

Understanding the Benefits of Agency E&O Audits

*A value-added risk management service of the Big "I" Professional Liability
Program and Swiss Re Corporate Solutions.*

SWISS RE
150
YEARS

Welcome

Our Panelist

- Eric Moberg – President/CEO of The Moberg Group, Inc., a leading provider of Independent Agency and Broker Consulting, and the largest provider of agency E&O audits in the country.
- Cheryl Koch – President/CEO of the Agency Management Resource Group, a management consulting firm offering training and education to independent insurance agents and insurance companies. She also authored the E&O seminar materials titled “A Practical Guide to Agency E&O Risk Management”.
- Susan Dowdall – Senior Vice President and Agents E&O Team Leader for Swiss Re Corporate Solutions.
- [David Hulcher](#) – AVP of Agency Professional Liability Risk Management at the Big ‘I’ Advantage, Inc.

Today's Agenda

- The E&O Trinity
- What is an E&O audit?
- Objectives of the audit
- Swiss Re Perspective
- What to expect
- Cost of audit
- Common areas of E&O exposures identified and areas of improvement
- The Before and After

The E&O Trinity – Foundation of E&O Risk Management

- ◆ **Communication**
 - Written
 - Verbal
 - Electronic
- ◆ **Documentation**
 - Paper
 - Automated
- ◆ **Consistency**
 - Everyone.....Every time

What is an E&O audit?

- Working with an unbiased and impartial independent agency consultant to review the agency operations with that goal of:
 - Improving operations
 - Identifying problems that could lead to E&O claims
 - Achieving better consistency of work across the agency
 - Implementing standard industry practices
 - Identifying agency potential and increasing sales opportunities
 - Get some new ideas
 - **Earn a 5 year, 10% premium credit**

Objectives of an agency E&O audit?

- **#1 REDUCE E&O EXPOSURE**

- Assist agency to get better organized
 - Learn new procedures, if necessary
 - Enhance workflows
 - Identify training needs
 - Become more efficient
- Develop a plan of action
 - Challenge agency staff to respond
 - Implement well documented agency procedures
 - Create a culture of E&O risk management awareness

Swiss Re Perspective

- Voluntary vs. Mandatory Audits
- Must be Swiss Re approved auditor
- Agency decides if Swiss Re sees voluntary audit report
- Completion vs. Compliance
- 10% policy discount good for five consecutive policy periods
- What if I have a claim?
- When is the best time to have an audit?

What to expect with the E&O audit process?

- Staff interviews (All employees including, principals, producers, managers service staff, administrative, part-time)
- Review workflow and procedures (filing systems, manual, T-filing, imaging/scanning, systems, risk assessment, attachments, activities)
- Catastrophe plan
- Review administrative/clerical procedures (phones/voicemail, mail handling, document scanning, fax, website, social media, texting, email, field communications and documentation)

Overview of Areas Covered – Minimum Audit Standards

- Marketing/Advertising/Prospecting Process
- Risk Assessment/ Application/ Submission Process
- Quoting/Proposal/Binder Process
- Policy Review & Delivery Process
- Renewal Process Review
- Policyholder Servicing Process
 - Policy Change
 - Cancellation
 - Non-Renewal
- Claims Handling Process
- Cancellation/Non-Renewal/Reinstatement Process
- Certificate of Insurance Process

Standardized Reports



Big "I" Professional Liability Program Operational Improvement Review Report

Performed by:

The Moberg Group
success with a plan

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Date Audit Process Started: **April 7, 2014**

Date Audit Report Delivered: **April 21, 2014**

Targeted Date of Full Implementation of Recommendations: **October 15, 2014**

Projected Dates of Auditors Follow-up:

1st: **October 15, 2014** 2nd: None 3rd: None

Check-one:
 Agency Voluntary
 Mandatory Audit:



Review Dashboard

Review Areas - At a Glance

Branch Office Review	
Does the agency have branch offices?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If yes, how many?	3 Branches
What percentage of branch offices were reviewed during the course of this audit?	100 %
Agency Staff Interviews	
What is the total number agency staff of agency?	62 Full-time 0 Part-time
What percentage of total agency staff was interviewed during the operational improvement review?	100%
Operational Departments Reviewed	
Check the operational areas of the agency reviewed or N/A if the agency does not have:	Total Number of Customer Files Reviewed by Department:
<input checked="" type="checkbox"/> Commercial Lines Department (<input type="checkbox"/> N/A)	20 Files
<input checked="" type="checkbox"/> Personal Lines Department (<input type="checkbox"/> N/A)	20 Files
<input checked="" type="checkbox"/> Life and Health Department (<input type="checkbox"/> N/A)	10 Files
<input type="checkbox"/> Claims Handling Department (<input checked="" type="checkbox"/> N/A)	_____ Files
<input checked="" type="checkbox"/> Accounting Department (<input type="checkbox"/> N/A)	0 Files
<input type="checkbox"/> Risk Management Services Department (<input checked="" type="checkbox"/> N/A)	_____ Files
<input type="checkbox"/> TPA Services Department (<input checked="" type="checkbox"/> N/A)	_____ Files
<input type="checkbox"/> Reinsurance Placement Department (<input checked="" type="checkbox"/> N/A)	_____ Files
<input type="checkbox"/> Human Resource Management (<input checked="" type="checkbox"/> N/A)	_____ Files

