What You Can Do about Soaring E&O Rates

By Nancy Fish

After reading the *Exclusivefocus* article *Errors and Omissions – What You Don't Know Could Cost You* last spring, agency owners were probably not surprised to learn that CalSurance elected to raise rates by as much as 35% this year.

Unfortunately, CalSurance is the only option

In 2012, Allstate agents were saddled with a 17% increase. At the time, CalSurance cited a "significant increase in both the frequency and severity of claims…**along with the overall decrease in the agency force** [emphasis added]" as reasons for the rate hike.

According to the R3001 Supplement, all Allstate agents, except for those in New York, are required to carry E&O coverage through CalSurance, an obligation that infuriates many agents, especially those who deem it a flagrant violation of their independent contractor status.

In a memo regarding the 2013 rate increase, frequency and severity are again cited as "a challenge." While this year's initial notice did not mention the continued decline in the number of agents, it is likely that it was a factor in determining the new rate.

The memo announced "an overall program rate increase of 28% for 2013," but goes on to inform agents that the increase "has been distributed across the rating tiers in a manner which mirrors the loss experience."

The CalSurance premium tables divide Allstate agents into three rating territories, or Tiers. Further investigation reveals that Tier I rates increased 28% over prior year; Tier II rates increased 23%, and Tier III rates went up by a whopping 35%.

Questionable business practices at Allstate

It's clear that Allstate has toughened up its claim evaluation process over the past few years. Claim submissions are now subject to more vigorous and thorough scrutiny, helping to cause substantial increases in agent E&O losses. And as you would expect, more E&O losses mean higher E&O premiums for agents. This fact has been borne out by the number of frustrated agents reporting their not-so-pleasant E&O experiences to NAPAA. In particular, there have been instances wherein agents have added items by endorsement which were not only accepted by Allstate when submitted, but renewed time and again over a period of years. In most cases, claims on the endorsed items are paid, but increasingly the company is heavily scrutinizing the endorsed items and referring them to CalSurance. This is likely because they were on the ineligible list at some point in time. But the fact remains that Allstate – which seemingly fails to accept any culpability in its role as corporate overseer – not only accepted the risks when they were submitted, but proceeded to renew them until the loss occurred. In other words, they pocket the premiums, yet accept little responsibility.

While there is technology in place to screen new business applications for adherence to company guidelines, how is it there is no technology or human interaction to monitor or reject in-force policy changes?

In reality, the company has little incentive to incorporate what would seem to be an easy fix to a very large problem. After all, shifting the blame to "agent error" is a veritable golden pot of profit for the company.

As if the E&O rate increases weren't already enough, CalSurance has also implemented higher deductibles on Expanded Market policies. In addition, there is also a sliding deductible schedule for agents who have more than two paid claims during the prior three policy periods, an indication that multiple claims are not unexpected.

Unless changes are made, several factors will continue to work to the detriment of Allstate agents, not the least of which is the company's apparent reluctance to fix the endorsement problem on their end. What is needed is underwriting technology – or human underwriters – that can correct or reject unacceptable endorsement risks.

Additional major contributors to E&O challenges will be:

• the introduction of products with reduced or limited coverage such as House and Home;
• a greater number of products only available through Expanded Markets;
• the growing number of inexperienced agents and
• the dwindling number of agents under contract with Allstate

NAB/AEC REPS: WHERE ARE YOU?

You were selected to participate in one of two groups formed by Allstate to provide leadership with agent input and feedback. It is clear that Allstate is fully capable of installing technology – as well as incorporating human intervention – to underwrite policy endorsements and trailing documents.

This one change would limit the number of claims that are being shifted to CalSurance as well as reduce E&O costs for Allstate agents. **Attention NAB and AEC Reps: please stand up and say something!**

Agents who do not know who their NAB or AEC representatives are should contact their FSL to obtain their names. Once you find out who they are, visit Allstate.com or check your Global Address List for their contact information. Let them know that now is the time for them to advocate on your behalf on this issue. Allstate needs to take its share of responsibility for underwriting policy endorsements and for verifying accurate completion of legal t-docs. *Ef*

What can you do to avoid common E&O mistakes?

- Document, document, document.
- Train and review underwriting guidelines with your staff on a regular basis.
- Know policy limitations, especially the new House and Home.
- Always explain the differences in policy coverages when rewriting a customer from Allstate into an Expanded Market policy or when converting an older Allstate homeowner policy to a House and Home policy.
- Be sure the customer knows what carrier they are insured with (Expanded Markets versus Allstate).
- Always offer higher limits/coverage on separate structures, contents and other valuables such as jewelry; never offer inadequate limits – and document the offer.
- Check guidelines before offering or denying a coverage/limit that is requested.
- Double check signatures on UM/UIM forms.
- Never tell a customer that coverage is not available or that something cannot be insured. Instead, help them understand that while you cannot assist them, they can probably buy coverage elsewhere.