



FARMERS®

CalSurance®
E&O Program Specialists

Farmers Agents' Group Benefits Program Errors & Omissions Frequently Asked Questions

1. Do I have coverage for my agency staff under my Errors & Omissions (E&O) coverage?

Yes, all employees of the agency are automatically covered **at no additional premium**. This includes Agency Producers or a spouse working on behalf of the agent.

2. What is the deductible on my E&O policy?

The deductible will vary depending on whether the E&O claim involves an error made in the sale or service of a Farmers product or in the sale or servicing of a brokered product. Your deductible will only apply to damages and not the defense costs associated with a claim. The deductibles are:

\$1,000 – per claim for business placed with or through Farmers or placed with or through one of Farmers' strategic alliance companies.

\$5,000 – per claim on all other covered business.

Example: The deductible on products of Blue Cross is \$1,000, as Blue Cross (including WellPoint Health Networks, Inc. and affiliates including but not limited to Anthem/Blue Cross of CA and UNICARE) is considered a strategic alliance company of Farmers. The deductible on products of Blue Shield is \$5,000.

3. Why is the deductible higher for claims involving brokered products? Why isn't there one deductible for all claims?

The lower deductible (\$1,000) is a policy benefit when an E&O claim involves Farmers products. More training and information is available on Farmers products, supporting the lower deductible feature. E&O claims involving brokered business are more complex with more risk factors and generally result in higher E&O loss costs.

4. Why is a premium charged for the deductible buy-back coverage?

The Group E&O program sponsored by Farmers allows for the Deductible Buy Back Option. Not all agents and district managers desire this coverage feature so the plan has been structured to include the option at an additional premium. For \$25 a month, this guarantees that the agent will not have to pay any deductible for which they are responsible for up to \$10,000 aggregate in any one policy year. The Deductible Buy Back Option must be in force at the time the E&O claim is reported. To purchase the Deductible Buy Back, there are no restrictions relative to coverage the agent had to have in place or procedures that must have been followed at the time the error was made. This option can only be elected during the annual enrollment period.

5. What happens if my Appointment Agreement (AAA) with Farmers Terminates?

On the date your AAA terminates with Farmers, your errors and omissions coverage ceases that same date. Even though coverage ceases on the date of contract termination, agents whose contracts are not terminated for cause receive automatic extended reporting periods for claims involving Farmers products at no additional premium. This unique coverage is generally not available in the marketplace. Based upon the reason for your contract termination, an Extended Reporting Period (ERP) for other coverage(s) may be offered to you. Other policies usually do not differentiate between types of claims that may be reported under an ERP and charge for all Extended Reporting Periods other than that statutorily required. Please refer to the Farmers Policy, Section VI: Extended Reporting Period, Part B for specific coverage details.

6. What is my retroactive date?

The retroactive date in the Farmers Group E&O policy is the later of:

1. Inception date of the Named Insured's agent or district manager contract with Farmers; or
2. The date of the first claims made errors and omissions liability coverage maintained without interruption.

7. Can I increase or decrease my coverage limits mid-term?

Other than during annual enrollment, limits may be increased mid-term if you add a Farmers appointed Agency Producer (AP), District Life Specialist (DLS), District Manager Training & Administrative Assistant (DMTAA) or Reserve District Manager (RDM) to your staff. Limits will be increased as of the appointment date of the respective individual added to your staff. Contact your local marketing department, or you can download the required form by accessing the participant website under plan information using your Participant ID. Fax the completed form to Home Office Agents' Benefits at 323.933.7025.

You can only reduce limits during annual enrollment.

8. Is the coverage under the Group E&O policy limited to specific insurance carriers?

The Farmers sponsored Group E&O policy does not limit coverage to specific carriers. In fact, the policy includes very specific language regarding the placement of business with carriers other than Farmers (refer to Insuring Agreement I. A. 1. a.)

9. Do I have coverage for personal lines business placed with companies outside of Farmers?

Yes.

10. What about life insurance, annuities and accident & health insurance placed with other companies?

There is coverage for "fixed" life insurance and annuities as well as accident & health insurance.

