



Safety Net

Setting the right E&O limits for your agency

By Ellen McCarthy

At some point, a customer has probably asked you, “What coverage limits do I need?” In response, you advised a thorough risk analysis and consideration of ultimate payout in the event of a claim, including property value, potential lost income and liability

exposure.

But when determining what errors & omissions limits to purchase for your own agency, how often does the “Do as I say, not as I do” mentality reign?

Consider the following examples from the Swiss Re Corporate Solutions claims archives:

Scenario 1: An agency writes commercial property insurance for a number of large manufacturers. A client’s warehouse burns to the ground in a fire that destroys the building and all inventory, with losses in excess of \$15 million. The carrier denies coverage on the basis that the policy identified the wrong entity as the insured.

The client makes a claim against the agency for the error. The agency carries \$2 million per claim/\$4 million aggregate E&O coverage—leaving a substantial uninsured exposure.

Scenario 2: An agency writes only personal lines insurance for moderate-value homes. The agency is confident that its \$1 million per claim/\$2 million aggregate E&O policy is sufficient to cover any potential E&O claims. But when a major hurricane strikes the area and affects many of the agency’s customers, more than 60 of them assert that the agency failed to advise the need for flood insurance, with aggregate claims totaling more than \$10 million. The agency’s limits may be inadequate to cover all claims.

Scenario 3: An agency’s client has \$1-million auto liability limits. The client is responsible for an accident that renders the other driver a paraplegic. The injured party sues the client in a dangerous jurisdiction and obtains a verdict of \$6.8 million. The client then sues the agency on the basis that the agency should have urged them to purchase higher limits. The agency itself has \$3-million E&O limits—insufficient coverage for the asserted damages.

All these scenarios are common causes of E&O claims. Want to avoid getting a letter from your E&O carrier informing you of an uncovered, excess exposure? When selecting E&O coverage limits, ask—and honestly answer—the following questions:

1. Are our current E&O limits equal to or higher than the highest limits written for our customers?
2. Are our aggregate E&O limits sufficient in the event of multiple claims during a policy period, such as because of a catastrophe?
3. Is our agency located in a jurisdiction known for runaway verdicts?
4. Do we have sufficient assets or other protection to sustain a loss in excess of our E&O limits?

At E&O renewal time, don't just check the box with the lowest (or last year's) premium. Do a thorough risk analysis for your own business, because spending a few more dollars now could be well worth it later.

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