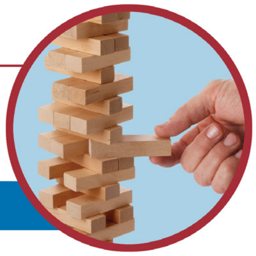
Utica National Insurance Group®

ERRORS & OMISSIONS

RISK MANAGEMENT ALERT



# Are These Key Endorsements in Your Carrier Proposals?

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A commercial lines application is submitted to a multitude of carriers looking for a proposal for the coverages requested. The proposals start appearing, and upon review, it certainly appears that the various carriers are quoting the coverage as requested. The focus now turns to the premiums being quoted to determine which carrier(s) your agency is going to propose. Is this level of review all that needs to be done? Definitely not.

There is the distinct possibility that the carrier proposals may contain some endorsements that could play a critical role in determining:

**a) whether the loss is covered; or**
**b) if the loss is covered, is it fully covered?**

For this reason, it is vital for the proposals to be reviewed for any issues that could impact the coverage. And we all know that when the loss is either not covered or not fully covered, these are the scenarios that have greater potential to result in an Errors and Omissions (E&O) claim being made against your agency.

There are three endorsements that are causing some problems for agents at the time of a loss. It is best that your agency review procedures including checking for any of these three to see if they are in the carrier proposals.

1. **The Margin Clause Endorsement.** This is typically added to a commercial property policy. It limits the amount the insured will receive for a loss if the property subject to a blanket limit is damaged or destroyed. If a loss occurs, the insurer will not pay more than a specified percentage of the value of the damaged property. The endorsement includes a schedule of insured property.

As an example, your agency submits a statement of values for three properties, each valued at $1,000,000. Due to the total value of $3,000,000, you request a blanket limit of $3,000,000 believing that this will address any properties where at the time of the loss, the value is greater than what was noted on the statement of values. A loss occurs, and the value is determined to be $1,500,000. Is there a problem? If the policy contained a margin clause (using 120% in the example), this would then limit the amount the insured can collect to the 120% of the value reported for that location on the insured's statement of values. In this example, this would result in a shortfall of $300,000 ($1,500,000 - $1,200,000).

What should an agency do? It should require the insured to sign an updated statement of values. It should also look to see if the carrier proposal includes the margin clause endorsement. If so, the reference to the margin clause should be on the agency proposal and explained to the insured.

2. **The Protective Safeguards Endorsement.** This is an endorsement that makes it a condition of coverage that the protective safeguards cited in the endorsement be in operation at all times except when the carrier has been notified of the impairment in protection. Often times, this will involve an automatic sprinkler system. If the policy includes this endorsement, the carrier is essentially stating that if the sprinkler system (as an example) is not operational at the time of the loss, the loss will be denied.

*Continued*

What should an agency do? The agency review process should include looking for this endorsement as a condition of coverage. The agency proposal should then include reference to this endorsement (also consider including the endorsement with the agency proposal). The agency presentation of the proposal should include a reference to this endorsement and the implications if not adhered to.

3. **Limitation of Coverage to Designated Premises or Projects.** As the name states, liability protection is provided to only the location or project listed. If the location or project is not specifically listed, there is no coverage.

This could be a key limitation to any insureds that have a location or conduct any business, activity or operation away from the stated premises or project. For new locations, there is no coverage until the insurer is notified and the location is added. This has the potential to negate the policy's "newly acquired" language.

What should an agency do? Applying the same process as with the Protective Safeguards endorsement is suggested. These three items are examples of various policy endorsements or language that could heavily impact whether a claim is covered and if so, to what extent. Being aware of these endorsements is a good first step in keeping them from becoming an E&O nightmare.