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Technical Advisory

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SUBJECT: E&O Loss Control Update

BACKGROUND: Alpine Risk Management Corp. of Oakland, California produces the *E&O Loss Prevention Procedures Guide*, which is available to member agencies through the Independent Insurance Agents of America. In their current quarterly update, some startling statistics were revealed about agency E&O procedures.

MAIN POINTS: Here are twelve specific areas of concern, which were uncovered in Alpine's on-site "E&O Procedural Review of Agencies."

1. Cellular Phone Conversations: While most agencies had a procedure for documenting phone messages in the office, over ninety percent had no procedures for documenting cellular phone conversations.
2. The majority of agencies reviewed had no defined written or automated procedures for reporting an errors and omission claim to their E&O carrier.
3. Eighty-five percent of agencies reviewed had no established procedures for the regular monitoring of the financial ratings of the companies with whom they placed business.
4. Where the insured had established the values to be insured, ninety-five percent of the agencies failed to record in the insured's file the fact that the *insured* had set the property values to be insured.
5. Over eighty percent of all agencies did not have written job descriptions outlining duties and responsibilities for each work station or job position.
6. In those agencies that had automated systems, over ninety percent of them did not have their companies' binding authorities entered into the system for all personnel to access prior to binding a risk.
7. FAX transmission verification: An overwhelming majority of the agencies did not attach the FAX transmission verification sheet to the original document FAXed. Even fewer retained the FAX Journal Report, which documents both outgoing and incoming faxes.
8. In the majority of agencies who had claims draft authority, the unused claims drafts were stored in unlocked desk drawers and easily accessible to anyone.
9. In many of the larger agencies, it was found there was a complete lack of communication among the various departments. In one particular agency reviewed our analyst found that procedures in different units were actually competing against each other by using different insurers to try to sell the same account.
10. Application review: A majority of agencies did not have procedures for double checking an application for completeness by a second party after it had initially been completed by a producer or CSR.

11. Property Inspections: Over seventy-five percent of the agencies reviewed had no established procedures for personally inspecting the property risks they had insured. In fact, they told our analysts they had not personally seen the property.
12. Umbrella Coverage: In many agencies reviewed, there were no established procedures for notifying the excess or umbrella carrier when a bodily injury claim was reported under the primary coverage. While the BI claim may be small, there have been many occasions where it has ballooned beyond policy limits and the umbrella or excess carrier had not been put on notice. Your editor was involved as an expert witness in a case where the excess carrier was not notified and the primary carrier refused an offer to settle within the primary policy limits. The case went to trial and the award was for \$345,000 above the primary limits.

Again, these are a few of the procedural discrepancies our analysts have found when conducting a Procedural Analysis Review. Two of our analysts were conducting a review of a large agency. There was absolutely no consistency of procedures within the agency. As they visited each commercial unit, they thought they were in a different agency. Each unit head had his/her own procedures for processing business. Many of the unit supervisors had come from other agencies and brought their individual ideas on processing business. Needless to say, they had some long discussions with the management on procedural consistency and the benefits that could be derived from it.

**NECESSARY
ACTION:**

These items should be reviewed by agency management, and discussed with all appropriate agency staff.