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101 Common Commercial Lines Coverage Gaps To Avoid

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One of the best ways for an insurance agent or broker to lose a client or face an errors and omissions (E&O) claim is to fail to tailor a customer's insurance program to its exposure to loss. Similarly, coverage gaps that result in uninsured claims become career-limiting crises for risk managers. For this reason, IRMI set out to identify 101 common coverage gaps to help you avoid the embarrassment that they may cause.

The following list of coverage gaps and errors was first compiled from reader responses posted in the [IRMI Group on LinkedIn](#) in response to an editorial by Jack Gibson in *IRMI Update* #252. (*IRMI Update* is a free [risk management newsletter delivered via e-mail](#).) The IRMI research analysts then edited, expanded, and enhanced the list. These represent some of the most common—and dangerous—mistakes that are made when placing commercial lines insurance. Use this document as a handy checklist to avoid these mistakes in the insurance programs you buy or sell.

We have included links to five IRMI knowledgebases where you can find explanations of

these gaps and how to close them. Of course, you must subscribe to the knowledgebases for the links to function (see sidebar on page 2). IRMI also offers two other products that focus on helping you understand and eliminate these coverage gaps. The first is an online

About the Authors

This list was compiled by the IRMI editorial team with input from members of the IRMI Group on LinkedIn. At 12 research analysts and editors, the IRMI editorial team is likely the largest in the US property-casualty insurance and risk management reference publishing field. It is also probably the most experienced team, having collectively worked for more than 3½ centuries as underwriters, risk managers, consultants, agents, brokers, attorneys, and, of course, IRMI research analysts. Collectively, the team holds 12 undergraduate college degrees (many with honors), 10 graduate-level degrees, and 35 CPCU and other insurance designations. Additionally, the team members have received many accolades, honors, and awards. [View biographies of our editorial team members on IRMI.com](#).

course, [101 Commercial Lines Coverage Gaps & How to Close Them](#), which has been approved for insurance CE in all states. The course discusses each of the coverage gaps included in the following checklist and is a great training tool for agents and brokers. The second is [The Gapper](#), which is an online commercial lines insurance coverage gap finder that helps you identify these gaps and generate a report documenting the gaps you find. The Gapper is a powerful sales and E&O prevention tool for agents and brokers.

How To Use the Buttons in This Checklist

Many of the knowledgebases available from IRMI address topics covered by this checklist. However, to keep the checklist uncluttered, we linked it to only five of our most popular knowledgebases.

- ◆ *Commercial Auto Insurance (CAI)*
- ◆ *Commercial Liability Insurance (CLI)*
- ◆ *Commercial Property Insurance (CPI)*
- ◆ *Professional Liability Insurance (PLI)*
- ◆ *IRMI Workers Comp (IWC)*

To use the buttons, you must be a subscriber to the particular knowledgebase to which the gap is linked on either the [IRMI Online](#) or [ReferenceConnect](#) platform (from Vertafore), and you must sign in on the platform prior to using the link. Each link identifies the applicable knowledgebase and platform using the abbreviations shown in the list along with “IRMI Online” and “RefCon.” If you are uncertain as to whether your firm subscribes on your behalf, contact IRMI [through our website](#) or by phone (800-827-4242) and our client services team will be happy to help you.

All Policies

1. Specifying an improper “first named insured” on a policy



2. Including an incomplete or inaccurate list of insureds on the declarations page



Commercial Auto Policy

3. Improperly insuring private passenger autos that should be insured by a personal auto policy in a business auto policy (or vice versa)



4. Inaccurately assigning covered auto symbols



5. Not covering executives or others who are provided with company vehicles with drive other car coverage when they have no personal auto policy (including no-fault coverage, where applicable)



6. Failing to procure hired and nonowned auto liability coverage for

insureds that do not have any owned vehicles



- 7. Failing to complete and file with the insurer appropriate uninsured/underinsured motorists selection or rejection forms



- 8. Failing to identify mobile equipment subject to motor vehicle laws and cover it under a business auto policy



- 9. Allowing multiple comprehensive coverage deductibles to apply to vehicles parked or garaged together rather than using an aggregate deductible



- 10. Failing to provide hired auto physical damage coverage



- 11. Failing to provide liability and physical damage coverage to employees who hire autos in their own names for business use



Commercial General Liability Policy

- 12. Relying on commercial general liability fire legal liability coverage to insure leased premises when commercial property insurance is needed to satisfy the obligations in the lease



- 13. The lack of an employee benefits liability endorsement in the commercial general liability policy (or coverage in a separate fiduciary liability policy)



- 14. Inattention to retroactive date and extended reporting period on claims-made coverage endorsements attached to occurrence trigger commercial general liability policies (e.g., employee benefits liability)



- 15. Failing to provide additional insured status as required by contract



- 16. Lack of coverage, or inadequate coverage, for joint ventures and newly acquired companies



