theE&Oangle

Errors & Omissions issues and advice

Avoid Insurer Insolvency Claims

Monitor carrier ratings to mitigate risk.

By David Hulcher

The number of insurer downgrades in 2003 continued to outpace those upgraded, according to a report by A.M. Best Co. One of the primary reasons for this continuing trend is the adverse loss development from prior accident years and a volatile investment environment that weakened insurer balance sheets. For agents, insurer downgrades can present an E&O exposure to insurer insolvency if not properly managed.

Stay Vigilant

An agent can't be held responsible for the ongoing solvency of an insurer, but by doing some due diligence you can avoid potential E&O claims from the inability of an insurer to pay your clients' claims. Continually monitoring the financial stability ratings of insurers that you represent should be a consistent agency procedure. A key element is monitoring insurer ratings throughout the client's life cycle. This includes not only monitoring the insurer rating at proposal time, but periodically checking it throughout the year—especially at renewal time. The financial stability of carriers can quickly deteriorate, and staying abreast of these changes is important. There a number of companies that provide insurer ratings based both on quantitative and qualitative factors, including A.M. Best, Moody's, Standard and Poor's, and Weiss.

Establish a Baseline

As a first step, establish a standard agency baseline for insurers' financial strength. To determine this baseline, examine the protection offered under your agency E&O policy. When the market began to harden several years ago, many agents E&O carriers were influenced by reinsurers to start placing insolvency exclusions on policies. Coverage afforded by insolvency endorsements varies from carrier to carrier, so you should review your E&O policy.

Most E&O carriers structure insolvency endorsements to exclude coverage if agents place business with an insurer rated below a certain level, such as "B+." Some also may not provide coverage for specific insurers. Look closely at any insolvency endorsement to determine at what point a rating downgrade affects coverage. For example, is the insurer rating at the time of placement used to evaluate if coverage exists? Or, is the rating during the actual policy period used? If it is the rating at the time of placement, insolvency coverage could exist if the insurer rating changes during the policy period. However, at renewal, the policyholder would need to move to a market with an acceptable rating, according to the insolvency endorsement.

Other than what is outlined in E&O insolvency endorsements, what baseline rating should an agency use as minimum criteria? It is recommended to place business with carriers that have ratings from A++ ("Superior") to B+ ("Very Good"). Insurers in this range have strong balance sheets and operating performance with the ability to meet their claims obligations. Insurers with ratings below this level may be vulnerable to adverse underwriting performance and economic conditions.

Get It in Writing

Your agency sometimes might be required to offer coverage through an insurer below the B+ level or use one that is not rated. In this case, make the policyholder aware (through a signed disclaimer) that the insurer is rated below those generally used by the agency. Policyholders always should make the decision to place their coverage—not the agent. Here is some sample disclaimer language your agency can use in this situation:

"A rating is an indication of the insurance company's financial strength and operating performance, with the top rating being A++ (Superior). Our agency, generally, does not place coverage through any insurer that has a rating of less than B+ (Very Good). However, based on our search of the insurance marketplace and with your authorization, we will place your coverage at the premium amount outlined in our proposal. While A.M. Best Company's rating reported it was financially stable at the time it was reviewed, this is no a guarantee of future performance. We are not experts in the financial analysis of insurance companies. Should this company become unable to satisfy its obligation to pay claims; our agency will not be held responsible for the insolvency of the carrier."

Keep Clients in the Loop

If an insurer is downgraded during a client's policy term, the agency should have a procedure in place for notifying insureds in writing. The notification can outline that the agency can transfer coverage to another carrier at the insureds' request. If the insurer rating drops outside of the agency's baseline, then the insured should be notified of the intent to move coverage to another insurer (with the permission of the insured) upon expiration.

Continually monitoring insurer ratings and only using those insurers that meet or exceed the standard baseline can minimize exposure to E&O claims. This will make the agency more attractive to E&O carriers, help to avoid E&O claims and help maintain more stable E&O premiums. **IA**

Hulcher (david.hulcher@iiaba.net) is IIABA director of E&O operations. Big "I" Advantage offers IIABA members 25% discount for online purchases of Best's Key Ratings Guide. Go to www.independentagent.com/AMBest to learn more.

Deal Makers

10 Top Sales Cues, Marketing Tips, Deal Closers

By Emily Huling

1. Activate the dead man's button. Like railroad engineers and the dead man's button, conversations need to be engaged at regular intervals to keep things moving. Do your part to keep conversations flowing smoothly.

2. Examine what lies beneath. Closely underwrite clients with chronic payment problems. Other risk qualities could be affected and result in poor risk management and losses.

3. How about a V3? V3 is the elixir of successful salespeople. **V**olunteer in your community and associations to stay **v**isible and **v**aluable.

