

BEWARE: THE MISCONCEPTION REGARDING E&O INSURANCE

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The current real estate environment has created new challenges for real estate firms. As owners take a hard look at the bottom line, options such as merging, closing or reducing expenses are being considered. A key component when considering your options is your E&O Protection.

A common misconception of E&O Insurance is that the policy in force when the transaction occurred would provide coverage for a lawsuit that is filed against you. In fact, E&O policies are written on a claims made basis which do not respond in this manner.

The E&O policy that is in place when the claim is reported to the carrier should cover this claim, not when the transaction occurred. This is provided that the prior acts date or retroactive date is before the date of the alleged incident.

If you allow your E&O coverage to lapse, or you elect to cancel or not renew the policy and a claim is subsequently filed against you, there will be no coverage as there is not a current policy in force.

Prior acts coverage can be maintained by the purchase of an extended reporting period endorsement, or tail, under your current policy if available. This will extend the period of time that claims can be reported to the carrier for coverage after the policy has been cancelled or not renewed. A typical extended reporting period is for one, two or three years. The cost of each period option varies by carrier and runs between 100% to 200% of the current annual premium.

Whatever your future plans may be, you should consult with your Insurance Broker to determine your options. This will ensure you are fully protected against future claims that may arise. Be sure to keep your premium payments current as if your policy is cancelled for non-payment you will invalidate your option to purchase a tail and **lose all prior acts coverage**.