

# Errors & Omissions Highlights Guide



This guide has been prepared to provide general information regarding the coverage provided by ProEquities & Protective Life E&O program. Certain policy terms and conditions may vary for Insureds domiciled in or who have a primary place of business in the state of New York. This guide is not part of the policy, nor does it modify or serve as a conclusive statement of policy terms. It is not intended to interpret the terms of the Policy nor be legal advice. In any event, the actual policy language will prevail.

## **Policy Period**

**February 15, 2020 to February 15, 2021**

## **Insurer**

**Zurich American Insurance Company**

## **Broker**

**Aon**

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# Program Highlights

## Insurer

Zurich American Insurance Company  
An Admitted Carrier, Rated A+ (Superior): XV by A.M. Best\*  
Policy No. 00012345679-01

*\*A.M. Best Rating provided above is current only as of the publication date and is not in any way Aon's guarantee of the Insurer's financial strength, stability, or solvency.*

## What's new this year?

- New E&O Broker: ProEquities, Inc. selected a new broker, Aon, to negotiate and place this important E&O coverage. Aon is the second largest broker in the world and the team that places our E&O coverage has over 30 years of experience in this specialized line of coverage.
- Cyber Liability: More comprehensive coverage and higher sublimits.
- XYZ Coverage: The sublimit for XYZ coverage has been removed.



## Limits of Liability

\$ 1,000,000 Each Claim  
\$ 1,000,000 Aggregate per Insured  
\$ 25,000,000 Total Policy Aggregate all Insureds

*Defense Costs are outside of the limits of liability. Sublimits apply to claims involving certain products, services or circumstances. Total Policy Aggregate does not apply to Insureds domiciled in or work in the state of New York.*

## Deductibles

\$ 2,500 Each Claim involving insurance products, mutual funds, variable products  
\$ 5,000 Each Claim involving Securities or Cyber Liability  
\$ 0 Each Claim involving covered Regulatory Matters

*Deductibles apply to the payment of both Damages & Defense Costs*

## Coverage

The Insurer shall pay on behalf of the Insureds that Loss which the Insureds become legally obligated

to pay resulting from a Claim for a Wrongful Act solely in rendering or failing to render Professional Services. Coverage for a Claim for a Wrongful Act applies only if the Wrongful Act giving rise to such Claim with respect to any Advisor occurred on or after the Prior Acts Date and before the earlier of the date such Advisor ceased enrollment in the program, or the end of the Policy Period, and while their enrollment was on file with ProEquities.

### Cyber Liability (Privacy Protection) Extension

Cyber Liability protects the Insured Advisor and his/her practice against Claims made by third parties, typically clients or regulatory authorities, as well as expenses incurred after the discovery of a privacy breach (in the absence of an actual Claim).

These coverage extensions are all subject to a \$250,000 each Claim and Aggregate sublimit per Insured Advisor and a \$1,000,000 Total Policy Aggregate sublimit, regardless of the number of Claims or Privacy Events. A \$5,000 retention applies to each Claim or Privacy Event.

- **Privacy Injury Liability & Privacy Regulation Proceedings** (third party losses) resulting from Wrongful Acts by an Insured Agent or by someone for whose acts the Insured Advisor is legally liable, including Third-Party Custodians (as defined by the policy as a third party to whom the Insured Advisor entrusts non-public personal information). Third party claims are those that a customer or regulator bring against you for the loss of non-public information.
- **Privacy Events** (first party losses) includes but is not limited to notification costs, computer forensic investigations, or attorney/expert expenses required in responding to a breach. First party claims are those that you as the Insured Advisor report to your E&O carrier when you discover a possible Privacy Event.
- **Business Interruption** reimbursement for lost net income (EBITDA); ordinary operating expenses; costs/expenses to update, upgrade, enhance or replace the Insured ep-Advisor's network which are incurred during the network down time resulting from Network Impairment
- **Network Extortion** reimbursement for amounts incurred by the Insured Advisor with the Insurer's prior written consent in order to respond to an Extortion Demand which may include incidents where the Insured Re-Advisor receives a threat to launch an attack on; to suspend; or to otherwise disrupt a Network; disrupt or deface the Insured Advisor's website or release/use Protected Information in the Insured Advisor's care and the Insured Advisor believes there is an imminent and probable danger of such action); and
- **Data Reconstruction and Data Restoration Services**