Audit Findings Dashboard

Findings by Process Review	
I. Marketing/Advertising/Prospecting Process Departments Responsible: C/L	<u>1</u> # of Critical Improvements <u>0</u> # of Urgent Improvements <u>1</u> # of Long-term Improvements
II. Risk Assessment/Application/Submission Process Review Departments Responsible: C/L & P/L	<u>2</u> # of Critical Improvements <u>1</u> # of Urgent Improvements <u>1</u> # of Long-term Improvements
III. Quoting/Proposal/Binding Process Review Departments Responsible: C/L & P/L	<u>0</u> # of Critical Improvements <u>2</u> # of Urgent Improvements <u>0</u> # of Long-term Improvements
IV. Policy Review and Delivery Process Review Departments Responsible: C/L	<u>1</u> # of Critical Improvements <u>2</u> # of Urgent Improvements <u>1</u> # of Long-term Improvements
V. Renewal Process Review Departments Responsible: C/L, P/L & Benefits	<u>1</u> # of Critical Improvements <u>2</u> # of Urgent Improvements <u>1</u> # of Long-term Improvements
VI. Policyholder Servicing Process – Policy Change/Cancellation/Non-renewal Review Departments Responsible: C/L & P/L	<u>1</u> # of Critical Improvements <u>2</u> # of Urgent Improvements <u>1</u> # of Long-term Improvements

VII. Claims Handling Process Review Departments Responsible:	<u>0</u> # of Critical Improvements <u>0</u> # of Urgent Improvements <u>0</u> # of Long-term Improvements
VIII. Cancellation/Non-Renewal/Reinstatement Process Review Departments Responsible: C/L & P/L	<u>1</u> # of Critical Improvements <u>1</u> # of Urgent Improvements <u>1</u> # of Long-term Improvements
IX. Certificates of Insurance Process Review Departments Responsible: C/L	<u>0</u> # of Critical Improvements <u>1</u> # of Urgent Improvements <u>1</u> # of Long-term Improvements
Total Departments Responsible: C/L, P/L, Benefits and Senior Management	<u>7</u> # of Critical Improvements <u>11</u> # of Urgent Improvements <u>7</u> # of Long-term Improvements

Sample Report

Overall Operational/Procedural Review:

I. Marketing/Advertising/Prospecting Process Review

Overview: The agency marketing materials are very high quality and professional. The agency claims in many of their materials to be experts in their fields. By doing so they have raised the expectation level of the clients, and possibly positioned themselves to a higher standard of care than usual. Prospecting is primarily through referrals, and the agency does an excellent job of attracting new business on a referral basis from existing accounts.

1. Findings:

- a. Department: **Commercial Lines**
- b. Description of Activity/Process: **Some producers have developed their own marketing brochures that are not consistent with the agency brochures, website, or available markets.**
- c. Priority: **Critical**
- d. Required Action to Improve/Rectify: [List the steps to improve/rectify deficient process or activity]
 - i. **Review all marketing materials used by the producers**
 - ii. **Eliminate all material that does not properly reflect the agency capabilities and overall message**
 - iii. **Establish a procedure that requires all marketing materials be approved by agency management before they are used by the staff.**
- e. Responsible Party: **Operations Manager & Sales Manager**
- f. Start Date: **30 Days**
- g. Completion Date: **90 Days**

2. Findings:

- a. Department: **Commercial Lines**
- b. Description of Activity/Process: **Update the procedures and personnel manuals to develop an approval process for any marketing materials developed by the agency. This should include establishing a social media policy for the use of staff in Facebook, LinkedIn, and any other Social Media outlet.**
- c. Priority: **Long Term**
- d. Required Action to Improve/Rectify:
 - i. **Form a marketing materials committee**
 - ii. **Establish marketing/Social Media rules**
 - iii. **Introduce to the agency staff and get their signature on the written policy.**
- e. Responsible Party: **Operations Manager**
- f. Start Date: **60 Days**
- g. Completion Date: **6 Months**

II. Risk Assessment/Application/Submission Process Review

Overview: **The agency has access to a number of risk assessment products including Producer Plus, Virtual Risk Consultant, Silver Plume and IRMI, however the use of the tools is very limited.**

