

The Dangers of Dabbling

The errors & omissions battlefield is littered with confused claims. When agents write coverage they've never written before for risks they don't fully understand or on unfamiliar policy forms, they can wind up in hot water. No agency is immune from this possibility.

For the personal lines agent, it may simply begin with a client calling to say she's striking out on her own and leaving her engineering firm, and she needs "whatever coverage" engineers buy. She's been a good personal lines client. How hard could it be to obtain the coverage she needs? You've been thinking about expanding your agency and there's no opportunity like the present, right?

Or, for the commercial lines agent, it could begin with a large specialty retail client that generates a sizeable amount of income for the agency. This client has just acquired a new subsidiary company that presses metal to sell at its retail chain stores, something completely different from the rest of the insured's operations. You know the company needs new coverage, but you've never written a manufacturing plant or operations. Do you dare tell your client that and let him shop the coverage elsewhere, or do you branch out into an unfamiliar coverage?


In both cases the agency can certainly write the new business. After all, this is how agencies expand, or at the least, this presents an opportunity to provide a valuable service to an existing client. The important thing, however, is to do it right. Here are some suggestions:

1. Take your time. The timeline for writing coverages in new areas can't be "yesterday." You're about to spend hours, if not days, researching and reading industry and policy literature. It may feel like a lot of work for that commission check—and it probably will be. It will feel satisfying to retain the business you're working on, but consider that the real payoff can be that next client for your new "niche."

2. Know where to start. Assuming you've identified a market already, the underwriter and intermediary agent can be good resources. Ask for a copy of the coverage form and become familiar with it—and the exclusions. Develop a relationship and ask a lot of questions.

3. Acquire the expertise. If you really believe this new line of insurance is going to be the future of your agency, think about hiring an agent who specializes in these risks. It may sound hard to justify at first, but the move could very well pay for itself with new business opportunities and the ability for the agency to more broadly service its existing customers.

4. Know when to quit. Be realistic about whether your agency can service this client's new opportunity. Certain lines of business require an additional commitment of support staff that, along with larger office space, can be a significant investment. If it's not meant to be, refer it to a colleague, preferably someone you know who has this expertise and that you trust. As hard as it is to refer business, you may be surprised to find that referrals of good quality customers generally come back to you from those same colleagues.

Agencies grow by expanding into new lines of business. If you're moving into unfamiliar territory, do so with your eyes open—and carefully. Get the right information and use the right resources where it makes sense. It is important to make sure all agency staff members, especially producers, understand the need to be cautious when writing an unfamiliar risk. They should feel comfortable and be encouraged to come to agency managers for assistance in writing new accounts. You may not become an expert with the first new policy you write, but at least you can become qualified to write it correctly. The real danger is in the dabbling. 

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Talk the Talk

Be ready to talk. The risk assessment and coverage recommendation process drives E&O claims frequency. When discussing a new risk area, be cautious and have several conversations with your clients about the new risks. Follow up with conversations with the underwriter and then circle back to have another conversation with the insured. Risk analysis exposure tools, such as narrative descriptions of business operations and commercially available questionnaires, can help with fact finding conversations with the insured. Tools such as the Big "I" Virtual Risk Consultant are readily available and can assist with providing this information as well as supplying questionnaires and coverage checklists for all types of coverages.

—N.B.