

**INSURANCE COUNCIL OF BRITISH COLUMBIA
("Council")**

ERRORS AND OMISSIONS ("E&O") INSURANCE

Council Rule 7(11) establishes the requirement for all insurance licensees to maintain or be covered by E&O insurance that includes minimum coverage of \$1,000,000.00 per claim and \$2,000,000.00 in the aggregate ("minimum E&O insurance") that extends to all insurance activities.

All licensees should be familiar with the minimum E&O insurance requirements. With its introduction in 2006, Council has published a number of guidelines concerning an insurance licensee's responsibility to maintain minimum E&O insurance. These include:

- Notice ICN 05-005 (24 June 2005)
- Notice ICN 07-007 (11 September 2007)
- Notice ICN 09-002 (28 April 2009)

As part of its ongoing review of insurance licensees' compliance with the minimum E&O insurance requirements, Council has identified a number of practices that are counter to the spirit and intent of Rule 7(11).

Set out below are the practices that Council has identified as not being consistent with the requirements set out in Council Rule 7(11).

I. USE OF A SINGLE BLANKET E&O INSURANCE POLICY BY MULTIPLE INSURANCE AGENCIES OR ADJUSTING FIRMS

A number of agencies and firms have elected to meet the minimum E&O insurance requirement by combining their coverage under one blanket E&O insurance policy. Often these blanket E&O insurance policies carry only the minimum coverage amounts (\$1,000,000.00 per claim; \$2,000,000.00 aggregate) set out under Council Rule 7(11), even though multiple agencies/firms, with multiple licensees, are named on the policy.

Council has determined that agencies or firms operating as separate legal entities who combine their E&O insurance under one blanket E&O insurance policy to meet their specific requirements under Council Rule 7(11) may only do so if the coverage under the blanket policy is equal to or greater than what would be required if each agency or firm had purchased its own E&O insurance policy. This applies regardless of whether the agencies or firms are related/affiliated.

NOTICE

Requirement:

Where agencies or firms, operating as separate legal entities, elect to comply with Council Rule 7(11) by combining their E&O insurance coverage under one blanket E&O insurance policy, the minimum coverage for the blanket E&O insurance policy must be equal to or greater than the minimum coverage requirement (\$1,000,000.00 per claim; \$2,000,000.00 aggregate) multiplied by the number of agencies or firms named on the blanket E&O insurance policy. In addition, each agency or firm named on the blanket E&O insurance policy must have a dedicated coverage limit that meets the minimum E&O requirements.

Example: If 10 agencies or firms rely on one blanket E&O policy for their E&O insurance, the minimum coverage for the policy must be \$10,000,000.00 per claim and \$20,000,000.00 aggregate, with a policy provision that each agency or firm has a dedicated coverage limit that meets the minimum E&O insurance required in Rule 7(11).

II. E&O INSURANCE POLICY LIMITS MUST BE SPECIFIC TO INSURANCE BUSINESS

Council has reviewed E&O insurance policies where the coverage extends to more than just insurance activities, such as the sale of securities or mutual funds. These policies are most commonly held by life and accident and sickness insurance licensees.

When additional, non-insurance activities are included in a licensee's E&O insurance policy, the coverage becomes diluted, potentially reducing the coverage available for the licensee's insurance activities. In such cases, the licensee's E&O insurance policy must provide coverage specific to insurance activities that is in compliance with Council Rule 7(11).

Requirement:

If a licensee engages in non-insurance activities that are currently insured under the licensee's E&O policy, the licensee must ensure that their existing E&O policy meets the requirements under Council Rule 7(11) by providing coverage of \$1,000,000.00 per claim and \$2,000,000.00 aggregate, specific to insurance activities. Depending on the situation, the licensee may need to purchase a specific E&O policy for their non-insurance activities, or amend their existing E&O policy to ensure there is minimum E&O insurance in place dedicated to cover their insurance activities, and separate coverage for their non-insurance activities.

III. LICENSED AGENTS HOLDING ADMINISTRATIVE ASSISTANT COVERAGE

Council is encountering individuals with unrestricted life and accident and sickness insurance licences relying on E&O insurance for administrative assistants. In most cases, the licensee in question, while licensed, is not engaged in the solicitation and sale of insurance products, but is acting in an administrative capacity in support of another insurance licensee.

Regardless of a licensee's role or insurance activities, the licensee must carry the minimum E&O insurance as specified in Council Rule 7(11) and cannot rely on E&O insurance for administrative assistants as this coverage does not insure the types of activities for which an insurance licence is required.

Requirement:

All licensees must maintain or be covered by E&O insurance as specified in Council Rule 7(11), regardless of his or her specific job duties.

IV. REQUIREMENT TO BRING E&O COVERAGE IN LINE

All insurance licensees are directed to review their E&O insurance to ensure it is in compliance with the criteria set out in this Notice and Council Rule 7(11).

Requirement:

If a licensee's E&O insurance is not in compliance in the three areas identified above, the licensee must address the deficiencies. While Council believes it is in the best interests of licensees that such deficiencies be addressed immediately, it is prepared to allow licensees until the first renewal of their E&O insurance that comes after the date of this Notice to address the deficiencies.

If you have any questions about the regulatory requirements or this Notice, please contact Regulatory Services by emailing info@insurancecouncilofbc.com or calling Council's main number and at the prompt press "2".

June 25, 2015
ICN 15-006