

Personal Advantage
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Insurance Traps That Can Effectively Cancel Your Insurance Coverage

Exclusions are the clauses usually placed at the back of insurance policies that cancel out the coverage promised at the front. Most claims denials are based on exclusions.

Many policyholders are unaware of them until their claim is turned down.

According to law, exclusion clauses must be plain, clear and conspicuous - or they may not hold up in court. But insurance policies are tricky. Some exclusions are not identified specifically in the exclusions section, but rather are camouflaged as narrow definitions, conditions or limitations inserted elsewhere in the policy.

Important: Review your policies, especially exclusions, with your insurance agent. If you are unhappy, ask if an additional premium or a different policy would provide the coverage you need.

Here are the most common exclusion traps to watch for...

Auto exclusions:

New car exclusion. If you already have auto insurance and you buy a new or second car, many policies will automatically cover it for 30 days.

Trap: Some policies may only cover a new car for less than 30 days. If you have an accident after that limited period, you could be in trouble.

Members of the household exclusion. If you occasionally allow another person to drive your car, that person is generally covered as a "permissive user."

Trap: If the borrower is a member of your household, coverage is excluded unless the person is listed on the policy and an additional premium is paid.

Negative consequences. ERISA is now the group policyholders' only tool to fight back when they are cheated by an insurance company. But when it comes to health insurance, ERISA has no teeth.

Example: An adult child or parent who resides with you.

Own car exclusion. If you are in an accident while driving someone else's uninsured car, most policies will cover you.

Trap: If you own the vehicle and it's not listed on your policy, you won't be covered.

Example: You own an old pickup truck, or an antique car that you've been restoring.

Trap: Water damage exclusion. Many homeowners' policies exclude coverage for any kind of water damage, not just damages sustained in a flood or hurricane.

Beware: Water damage is very common and can be extensive. Most people assume they are covered if their

roof leaks during a normal rainstorm, ruining a carpet or wood floor. But many policies specifically exclude damages resulting from roof leaks, swimming pool leaks, water that backs up through a sewer or drain, surface water overflow, etc.

Solution: If water damage is a substantial risk in your area, shop for the broadest available form of water coverage.

Trap: Contractor/third party negligence exclusion. Be wary of policies that exclude damages caused by negligent construction. There are policies that cover this.

Example: If your roof leaks and damages your carpet, you may be able to get coverage for the carpet by proving that the leak was caused by negligent construction.

Trap: Earth movement exclusion - another large problem area, especially in California. This exclusion applies not just to earthquake damage, for which a policyholder can buy extra coverage, but also to any damages that result from earth settling.

Beware: If your home is built on a landfill, hillside or site that's likely to settle you may find that cracks in your driveway, foundation, patio or pool aren't covered.

Trap: Mechanical breakdown exclusion. Excludes damages caused by the failure of mechanical equipment.

Beware: If you have an electrical fire due to a malfunction of your heat pump or other mechanical device, your insurer may refuse to cover you.

Trap: Home office exclusion. If you operate a business from your home, or if you use your personal computer, camera or other equipment primarily for business purposes, a loss may be excluded or the amount you can recover limited.

Trap: Wear and tear, aging or deterioration. Using this exclusion, an insurer can claim that damages to your home were caused by your own negligence in failing to keep up repairs or anticipate a breakdown.

Trap: Vandalism or malicious mischief is commonly excluded if your home has been vacant for 30 days.

Caution: Arrange to have someone "house sit" if you plan to be away from home for any length of time.

Also commonly excluded are damages from dry rot or mold, contamination or hazardous gases, smog or smoke, insects, rodents, birds or domestic animals.

Caution: Check your policy if these risks are substantial for your property.

Camouflaged exclusions:

Replacement vs. actual cash value. Many policyholders are dismayed to learn that their stolen color TV is only covered for its actual cash value (depreciated to about \$45) rather than its replacement value.

Recommended: Check the coverage on your personal possessions.

Basis for deductible. Recent hurricane and earthquake victims in South Carolina and California have understood the deductibles on their homeowners' policies to be based on the total amount of damages.

Example: For \$10,000 sustained in property damage, they expected to pay a 10% deductible, or \$1,000, and to be compensated for 90%, or \$9,000

Big trap: Some insurers have tried to claim that the deductible was based on the total insured value of the property.

Example: On a home insured for \$100,000, the deductible would be \$10,000 and the homeowner would