### WHAT TO DO IN THE EVENT OF CYBER EVENT

If you know or suspect that your network may have been compromised, time is of the essence. Follow the steps below:

- A. **Do Not** incur any expenses, pay any extortion demands or hire an outside firm to assist you with detecting or resolving a cyber event.
- B. **Do** report the incident or potential incident to the Insurer right away. Early intervention is key in mitigating damage and responding to cyber events. To report the incident:

- i. Call the Insurer's Cyber Hotline at 800-123-4567 or email: [cyberintake@insurer.com](mailto:cyberintake@insurer.com)
  - ii. Response time is generally within 4 business hours. Insurer's business hours are 8 AM – 6 PM Eastern Monday-Friday.
- C. **Do** report the incident or potential incident to ProEquities by emailing [CyberCommittee@protective.com](mailto:CyberCommittee@protective.com)

### **Subpoena Expense Coverage**

If you receive a subpoena for documents or sworn testimony during the Policy Period arising out of your Professional Services, you may provide the Insurer with a copy of the subpoena and the Insurer, at its sole discretion, may retain an attorney to provide advice regarding the production of documents, to assist in preparing you for sworn testimony, and to represent you at any depositions

### **Pre-Claims Assistance Coverage**

The Insurer may pay, at its sole discretion, all reasonable and necessary fees and expenses it incurs as a result of investigating a potential Claim that you report.

### **Regulatory Coverage**

The Policy provides limited coverage for brought or maintained by or on behalf of:

1. Any Regulatory Agency, whether the Claim is made in the name or right of, or for the benefit of, any other person or entity;
2. Any person or entity acting at the behest of, with the participation of, or for the benefit of, in whole or in part, any Regulatory Agency; or
3. Any person or entity against whom any Regulatory Agency has asserted any claim if such Claim is related to or arises from a claim brought or asserted against such other person or entity by the Regulatory Agency.

Coverage is subject to a \$50,000 Each Claim sublimit of liability.

### **Pre-Claims Assistance**

A sublimit of \$10,000 for all reasonable and necessary legal fees and expenses the Insurer incurs as a result of representing, and if necessary, defending an Insured in connection with a potential Claim that the Insured reports to the Insurer. Such payments shall be made by the Insurer at its sole discretion until the date a Claim is made. If such potential Claim later becomes a Claim, this sublimit shall be included within and not in addition to the Insured's Limits of Liability and retention if any Loss or Defense Costs payments are made.

### **Department of Insurance (DOI) Inquiry Assistance**

A sublimit of \$5,000 applies to Inquiry Costs incurred on behalf of an Individual Insured resulting from an Inquiry first made against such Individual Insured during the Policy Period. An Inquiry means any request for an Individual Insured to appear at a meeting or interview or to give a sworn statement that concerns

Professional Services , or any formal or informal discovery or other request seeking documents, records or electronic information that are in the sole and exclusive possession or control of an Individual Insured.

### **Reimbursement of Expenses**

A sublimit of \$250 per day and \$2,500 per Advisor applies to Travel Expenses incurred by an Insured Advisor in connection with such Insured's attendance at a trial, deposition, mediation, or arbitration with respect to a covered Claim.

### **Defense Costs for Expungement Fees**

A sublimit of \$10,000 Each Claim and \$20,000 Aggregate each Insured Advisor for legal fees associated with the expungement of the Advisor's CRD or U4 record in connection with a Claim covered by the policy involving a Professional Service.

## **Who is Covered?**

1. You, as an agent, registered representative or investment advisor representative contracted with ProEquities or Protective Life or an affiliated company who is enrolled in this program are the Insured.
2. A corporation, partnership or other business entity owned by you, or in which you are an employee. Coverage, however, only applies to those operations of the business entity related to the professional services covered herein and provided by you or an employee acting on your behalf.
3. A person acting on your behalf who was or is a partner, officer, director, stockholder or employee of yours or your entity; all unlicensed staff and those who hold an insurance license and are not party to an agent or broker contract with any insurance company; however, all mentioned individuals are considered Insureds only with respect to Professional Services provided by you.
4. Heirs, executors, administrators or legal representatives of yours in the event of your death, incapacity or bankruptcy.

*Note: Your entity, employees and heirs do not have to have their own separate limits; they share your coverage and limit of liability.*



## Prior Acts

Coverage is provided on a "Claims Made and Reported" basis, which covers claims first made against the Insured during the policy period or applicable Extended Reporting Period and reported to the carrier in writing during the policy period or applicable Extended Reporting Period.