3. Findings:

- a. Department: **Commercial**
- b. Description of Activity/Process: **Commercial producers are not required and rarely use Risk Assessment tools when developing a new or renewal account.**
- c. Priority: **Critical**
 - i. **Required Action to Improve/Rectify: As part of the submission process, all accounts should include a completed Risk Assessment before it is eligible for marketing to a carrier or broker.**
 - ii. **Identify the preferred Risk Management Assessment tool to be used.**
 - iii. **Provide training on the use of the tool to all required staff**
 - iv. **Establish a procedure that is incorporated into the agency procedures manual.**
- d. Responsible Party: **Sales & Marketing Managers**
- e. Start Date: **Immediate**
- f. Completion Date: **90 Days**

4. Findings:

- a. Department: **Personal Lines**
- b. Description of Activity/Process: **New Business account executives are not using the standard agency new business exposure worksheets on a consistent basis.**
- c. Priority: **Critical**
- d. Required Action to Improve/Rectify: **Begin using the existing new business exposure worksheets for all new business inquiries/quotes.**
 - i. **Review existing worksheets and verify that they are current and reflect the necessary questions**
 - ii. **Train all new business staff on the proper use of the worksheets**
 - iii. **Update the procedures manual to reflect the new process for the use of the worksheets**
- e. Responsible Party: **Personal Lines Manager**
- f. Start Date: **Immediate**
- g. Completion Date: **90 Days**

What does an E&O audit cost?

- About 15 Swiss Re approved auditors across the country.
 - List located at www.iiaba.net/eohappens.
- Each auditor has their own pricing structure:
 - Per day
 - Set project fee
 - Number of employees
 - Number of locations
- Travel costs
- Follow-up consultation
- Contact different auditors and choose the one that works best for you!

Breakeven Analysis: E&O Audit Cost vs. Five year 10% Discount

Step 1: Input your agency's annual premium:	\$12,000	Annual Premium
Step 2: Multiply your annual premium in Step 1 by the 10% premium discount:	\$1,200	Annual Discount Savings
Step 3: Multiply your annual credit saving from Step 2 by 5:	\$6,000	Five-year Discount Savings
Step 4: Cost of agency audit:	\$1,500	Cost of E&O Audit
Step 5: Subtract cost of audit in Step 4 from five-year discount savings in Step 3:	\$4,500	TOTAL NET SAVINGS

An Auditors View – Most Common Agency Exposures

- “Agents exceeding their talent level.”
- Product changes
 - Complex forms/exclusion. You can not assume anything!
 - More options and new policy types, like Cyber Liability
 - Lack of training; Not keeping up with the industry
- Changing relationships
 - Companies more vigorously fighting losses
 - Subrogation against agents
- Strength of plaintiff’s bar
 - Agents/Companies seen as “deep pocket” targets
 - Litigious society

**We all need to be
insurance industry
students!**

An Auditors View – Most Common Agency Exposures

- Poor submission quality
 - Incomplete applications
 - Unsigned applications; becoming more prevalent!
 - Apples to Apples quoting; selling price
- Incomplete review of quotes
 - Coverage provided is not as requested
 - Little or no checking on the part of the producer
- Agency not keeping in contact with clients
 - Little or no contact with clients at renewal
 - Very little follow up confirming changes to policies

An Auditors View – Most Common Agency Exposures

Little or no Quality Control

- Agency does little checking of work performed
 - Lack of documentation in system/files
 - Inconsistent methods of tracking activities
- Poor policy checking, commonly by untrained processor
 - Backlog of policy delivery to clients, often excessive
 - Policy never delivered, or months after effective date
 - Producer/CSR never check policies
- Poor internal communication/training within agency
 - Rare or non-existent departmental/agency meetings
 - Procedures, if they exist, are not followed

The Before and After

- Implementation of Agency Procedures
- Improvements in policy checking procedures
- Consistency in documentation/system activities
- Implementation of submission guidelines and rules
- Getting applications signed *before* binding coverage
- Improved training and communication
- Implementing procedures for getting change requests in writing
- Getting sign offs on coverage rejections: flood, excess flood, wind, etc.
- Updating or completing an Agency Procedures Manual

Agency Feedback

- “We have undergone several E&O reviews over the years. We have found the business value of the review far exceeded the premium credits we received. The assistance we obtained in ***taking a fresh look at automation, work flows, and procedures actually saved our agency many thousands of dollars.***”
- “We know the value added service your firm provides to agents. ***Your insight into managing the operational exposures to errors and omissions has helped our agency minimize our exposure.*** You have provided us with work flows, documents, and office procedures that deal with sound business practices that manage risk.”
- “Thank you for adding value with your consultative evaluation of our client interactions, policies and procedures. We can put your feedback and resources offered to work for us at once. ***The term “audit” tends to put everyone on the defensive and I found your team approach to be very refreshing.*** We will be in contact in the future for your input.”



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