BROKER/DEALER E&O

E&O AS A RECRUITING AND RETENTION TOOL

AUGUST, 2012

TURN E&O FROM A DREADED TOPIC INTO A RECRUITING AND RETENTION TOOL.

Let's face it. Most of your representatives dislike E&O. They have never had a claim, and see the issue as nothing more than another expense required by the broker/dealer. What's worse, most representatives do not fully understand how the E&O policy works, in particular the retention provision. Representatives who do understand these issues immediately raise the fact that ABC firm charges less per year, or that the retention (rep. responsibility) at XYZ firm is much smaller than ***your*** policy.

The information that follows will enable you to make the representatives aware of issues they likely never knew existed, and provide them with solutions which will separate your firm from others in the industry. Additionally, implementing the recommendations will enable your firm to "level the playing field" with some of your larger competitors.

THE REG. REP. RETENTION MYTH

Most representatives think their retention (deductible) is much smaller than it actually is. Nearly all E&O policies contain both a Broker/Dealer retention (typically $50,000 or higher) and a much smaller Registered Representative retention (typically $5,000). Few representatives understand, however, that the smaller retention applies ONLY to claims which do not also name the broker/dealer. With the exception of a fixed product life/health claim, this simply does not happen.

For this reason, most registered representatives have gone their entire career mistakenly believing that their maximum responsibility $5,000. Few reps. understand that the higher retention applies and that they have signed an independent contractor agreement which very well could obligate them to pay much more. Only at time of claim do they learn otherwise. The suddenly-shocked rep. begins to e-mail other reps., advising them of the issue, and creating a firestorm that the firm does not want.

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"…there are ways in which the smaller firm can "level the playing field."

REP. E&O CLAIM RETENTION

LARGE FIRM E&O PROGRAMS

Many high quality, high producing reps. are looking to leave the national houses and join the independent ranks. As they weigh their options, E&O expense and deductible responsibility become major considerations. Many of these former national brokerage reps. had no financial obligation at all related to claims, so the issue is a shock and quickly becomes important. In addition, many larger independent firms (250+ reps.) do limit the financial responsibility of their representative at time of claim, often under $10,000. The larger independent firms also enjoy economies on the overall pricing, resulting in lower E&O charges for their reps. These factors can work against smaller firms as they recruit. Fortunately, there are ways in which the smaller firm can "level the playing field"

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> REP. RETENTION MYTH

LEVELING THE PLAYING FIELD

Your firm can compete. First, you must recognize and accept a fundamental truth. Though you have the right to do so, enforcing the representative contract and collecting the full deductible amount ($50k+) is highly unlikely. Most reps. simply do not have the money to pay it. The odds are even worse if the representative is no longer with the firm.

Placing a true monetary cap on the representative's responsibility is an excellent measure of goodwill, demonstrating that the firm has the best interest of the rep. force in mind. The cap will assist with recruitment, separating the firm from competitors being considered by a prospective representative. In addition, such a policy is "sticky", fostering satisfaction and retention amongst the representatives.

Let's discuss how to go about it.

IMPLEMENTING THE CAP

Establishing such a cap is a good thing for the representatives and should be widely advertised. The new retention policy should be a reward for quality representatives, but crafted in such a way so as to protect the firm. One way to accomplish this is to tie the benefit to certain criteria, such as length of tenure, adherence to firm and regulatory procedures, and past claim history. The firm can use a flat dollar amount ($10,000), a percentage (50%), or a combination. One example of the combined approach:

A per-claim retention responsibility of $5,000, plus 50% of the expenses, not to exceed a maximum of $15,000, provided the following conditions have been met:

1. *The representative is currently registered and has been registered with the firm for at least one (1) year.*
2. *There is no criminal or fraudulent activity, or violation of the firm's procedures, state or federal regulation.*
3. *The representative has no prior claims while registered with the firm.*

If any of the above conditions is not met, the full policy retention may apply.

BACK TO THE PLAYING FIELD

The firm can compete on pricing as well. Why not consider a tiered pricing structure? Rewarding key production representatives with a lower cost basis is another very "sticky" policy. In addition, the firm could charge a base cost for all reps., with an expense load for heavy outside RIA or outside life/health reps. Such a policy recognizes that not all representatives are equal in their activities and potential exposure. Provided there is no discrimination, such steps could greatly benefit the firm with recruiting and retention.

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