

Common Terms found on an E & O Application:

NAMED INSUREDS: Name of the corporate entity to be insured. If you are an individual, use your licensed name and any trade name you will be using to conduct business. A Corporate Organizational Chart should be given to your broker with percentages of ownership, managing partner information, or other holding company information that may share an interest in your company. At all times, your broker should be notified about changes in ownership, mergers and acquisitions, or address changes or additions to the named insureds on your policy. Always read your policy for details that could affect your coverage if you and/or your agency decide to enter into a buy/sell agreement .

LOCATIONS: Most E & O policies cover your locations automatically. Locations are identified so that underwriters can understand if you have adequate personnel or if you have any special proof of coverage requirements. It is always a good idea to prepare an exhibit of locations listing all addresses.

ADMITTED CARRIERS: Insurance Companies that are “admitted “in certain states have taken the time and effort to be approved by a State’s Insurance Department. An Admitted Carrier is licensed and authorized to do business and must comply with each state’s Insurance Department Regulations. You can check with your State’s Department of Insurance website to find approved Carriers. Admitted carriers file all rates, policy forms and endorsements for approval. Admitted Carriers are usually rated by A.M. BEST (www.ambest.com) or Demotech, Inc., (www.demotech.com). Admitted carriers usually participate in state Guaranty Funds which add a layer of protection for the consumer in the event of carrier’s insolvency.

NON-ADMITTED CARRIERS: Insurance Companies are “non-admitted” because the company has elected not to be approved by the State’s Department of Insurance or elected not to comply with filing rates or policy forms. If a non-admitted carrier becomes insolvent, the State’s Guaranty Fund will not protect the consumer’s unpaid claims. Non-Admitted Carriers are required to charge surplus lines taxes . Non-Admitted Carriers are usually rated by A.M. BEST (www.ambest.com) or Demotech, Inc., (www.demotech.com). Non-Admitted carriers do not participate in a State’s Guaranty Fund.

RATED OR NON-RATED CARRIERS: “Rated carriers” are defined as financially rated by A.M. BEST. (www.ambest.com) An Insurance Company with a financial rating of B+ or better at the time the risk is placed is the industry standard.

Demotech, Inc (www.demotech.com) also rates carriers, however, on most applications for E & O coverage, the question revolves around A.M. Best financial ratings.

“Non-Rated Carriers” should be reviewed carefully. You, as the agent, need to be aware of the carrier’s financial ability to pay claims. Many companies may be non-rated (i. e. some county mutual companies or farm mutual companies). It’s important to note that newly formed insurance companies may be in the process of securing a financial rating and, thus, are non-rated.

Regardless if a carrier is Admitted or Non-Admitted, each insurance company you represent is either rated by A.M. BEST, Demotech, Inc. (www.demotech.com) , or is Non –Rated. Agents should monitor their carriers ratings for financial stability and ability to pay claims for their Insureds.

GOVERNMENT FUNDED PLANS FOR WINDSTORM/ WORKERS COMPENSATION OR ASSIGNED RISK PLANS- Certain states have funds set up for catastrophic events like windstorm damage from hurricanes. Funds or

Insurance Associations, whether self-funded or guaranteed by the state or Federal Government may or may not be rated. Check on the website of the fund or plan for information on the financial rating of the fund. Some plans or funds may not be covered by the state's Insurance Guaranty Fund since they are not licensed as an insurance company.

RETROACTIVE DATE: Provision in claims made policies that defines the date the agency was first insured for coverage for professional services. This date defines coverage if a claim is made against you or the agency. For example, if your first policy began on January 1, 2012, and a claim is served on your agency for acts that occurred before January 1, 2012, the claim will be denied because you or your agency had no coverage in place at that time. Only claims for wrongful acts occurring after the retroactive date will be covered.

Only claims resulting from wrongful acts occurring after the retroactive date will be considered for coverage. Gaps in coverage, limit changes, mergers and/or acquisitions can also affect/amend the retroactive date. Why did we just spend two paragraphs on this definition? The retroactive date is one of the most important features of your E&O policy. Any changes to your retroactive date can change your coverage. Please call your broker to discuss any questions or concerns regarding this very important coverage.

PRIOR ACTS DATE OR PRIOR ACTS COVERAGE: A feature of claims made policies that refers to the "retroactive date."

"RDI" or RETRO DATE INCEPTION: The inception date of a claims made policy which is the start date of coverage for a newly formed Agency. If an agency has had claims or a change in ownership, quotes may only be offered on an "RDI" basis.

FULL PRIOR ACTS: If an E & O carrier uses this term, it usually means the Agency has had E & O coverage in place, uninterrupted, for the past five years or more. There is no specific retroactive date or limitation on prior acts.

PREMIUM VOLUME: Premium volume for both new and renewal business should be included on the application. If you are a new agency, you can estimate your premium volume for the next 12 months.

GROSS COMMISSION INCOME: Gross commission income is defined as the agency's total commission income received prior to paying any expenses and prior to paying commissions to any sub-producers (retailers). If the agency collects any contingent income, profit sharing and/or policy fees, this should also be disclosed.

NET COMMISSION INCOME: Net commission income is defined as the agency's total commission income less commission paid to any sub-producers (retailers). Agency expenses, including any inside commissions paid to either employees or independent contractors, should NOT be deducted from net commission figures. If the agency collects any contingent income, profit sharing and/or policy fees, this should also be disclosed.

NOTICE: These terms/definitions provide a brief description of the terms and phrases used within the insurance industry. These terms/definitions are not applicable in all states or for all insurance and financial products. These definitions do not alter or modify the terms of any insurance contract. If there is any conflict between these terms/definitions and the provisions of the applicable insurance application or policy, the terms of the application or policy control. Additionally, this informational resource is not intended to fully set out your rights and obligations or the rights and obligations of the insurance company, agent or agency. If you have questions about your insurance, you should contact your insurance agent, the insurance company, or the language of the insurance application or policy.