Coverage for claims based on activities which occurred **before policy inception**, as long as:

- You were contracted or employed with ProEquities or Protective Life at the time the alleged error occurred;
- No other valid and collectible insurance is available; and
- Prior to the inception of this policy you could not have reasonably foreseen that a claim would arise.

The Prior Acts Date for those Agents have elected the optional "Extended Prior Acts" coverage extension for an additional premium shall be the inception date of your earliest E&O insurance which has been maintained continuously as long as there was no prior knowledge of a claim or notice given under a prior professional liability insurance.



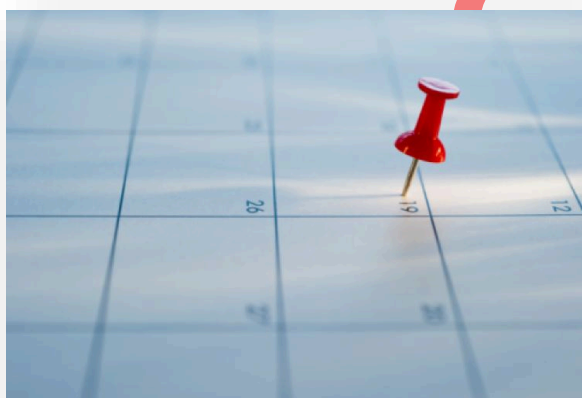
## Professional Services

Provided always the Insured is properly licensed in the state or jurisdiction in which the business is conducted and in the state of the client (for Registered Insureds), Professional Services shall include the sale, attempted sale or servicing of:

1. The sale, attempted sale, or servicing of life insurance products, accident and health insurance, managed health care organization contracts, disability income insurance, fixed annuities, and 24 hour care coverage (as defined by statutory law);
2. The sale, attempted sale, or servicing of employee benefit plans, individual retirement plans and KEOGH retirement plans;
3. Administration of Employee Benefit Plans which means consultation with participants in an employee benefit plan in order to explain the provisions of such plan and handling day-to-day ministerial functions required by such plan, including without limitation enrollment, record keeping, and filing reports with government agencies. Administration of Employee Benefit Plans does not include third party claims administration;
4. The sale, attempted sale or servicing of variable annuities, variable life insurance and mutual funds that are registered with the Securities and Exchange Commission, if required, through a Broker Dealer that is a member of FINRA;
5. Investment Advisory Services, which means advisory services provided by a Registered Investment Adviser provided pursuant to the Investment Advisers Act of 1940 with respect to securities approved by

a Broker/Dealer, provided that, prior to providing such services, the Registered Investment Adviser is approved by ProEquities to conduct such transactions;

6. The sale, attempted sale or servicing of securities that are approved by ProEquities;
7. Business development companies that are registered with the SEC, issue annual audited financial statements, and are approved for sale by ProEquities;
8. Financial planning, advice, consultation, and services, whether or not a fee is charged, solely in connection with: activities in conjunction with the services described in paragraph 1 through 7 of this definition;
9. Services performed as a Fiduciary Adviser as defined by:
  - a. the Pension Protection Act of 2006, and any amendments thereof;
  - b. section 3(21) of the Employee Retirement Income Security Act of 1974; or
  - c. regulations or rules set forth by the Securities and Exchange Commission or any state, federal or self-regulatory authorities within the scope of services described in paragraphs 4, 5, 6 and 8 of the definition of Professional Services;
10. The supervision, management and training of an Agent, General Agent, Registered Representative or Investment Advisor Representative by a registered principal who is also an Insured under the Policy with respect to activities covered by the Policy; and
11. Services as a notary public.



## Extended Reporting Periods

Coverage under the Policy ceases on the same date that your contract or employment with ProEquities or Protective Life or affiliated company is terminated.

### Automatic Extended Reporting Period (ERP)

A one (1) year ERP is provided at no cost to Agents/Reps who terminate their contract for any reason, so long as the ProEquities or Protective Life sponsored program remains insured by Zurich American or its affiliates.

### Conditional Automatic ERP for Retired, Disabled, or Deceased Agents/Reps

An automatic unlimited ERP shall be provided to all Insured Agents who terminate their contract for reason of retirement, disability or death during the policy period so long as the ProEquities or Protective Life sponsored program remains insured by Zurich American or its affiliates.



