

The Top 10 Myths  
Of Errors & Omissions Insurance

**Myth # 10: Little problems do not need to be reported.**

The Truth: Little problems can become big problems and if you don't report them, you might not be covered.

Typically, an insurance policy defines a claim as *a demand for money or service*. A claim must be reported as soon as practicable. According to these policy provisions, a demand for money or service *is a claim* and if notice is not provided in a timely manner, coverage can be denied on the basis that *your delay jeopardized the insurance company's position in the claim*.

**Myth # 9: We don't make mistakes so I don't need E&O Insurance.**

The Truth: You don't have to do anything wrong to be sued. Just being sued can be incredibly expensive.

Most importantly, your policy will pay to hire an attorney if you're accused of wrongdoing. Statistics show that 1 in 5 agents will be involved in a lawsuit and 40% to 60% of the cost of a claim involves defense costs. Your E & O premium can be insignificant compared to the cost of defending a lawsuit.

**Myth # 8: Since I've had no claims, my premium should not increase.**

The Truth: There are a lot of factors besides claims that effect premium. It's about risk. Other factors that effect risk are:

- Annual gross commission income of the firm
- Number of agents
- Residential vs. non residential activity
- Loss control practices undertaken by the firm
- Professional designations
- Use of home warranties and home inspections
- Prior acts coverage

As your firm grows, your premium will increase. Keep up on your loss control techniques to keep your claims and rates down.

**Myth # 7: I reported a situation to my Insurance Carrier but I haven't had any claims.**

The Truth: When you call your Insurance Company it will likely show on your claims report unless you discuss it otherwise. P.S. It's better to call than not.

**Myth # 6: When the Insurance Company pays a claim, it's their dollars, not mine.**

The Truth: There's no such thing as Insurance Company dollars. Ultimately claims payments are *your* dollars. You will pay in the future through increased premiums, higher deductibles, loss of coverage, etc.

**Myth #5: Old claims don't effect my current premium.**

The Truth: Insurance Companies believe claims history can be an indicator of future losses. Your *5 year* loss history is a critical component in the development of your premium. Make sure you know your claims history.

**Myth #4: The policy with the lowest price is the best because all policies are pretty much the same.**

The Truth: The issue is not price, the issue is value.

Major differences in coverage such as Fair Housing, Environmental, Agent Owned Property, Defense Costs & Deductibles may more than justify an increase in premium. You might want to consider an "Insurance Buyers Broker" who works solely for you and can walk you through these important differences. A claim without coverage can cost far more in the long run.

**Myth #3: I paid my E&O premium so all my past transactions are covered.**

The Truth: Past transactions may not be covered if there is a lapse in coverage even if it's renewed.

All E & O policies are written on a claims made form. This means that if you let your coverage lapse for any reason you will lose your prior acts coverage and any lawsuit that is filed for transactions that occurred while you carried E&O will not be covered. This is a little complex, consult your insurance broker.

**Myth #2: My agents are covered if they sell their own property.**

The Truth: Many policies do not provide full coverage for sale of agent owned property. Those that do have restrictions such as:

- Another non owner agent must handle the transaction for coverage to respond to the firm and non owner agent.
- The owner agent can sell his own primary or seasonal residence if 4 risk management criteria are met.
- The broadest protection will also include sale of an owner/agent's investment property if 4 risk management criteria are met.

CAUTION: If the agent or spouse is a contractor or developer, or it's commercial property or any type of land, it's probably not covered. Consult your insurance broker.

**AND THE NUMBER 1 MYTH FOR ERRORS & OMISSIONS INSURANCE IN AMERICA IS (drum roll): Don't worry, I'm covered by E&O.**

The Truth: All Insurance policies contain exclusions, limitations and conditions and these policies are not fun to read. Ask your insurance broker to explain what's covered and what's not and if they can't explain, get a new insurance broker.

Errors & Omissions Insurance is your protection. Always deal with a professional to fully understand the risks your firm faces today.

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