

SPECIAL REPORT

THE PERSONAL INSURANCE AUDITION –

The courts say you must read and understand the terms and conditions of your insurance policies and ask questions, yet few people ever do any of this and, instead, buy insurance based on the lowest premium.

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Forgive me, but 99.9% of the people buying personal insurance are amateurs when it comes to the insurance-buying process.

A. Here Is How It Typically Works

1. Call five agents or on-line sources every year or so and ask them to **“bid”** your home and/or auto insurance because you think you are paying too much money.
2. You give them a copy of all of your current policies and **ask them to quote exactly what you have.**
3. The agents prepare applications answering important questions about you for various insurance carriers. You rarely see these applications **although under Michigan law you are bound by what they say.**
5. These agents ultimately send you **multiple** quotations from **multiple** insurance companies in **multiple** formats and ask you what you want to do.
6. **You make a selection based upon the lowest premium,** not being skilled in the art of understanding the terms and conditions of the various insurance policies being proposed and not, in many cases, having been given sample policy language to review. Even if you are given sample policies **it is virtually impossible for a layperson to compare policy language differences and, more importantly, understand what endorsement options are available.**
7. The policies are delivered and filed and the **process goes on year after year.**
8. **The personal insurance buyer receives little meaningful advice from the insurance carriers or the insurance agent.** Insurance agents are trained to sell based on low premiums, and to do this they have to minimize coverages and limits.

In fact, if they only quote premiums and don't make any recommendations,

the Michigan Supreme Court has said as order takers they have no responsibilities to make any recommendations. If they start to make recommendations, they could be held liable for their negligence.

9. The insurance agent receives a commission and puts the file away until the insurance buyer calls for changes such as automobile changes **or to make a claim.**

B. Here's What's Wrong with This Process

1. It is a **time-waster** and **dangerous** for you because of:
 - a. multiple meetings or phone calls with agents
 - b. you receive multiple quotes
 - c. you deal with multiple agents
 - d. you deal with multiple carriers
 - e. your **inability to determine which agents or carriers are best to protect your personal assets.**
2. **It burns out the insurance carriers:**
 - a. Insurance carriers get **tired of quoting** only to see the current carrier get the last look.
 - b. The insurance carriers won't be there when **you really need them** because they know you are not serious about asset protection.
 - c. **Competent** insurance agents get tired of this process and won't be there when they are needed either because they soon know you really won't fire your current agent, or at least not until that agent makes a **serious mistake that damages or destroys your personal assets.**

3. It exposes the buyer of insurance to the **multiple risks** of changing insurance carriers or agents because:

- a. Applications are completed by the agent without the insured's knowledge, **yet the insured is bound by those applications.**

An example of this is the homeowners policy application asking if you have a trampoline at your house. The agent could answer "No" when this is not true.

- b. The terms and conditions with insurance carriers **always vary.** The agents are not able to articulate those differences. You may select an insurance policy without knowing that important coverages are no longer provided.
 - c. The insured is subject to **after-the-fact inspections by insurance carriers** who may require that you increase your dwelling values or find multiple deficiencies that need to be fixed.
 - d. This process exposes the insurance buyer to incompetent agents. **It is the agent that really needs the business that is quoting based upon price.** Competent and successful agents won't waste their time on accounts that make a decision on premium levels alone; **thus, depriving a homeowner of the best advice.**
 - e. It exposes the insured to **insurance carriers that need to win on price and then cancel or decide not to renew later when their pricing is not adequate to cover your claims of their policyholders in the area.**
4. Everyone is worried about the **wrong thing; that is, the lowest price.**

C. Here's a True and False Test for Insurance Buyers to See if They are Able to Competently Evaluate Insurance Policies

If you pass this test you are in the 1% of people capable of understanding the differences in insurance policies.