4. Trade places. Before your get yourself or your information in front of a buyer, review everything from your client's point of view. What improvements can you make? What questions will they ask? Good preparation closes sales.

5. Get a niche to be rich. Expertise in a specific industry or line of business is the best way to differentiate yourself and build a profitable book of business.

6. Remember to retreat. Sales team retreats are great times to regroup, rethink, and recharge. Annual, themed two-day events should include celebration, creativity exercises and camaraderie.

7. Say open sesame. Turning cold calls into warm calls requires adding value immediately. Always offer something important to your prospect.

8. Welcome healthy competition. Performing well for your clients in the midst of direct competition earns trust, establishes credibility, and provides valuable learning.

9. Put it in writing. A signed document or check after a handshake solidifies the agreement. Don't leave a closing conversation without paper confirmation.

10. Build it and they will come. "You can't build a reputation on what you're going to do." —Author Unknown **IA**

Huling, CIC, CMC is the author of the book *Selling from the Inside: Creating a Front Line That Adds to Your Bottom Line.* To order your copy, contact Huling at 888-309-8802, emily@sellingstrategies.com or visit www.sellingstrategies.com.

Deal Breakers

Dan didn't want to tangle with this target client.

By Dan Seidman

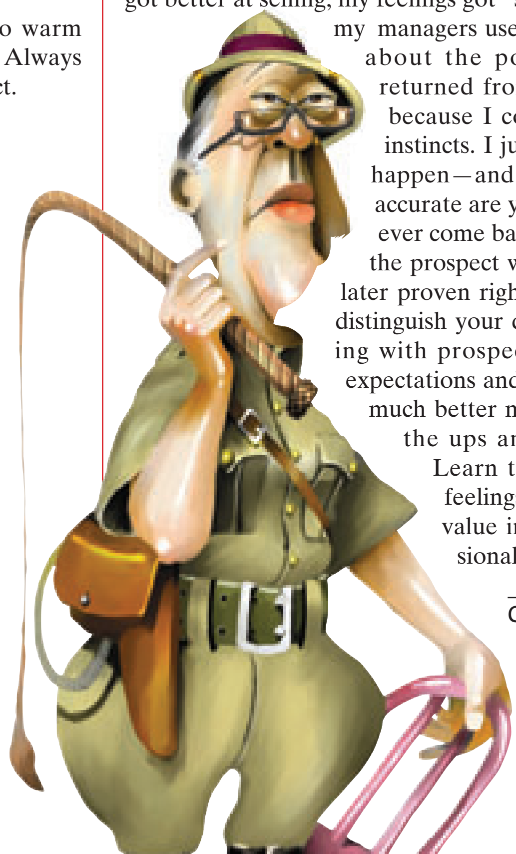
I used to hunt for new clients at the big trade shows in Chicago. As a sales coach and speaker, I'd get to meet both sales executives and managers working the thousands of exhibit booths in the windy city. Many would be intrigued that a guy could make a living collecting sales horror stories (over 500 so far). They'd then ask me to do a funny opening keynote at their national sales conferences. One company president was very interested in my sales coaching services and asked me to meet him about helping launch a new product line.

Oddly, he invited me into his home to discuss business. That was unusual, but I arrived on time and was lead into a living room of dead animals—tiger heads and hides on the walls, gazelle feet on the bottom of chair legs. Dotting the living room were footstools covered with animal skins. There were some very serious weapons on display as well.

He grinned as I filled the air with "ooh," "wow" and "very cool." He was a big game hunter and this was his temporary office while he was in the middle of a nasty separation from his wife. With a barking (hyena-like?) laugh, he mentioned that he was in a little trouble for handling home situations a bit too physically.

I politely finished the call and never got back to him. I just got a really bad feeling about the guy. The monthly retainer didn't seem very tempting as I wondered: what if he ever became displeased with my service—would he shoot me? I learned that it's okay to walk away from some sales calls.

POSTMORTEM: Do you trust your feelings? I found that as I got better at selling, my feelings got "smarter." As a sales toddler, my managers used to hate hearing how I felt about the potential of a sales call I returned from. I was always optimistic because I confused my hopes with my instincts. I just knew a sale was going to happen—and I was usually wrong. How accurate are your feelings today? Did you ever come back from a call and just know the prospect was going to buy? Were you later proven right or wrong? When you can distinguish your dreams from reality in dealing with prospects, you will avoid flawed expectations and surprises. You will then be much better mentally equipped to handle the ups and downs of a selling life. Learn to develop, then trust your feelings. It will prove to be of great value in your personal and professional relationships. **IA**



Check out Seidman's book, *The Death of 20th Century Selling*. Visit www.salesautopsy.com/book.html.