CalSurance Associates Presents:

The Informed Agent

An Agent's and Financial Advisor's E&O Newsletter

Congratulations! You're a life & health agent and you just purchased your E&O policy for that super fantastic premium somewhere in the neighborhood of $450 to $500. You're a wise consumer and you did your homework. You picked a solid carrier. You checked the policy, verified it covered you for the work you do, offered a low deductible and you could even live with the exclusions. Finally, you selected a limit that would give you peace of mind – $1 million dollars per claim and $1 million dollars aggregate. Now you can get back to the business of selling insurance and get a good nights sleep.

Wait a minute…….a quick review of your certificate of insurance reveals an extra limit? There's a $1 million per claim limit and a $1 million aggregate limit. But you're also getting a $10 million policy aggregate limit? Did you just get an extra $9 million in limits?

Sadly, no. You did not just hit the limits jackpot. You've bumped in to one of the many ways your insurance coverage can be limited in order to offer you that great rate. Insurance, like most purchases, follows the same time tested principle…..you get what you pay for. In effect, your policy is promising to pay $1 million dollars per claim against you up to $1 million dollars for all claims for covered losses against you under the policy, **as long as someone else doesn't use it before you do**.

This third limit is a policy aggregate for all insured's under a group master policy. Many company and association sponsored programs utilize the group master policy approach because it can be more efficient to administer and guarantees uniform coverage for all members of a group. A policy aggregate is usually attached when the underwriting carrier is unwilling or unable to accept higher risk. The lower rate that accompanies these policies is usually a side effect resulting from removing an increased limits charge.

At this point, you are either stunned that this exists or you have begun to rationalize away the possibility that this could occur. Perhaps you are finding comfort in the likelihood that enough people will not have claims to use up a policy limit. You're comfortable that policy limits can be shared because the people in your agency in effect be shared because the people in your agency are in effect sharing your individually underwritten limits. Maybe you feel this way because you know who those people are and how many they are.....how would you feel if you didn't know those people and you didn't know how many are sharing that limit? Would you feel less comfortable if you were sharing a policy limit with 1,000 people? What about 4,000 people? Still feeling pretty good? That's the rub with group master policies that contain group policy aggregate limits, you simply won't know.

The point of this illustration is that you have decided to purchase insurance to remove a certain amount of risk from your business. Choosing to accept some risk is a valid risk management strategy. An insurance policy that links your available limits to unknown risk factors like how many people are sharing your policy is a very difficult risk to quantify. The cautionary tale is to understand what risk you are assuming and to consider the cost benefit of an E&O purchase that gives you your limits free and clear of unknown risk factors that can otherwise be determined. So the next time you see that super fantastic E&O deal in your unsolicited email or web search results, check the details.

The NAIFA endorsed E&O Program offers individual policies with no group master policy limit. If you would like more details on the program beginning with January 1, 2011 effective dates, visit www.naifaeo.com or contact CalSurance Associates at 888-833-2304. The NAIFA sponsored E&O program - serious insurance, for serious agents.

NAIFA

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