To Audit or Not to Audit?

If you think an E&O audit is like a visit from the IRS, think again. True, your throat may tighten and you may feel sweat forming on your brow, but as an independent insurance agency principal, the experience is more like a physical examination of your insurance agency. So what's involved in agency E&O audits?

The E&O audit process, which takes one or two days, should be straightforward and effective. The process generally begins with a conference call to discuss the agency's key issues and what it would like to get out of having the audit.

Next up is a visit from an E&O field auditor who will work with the entire staff to identify problems, opportunities and solutions. The agency often completes some information prior to the visit. The involvement of the agency's personnel throughout the process helps them develop a sense of ownership. The auditor will likely then randomly select a number of client files to review for things such as the level of documentation, coverage recommendations, timeliness and letters and proposals used. He or she also will review things such as the agency procedure manual and diary system.

After compiling the information obtained in the visit, the auditor will provide a detailed, concise report that includes findings, suggestions, a detailed "plan of action" and supporting material.

Usually the final step in the audit process is a follow-up from the E&O auditor to ensure completion of the items in the action plan. The E&O audit can provide a framework to accomplish your agency's goals, and adhering to the plan of action is the most effective way to benefit from your E&O audit. A copy of the audit and plan of action also should be sent to your E&O carrier.

"If you are uncertain about where your agency is headed or concerned about stagnant growth, consider an E&O audit, which provides a comprehensive, 'bird's eye' view of the agency and its potential," says Chris Burand of Burand & Associates. "An audit should include solutions so the office atmosphere becomes more productive and enjoyable for everyone."

From a financial standpoint, having an audit can be a sound business move. An agency can save future dollars by avoiding previously undiscovered E&O situations (Think: future payment of E&O policy deductibles). In addition, the agency will have a new understanding of specific coverages to market to its clients, which can lead to increased sales. Finally, many agents E&O carriers provide a discount ranging from 5% to 10% on E&O premiums if the audit is completed by an approved E&O auditor.

"The auditing staff provided us with the details on what was wrong with the accounts audited and specific action items to correct the files," says Susan A. Daley, CIC, area president of Arthur J. Gallagher & Co. – Orange County. "In addition, the Coverage Integrity Analysis gave us specific coverages to market to our clients, resulting in increased revenues to our office. So we saved money by avoiding undiscovered E&O situations, and we made money via increased sales." IA

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Audit's Impact on the Bottom Line

Agency owners never seem to have enough time, right? Frequently, agency owners are side-tracked from the responsibilities essential to their agency's future success. An E&O audit is a way to make the agency more efficient. It will help develop agency staff by:

- Making sure clients are well serviced.
- Allowing carriers to receive good business submissions.
- Empowering employees to do their job.
- Implementing checks and balances to make management less stressful.
- Evaluating and identifying key responsibilities.
- Finding focus and defining strategy for the future.
- Outlining the best management strategy.

An agency E&O audit can help your agency improve financially, enhance workflows and improve employee satisfaction with solid direction.

—**D.H.** and **R.E.**