

Second collection

Morrison was concerned that his \$300,000 term life insurance policy might not be enough protection for his family. He broached the issue with some golfing buddies who were financial planners. They were able to get him a new \$1 million policy with premiums that were not higher than the policy he surrendered.

Although the facts in the case are not entirely clear, it may be that one reason for the low premium was that on the policy application the agents had checked “No” to the question about whether the insured had a driving violation within the previous five years. In fact, Morrison had a DUI arrest. He was open and honest about the arrest. When a nurse came to do a physical, collecting blood and urine in connection with the new policy, he told her about the DUI when she ran through the questions on her form. Nevertheless, the accurate information did not reach the policy application.

Morrison was killed in a car accident two months after the \$1 million policy was issued. When the insurance company learned that false information had been included in the application, they denied coverage. The widow then sued the insurance company and the agents for their failure to procure the policy requested by her husband.

Although the insurance company had a strong defense as a matter of law, it might have had a hard time getting much sympathy from a jury. The widow’s lawsuit made a variety of claims, in addition to the request for the \$1 million in policy proceeds. In exchange for dropping all of those claims, the insurance company paid her \$900,000, and it was excused from the lawsuit. The action against the agents proceeded.

The trial court found for the widow and awarded her \$1 million. The damage award was not reduced by the settlement already reached with the insurance company, even though that meant the widow collected much more than her husband had bargained for. An appellate court upheld the ruling because the insurance company settlement covered more than just the contract claims.

When one has owned a life insurance policy for several years, the policy generally becomes incontestable. Surrendering an incontestable policy for a new one that will be contestable for a period of years may not always be wise. It’s not clear that Morrison appreciated what he was giving up when he acquired the new policy. The other lesson here is to be scrupulously honest when completing insurance applications. Dishonesty can be grounds for an insurance company to deny benefits.