

## Common Culprits

*HO coverage: 3 common sources of E&O claims*

By Jim Redeker

Here are the three most common sources of E&O claims involving homeowners insurance—and what you can do to successfully defend them or, better yet, avoid them in the first place.



- 1) Lack of coverage.** A client suffers a loss and their HO policy does not cover the damages as broadly as they anticipated. The client then sues the carrier for not properly adjusting the claim, or they sue the agent for not selling them proper coverage.

The HO-3 and HO-5 forms offer the broadest coverage to your customer and best protect you from E&O claims. In order to sell these policies, educate your customer on the reasons behind the price difference between various HO policies— namely, the superior coverage the HO-3 and HO-5 provide. If your client still insists on purchasing a lesser policy form, fully explain the limitations of the coverage and document the same in your records.

- 2) Home valuations.** As an agent, you specialize in procuring insurance, not appraising property. Your client best knows the value of their home. If they are unsure of the value, they should pay for an appraisal.

Many carriers require using an estimator to determine the necessary amount of HO coverage. If that's the case, make sure you use the correct square footage in your calculation. If your client provides the square footage, document that they were the source of the figure and remind them that the coverage amount is an estimate, not a guarantee of the cost of rebuilding their home. You should also inform them they can request higher limits.

- 3) Coinsurance.** On a 90% coinsurance policy, most customers understand that if they only purchase \$180,000 in coverage on their \$200,000 home, the most they can recover from the carrier is \$180,000. What they may not realize is they may not have \$180,000 in coverage, or full coverage for a lesser loss.

At the time of loss, the carrier assesses the value of the home. If the value is greater than \$200,000, the carrier applies coinsurance. Using our example, if the customer suffers a \$100,000 loss but the carrier assesses the home's value at \$225,000, the customer will only recover  $[\$180,000 / (.9 \times 225,000) \times \$100,000] = \$88,889$ . The customer will be responsible

for the balance of the damages because they failed to carry coverage of at least 90% of the home's value.

Be sure to ask about home additions or improvements at renewal, and document that you have explained coinsurance. If the customer decides to insure for less than 100% of the estimated value, document that decision, as well as your offer to write higher limits.

*Jim Redeker is vice president and claims manager at Swiss Re Corporate Solutions and works out of the office in Overland Park, Kansas*

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