



# Reservation of Rights

by David Goodman

In a perfect world, you pay for insurance, something bad happens, you file a claim, the insurance company pays for it, the end. Unfortunately, that outcome is too often the exception rather than the rule.

Claims are time sensitive. When a policyholder is sued or experiences a loss and files a claim, they hope and need to receive a prompt and clear response from the insurer. But there is no hard and fast rule as to what constitutes a “reasonable” response time. Indeed, the initial response may be that the insurer says it “needs” more time to evaluate the claim. This presents an instance in which the policyholder is best served to seek help to frame his or her claim in a way that makes it harder for the insurer to avoid accepting the claim at least on a provisional basis through a “reservation of rights.”

In its response to a claim, the insurer communicates its coverage position in a “reservation of rights” letter, which, at least in theory, explains why it perceives the claim to be either covered or outside the coverage. Too frequently, though, insurers use these letters to avoid or limit the scope of coverage and even rely on misdirection and dense policy language to camouflage a covered claim.

Here’s what policyholders need to know about reservation of rights letters:

- An insurer is obligated to either accept coverage in whole or explain which provisions in the policy exclude part or all of the claim.
- Receiving a reservation of rights letter doesn’t necessarily mean your claim will be denied. It lets you know that there might be grounds to deny coverage so that the you can take appropriate steps to protect your interests.
- Once more for the people in back: A reservation of rights letter is not a denial of coverage. Policyholders sometimes make this assumption – these letters are full of arcane and confusing language – and give up on their claim. But the policyholder may still be entitled to coverage.
- In situations in which there is a conflict between the policyholder and the insurer, the policyholder may have the right to hire independent counsel that is paid for at the carrier’s expense. Counsel can help the policyholder understand the position the insurer is taking and determine how to respond appropriately to maximize coverage.

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David Goodman is the founder of Goodman Law Group | Chicago. He draws on his thirty years of legal experience, many of them spent as a first chair trial lawyer, to help businesses manage their risks, harvest their benefits and protect their assets. Learn more at [www.glgchicago.com](http://www.glgchicago.com)