

Do you know what E&O coverage you need?



Use the following checklist to help you compare the coverage you currently have to what you may need. Every policy is different, so make sure you are properly covered.

Insurance Company

Let's start with the big picture, the insurance company.

- A-Rated:** Make sure it is "A" Rated by A.M. Best, and has sufficient size (XV is the highest). Check at www.ambest.com.
- Admitted:** The company should be "Admitted" to sell insurance in your state. Admitted carriers file their rules and rates with their respective insurance regulators, Surplus or Non-Admitted carriers do not. If you have to pay a "State Tax" or "Stamp Fee," they are probably not Admitted.
- Real Estate Policy Form:** Make sure that the policy is designed to cover Real Estate. "Miscellaneous" E&O policy forms usually fail to differentiate between true Independent Contractors and Agents, thus leading to potential coverage gaps for Agents' employees, etc.

E&O Policy Coverage Options

The hard part is reviewing the policy itself. Very few people read the actual policy, until there is a claim. Here is a quick overview of important coverage options to check:

- Agent-Owned Property:** Do you plan on selling property that you own? Some policies exclude this type of transaction or only cover owner-occupied property, not rental properties. Many also require inspections, home warranties, etc.
- Deductible.** How much do you need to pay in the case of a claim before the policy pays? Deductibles usually range from \$2,500-\$100,000.
- Discipline Hearing Expense:** This is usually optional. Some companies include it as part of the policy; some may include it with Risk Management.
- Discrimination/FAIR Housing.** Although not as prevalent, these claims still occur, especially if doing leasing. This coverage is usually optional.
- First Dollar Defense.** This eliminates the deductible for claims that involve only attorney's fees. However, if damages are paid, you will likely have to pay the deductible.
- Lock Box.** Make sure you have this if you are doing listings. Some policies cover just Property Damage, not Bodily Injury. You want a policy that covers both.
- Megan's Law.** This coverage pays for diminished value of a property due to the undisclosed death or bodily injury of any person. This is standard on some policies, and not available on others.
- Claims Expense Outside.** This means that attorney's fees are covered separately from the limit of liability.
- Open House/Showings Coverage.** Liability coverage usually only covers injuries at the office. This coverage extends injury and property damage coverage to your professional activities outside of the office, including items such as dog bites, falls, and broken property.
- Pollution Coverage.** Hidden dangers can occur, especially on older properties. This coverage is usually optional.
- Prior Acts.** Generally, E&O policies provide coverage for claims made against the named insured and its Agents. So moving firms will likely cause you to lose coverage because the policy is in the Firm's name, not yours. Also, coverage must be continuous to cover prior sales. So be sure to get your own E&O policy before changing firms.
- REO's and Short Sales.** Some policies restrict or exclude these sales. If you list REO's you may want to also have Property Management coverage.
- Risk Management.** Having proper legal counseling can be the difference between an easy problem resolution and a claim. Policies should include access to an attorney before a claim is filed, not just after.

Additional Activities Coverage

Many E&O policies will only cover real estate sales. If you perform any of the following activities, you may want to get your own E&O policy to be properly covered.

Residential Leasing/Property Management.

These activities may not be covered automatically. Make sure the policy covers licensed and unlicensed activities.

Commercial Sales/Leasing/Property

Management. If you do Commercial activity, make sure it is included in the policy. Many policies exclude or limit commercial sales, leasing, etc.

Appraisals. Appraisals are not normally covered. If you do appraisals, you will need your own policy to work with mortgage companies and government entities.

Land. Many policies cover residential real estate sales, not land sales.

At CRES, we offer E&O policies for real estate professionals that provide all of the coverage options listed above and more. We also provide E&O policies to cover just those activities, such as property management or appraisals, not covered by your current E&O.

Contact us for help determining what coverage is best for you and your business.

www.cresinsurance.com

