

Thinking About Switching Insurance Companies? Five Questions to Ask Before You Do

In the current economic climate, it is wise for policyholders to take stock of their insurance portfolios and consider whether a change in insurance companies would be beneficial. While re-examining existing insurance is a step in the right direction, risk managers cannot make an informed decision without considering several key issues, including *limits, additional layers, claims handling history, mandatory policy clauses, pre-existing conditions, and pitfalls of a new application process.*



Limits: Do You Have the Right Amount of Coverage?

The first step for a risk manager planning to collect information about the offerings of various insurance companies is to gather and review all relevant internal information about potential liabilities to determine whether current insurance limits provide sufficient coverage. This can be accomplished through a combined review of past litigation expenses and any new business operations or risks that have arisen since the last insurance purchase or renewal. Companies often find that recent developments or

projects have increased potential liability while insurance limits remained the same – leaving a coverage gap that could prove ruinous. By testing the insurance market, you may find that you can obtain greater limits for the same (or even lower) premiums. In contrast, some insurance companies require a “cap” on the limits available for certain types of insurance – which leads directly to the next issue.

Additional Layers: Should You Consider Excess or Umbrella Coverage?

A policyholder may decide against increasing its primary layer limits and instead purchase excess or umbrella coverage above the limits of the primary insurance policy. Excess/umbrella coverage provides greater limits for potentially catastrophic exposures – often at a relatively low premium – because the coverage does not kick in until exposure reaches a high level. When deciding between increasing primary limits versus obtaining excess/umbrella coverage, carefully review the specific policy terms because primary and excess/umbrella insurance often have significant differences, such as whether defense costs are covered.

Claims Handling History: Have Your Experiences Been Positive or Negative?

Switching insurance companies and programs is not merely a by-the-numbers decision because each insurance company has its own way of dealing with claims. Indeed, a policyholder should regard its past claims handling experiences with its current insurance company as a key factor in deciding whether to switch. Were previously submitted claims paid promptly or otherwise treated fairly? Insurance is worthless if it doesn't pay claims, and some companies seek to avoid or lessen their obligations through certain policy terms.

Mandatory Policy Clauses: Are They Limiting Your Options?

One example of an undesirable policy term is a mandatory arbitration provision, which could allow your current insurance company to force you to arbitrate claims for which coverage seems to be clearly provided under the policies at issue. Under such arbitration clauses, companies faced with any potentially large exposures that should be covered under their policies may be faced with only one recourse if their insurance companies deny coverage – an arbitration proceeding. Other policies may not

contain an arbitration requirement, but specify that the law of a particular jurisdiction must apply should litigation occur. Typically, the jurisdiction chosen by the insurance company will be one in which the law is unfavorable to policyholders. When deciding whether to change insurance companies, consider arbitration and/or mandatory jurisdiction clauses a strike against any insurance company that insists upon them.

“Pre-existing” or “Known” Conditions: Do You Know Your Risks?

The term “pre-existing condition,” widely associated with health insurance, may be applicable to a manufacturer or other corporate entity that has certain types of potential liabilities such as pollution risks or suits brought by shareholders. There is a common insurance policy exclusion for “pre-existing conditions” known to a “responsible insured” but not disclosed or identified in new policy applications. This type of exclusion can make it very difficult to secure coverage for certain risks.

If you lack a complete inventory of your company’s “known” potential liabilities, your company may fall victim to these exclusions. It is therefore crucial to undertake a yearly evaluation to ensure awareness of any and all potential risks, including new liabilities, and to report the findings to your insurance company. Because insurance companies require that policyholders detail all of their potential risks, including any known, pre-existing conditions, the only way to be protected from coverage denials is to stay one step ahead by

being cognizant of your own liabilities, informing your insurance companies about them, and keeping detailed records of those communications.

Avoiding the Pitfalls of a New Application Process

The “pre-existing conditions” exclusion highlights an additional risk inherent in switching insurance companies. A change in insurance companies always requires filling out entirely new application materials, which entails a risk of forgetting to include critical information. Though you might think that an error as simple as leaving off one particular item, such as a location on a schedule of proposed insured properties, should only prevent coverage for that location, it is entirely possible that an insurance company will seek to rescind an entire policy based on one innocent mistake in the application. One way to prevent this from happening with respect to scheduled locations is to request that your new policy include a clause broadening coverage to include inadvertently omitted sites. Anything less may leave a company potentially uncovered for any location that it innocently failed to mention in a new policy application.

Conclusion: Think About Everything.

When faced with harsh economic realities, insurance companies are likely to reexamine their claims handling processes. The resulting changes could lead policyholders to consider switching insurance companies if there is concern about the new practices of a current insurance company. Before jumping into the insurance

market blindly (or based solely on the recommendations of a broker), policyholders must ask themselves a number of questions. A policyholder that understands its own insurance needs, including proper coverage limits, options for excess or umbrella coverage, past claims handling experiences, and all potential liabilities will be much more likely to come to the correct decision regarding where to procure its future insurance coverage.

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