

**CLIENT ALERT**  
**Insurance: A Contract for Careful Consideration**

A recent court case reinforces the importance of carefully reviewing contracts, including even routine insurance policy renewals, before signing them. Insurance policies and renewals are contracts also and parties are bound by their words and obligations.

An example: IRPC purchased fidelity bonds from Reliance Insurance for \$750,000 of coverage. The bonds were first effective from 1996 to 1997. Each year from 1997 to 2000, IRPC renewed them. In 2000, IRPC discovered that its controller, Mr. Briefer, had embezzled about \$5.1 million from IRPC between 1994 and 2000. IRPC filed four claims with Reliance for the losses it suffered each year between 1997 and 2000, on the grounds that each renewal of the bond constituted a separate policy. IRPC relied on past court decisions to support its position. Reliance sent IRPC one payment of \$750,000, explaining that Mr. Briefer's actions formed a single loss subject to a one-year term limit of insurance. When the parties could not reach an agreement, IRPC filed suit.

The Pennsylvania Superior Court ultimately agreed with Reliance. When a party has in place a one-year term insurance policy and continuously renews it, a single continuous bonding scheme results and the insured may recover only per single policy limit.

This is a change in the law. Prior to this decision, the renewal of an insurance policy constituted a separate and distinct contract for the period of time covered. In IRPC's case, instead of relying on previous court decisions as the company hoped, the Court examined the bond agreement itself to determine whether the parties intended the renewals to become a new contract each time. Unfortunately for IRPC, the bond agreements contained the clause, "no limit of insurance cumulates from year to year or period to period."

When resolving a contractual dispute, then, the Court will first review the language of the parties' agreement to determine the parties' intent. Only if the contract is ambiguous will the Court look to prior court decisions for guidance in dispute resolution. So, the lesson in IRPC's case is that, as with all contracts, the written word in insurance trumps all else. The lesson for the rest of us? For you? Carefully read your insurance policies, including the renewals, to be sure they reflect your true intentions!

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