QUESTION	T / F	ANSWER
1. I have \$100,000/\$300,000 auto liability insurance, and if I buy higher limits it will only increase what the injured party will receive.	T F	<i>False.</i> Plaintiff's attorney must seek the maximum amount of damages it can justify in court, and after a judgment or settlement is achieved it must seek out any assets that are available to satisfy the judgment or settlement. The insurance policy may be part of those assets but does not limit the assets that the attorney can seize.
2. It is always better and less expensive to keep autos owned by my kids on my auto policy, even though they have moved to their own home.	T F	<i>False.</i> If automobiles are garaged elsewhere, they cannot be listed on your insurance policy unless they are owned by you or another resident of that household.
3. In order to obtain lower auto premiums, I can use as the garaging place the address of our seasonal dwelling up north.	T F	<i>False.</i> This is fraud. You must state the accurate and truthful garaging place of each automobile. If you fail to do so, the insurance company can rescind the policy and deny the claim.
4. It is not necessary to report a live-in person that is not a relative to the auto insurer.	T F	<i>False.</i> You must report to the insurance company any non-relative that lives with you even though that person may have his or her own automobile. The reason for this is that your automobile could be utilized by this live-in person and result in a claim. The insurance company needs to underwrite that person and their driving habits, etc.
5. It is always allowable to keep my homeowners policy in effect after I have moved out as long as I am only renting it to others.	T F	<i>False.</i> A homeowners policy is limited to residency by that homeowner. When a home is sold, the home is no longer occupied by the owner. The homeowners policy will not provide coverage, and coverage must be rewritten immediately onto a dwelling fire policy that is designed to cover rental dwellings.
6. After I sell my home, I intend to live there for 60 days while our new home is renovated. As long as I reside in the home, my homeowners policy will still cover me.	T F	<i>False.</i> Because you've sold your home to someone else, the home is no longer owner occupied. You are a tenant of the new owner. The new owner must secure a dwelling fire policy for the sixty (60) days because you are a tenant and you must obtain a tenant homeowners policy to cover your contents and personal liability.
7. We own a rental home in Livonia but live in Detroit which is where we keep our cars. Using the Livonia address	T F	<i>False.</i> You must state truthfully the garaging territory of each car or the insurance company could deny the claim based upon fraud.

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will lower our auto premiums and this has always been acceptable. My insurance agent says it is ok to do.		
8. My agent told me that it is better to add my personal cars to my business auto policy because the rates will be lower and there is no disadvantage to doing this.	T F	<i>False.</i> While it is possible to add a personal car to a business policy, there must be a lease agreement between the business owner and the owner of the automobile. This then imposes upon the business owner the liability for any accident that occurs with that vehicle. The actual titleholder of the automobile also has liability as does the driver. Generally speaking, it is not a good idea to add a personal car to a business that is owned or controlled by the titleholder of the car because it exposes the parties to multiple claims.
9. When I rent a car on vacation, I should reject the additional cost of the loss damage waiver because this will be covered by my personal insurance.	T F	<i>False.</i> When you rent a car you are typically responsible for any damage to or theft of that automobile even when you are not at fault. While it is true that your personal automobile policy may provide coverage to the extent that you have coverage on your policy for comprehensive and collision, the policy will not cover, in most cases, loss of profits to the rental company because the car cannot be rented while it is being repaired or replaced and the rental company can also make a claim for diminution of value because the value of the automobile, after the repairs, is not the same as the value before the repairs. Furthermore, there could be a dispute between the rental company and yourself as to the extent of damages. For example, the rental company may feel that the damages to the car are \$35,000 and your insurance may say it is only paying \$25,000. You are then stuck with the difference on your credit card. In addition, there is typically no coverage whatsoever under your auto policy when renting outside of the United States.
10. I use my personal car in business. I recently had a serious accident injuring several people, and I was at fault. As a result of this, my employer was sued and the insurance company for my employer has sued me for the \$1,000,000 they had to pay. This is not legal.	T F	<i>False.</i> If you have an accident on company time and you are insuring your own vehicle, the insurance company for your employer or the business owner can sue you to recover what it pays because you were operating the vehicle negligently on behalf of the business, causing a liability to the business. When you use a personal vehicle on company time, you need to report it to your insurance company; otherwise, they could deny a serious loss. It is also possible to add a clause to the business policy that makes employees as additional insureds.

