

Playing by the Rules

I remember many years ago walking through an auto show for antique cars and various rare car parts. At the time I was restoring a 1951 Ford and was in desperate need of several engine parts. I took my Dad with me because he had an uncanny ability to recognize a bargain. I was aware of his gift of knowing when to walk versus when to talk in the negotiation process.

We came upon an eight cylinder flat-head engine that was so clean and pretty you could serve dinner on it. I started talking to the gentleman selling the engine and he explained how he rebuilt it with mostly new parts, but had given up interest in the project and just needed to get the engine out of the garage to make his wife happy. It truly was a work of art—each piece had been polished or painted and it looked like the day it came off the Ford production line. Although I only needed some engine parts, it sure would simplify my life to have the entire engine already built and ready to install.


His sale price was far less than I had expected to pay for parts, much less an entire engine. My wallet started jumping out of my pocket. My Dad, however, started asking some questions about the rebuild. The seller started blinking excessively and did not know some of the information that he most definitely would have known if the story he told was accurate.

At that point, my Dad said wanted a drink of water and suggested that we come back. As we were walking away I expressed my unhappiness—this was a bargain and I was concerned I would miss out on the deal.

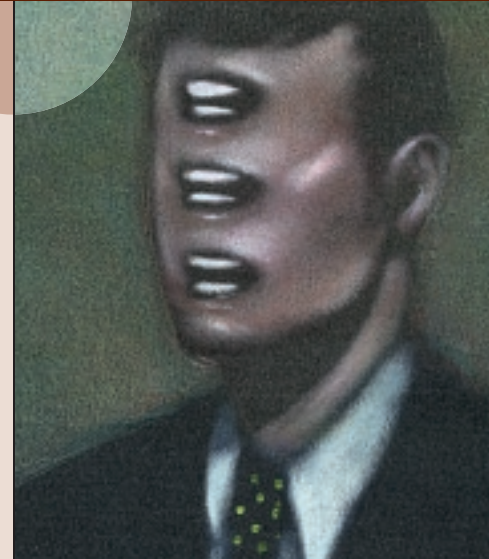
Once out of earshot, my Dad told me that I should run and not look back. Why? He smiled and told me, “Careful son—not everyone plays by your rules.” The combination of the seller’s behavior and the extremely low price indicated that there was something wrong. He did not know what it was—but he could tell the seller was not being honest. I did not go back to buy.

For months I questioned if I had missed out on the deal of the century. Years later I was at another car show and found a restored flat-head Ford. I started talking to owner and told him about the bargain I passed up years ago. Ironically, he was the one who bought the “deal of the century” engine. He said the rebuilt engine actually had been built from useless parts. His voice got louder as he relived the terrible experience.

How does that relate to insurance agent’s E&O coverages? Members from across the country are being solicited by “Brand X” E&O insurance companies offering quotations that are sometimes 25% less than their current policy. With tough economic times, agencies are looking to reduce expenses. Agencies should be skeptical of price quotes and be sure to get a firm quotation before allowing the existing policy to expire. Most quotations include eight point font stating that the quotation was an “indication only” and “subject to change once the application was reviewed by the insurance company.”

Don’t place your confidence and trust in an E&O carrier that you don’t know. The time to become familiar with your E&O team is before your world turns upside down from a claim. Remember, like my Dad used to say, “Not everyone plays by your rules.” 

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A Cautionary Tale

Unfortunately, agents buying coverage don’t always have my Dad’s instincts and decisions are made based on what they think is good information. In one case from Arizona, two weeks after the agency sent a check and the existing E&O policy expired, the new carrier issue a policy with a premium that was quite a bit higher than what the agency expected. The explanation was the premium indication apparently did not take into account the “mix of business.” Keep in mind that agents E&O policies are written on a “claims made” policy form and if there is a gap in coverage, it can become complex. Don’t get stuck with a higher cost policy with a less desirable policy form. Agencies may lose credits, and have to hope that no claims occur because the new insurer does not have a claims department specializing in agency E&O. If an E&O claim occurs, agencies may find an auto physical damage appraiser as the adjuster on the claim rather than a skilled attorney.

—L.H.