

## Solve Sewer Backup Damage Surprises


Whether it's a small trickle or major water, damages caused by sewer backup can be inconvenient and costly. What many property owners don't realize is that most homeowners and commercial insurance policies do not include coverage for damages caused by a sewer backup. In fact, many policies specifically exclude damages arising from water backup from floor drains or other plumbing fixtures. By purchasing a special rider and/or endorsement for an annual fee, many customers may qualify for such coverage.

Consider these examples:

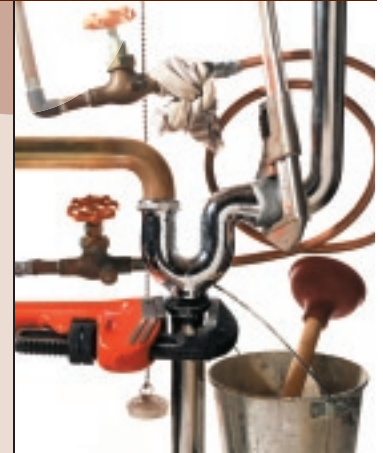
- At the request of his client, an agent secures a homeowners policy with a reputable carrier. The client demands full coverage and faxes a copy of his previous policy to the agent. The previous policy contained a limit of \$25,000 for sewer backup claims. The agent fails to examine the client's previous policy and secures a new homeowners policy with a limit of \$5,000 for sewer backup claims. Thirty days after the policy incepts but before the agent provides a copy of the policy to the customer, the client suffers a sewer backup loss, claiming he should have had \$25,000 in coverage. The client then sues his agent for malpractice.
- At the request of her client, an agent secures a commercial policy for a restaurant and bar. After a week of heavy rains, the restaurant suffers a sewer backup loss, including damage to the building and to contents. After the loss, the carrier denies coverage, claiming the customer never purchased an endorsement covering such loss. The client then sues her agent for failure to procure full coverage for her business.
- At the request of her client, an agent procures a homeowners policy. The client requests full coverage, including a flood policy. Believing that flood coverage encompasses sewer backup coverage, the agent fails to secure an endorsement adding sump pump coverage to the policy. A few months later, the client suffers a sump pump loss and, because such claims are not covered under the policy, the carrier denies coverage. While mold develops in the home, the client, for the next two months, tries to work with the carrier to convince it to cover the loss. When the insurer does not cover the loss, the client sues her agent for negligence. Because of the addition of mold, the client claims damages in excess of \$100,000.

In these instances, had the agent actually read the client's previous policy or better understood how carriers evaluate the risk of underwriting such coverage, the agent would have been in a better position to guard against such malpractice claims. Sewer backup problems can cause damage to flooring, furniture and electrical equipment, as well as causing the property owner to incur clean-up costs. These claims can amount to thousands of dollars. Agents should understand that the additional premium for such coverage is usually nominal compared to the overall damage that may result from such losses.

Pay attention to geographic location. Homes and businesses in or near areas where the water table is particularly high during prolonged rainy periods are especially vulnerable. As a best practice, become familiar with insurers' guidelines for sewer backup/sump pump coverage, add such coverages to your client checklists and pay special attention to insurers' bulletins announcing changes in coverages offered via packaged policies. Make sure the amount of sewer backup coverage secured for your clients is sufficient for such claims. Agents should also remember that sewer backup is not just a residential problem and water damage due to sewer backup can be even more costly in commercial structures. Always include documentation in client files, noting in writing when clients decline such coverages.

Following these best practices may help agents remain high and dry when sewer backup problems come calling. 

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## Avoid Errors

Offering extra coverage options in customer proposals is an agency best practice (whether or not the agency is legally obligated to do so) that can not only help avoid E&O claims but can increase agency revenue and improve customer satisfaction. Failing to procure coverage is the number one error alleged against agents.

Others include:

1. Failure to procure coverage
2. Failure to adequately explain policy provisions
3. Failure to adequately identify exposures
4. Failure to recommend coverage type
5. Inaccurate/incomplete information provided to carrier
6. Failure to provide timely notice of claim to carrier
7. Negligent misrepresentation
8. Failure to add additional insured/loss payee
9. Failure to duplicate prior coverage
10. Failure to recommend adequate value/limit

—David Hulcher