17. Relying on the commercial general liability or umbrella policy to cover professional liability exposures



18. Failing to arrange coverage for leased workers in states that do not bring leased workers within the workers compensation system



19. Failing to arrange “loss of electronic data” coverage resulting from physical injury to tangible property



20. Failing to add coverage for contractual assumptions of personal injury liability claims stemming from false arrest, detention, or imprisonment by indemnitors that provide incidental security services



21. Failing to endorse coverage in connection with herbicides and pesticides, as required by manual rules, for insureds engaged in lawn care, fumigation, pest control, and crop spraying services



22. Failing to arrange contractual liability coverage for hold harmless agreements entailed in work for railroads or near railroad property



Workers Compensation Policy

23. Failing to provide other states insurance under the workers compensation and employers liability insurance policy for incidental exposures in other states



24. Not ensuring that all applicable states are listed for coverage under Item 3.A of the workers compensation policy (e.g., adding an employer’s new permanent operations)



25. Not including the voluntary workers compensation endorsement to address claims brought by workers (e.g., volunteers) to whom no workers compensation act may apply



26. Failing to establish who is responsible for insuring leased workers when a professional employer organization is utilized or

failing to follow up to ensure that insurance placements are made in accordance with jurisdictional and contractual requirements



27. Not utilizing an employers liability coverage endorsement (stop gap) to provide coverage for employers liability claims brought by employees in monopolistic fund states (North Dakota, Ohio, Washington, and Wyoming)



28. Failing to procure a foreign voluntary workers compensation endorsement to provide coverage for endemic disease and repatriation costs of employees working abroad (as well as medical and wage benefits when extraterritorial provisions of the state of employment do not apply)



29. Not including the Longshore and Harbor Workers' Compensation Act Coverage endorsement (on an "if any" basis) in the policies of employers that have a potential but remote exposure under the Act



30. Not including the maritime coverage endorsement (on an "if any basis") in the policies of employers that have a possible but remote exposure under maritime law



31. Failing to cover employees working overseas at U.S. government facilities or for the benefit of the armed forces with a Defense Base Act endorsement



Umbrella Liability Policy

32. Failing to completely and accurately schedule the underlying policies in the umbrella



33. Purchasing lower primary or underlying limits than are required by the umbrella



34. Not including all parties insured by the primary policy as insureds in the umbrella



35. Improper “follow form” provisions that turn an umbrella policy into a stand-alone excess policy



41. Drop down clause of the umbrella policy is limited to claims that are covered by the umbrella



36. Failing to discover additional or broader exclusions in the umbrella than in the primary



42. Failing to secure umbrella coverage over foreign general and auto liability policies



37. Using narrower definitions in the umbrella than are included in the primary policies



43. Failing to ensure coverage for insured versus insured claims



38. Strict exhaustion language in the umbrella policy that requires the actual payment of the entire underlying limit before the excess coverage applies



Professional and Errors and Omissions Liability Policies

44. Inadequate limit due to inclusion of defense coverage within the limit



39. Potentially violating the umbrella policy’s aggregate limit prerequisite via an underlying policy term that is different or nonconcurrent with the umbrella policy term



45. An erroneous description of professional services contained in the application for coverage negating coverage for the insured’s actual services



40. No coverage for punitive damages where permitted by law

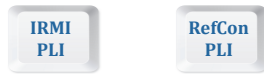


46. Lack of or faulty coordination of insuring agreements, exclusions, and definitions between the professional

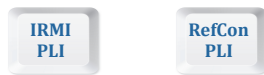
liability policy and the commercial general liability policy



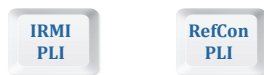
47. Failing to obtain coverage for predecessor firm exposures



48. Coverage denials caused by “absolute” exclusions that use “arising out of, involving, or in any way related to” wording, rather than “for” language



49. No coverage of punitive damages due to an exclusion or absence of a “most favorable jurisdiction” provision

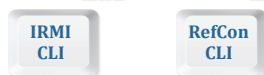


50. Not providing tail coverage for claims made against professionals following retirement



Miscellaneous, Environmental, and Cyber Liability Policies

51. Failing to cover environmental liability exposures arising from owned property or construction operations



52. Failing to cover pollution liability arising from transportation of pollutants



53. Companies that market or conduct business over the Internet failing to purchase liability coverage for copyright and trademark infringement or data breach



54. Companies in possession of “personally identifiable data” or health data failing to buy coverage for data breaches



55. Not procuring nonowned aircraft liability insurance to cover exposures arising from use of aircraft by executives or employees



Management Liability and Crime Policies

56. Privately held companies failing to buy directors and officers liability insurance without adequately evaluating the exposure to loss



57. Improperly using retroactive dates and extended reporting periods in claims-made policies



63. Buying a directors and officers policy with a “limited” rather than a “broad” severability provision



58. Not adding coverage to the directors and officers policy for executives serving on outside charity or association boards



