**E&O Top Ten: What Every Financial Advisor Must Know**





**#1: You need it.**
In today’s economy, it’s just too risky to do business without errors and omissions (E&O) insurance. If you’re ill equipped to absorb $50,000 or more to settle a customer claim or spend $50,000 to $500,000+ to pay for defense, your client definitely need E&O insurance.

**#2: Your client is probably paying too much for it.**
Problem is, most carriers charge a “one-size-fits-all” premium. That means low-risk insurance agents or financial advisors pay the same premium as higher-risk advisors.

**#3: You can pay less for it.**
At least several insurance companies recognize low-risk advisors by charging lower premiums.

**#4: Your policy *must* have these two features.**
Your errors-and-omissions policy should provide retroactive coverage, as well as an extended reporting period. The former means you’ll be protected going back to your first continuous period of E&O coverage. The latter means the advisor (or their heirs) will be covered for errors and omissions while they were working, even during retirement, change careers, become disabled, or die.

**#5: Your clients deserve customized policy.**
Make sure your E&O policy covers your specific job activities. For example, if you are an investment advisor representative, then a standard life & health agent policy won’t do. In addition, know the specific limits of liability for each claim, as well as your annual aggregate, and total aggregate for all advisors in the program.

**#6 :Always buy E&O insurance from a top rated insurance carrier.**
Avoid insurers with low marks from the various rating agencies. Also watch out for so-called “risk-sharing plans.” No state insurance departments check their books or require them to hold minimum reserves. If such a plan fails, you will be left holding the bag.

**#7: The policy should be free of handcuffs.**
Be careful when considering FMO-sponsored E&O insurance. It may lock you into the FMO by making your coverage contingent on staying with them or on writing a certain level of business with one of their carriers. Also, watch for coverage exclusions when you sell products outside the FMO.

**#8:  Should ask about post-sale service.**
Having a properly designed policy is the starting point. Also ask about who will provide post-sale service. Make sure the administrator is equipped to handle various payment options, and is committed to prompt claims processing.

**#9: Revisit needs periodically.**
E&O insurance is not something to buy and put in the drawer until you need it. Every year or two, revisit your needs to make sure the policy is still appropriate.

**#10: Work hard to prevent E&O claims.**
Once you purchase an errors and omissions policy, get serious about preventing future claims. Three main strategies: recommit to high standards of ethics, make sure your office is well managed, and resolve complaints promptly.