

# ERRORS & OMISSIONS

## RISK MANAGEMENT ALERT

### Consider These Best Practices when Completing an Application

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In the insurance world, the application (app), whether in paper format or online, is one of the most important documents an agency staff member will handle. After all, it is the document that will determine acceptance, pricing, and the details of the coverage to be proposed. While this probably goes without saying, the accuracy of the information in an application is paramount. The markets an agency deals with, whether standard or non-admitted, rely on the details of the application. When that information is not accurate, the consequences can be significant.

#### Key issues to consider

- Complete applications in a timeframe sufficient to enable the market to evaluate the risk. In some cases, the market may want to pre-inspect the risk, so time should be built-in for that possibility.
- Complete the correct app. While carriers will often use an Accord app for quoting purposes, they may have a specific app they want completed before coverage can be bound. This occurs often with the surplus lines markets or on professional liability/D&O coverages.
- When possible, complete the app with the proposed client. This will enable the agency sales person to ask the appropriate questions and to record the responses. Be sure to ask all the questions exactly as they are stated on the application.
- Don't guess at the answers. If the application is being completed in the office after having visited the prospect, it is possible that the agency sales person may not have asked some of the application questions. What should happen then? Secure the correct answers by having a subsequent discussion with the prospect by phone, email, or in person.
- Have the client sign the applications whenever possible... and preferably all of the time. This applies whether the application has a signature line or not. In the defense of an errors-and-omissions claim, a client will be held responsible and accountable for the contents of an application if he or she signed it. Therefore, don't just ask the client to sign the app, ask them to review it. Then, if everything is accurate, the client should sign.

#### Represent the risk as it appears today

Carriers count on the premise that the application accurately represents the risk. If a loss occurs and the carrier determines that the application had incorrect information, the carrier may have grounds to rescind the policy, essentially giving the premium back and declaring the policy null and void. There have been situations where the carrier, after determining that the agency sales person intentionally misrepresented the risk, issued immediate notices of termination of the agency agreement. As you can see, the consequences can be significant.

An additional key issue that agents should be sensitive to deals with the completion of applications at renewal time. If the agency is remarketing the account to additional carriers, it is vital that the applications represent the risk as it appears today. Often, applications are completed using the previous year's information. Since the risk may have changed over the last year, this practice opens up the potential for the application to not accurately represent the risk.

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