11. What about variable life, variable annuities and mutual funds?

These products are securities. If you are a registered representative of Farmers Financial Solutions (FFS) there is coverage for securities placed through FFS. Please refer to the Mutual Funds and Variable Products endorsement for details on the coverage provided for professional services rendered as a registered representative of FFS.

12. What about commercial lines business placed outside of Farmers?

If an E&O claim involving brokered business arises from an error made on or prior to December 31, 2003, coverage for the E&O claim is part of the basic policy. For E&O claims involving errors made on or after January 1, 2004, coverage is only included if the commercial brokered business coverage option has been specifically elected and paid for continuously by the agent.

13. What is considered commercial brokered business?

Commercial brokered business is insurance that is sold to a business and is placed with a company other than Farmers. Some examples of commercial lines would be General Liability Policies, Commercial Property & Business Owner Packages, including Workers Compensation Insurance.

14. If I excluded commercial brokered business (CBB) coverage, can I add it back mid-term?

Yes. If you become appointed with an outside carrier, you may add CBB by contacting Home Office Agents' Benefits at 323.932.3904 for the required form. If you add this coverage any time after January 1, 2004, the retroactive date will be the date you add the coverage. Remember that this is claims made coverage and adding and dropping this optional coverage will result in a gap in coverage that could affect whether or not there is coverage under the Arch policy if a claim involving commercial brokered business is made against you.

15. If I am a reserve agent with Farmers, do I have coverage to sell commercial brokered business?

No. There is no coverage provided to reserve agents under the E&O program for commercial brokered business, nor is it an optional coverage available for purchase for a reserve agent.

16. What is a “Category 1” claim?

A “Category 1” claim (also known as a “CAT 1 claim”) generally refers to a policyholder claim where 1) it is alleged by the policyholder that coverage was requested 2) the coverage was available (i.e. met the underwriting guidelines); and 3) the agent had binding authority for the coverage. However, at the time the policyholder claim is reported, it is determined that due to an error by the agent or a staff person in the agent’s office, the coverage was not bound and therefore the claim is not covered by the policy that was issued. At Farmers these situations are also referred to as a Claim Not Covered (CNC) - Eligible Business. In many of these situations, the policy is reformed and the policyholder’s claim is adjusted. This is not considered to be an E&O claim.

An example of a “CAT 1” claim is as follows:

The agent writes an auto policy but fails to add rental car coverage that the policyholder requested and that the agent agreed to add at the time of the request. An insured under the policy had an accident and the claim for rental car expense was initially denied by Farmers (claim not covered – CNC). However, since Farmers would have written that coverage (the risk was eligible) and it was within the binding authority of the agent, the policy is reformed by Farmers. The appropriate premium for that coverage is paid by the policyholder and the rental car expense is paid to the insured by Farmers.

There are times that the Farmers claim adjuster’s investigation and evaluation of the policyholder’s claim results in a determination that there is no coverage because there is evidence that the policyholder did not request the coverage that was necessary in order to pay the reported claim. Some agents are concerned that in these types of situations they may be sued. If this occurs, the agent can advise Lancer Claims Services (the third party claims administrator for the Group E&O Program sponsored by Farmers) of the details and a potential E&O claim will be opened.

17. How does the E&O Carrier for the Farmers sponsored Group E&O Program handle “Category 1” claims?

Lancer Claims Services will open a potential E&O claim on behalf of Arch Insurance Company and will begin an evaluation as to whether the policyholder’s claim is a Category 1 matter. When it appears that the risk involves eligible business, and the coverage allegedly requested by the policyholder was within the agent’s binding authority, Lancer will refer the claim back to Farmers Claims.

In the event that Farmers Claims does not resolve the policyholder’s claim to the policyholder’s satisfaction, Arch Insurance Company will not deny an E&O claim solely due to the fact that the business was eligible for Farmers and within the agents binding authority. If Farmers does not reform the policy and resolve the policyholder’s claim, the agent should contact the E&O claim adjuster at Lancer Claims Services 800.821.0540 to discuss the next steps. Agents should not take it upon themselves to resolve a claim.