QUESTION	T / F	ANSWER
11. I had a homeowners policy but did not personally occupy the home. I rented it to someone else several months ago. Subsequently, the home was destroyed by fire. The insurance company has denied the loss. The adjuster is wrong.	T F	<i>False.</i> A homeowners policy requires that the dwelling owner personally occupy the home.
12. I had a water backup in my home's lower level which did substantial damage, and the adjuster said that I only had \$5,000 in coverage. The adjuster is wrong.	T F	<i>False.</i> Most insurance policies start off by providing only \$5,000 in water backup coverage. In many cases, you can buy higher limits.
13. As a result of a water loss in my home, I had a great deal of mold growth that had to be remediated. The adjuster said that I only had \$5,000 in coverage. The adjuster is wrong.	T F	<i>False.</i> Most insurance policies provide only \$5,000 in mold remediation coverage. It is possible with some insurance companies to purchase higher limits.
14. I have a home-based business. A package delivery person fell in my driveway while delivering a business package and sued me. The insurance company denied the claim based on the business exclusion. The insurance company is wrong?	T F	<i>False.</i> The homeowners policy will exclude any business activities such as delivery of a package to a business that may be located at that home. Someone with a home-based business should either negotiate additional coverage on their homeowners policy or purchase a separate business owners policy covering that business at the personal location.
15. We had heavy rains that seeped through my basement walls causing a great deal of damage. The insurance company denied the loss. The insurance company is wrong.	T F	<i>False.</i> Seepage through basement walls and floors is generally not covered by a homeowners policy.
16. The adjuster said that he was not going to pay for the theft of my \$15,000 diamond ring. The adjuster is wrong.	T F	<i>False.</i> Most homeowners policies limit theft of jewelry to a small amount such as \$2,500. Valuable articles such as jewelry should be specifically scheduled in order to avoid the homeowners deductible and, if written correctly, the insurance company will write a check for the amount that an item has been scheduled for rather than the wholesale amount for that same item.
17. My friend was using my snowmobile and hit a tree,	T F	<i>False.</i> Recreational vehicles are not covered under the liability portion of the homeowners policy unless they

QUESTION	T / F	ANSWER
sustaining major injuries. I have now been sued, and my homeowners carrier denied the loss under the personal liability section of that policy. The insurance carrier is wrong.		are specifically scheduled.
18. My aunt was able to obtain an auto discount because I placed my name on the title of her auto. An adjuster for a person injured by her in an accident says that I am responsible for injuries arising out of the use of this vehicle. She did not have enough insurance and failed to add my name as an additional insured. My insurance company in correctly denied this claim against me.	T F	<i>False.</i> This car was not scheduled on your auto policy, and the auto policy will only respond to scheduled automobiles and, in some cases, liability claims arising out of short-term rental cars. In Michigan the titleholder of an automobile is 100% liable for injuries arising out of an automobile even if not driven by that person. Allowing someone else to drive a car that is titled in your name is bad practice, but where it is absolutely necessary, it is critical to be certain that the driver's policy has your name as additional insured and that high limits are provided.
19. I had a fire that destroyed a dwelling that I rent to others. The dwelling was not occupied at the time of the fire because I was between tenants. The insurance company has denied the claim. The company is wrong.	T F	<i>False.</i> Most dwelling fire policies have vacancy provisions and there may not be any coverage whatsoever after 30 or 60 days, depending on the carrier.
20. I had a fire at my home, and the limit I had on my homeowners policy was not sufficient to rebuild my home. My agent had sold me guaranteed replacement cost coverage which she said at the time would increase the limit automatically if it was not sufficient at the time of a major loss. The insurance company indicated that I violated that clause by not reporting any improvements to my home of \$5,000 or more at the start of those improvements. The insurance company is wrong.	T F	<i>False.</i> Most guaranteed replacement cost provisions on homeowners policies do not apply where you have former improvements, and did not tell the insurance company about the improvements.
21. My home was destroyed by fire. The named insured on the	T F	<i>False.</i> The titleholder of a home needs to be listed on the insurance policy even if it's a marital trust.