## Optional ERP

For Agents/Reps who terminate for reason of retirement, disability or death, you may purchase an optional ERP. An optional non-cancelable ERP will be available to insured Agents who retire or become disabled during the policy year. Such agents may choose an ERP of 3 years, 5 years or unlimited duration at respective charges of 200%, 300% or 400% of their last annual premium charge. Such request for an optional ERP must be received in writing along with the applicable additional premium within 60 days of contract or employment termination.

### Note:

1. The Extended Reporting Periods referenced above apply to claims first made and reported during the ERP which arise out of covered acts, errors or omissions committed or alleged to have been committed prior to your contract termination and on or after your Prior Acts Date.
2. Neither the automatic or optional ERPs referenced above shall be provided if you have any other valid and collectible insurance.
3. Extended Reporting Periods do not reinstate, increase or otherwise affect the applicable limit of liability nor does it extend the Certificate Period.
4. The optional ERP is an individual ERP coverage and is not conditioned on whether the E&O programs continues with Zurich American or its affiliates.

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# Exclusions

This Policy shall not apply to, and the Insurer shall pay neither Damages nor Claim Expenses for, any Claim:

- A. For any actual or alleged sickness, disease, death or other bodily injury, including, but not limited to, damage to or destruction of property, including loss of use thereof;
- B. Against an Insured:
  - 1. By or on behalf of any other Insured, any enterprise that owns, operates or controls an Insured or any enterprise that an Insured owns, operates or controls, provided, however, that this Exclusion shall not apply to any Claim other;
  - 2. By or on behalf of any individual, company or entity that is not a client of the Insured, including, but not limited to, an insurance company or insurance agent or broker; provided, however, that this exclusion shall not apply to a Claim brought by or on behalf of an actual or alleged beneficiary of a product referenced in paragraph 1. the definition Professional Services;
- C. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving:
  - 1. Any Wrongful Act or Management Wrongful Act alleged in any Claim which has been reported, or any circumstance of which notice has been given, prior to the Policy Period, or before the effective date of the Insured's enrollment for coverage, under any other policy; or
  - 2. Any other Wrongful Act or Management Wrongful Act, whenever occurring, which together with a Wrongful Act or Management Wrongful Act has been the subject of such Claim or notice, would constitute Interrelated Wrongful Acts or Interrelated Management Wrongful Acts, regardless of the legal grounds upon which such Claim is predicated upon any:
    - a. Claim, demand, suit, proceeding or investigation of which the Insured had knowledge, pending on or prior to the inception date of the Policy Period, or before the effective date of the Insured's enrollment for coverage hereunder; or
    - b. Fact, matter, circumstance, situation, transaction or event underlying or alleged in such demand, suit, proceeding, Claim or investigation, regardless of the legal grounds upon which such Claim is predicated;
- D. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any:
  - 1. Actual or alleged dishonest, purposeful, malicious, fraudulent or criminal act or willful violation of any federal, state or local statute, by, at the direction of or with the knowledge of any Insured; or
  - 2. Gaining of profit, remuneration or monetary advantage to which an Insured is not legally entitled.

However, the Insurer shall continue to defend a Claim alleging any of the foregoing conduct until there is a judgment, final adjudication, adverse admission or finding of fact against any Insured as to such conduct, at which time the Insured shall reimburse the Insurer for the costs of defending the Claim.

Moreover, an actual or alleged dishonest, purposeful, malicious, fraudulent or criminal act or willful violation of any federal, state or local statute of one Agent/Rep will not be imputed to another Agent/Rep;

