

ERRORS & OMISSIONS

RISK MANAGEMENT ALERT

Your agency could be a party in an E&O claim

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Do you use third parties/vendors to help place coverage or help your clients access information? These vendors include wholesalers, MGAs, MGUs, and other independent insurance agencies. Using a third party to place stop-loss coverage is also common if the agency is involved with benefits.

Your agency could be a party in an E&O claim – and held responsible – if those entities don't perform professionally and your client suffers harm or loss. What can you do?

- 1. Vet these entities before placing business with them – never after.**
- 2. Develop a stated procedure addressing third parties and communicate it to your staff regularly.** The most common guideline is to have specific staff members – typically senior management – approve third parties before business is placed with them.
- 3. Ask yourself whether a new wholesaler is really needed.** Do you have other wholesalers that provide the same product? Most agencies are looking to reduce the number of wholesalers they deal with, not add them. Work with wholesalers who have been vetted, providing dependable, accurate, professional service.

When using a new third party, consider the following, too:

- 1. What carriers does the wholesaler use to place business?**
- 2. Do the carriers meet the agency's standard of "A-" or better according to AM Best?**
- 3. How long has the wholesaler/third party vendor been in business?**
- 4. How long have they been handling the type of business/coverage you are looking for?**
- 5. Do they have a good track record?** Are they stable and likely to be around in 5 years?
- 6. Does the third party have E&O?** They ask your agency for evidence of E&O, so ask them. They can make mistakes. Are their limits of E&O liability adequate?
- 7. Create an agreement between your agency and the new party.** Agreements can vary greatly. Have it reviewed and approved by a designated management person before any business is placed with a new entity.
- 8. What are their binding and issuance procedures?** Are these procedures documented?
- 9. Does the wholesaler/third party meet their state of domicile's licensing requirement?**

TAKEAWAYS: Vetting the third parties your agency deals with is crucial and can cause some serious issues if not handled correctly. Reinforce this issue with your staff at least annually.

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