

The 13 Most Common Insurance Agent Errors That Lead to Lawsuits

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Insurance disputes often arise not simply from policy language, but from how coverage was recommended, structured, documented, and communicated during the placement process.

In litigation involving insurance agents and brokers, courts frequently examine whether the professional met the industry's standard of care when advising a client or placing coverage.

Over the past two decades working in property and casualty insurance, several recurring issues appear repeatedly in lawsuits, E&O claims, and coverage disputes.

Below are some of the most common professional errors that can lead to litigation.

1. Misclassifying the Property Type

One of the most frequent issues arises when the ownership structure of a property is misunderstood.

A common example involves townhomes or condominiums written on an HO-3 homeowners policy when the property should have been written on an HO-6 condominium unit owners policy under a master association policy.

These situations can create significant coverage gaps related to building coverage, loss assessment, and association responsibility.

2. Incorrectly Identifying the Named Insured Structure

Insurance policies must reflect the actual legal entity that owns the property or business.

Common errors include:

- Property owned by an LLC insured under an individual's name
- A partnership insured as a sole proprietorship
- A trust-owned property insured under a personal name
- Multiple business entities operating under one policy without being listed

If the legal owner is not properly listed, coverage disputes can arise after a loss.

In litigation, attorneys often review corporate filings, property records, and policy applications to determine whether the agent verified the correct insured structure.

3. Granting Binding Authority Without Authorization

Agents sometimes represent that coverage has been bound even when they do not have binding authority from the insurer.

This can occur when:

- A binder is issued before underwriting approval
- The agent assumes authority based on past practice
- Verbal approvals are relied upon but not confirmed
- Coverage is bound outside the agency's contractual authority

If a loss occurs before the risk is formally accepted by the insurer, disputes may arise over whether coverage was ever in effect.

These cases often focus on agency agreements, underwriting authority limits, and representations made to the insured.

4. Inadequate Replacement Cost Calculations

Some agents rely on purchase price, tax assessments, or outdated estimators when determining replacement cost values.

Problems arise when:

- Reconstruction costs increase significantly
- Ordinance and law coverage is insufficient
- Inflation guard adjustments are inadequate

After a loss, the insured may discover that the property is substantially underinsured, leading to disputes about whether the agent properly evaluated replacement cost.

5. Failure to Recommend Available Coverage

Many lawsuits involve claims that an agent failed to advise a client about commonly recommended coverages.

Examples frequently cited in litigation include:

- Flood insurance
- Umbrella liability coverage
- Sewer and drain backup coverage
- Ordinance and law coverage

Courts often examine whether the agent documented recommendations or coverage rejections.

6. Misrepresentation of Coverage

Statements made during the sales process can become evidence in litigation.

Examples include phrases such as:

“You are fully covered.”

“That loss would definitely be covered.”

If those statements conflict with the policy language, they may be cited as negligent misrepresentation or failure to properly explain coverage limitations.

7. Certificates of Insurance That Imply Coverage

Certificates of insurance are frequently misunderstood and sometimes issued improperly.

Problems occur when certificates:

- Suggest additional insured status that was never endorsed
- Reflect incorrect policy limits
- Are issued without verifying policy terms

These issues often arise in construction and commercial contract disputes, where third parties rely on certificates as proof of coverage.

8. Failure to Obtain Requested Coverage

When a client requests specific coverage and the agent fails to bind or confirm it, liability exposure can arise.⁶

Examples include:

- Builder's risk policies
- Additional insured endorsements
- Increased liability limits
- Scheduled property coverage

If documentation is incomplete, litigation often centers on whether the request was clearly communicated and properly handled.

9. Failure to Notify Insureds of Coverage Changes

Policy changes during renewal can significantly alter the insured's risk.

Examples include:

- Deductible increases
- Roof settlement endorsements
- Cosmetic damage exclusions
- Coverage reductions

If these changes are not clearly communicated, disputes can arise after a claim.

10. Misuse or Misunderstanding of Binders

Temporary binders are intended to provide short-term evidence of coverage, but confusion can arise when:

- Binder terms conflict with the issued policy
- The binder expires before the policy is issued
- Coverage is assumed to exist beyond the binder period

Courts often examine whether the binder accurately reflected the intended coverage.

11. Incorrect Business Classification

Commercial insurance underwriting relies heavily on accurate classification of the insured's operations.

Examples of common misclassification include:

- Contractor vs handyman
- Retail vs manufacturing
- Property manager vs developer

Incorrect classifications can result in coverage denials or underwriting disputes.

12. Poor Documentation of Client Communications

Many insurance disputes ultimately come down to documentation.

If an agent cannot show records of:

- Coverage recommendations
- Client questions and discussions
- Rejected coverages

the dispute may become a credibility issue between the insured and the agent.

Clear documentation is often the strongest defense against E&O claims.

13. Failure to Understand Condominium and HOA Insurance Structures

Condominium and homeowners association insurance structures are frequently misunderstood.

Coverage responsibilities are often divided between:

- The association's master policy
- The individual unit owner's policy
- The association's governing documents

Errors occur when agents fail to review association bylaws, declarations, and insurance requirements before placing coverage.

These misunderstandings can lead to major disputes after a loss, particularly when determining responsibility for:

- Structural elements
- Interior improvements
- Loss assessment coverage
- Building coverage gaps

Because condominium insurance structures vary widely, these cases often require detailed analysis of both policy language and association documents.

Final Thoughts

Insurance agents and brokers play a critical role in helping clients structure appropriate risk protection. Most coverage disputes are not the result of intentional misconduct but rather miscommunication, documentation issues, or misunderstandings about policy structure.

When litigation does arise, courts often rely on experienced industry professionals to evaluate whether the agent's actions met the accepted standard of care within the insurance industry.

Understanding how these issues develop can help both professionals and policyholders better navigate the complexities of insurance placement

