

A Lucky Break...But Be Careful!

INSURING SMES: BE RESPONSIBLE. TAKE NOTHING FOR GRANTED!

Carole Chauvin, A.I.B., C. Adm. | syndic



This article is based on actual cases that were brought before the syndic. We hope it will help you to reflect on the quality of your professional practice, specifically with respect to your ethical obligations.

The Complaint

The owner of a variety store files a complaint against her damage insurance representative following the theft of some stamps, for which she only received partial compensation. The store operates a Canada Post counter; however this part of her business was not properly insured.

The Ethics Investigation

In March 2006, the insured buys an existing business. It is her first business. Not knowing much about insurance, she asks for insurance quotes over the phone, trusting in the expertise and advice of the representative with whom she is speaking.

Once the alarm system is hooked up to the monitoring centre, a classic business lines insurance contract is drawn up. The contract—which includes \$80,000 in merchandise coverage (including \$3,000 for cash and securities)—then goes into force. It should be noted that stamps are included in the definition of “securities”.

The new contract is mailed to the insured. The following year, she also receives her renewal by mail. Following the renewal, the business is robbed for the first time. A small number of stamps are stolen. The loss is minimal and fully compensated. Then, a second, considerably larger, robbery takes place. A great deal of merchandise is stolen including stamps. This time, however, the stamp theft alone is valued at around \$23,000. The loss of these stamps is not properly compensated.

As soon as the investigation begins, the representative admits that he had not visited the business and had not collected

all the relevant information when the risk was underwritten. Nor did he verify the insured’s needs at insurance renewal time, although her inventory of stamps had increased.

The Formal Complaint

I went before the discipline committee to file a formal complaint against the representative. The complaint was made up of 10 charges, including the six listed below:

Charge N° 1: In March 2006, did not collect the information required to allow him to identify the insured’s needs in order to propose the adequate insurance product;

Charge N° 2: In March and April 2006, before making the insurance contract with the insured, did not describe the proposed product in relation to the needs identified, did not specify the nature of the coverage offered and did not clearly indicate exclusions of coverage;

Charge N° 4: Between March and May 2006, pursued his professional activities with the insured in a negligent manner, in particular by:

- not visiting the business operated by the insured in order to offer her the product that best met her needs and properly inform the insurer of the risk requiring insurance;
- not visiting the covered risk once the insurer had issued the new insurance contract in order to make sure that the insured’s business as a whole was properly covered and declared to the insurer;

Charge n° 5: In April 2007, at renewal time, did not collect the information required to allow him to identify the insured’s needs in order to propose the adequate insurance product;

Charge n° 7: Around June 2007, following a claim for the theft of a rack of stamps, failed to act as a conscientious advisor and showed negligence by not advising the insured to increase the amount of coverage for stamps and to add coverage for the Canada Post counter, thus leaving the insured with clearly insufficient insurance coverage, specifically for the stamps;

Chef n° 8: In March 2008, when the insured provided him with both the required information and copies of the contracts between her business and Sears Canada

and Canada Post, was negligent in not requesting that these companies be added to insurance contract, as additional insureds and beneficiaries and not adding the Sears counter to the list of the insured’s business activities included in said insurance contract;

The Discipline Committee’s Ruling

The representative pled guilty to each of the 10 charges, having recognized that it was his duty to collect all the relevant information. The discipline committee imposed fines totalling \$10,300 on the respondent.

He openly admitted that he had never expected the quote that he had presented over the phone in March 2006 to be accepted and that he should have been more careful when the insured decided to award him the contract.

In business lines insurance, it is essential to have an in-depth understanding of the company and all the types of business that it does, in addition to monitoring the client’s ever-changing insurance needs.

After 40 years of experience in damage insurance, that’s quite the lesson learned! Negligence can lie in wait for you at any age!

See disciplinary ruling no. 2009-11-01(c)

(c): Courtier