QUESTION	T / F	ANSWER
<p>policy was myself and my husband. The insurance company denied the loss indicating that the home was actually owned by a martial trust that we had formed and deeded the house to. The marital trust was not listed on the insurance policy as an insured. The insurance company is wrong.</p>		
<p>22. I lease my home from another person and have a renter's policy covering my contents and my personal liability for bodily injury or property damage claims. I had a major water loss arising out of my child stuffing paper towels down the toilet. The landlord's insurance company is asking me to pay over \$100,000 to reimburse it for what it paid to repair this home. My insurance company is wrong.</p>	T F	<p><i>False.</i> The personal liability section of the typical renters policy excludes damage to property occupied or used by any insured or rented to or in the care of any insured.</p>

D. Insurance Audition

We recommend the personal insurance audition because the process of selecting an agent can be a daunting one, and too often a decision is made based upon low premium promises as well as services and qualifications that sound good, but turn out differently.

In the traditional agent selection process, you really do not know if your choice was a good one until after you have made your decision and after you have a loss and you learn:

- that a claim is not covered.

- the premium came in higher than quoted.
- the insurance carrier Cancels mid-term when they inspect and don't like what they see or learn about your loss history that was not reported accurately.
- a claim is denied and the policy declared void because of a misrepresentation in the agent's application.

We believe that a better approach is to ask potential insurance agent candidates to perform before you make your selection of

the agent to represent you. We call this the **audition.**

We believe the concept of an audition before the selection is a good method of finding out what will happen after you select an agent and/or insurance company. The insurance audition is at no cost to you.

The insurance audition consists of asking proposed candidates to gather information that they require about you and your insurance needs and to **prepare a report on why they should be the firm that should be selected and what specifically they will do for you** or even better, **what have they already accomplished** for you in this process by way of recommendations for changes in your current coverage.

We would encourage you to provide only the information that they request in order to accomplish this, **but nothing more.**

The reason for this is that **what information is (or isn't!) requested can be an important factor in your ultimate decision.**

The big advantage of this process is that you will hopefully **receive a lot of free advice** about what you have and/or should have by way of a risk management and insurance program.

We would encourage you to also make the time available for your candidates to meet with you, if requested, so the candidates can learn as much as possible about you. At this meeting, no “sales pitch” or quotations are allowed. Again, do not offer up this meeting **unless it is requested.**

A report should be submitted to you no later than one week after the information that they have requested is provided by your office.

Based on these reports, **pick the agent** that most impresses you based on the work that has been done. You can then ask the selected agent to send applications to various insurance carriers so that a fully negotiated insurance program can be presented to you. This should be done at least thirty (30) days before the effective date of your renewal so that there will be time to make changes in the proposed program well before the renewal date.

One caveat in all of this: **If you are not willing to fire your current agent when another firm is better, do not go through this process.** If the competing firms end up being clearly better than what you have now, but you are unable to make the change, you will end up burning out the agent-broker insurance market and, if you decide to make a change in the future, they may not be available to you.

The bottom line is that you are going to be auditioning insurance agents.

The goal is to secure the services of a **professional insurance buyer for you.** The agent that is selected will then go into the marketplace and secure quotations and be able to compare terms and conditions and make a recommendation to you based upon all factors.

Here is what to expect, at a minimum, from a competent and professional insurance buyer in this audition:

1. An insightful analysis of your current policies:
 - the good and the bad terms and conditions of your current insurance policies;
 - analysis of your claims history and recommendations;

- recommendations of insurance carriers suited to your account; and
- an analysis of terms and conditions of competing insurance carriers.

Here is what to expect from everyone else:

1. The direct writing insurance carriers (where only one carrier is represented) most likely won't respond because they are not prepared to do anything but quote.
2. The on-line carriers will not respond because their computer system only allows them to quote a premium.
3. Most other independent agents that sell insurance won't take the time to do this. The reason for this is that they typically receive between something in the area of 6% of the premium for their individual efforts. A \$1,500 homeowners policy will earn them \$90. They need to quote low premiums based on stripped down coverages to win your business so they can move on to the next prospect.