18. What happens if I report an E&O claim involving a Farmers policy where the risk was ineligible or outside of my binding authority?

The claim is adjusted by Lancer Claims Services pursuant to the terms, conditions and exclusions of the Arch E&O policy.

19. What happens if I report an E&O claim involving a policy that was not issued by Farmers?

E&O claims that involve brokered business are handled by Lancer Claims Services on behalf of Arch Insurance Company. There is no review as to whether or not Farmers would have written the business (either at the time of placement, prior to the placement or subsequent to the initial placement).

20. Are Farmers personnel involved in the E&O claims investigation when my claim does not involve a Farmers product?

No. Farmers is only involved in the claims process on Farmers products.

21. Can Farmers report a claim on my E&O policy without my knowledge?

Farmers claims adjusters have the ability to report potential E&O claims on behalf of agents where they believe coverage may be triggered under the Arch E&O policy. However, there are never circumstances where an agent is not made aware of this. Lancer Claims Services notifies the agent when a potential E&O claim is reported by Farmers so they can begin their E&O investigation. Without the assistance of the agent to explain the situation, the ability to review files and interview the agent’s staff, Lancer would not be able to complete their investigation of the potential E&O claim.

22. Is detailed information about my E&O claim supplied to Farmers?

CalSurance and Arch do not supply detailed claim information about specific claims to Farmers. Lancer Claims Services and Arch may share information about a claim with Farmers claims personnel if a Farmers entity is named in a claim or it is determined that Farmers may also have liability. Farmers is not involved in E&O claims involving the products or services of other insurance companies.

23. Who is the Named Insured on the Agents' Group Benefits Program Errors & Omissions Policy?

As stated on the Declarations page and as defined by the policy terms, the Named Insured is: The Agents and District Managers of Farmers Insurance Exchange. Farmers is not the Named Insured.

24. Does Farmers Insurance Exchange (FIE) have coverage under my E&O policy?

Farmers is not the Named Insured on the Group E&O policy. Farmers is provided vicarious liability coverage by this policy which may be triggered in the event that a claim is brought against you due to an alleged error made by you where Farmers has also been named in the lawsuit in addition to you. There is no coverage for FIE for any independent wrongdoing or bad faith on the part of FIE. When both Farmers and the agent have been named in a lawsuit due solely to an agent error, the same defense counsel may be utilized for both so that no additional claim costs are incurred.

If there are independent allegations against Farmers (failure to train or supervise, bad faith, etc.), Farmers must defend and indemnify itself. The Group E&O program rates do not include the costs of claims for Farmers wrongdoing or bad faith.

25. Is there a membership fee charged to take part in the Farmers Agents' Group Benefits Errors & Omissions Program?

There is no membership fee required to participate in this program. Other programs may have a mandatory membership fee that gives you access to apply for coverage.

26. How are rates determined? Why do I pay the same rate as an agent who has had claims?

Rates are determined based upon the claims experience of the entire group of Farmers agents who participate in the program. The experience of other lines of business written by the carrier or other E&O programs for P&C agents do not affect the rates of the Group E&O program sponsored by Farmers. Therefore, agents will not see a rate increase just because it is a "hard market." Nor will agents see a rate decrease just because it is a "soft market." The goal is to have rate stability. This can and has been achieved over the past few years by pinpointing rate adjustments where needed.

This is a very large program and has "loss holding capacity." If an agent happens to be an unfortunate one with a loss, the program will continue the following year, not only for that agent but for all of the agents who participate in the program. An agent cannot be cancelled because he or she reported a claim.

27. What kind of loss prevention materials are available through the Group E&O program sponsored by Farmers?

CalSurance works closely with Farmers Agents' Benefits to provide loss prevention resources including interactive web applications, video clips, newsletters and current claim examples. These resources can be accessed, free of charge, by logging onto www.farmersagentsbenefits.com and clicking on the E&O tab.

It is not necessary to complete any forms, complete a survey, pay a fee or be subjected to an audit to take advantage of the loss prevention materials made available to an agent through the Group E&O program.

Please contact CalSurance Associates with any additional questions

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