



E&O Audits: They Aren't That Scary

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The word “audit” tends to make people cringe. For some the thoughts of mean IRS bean counters scrutinizing your finances comes to mind. Over the years we have referred to audits as “E&O Risk Management Reviews” or “Agency Operational Reviews”, but that is really just semantics. Bottom line, however, is that the word “audit” can have a very positive meaning.

After performing hundreds of audits, I can assure you that the vast majority of agencies that have audits performed become repeat clients. I’m sure most other auditors would tell you the same thing. The reason? There must be some significant benefit to the agency or this wouldn’t be the case. Let’s start with who the auditors are:

- Most agency auditors have extensive agency backgrounds, some as managers, some as agency owners. The average auditor has over 20 years in the business. Some that are more “seasoned” (old) like myself have over 40 years in the insurance business and have owned their own agency.

- Most of us have performed audits in hundreds of agencies over the years and visit new agencies every month. These agencies vary in size from just a few people to the largest agencies in the country. My smallest client has 2 employees including the agency principal, my largest has over 1,200. Geographically this includes agencies in the most rural areas to those in the largest cities. Agencies that are generalists to those that are extremely specialized. We have probably seen almost every variation there is in agency operations and markets, including wholesalers, MGAs and MGUs.
- Auditors gather a tremendous amount of agency operational knowledge from their exposure to so many different organizations. We see and learn new things from innovative agencies all the time, giving us a good perspective of what’s going on in the industry.
- On occasion we also see some of the worst of agency operations with little structure and little or no management. We learn from those agencies as well. Sometimes it can be scary for the auditor too!



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article continued
from page 35

Now that you are more comfortable with who will perform your audit, let's look at some of the benefits the agency will derive from completing an agency audit. I'm sure you want to know what's in it for your agency. The answers are many, but let's start with the benefit that catches most agency owner's eye. The agency may receive a three year, 10% premium credit for completion and compliance with the audit. This credit is in addition to any E&O education credits you may earn on an annual basis through your association. In most cases the credit will pay for most, all, or in some cases more than the

cost of the audit, *in the first year!*

The most obvious benefit is the reduction of E&O exposure for your agency. Going through an E&O claim is not a pleasant experience. Besides the financial impact, including the deductible, potential additional legal expenses, the cost of management and staff being tied up in depositions or court, it can be an emotional event for the employees involved. Completing an audit cannot guarantee that you will not be sued, but if you have followed the audit recommendations, it should put you in a more defensible position.

Another benefit that I have heard many times from my clients is that we bring industry knowledge that they do not have the opportunity to be exposed to themselves. I am asked quite often "how does my agency stack up to others you see?" Of course things we see that are proprietary within an agency are never shared with another agency. However, general things we see including industry trends, interesting communication methods used with agency clients, and innovative marketing ideas, can sometimes be shared as they are not specific to one agency.

A benefit we have developed over the past 20 years is providing agencies with many of the solutions to the common recommendations we make as a result of the audit. This includes over 80 documents, checklists, disclaimers, and examples of wording for letters they can use for communication and documenting contacts with the agency's clients. This also includes samples of compensation plans, non-piracy agreements, renewal questionnaires, and catastrophe and data security plans. We also provide our clients with a copy of our widely used Agency Operations & Procedures Manual.

An objection I sometimes hear, usually from an agency that has not had an audit, is the fear that it will take too much time away from their work. I can assure you that an audit is not disruptive to the agency. We are well aware that your work with clients comes first. We

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normally have just one staff member away from their desk at a time for no more than 20-30 minutes. The discussions with the staff are workflow and communications oriented. How do they interact with your clients, with each other, and with your carriers. How is that communication documented, and is the process both communication and documentation consistent with procedures.

The “Trinity” of E&O Risk Management is: **Communication, Documentation, and Consistency**. Every agency can benefit from developing consistent workflow and documentation. Audits help to identify areas that can be improved, and provide the path to achieve consistency in the agency.

The good news is that most agency audits are done voluntarily. They are not punitive in nature, and it is a “win-win” for the agency, state association program, and the E&O carrier. Great ideas can be exchanged, new methods learned and developed, and E&O exposure reduced. The feedback from the staff is usually very positive as they feel they have been included in the opportunity to provide their input, and hopefully influence positive change within the agency.

So, let your fears subside. The word audit does not have to invoke fear. Talk to your association about having an audit performed in your agency before your next renewal. **CAJ**

Additional resources are available to assist your agency in their E&O Risk Management. Many of these services are offered as an IIANC member benefit with no additional charge.

- E&O Audits
- E&O Risk Management classes offered:
 - At your Agency office (for 10 or more employees)
 - Various locations around the state
 - Online through ABEN - iianc.aben.tv
- The website www.iiaba.net/eohappens

offers checklists, disclaimers, articles, tips, case studies and more

- VRC—The Virtual Risk Consultant - provides the resources you need to understand your customers’ operations and exposures while identifying appropriate coverages. And, it gives you resources your agency needs, such as E&O checklists, sales and marketing tools, proposal language plus training and development support. www.iiaba.net/VRC
- ACT – Agency Council on Technology provides articles and reports with insight into the use of the most effective business processes, practices and technologies, in order to enhance productivity, service, marketing, sales and security. www.iiaba.net/ACT
- Agency Operations and Procedures Manual CD
- Contact your IIANC E&O Account Team - Denise Miller (dmiller@iianc.com or 919-863-6526) or Jan Watkins (jwatkins@iianc.com or 919-863-6530)

E&O Audits: They Aren’t That Scary

article continued from page 36

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