

Understand Your Authority


As an independent insurance agent, the relationships that you undertake with the carriers you do business with are tempered by the specific authorities granted to your agency through your agency contract. These contracts often concretely define the authority you possess to bind and represent a carrier in your daily insurance related activities. Make sure you and your employees understand the limits of the agency's authority.

Implement these best practices in your agency:

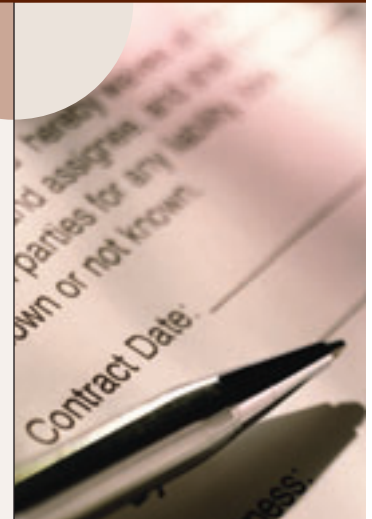
Review your contracts. At its inception, and on a yearly basis thereafter, review the authority granted to your agency under the agency/carrier contract. If you discover that your authority has changed, communicate those changes to your staff through a written memorandum or in-person agency meeting. Staff turnover can be your greatest enemy when it comes to possible errors and omissions claims regarding an agency exceeding the authority a carrier granted it.

Maintain relationships with your carrier's regional representatives. Often times an agent's only link to a carrier is its regional representative. The relationship you foster with your representative is an important tool in understanding your authority level with a carrier. A representative can answer your questions and provide you with direction on how to remain faithful to the authority that the carrier granted to you at the inception of your relationship. In addition, that representative also can serve as a liaison for your agency in requesting new authority with the carrier or clarification of existing authority.

Don't rely on pattern and practice with the carrier. At times, a carrier may make concessions to your written agency contract and orally provide you with increased and/or alternative authority to bind it to risks. These modifications of your written binding authority are important to your everyday functioning as an independent agent and allow you to respond quickly and effectively to your client's needs. With this authority, however, come certain risks. Carriers are large entities, and often the left hand does not know what the right hand is doing. If confronted with a question of authority, a carrier will always turn to its written agreement with your agency to establish the extent of your authority. Unfortunately, the burden of proof is often going to be on your agency to prove that the additional authority was granted either orally or through pattern and practice (see sidebar).

Following these simple best practices will allow your agency to confidently abide by your contractual authority with a carrier. In addition, it will place your agency in a position to weather an E&O claim by providing concrete documentation of any significant changes to that authority and will allow you to build a strong communication line with your carrier. 

Matt Rengel is claims counsel for GE Insurance Solutions, the carrier for the Big "I" Professional Liability Program.



Get it in Writing

It is in your agency's best interest to document alterations to your authority with a carrier. The easiest way to do so is to clearly document any temporary and/or additional authority you are granted by sending a confirming letter or e-mail to the carrier. Keep a copy of the correspondence in your file so it will be available should the need arise.

—M.R.