64. Buying an excess directors and officers policy that provides coverage only when the underlying layer(s) is exhausted by insurer payment (rather than including coverage when payment is made by an insured)



59. Failing to include high-level non-officers (e.g., corporate comptroller, human resources director) as insureds in the directors and officers policy



65. Not amending the “damages” definition in the directors and officers policy to include coverage for criminal investigation costs



60. Not considering the purchase of Side-A directors and officers coverage, especially for outside directors



66. Not removing or amending the failure to maintain insurance exclusion from the directors and officers policy



61. Purchasing a Side-A policy written on a straight excess rather than on a difference-in-conditions basis



67. Selecting a directors and officers policy with “in fact” rather than “final adjudication” language within the intentional/criminal acts exclusion



62. Failing to obtain directors and officers coverage for prior acts committed at a newly acquired subsidiary



68. Not adding third-party discrimination coverage to employment practices liability policies



74. Failing to cover volunteers or contractors as “employees” under crime insurance



69. Not adding defense coverage for wage and hour claims to employment practices liability policies



75. Not adding funds transfer or computer fund fraud coverage to the commercial crime policy



70. Failing to add coverage for leased employees or independent contractors to employment practices liability policies



76. Not purchasing an adequate limit of insurance for crime coverage, especially employee dishonesty coverage



71. Not amending or removing limitations in directors and officers and fiduciary liability policy forms for “tag along” claims



77. Failing to name the insured’s employee benefit programs as insureds under the crime policy and, if necessary, add Employee Retirement Income Security Act (ERISA) compliance language to comply with ERISA bonding requirements

72. Not providing proper directors and officers coverage for directors and officers of foreign subsidiaries



73. Failing to add coverage for theft of customers’ property by the insured’s employees to the crime coverage



Property, Equipment, and Inland Marine Policies

78. Failing to purchase adequate limits of insurance by using accounting book value as the insurable value of covered property, over-relying on property value estimates from software programs using minimal

information about the property, or other causes



79. Using less than optimal valuation provisions (e.g., actual cash value instead of replacement cost)



80. Using specific rather than blanket limits of insurance, especially when an insured has multiple locations



81. Including a margin clause that essentially converts blanket limits into specific limits



82. Not using an agreed value provision (sometimes called an agreed amount clause) or failing to renew it annually on a multi-year policy



83. Failing to include all locations for which coverage is needed



84. Using inadequate sublimits for unnamed locations



85. Failing to consider the cost of debris removal when determining insurance limits or failing to secure an adequate sublimit



86. Failing to purchase ordinance or law coverage



87. Failing to purchase time element ordinance or law coverage or to consider additional time for restoration when selecting time element coverage limits



88. Not purchasing coverage for loss from flood and earthquake



89. Failing to arrange equipment breakdown coverage for direct damage to equipment, consequential spoilage, and resulting loss of income



90. Not adequately insuring vacant property, particularly newly vacated property



91. Inadequately insuring property under construction, renovation, or expansion by relying on the commercial property insurance form instead of purchasing a builders risk policy



92. Not insuring property shipped by common carrier, on the assumption that the carrier will cover all losses



93. Overlooking the responsibility for property during inland and ocean transit and while stored at warehouses



94. Failing to arrange coverage for rented or borrowed equipment



95. Not insuring business interruption, rental value, leasehold interest, and extra expense exposures



96. Failing to cover business interruption arising from utility interruption that originates away from the insured's premises, including overhead transmission lines



97. Not arranging coverage for contingent business interruption exposures arising from damage to property of the insured's key suppliers or customers or neighboring businesses that attract the insured's customers



98. Failing to procure extended period of indemnity coverage when arranging business interruption coverage for an organization that will experience a slow resumption of sales following a shutdown



99. Failing to consider the possibility that it could take more than 1 year to replace damaged property and resume operations when choosing time element coverage limits



100. Failing to understand the penalties for not submitting reports on time or failing to arrange for increased limits of insurance when needed under a reporting form



101. Not insuring finished stock on a selling price basis



Win New Accounts and Avoid E&O Claims with These IRMI Resources!

The Gapper

—A Web-based commercial insurance coverage gap finder



- Helps you grow your insurance book easily, quickly, and efficiently and blow away the competition! It makes analyzing policies and identifying coverage gaps and potential exposures a snap.
- Leads you through a simple four-step process to identify coverage gaps in your prospect's insurance program and generate a report that will build your credibility and often lead to a broker of record letter!
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101 Commercial Lines Coverage Gaps and How to Close Them

—An online continuing education course for experienced commercial lines insurance professionals



This CE course offers a unique look at commercial lines coverage by examining common gaps in these programs that can lead to embarrassing coverage denials and then reviewing ways to close the gaps.

- Actual practitioners identified the gaps in a survey.
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