



The Perils of Non-Renewals

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Given the volume of work performed daily by insurance professionals, some tasks must, by virtue of their urgency, be given priority. One such task is the timely placement of coverage for clients whose policies have been non-renewed.

The concept is quite simple: A replacement policy must be secured so there are no gaps in coverage. When lapses occur, the consequences can be costly.

Take, for example, a case that was recently settled on behalf of an agency whose client had such a gap in coverage due to agency error. The client, a maintenance company, was non-renewed by the CGL carrier following the agent's failure to provide requested information.

Upon receipt of a non-renewal notice—well in advance of the policy expiration date—the agent contacted the carrier, hoping to renew the policy by supplying the necessary information. Despite the agent's efforts, the carrier would not renew the policy.

Nine long months elapsed before replacement coverage was secured. Unfortunately, a loss occurred during the gap in coverage involving a pregnant woman, who fell in a building maintained by the client and miscarried. Between the legal defense and settlement fees, the total cost to resolve the claim against the agent amounted to nearly \$500,000.

Another example involved a mere three-day gap in coverage wherein a liquor liability carrier non-renewed a client. Despite the fact that the agency sent an application from another carrier to the client, there were conflicting stories as to whether it ever reached the managing general agent.

Mixed signals resulted in a three-day gap in coverage, during which time one of the client's patrons struck and killed a pedestrian—a young mother of three—while intoxicated. The client and another bar/restaurant were sued. The other restaurant settled, as did the auto carrier, leaving the agency's client as the sole defendant. We provided the client's defense and eventually settled the claim for \$200,000.

The above examples are not uncommon. Unfortunately, similar losses occur with regularity. That's the bad news. The good news is that there are ways to protect yourself and your agency.

First, upon receipt of a non-renewal notice, thoroughly review the reasons cited by the carrier. If the non-renewal is due to repeated, time-consuming billing problems—involving last-minute payments, disputes over amounts owed, etc.—you should decide if this is an account you wish to keep.

If you elect to sever your relationship with the client, notify him or her immediately by telephone. Then follow up with written notification as far in advance of the policy expiration date as possible. Your letter—sent via certified mail—should clearly state that: a) the policy will not be renewed (include the expiration date), and b) the agency will not be seeking replacement coverage.

If, on the other hand, you elect to retain the client, a diary system should be implemented wherein the agent starts the process of procuring replacement coverage at least a week in advance of the policy's expiration date. If you engage another broker in your market search, the diary should include a two-week cushion.

It is imperative to document your efforts to obtain quotes and/or coverage. Make sure your fax machines are maintained properly so that times and dates are correct, and fax activity reports are filed and saved for future reference. If the nature of the client's business makes it difficult to place the account, keep the client apprised of the search process.

If coverage cannot be secured in a timely manner, involve the client in a discussion with the expiring carrier to determine if the policy term can be extended, for an additional premium, which will give you extra time to place the account.

Taking the proper steps when faced with non-renewals will minimize the likelihood of claims against the agency. At all costs, gaps in coverage should never occur.