A Case for Loss Control

In late 2005, the Big "I" Claims Prevention Subcommittee surveyed members to find out their preferences for implementing agency E&O claims prevention. The survey results show that agents learn the most from real-life examples of how to avoid future claims.

Comprised of agent volunteers, state and national association staffs and employees of underwriting carrier Westport, the subcommittee's mission is to oversee the Big "I" Professional Liability Program's claims prevention activities. "This is an area of importance and focus because our claims prevention efforts can not only help maintain the stability of E&O rates, but can add value in helping your agency implement changes to make it more efficient and profitable," says subcommittee chairman Jack Sherrill of Sherrill & Company in Savannah, Ga.

The survey's goal was to learn which employee should receive claims prevention messages, the preferred delivery method for the agency to receive the messages, what tools agencies feel are most effective in implementing claims prevention and why agencies feel claims prevention is important. More than 5% of members completed the survey, and the excellent response rate is a testament to the level of importance that many place on keeping their agencies free of E&O claims. This information will help the subcommittee craft a comprehensive program that brings value to agencies from an expense and operational standpoint.

Survey respondents indicated that the most effective E&O tips include examples of past claims. Real-life examples grab agents' attention and, in a simply way, can suggest improvements to agencies' current business practices. They are easy to share with the rest of the staff to drive home the claims prevention message:

Case Study: A young clothing designer dreamed of starting his own athletic line and, after years of saving, opened a small factory. About a year into his business he projected a 300% jump in revenues. So, at policy renewal time, the agency recommended and offered the designer increased coverage limits—especially for business income insurance. That year, lightning struck the factory and caused a fire that burned it to the ground. It took six months for his business to get back up to speed, resulting in a huge loss of potential revenues. The business income limits on his policy, however, were inadequate.

Since the business income limits were not increased at renewal to be commensurate with the projected revenue, there was an uncovered loss. The designer sued the agency for failure to provide adequate coverage limits even though he went against the agent's guidance, using the previous year's projected revenue and not increasing limits.

The agency kept precise documentation showing the designer didn't want to increase his business income limits. The file also included the agency's renewal proposal and the designer's initials declining increased limits. The case was dismissed with minimum defense costs and the agency did not have to pay its deductible since its E&O policy was written on a first-dollar defense basis.

E&O Tip: The agency avoided potential financial ruin because of its standard procedure to offer increased limits on both new and renewal business proposals. It also always has the client sign-off on any refused coverage. While agencies' standards of care may vary from state to state, air to the side of caution in your business practices.

Your agency benefits from weaving E&O claims prevention into the fabric of your business' culture. As it relates to life, as well as agency E&O, lessons learned from past mistakes help us better define our future. Studying past agency E&O cases, including tips on what to do or what not to do, is an excellent way to share E&O agency claim prevention information. IA

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Why Risk Management Matters

When asked to identify all factors that influence agent participation in agency E&O risk management, survey respondents cited:

1. Premium credit from E&O carrier (for example, the 10% discount from Westport).
2. Protect reputation.
3. Increase professionalism and knowledge.
4. Continued availability of E&O coverage.
5. Avoid claims along with associated deductible and costs.
6. Better service to clients.
7. Better defense of claim.
8. Account retention.
9. Mitigate exposure to liability.

—D.H.