- E. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any actual or alleged commingling of or improper use of client funds;
- F. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any actual or alleged liability of others assumed by any Insured under an agreement, contract, guarantee or warranty unless the Insured would be liable in the absence of such agreement, contract, guarantee or warranty;
- G. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any actual or alleged rendering of services as an actuary, accountant, attorney, real estate agent, real estate broker, third-party claims administrator, property and casualty agent or broker or expert witness, regardless of whether such services are incidental to the rendering of Professional Services; however, this exclusion shall not apply to tax advice provided to a client as a necessary part of rendering Professional Services;
- H. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any actual or alleged placement of a client's coverage or funds, directly or indirectly with any organization, entity or vehicle of any kind, nature or structure which is not licensed or authorized to do business in the state or jurisdiction with authority to regulate such business; however, this exclusion shall not apply to a Claim based upon or arising out of the placement of insurance or coverage with an eligible surplus lines insurer in the state or jurisdiction with authority to regulate such business;
- I. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any actual or alleged insolvency, receivership, conservatorship, liquidation, bankruptcy, failure or inability to pay of any company, organization, entity, vehicle or arrangement of any nature in which an Insured placed, recommended to be placed or obtained coverage or in which an Insured placed, recommended to be placed funds or an investment of any nature; however, this exclusion shall not apply to a Claim based upon or arising out of the placement, recommendation for placement or obtaining coverage with an insurance company rated by A.M Best's as B+ or better at the time when coverage is placed, recommended or obtained;
- J. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any pension plan, profit sharing plan, health and welfare or any other employee benefit plan or trust sponsored by an Insured, in which an Insured is a participant, trustee or named fiduciary;
- K. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any ownership, formation, operation or administration of any insurance company, captive, risk retention group, self-insurance program or purchasing group; however, this exclusion shall not apply to self-insurance plans backed by an insurance company.
- L. Arising out of, based upon in any way involving the use of confidential information by an Insured, including but not limited to such use for the purpose of replacement of coverage;
- M. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any Securities (other than variable life insurance, variable annuities and mutual funds) that were not authorized or approved by and actually processed by ProEquities;

- N. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving any function of an Insured as a specialist or market maker for any Securities, an Insured failing to make a market for any Securities, or the purchase, sale or failure to sell Securities when the Insured is a specialist or market maker for such Securities;
- O. Arising out of, based upon or in consequence of, directly or indirectly resulting from or in any way involving:
1. Promissory notes, viatical or life settlements, or any Securities backed by either viatical or life settlements;
  2. Commodities, commodity futures and option contracts, except for option contracts that are covered by ownership of the underlying Securities, cash or cash equivalent, not including margin;
  3. Any "junk bonds" or "high yield bonds" unless they are approved by or placed through a Broker/Dealer Subsidiary or they are issued by an investment company registered under the Investment Company Act of 1940 and any amendments thereto (for purposes of this exclusion, "junk bonds" or "high yield bonds" mean bonds which, at the time of purchase or sale were unrated or rated as below investment grade by any rating agency, including, but not limited to, Moody's bonds of Ba or lower or S&P bonds of BB or lower);
  4. Any Securities sold exclusively outside of the United States of America or Canada;
  5. Structured settlements; however, this exclusion shall not apply to a Claim arising out of or based upon the sale or servicing of the underlying product, if otherwise covered by this Policy; and
  6. Any Securities that are wholly or partially owned by any Insured;

Certain exclusions apply to the Cyber Liability Coverage Extension shown on pages 3-4. Please contact Aon with questions at the number shown on page 20.

# Frequently Asked Questions

## 1. Who is Aon?

Aon has been appointed by ProEquities and Protective Life as the insurance broker responsible for the placement of the E&O program. Aon is a leading global provider of risk management, insurance brokerage, and reinsurance brokerage solutions. Aon has been brokering Life Agents' and Broker Dealer professional liability programs for over 35 years.

## 2. Who is our Insurer?

Zurich American Insurance Company, a member of the Zurich NA group of insurance companies, is the insurer of this program. Refer to page 2 for carrier A.M. Best rating.

## 3. What are my Limits of Liability?

The limits of liability are \$1,000,000 Each Claim; \$1,000,000 Aggregate per Insured Agent/Rep. The Each Claim limit is the most the Insurer will pay on any one claim. The Aggregate per Insured Agent/Rep is the most the Insurer will pay for all Claims reported during the Certificate Period for each Insured Agent, regardless of the number of claims. Sublimits are included within and not in addition to the Limits of Liability.

## 4. What is my deductible?

\$ 2,500 Each Claim involving insurance products, mutual funds or variable products  
\$ 5,000 Each Claim involving Securities or Cyber Liability  
\$ 0 Each Claim involving covered Regulatory Matters

Deductibles apply to the payment of both Damages and Defense Costs.

## 4. What does "Claims Made and Reported" mean?

Coverage is written on a Claims Made and Reported basis which means that the policy applies to claims first made against you, and reported to the Insurer, in writing during the Policy Period. You may not select counsel or incur any expense prior to advising Zurich, as this may jeopardize coverage under the policy. Please refer to "What to do in the Event of a Claim" for further details.

## 5. What is considered a Claim?

A Claim is considered to be a written demand for monetary or non-monetary damages alleging a Wrongful Act. A Claim is not limited to a formal complaint or lawsuit.

