



## E&O BUYER'S GUIDE

### Shopping for E&O Insurance Step by Step

Who do you trust to manage your risk? Make sure you have the *right* policy.

**1**

**Start the process no later than 45 days** before your policy renews or the date wish to start your coverage. Larger firms should start the process 60-90 days before renewal.

**2**

**Step 2. Order a loss run report** from the carriers you were insured with the previous 5 years.

**3**

**Select an insurance broker that specializes in E&O Insurance.** To quote E&O insurance effectively, it requires specialized knowledge. It is also best to work with a broker that has access to multiple carriers in order to provide you options. You do not need to engage the services of multiple insurance brokers if you select one that has strong insurance carrier access and specialized knowledge.

**4**

**Take your time filling out the application** completely and fully. Answer all the questions truthfully. This is a critical step as you are making a warranty to the insurance company that the information is true and complete. They can later decline a claim if the application contained material misrepresentations about your firm. It is very important to detail all professional services performed or that you anticipate performing in the next year.

**5**

**Survey your agents by email** (keep those emails) to ensure there are no known claims or incidents that could turn into a claim that have yet to be reported to your existing insurance company. Any such matters

should be reported to your existing E&O carrier prior to the expiration of your policy. There will be a question on the application regarding this and it needs to be answered mindfully.

**6**

**Provide to your insurance broker the application,** loss runs (if applicable), details of any claims in the past 5 years and a copy of your current E&O policy dec page (if applicable) to prove your prior acts date. Additionally, if you have risk management programs, new agent mentoring or ongoing training programs that would demonstrate your diligence to keep claim activity low, submitting a narrative about such will only help an insurance underwriter, who will be reviewing your application, give you the best pricing possible.

**7**

**Review quotes** – not only for price, but for coverage as well. No two E&O policies in the industry read the same or provide the same coverage. This step is vital in order to know what your money is buying. Ask for sample policies and any endorsements to accompany your quotes. Read all of the exclusions to learn what your policy will not cover. A specialized insurance broker can assist in analyzing the various quotes/policy forms to help with your decision.

**8**

**Make sure the carrier you are selecting is "A" rated** by AM Best ([www.ambest.com](http://www.ambest.com))









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### Glossary of Terms

<b>Inside Limits</b>	This refers to defense costs. If defense costs are <i>inside</i> (the) limits, it means that they are applied to the insurer's limit of liability for any one claim. For example, if the per claim limit of liability were \$500,000 and <i>inside the limits</i> defense costs were \$60,000, there would be \$440,000 left to pay any damages. This is also known as <i>Shrinking Limits</i> .
<b>Insured</b>	Who is covered by the policy e.g. <i>named insured</i> , company principals, subsidiaries, independent contractors, administrative personnel, etc. Policies will differ as to who is considered the <i>insured</i> .
<b>Limits of liability – Aggregate</b>	The total amount of coverage (regardless of the number of claims) for which the insurer is responsible in any policy period.
<b>Limits of liability – Each Claim</b>	The total amount of coverage for which the insurer is responsible for any one claim.
<b>Loss run report</b>	A report showing the insured's claims history, including any losses.
<b>Named Insured</b>	Entity as listed/shown on the <i>dec page</i> of your policy.
<b>Outside Limits</b>	Defense costs are <i>not</i> applied against the insurer's limit of liability for any one claim. Also called, <i>First Dollar Defense</i> .
<b>Prior acts</b>	See <i>retroactive date</i> . The terms are used interchangeably.
<b>Ratings</b>	This refers to the financial strength of an insurance company as rated by a service such as A.M. Best ( <a href="http://www.ambest.com">www.ambest.com</a> ).
<b>Reservation of Rights</b>	An insurer's notification to an insured that coverage for a claim may not apply. Such notification allows an insurer to investigate (or even defend) a claim to determine whether coverage applies (in whole or in part) without waiving its right to later deny coverage based on information revealed by the investigation.
<b>First Dollar Defense</b>	Coverage for the defense of a claim which is not subject to a <i>deductible or retention</i> .
<b>Retention</b>	See <i>Deductible</i>
<b>Retroactive Date</b>	Your retroactive date is the start date of the first claims-made policy you are actively renewing. You are covered for any covered incident as long as it occurs on or after your retroactive date (also known as prior acts date). That date remains the same and is not advanced as long as you maintain continuous coverage. Using the example above, if you have a prior acts date of 2009 on your policy and it is now 2014, your policy covers you for the last five years. Your retroactive date is also portable. If you are currently insured with someone else for professional liability, you can bring that date with you to any insurance company of your choosing.
<b>Shrinking Limits</b>	See <i>Inside Limits</i>
<b>Surplus Line Insurers</b> (Excess & Surplus Lines)	Surplus Line Insurers are non-admitted insurers. They are often used to provide insurance not generally available in the admitted market.
<b>Tail Coverage</b>	See <i>Extended Reporting Period</i>



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### Ask Your Broker About Their E&O

Errors and Omissions insurance is not required by law in the State of California; however, any reputable firm should carry such coverage to protect itself and its agents/brokers.

1

**Does this company carry E&O insurance?**

- a. What is the name of the insurance carrier?
  - i. Make sure they are "A" rated – [www.ambest.com](http://www.ambest.com).
- b. What is the policy expiration date?
- c. What are the limits of coverage (per claim/per aggregate) and deductible?

2

**Do I contribute to the cost of the coverage?**

Annually? Per Transaction?

3

**Do I contribute to the cost of the deductible if there is a claim?**

4

**Is there a deductible reduction provision in your policy?** If so, what requirements must be met to trigger the reduction (i.e. - use of home warranty, home inspection or transaction management system)?

5

**What Professional Services does your policy cover?** (i.e. – Commercial, REOs, Property Management, Leasing, Business Opportunities)

6

**Does your E&O policy cover agent-owned transactions?** If so, what restrictions or requirements should I be aware of before entering into such a transaction?

7

**Are my personal assistants covered by your E&O Policy?**

8

**How many claims were settled and/or reported to the insurance company last year?**

9

**Who is responsible for renewing the insurance?** How is the decision made on what policy to purchase?

10

**Who should I notify if I receive a complaint or if I think there could be a possible claim?** Do you have written guidelines I should follow?

#### It is advisable...

Ask your broker for a certificate of insurance or a copy of the policy each year to verify coverage is in place. There should never be a gap in effective/expiration dates year to year or previous transactions may be uncovered.