specifically advised that it did not need to be disclosed on the application. Matters become worse if the customer testifies that the signature on the application is not his, and he did not authorize anyone to sign on his behalf. Agents often fill in information received over the phone and have permission to sign applications on the customer's behalf in order to save time. Even with such verbal authority, time—and an uncovered loss—can cloud the memory.

A prudent agent will never sign for a customer. If absolutely necessary, send a confirmation letter to the client following any such signature authority. The agent should make sure the application includes complete and correct information regarding prior fires/claims (regardless of size), prior denials/cancellations and unusual fire hazards (i.e. if the applicant has a hobby or part-time job that requires him to store large supplies of flammable liquids). Further, agents should include all relevant information an underwriter obviously wants to know, such as prior losses at other properties owned by the same individuals (even if a different corporate entity technically has ownership).

Often a policyholder will call the agent from a fire scene seeking assistance in reporting the claim. Problems can arise if the agent says there is coverage for the fire loss without performing due diligence. He might assume fire coverage is in place and tell the policyholder not to worry. In many instances there is no coverage for a number of reasons, including if the policy recently lapsed for non-payment of premium. Sometimes there are special requirements under a commercial policy that require the policyholder to take certain precautions to lower the fire risk. If the policyholder has not complied with these requirements, the claim might be denied.

An agent can assume a legal duty he may not otherwise have by agreeing to notify the carrier. If the agent assumes this duty, he must notify all of the customer's potentially responsible carriers. Courts have held that if an agent assumes a duty, he must carry out that duty without negligence.

Use due care when underwriting and adjusting fire losses. Routine agency functions are sometimes overlooked during the rush of doing business, but it's important to remain vigilant in your agency E&O risk management and awareness. This will help you extinguish any E&O firestorms that may burn in your agency. 

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Granting Approval

After a fire, the policyholder may ask the agent if he can proceed with the clean up. Although the clean up seems like a routine matter, approval to start should come from the adjuster or carrier, and not from the agent. If the policyholder starts the clean up because the agent said he could, but the carrier later denies the claim after investigating, the agent may be in a difficult situation. The policyholder will look to the agent for any costs associated with the clean up if the carrier refuses to pay.

The same holds true with repair work. Sometimes the policyholder, carrier and contractor point a finger at the agent when the carrier refuses to cover the work entirely or says the expense is in excess of what the policy will allow. Let's assume the agent tells the policyholder to start the repair work and the current building codes require additional work beyond just repair. The policy may exclude or limit coverage for any work associated with the improvements to meet the current building codes. When the carrier denies this expense in whole or in part, the contractor will look for payment from the policyholder. The policyholder, in turn, will look to the agent since he gave approval to proceed.

—E.B.