If you become aware of a circumstance which has or may eventually give rise to a Claim, even if you feel that the claim is unjustified, report the available particulars immediately. Should the circumstances or “potential” Claim develop into an actual Claim at a future date, your reporting of a possible incident will serve as a notice of claims under this policy period.

**1. Does the Insurer have a duty to defend me?**

Yes, the Insurer has the right and duty to defend any Claim made against you within the terms of the policy. If a claim alleges dishonest, fraudulent or malicious acts, a defense will be provided only if there are covered allegations as well.

Please remember that your coverage under the policy could be jeopardized if you admit liability, agree to any settlement or incur any expense without the prior consent of the E&O Carrier.

Defense Costs are in addition to the Limits of Liability.

**2. Am I Covered for the Sale, Solicitation or Servicing of Mutual Funds through ProEquities ?**

You are covered for the sale, solicitation and servicing of Mutual Funds that are sold through ProEquities. Additionally, you are covered for the servicing of mutual funds if ProEquities has an approved servicing agreement with the provider and is designated as broker/dealer of record.

**3. Do I have Cyber Coverage?**

Yes, you have coverage for first and third party Cyber Liability claims. This endorsement will provide coverage for Cyber Management Expenses incurred with the Insurer’s prior written consent that are a direct result of a Network Security Breach, Privacy Violation or any Interrelated Breaches/Violations, please see pages 3-4 for additional details.

**4. Am I Covered for Acts Committed Prior to the Inception Date of the Policy?**

Coverage for Claims involving actual or alleged errors which took place prior to the inception date of the Policy is based on whether the Claim or potential claim is alleged to have occurred on or after your Prior Acts Date (Retroactive Date) and on or before your Termination Date (if applicable). Please see page 6 for additional details regarding Prior Acts coverage.

**5. What happens if my Agent’s Contract with ProEquities or Protective Life or affiliated companies is terminated?**

If your agent contract or employment is terminated with ProEquities or Protective Life during the policy period, coverage automatically ceases on the date your contract or employment terminates. There will be no return of premium from Zurich. Certain Extended Reporting Periods (ERPs) may apply, please refer to page 8 for details.



# What To Do In The Event of A Claim

## I. What are my obligations under the Policy for Reporting Claims or Potential Claims?

Coverage is on a “Claims Made and Reported” basis which covers claims first made against you, the Insured, during the current policy period, and must be reported to the carrier in writing during the **current** policy period.

## II. What Should I do if I Have a Claim?

1. Make a copy of the CLAIM REPORT FORM located on the last page of this guide. Complete the claim report and send it to the address indicated on the form. Please note: Late reporting can potential result in denial of coverage, timely reporting of claims is essential.
2. All circumstances or allegations that you believe may reasonably result in a claim should be reported to Zurich during the same policy period in which you become aware of the circumstance or allegation. Should the circumstance or “potential” claim develop into a claim at some future date, your reporting of the possible incident will serve as notice of a claim under the policy period in which reported it.
3. If the claim is a lawsuit, send a copy of the complaint with the claim report by overnight express mail, fax or email.
4. Develop a written chronology of events giving rise to the claim.
5. Be prepared to provide a copy of your file.

## III. What Should I NOT do if I Have a Claim?

1. Do not, except at your own cost, voluntarily make any payment, assume any obligation or incur expense. (You will be solely responsible for any such expenses you incur and may jeopardize your coverage.)
2. Once an incident has been identified or an E&O claim has been made, great care should be exercised to avoid any disclosures or discussions of any facts or information relating to the claim with anyone, unless they identify themselves to be from Zurich Insurance Company, ProEquities, Inc., Aon or a designated representative appointed to handle your claim
3. Do not admit liability.

#### **IV. What happens after a claim is reported?**

A representative from the Insurer will contact you within a few days to acknowledge the receipt of the claims and discuss the particulars of the situation. Additional information or documents may be requested. Coverage under the Advisors E&O program will be determined and you will be advised of any coverage issues. If necessary, an attorney will be retained. In order to ensure the best possible defense, you should cooperate completely with the individual retained, provide full details and be candid.

#### **V. What Should I do if I need Proof of Coverage?**

To obtain Proof of Coverage, contact Affinity Insurance Services, Inc. by calling (800) 621-0711 or emailing [info@agent-eo.com](mailto:info@agent-eo.com).

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# Claim Examples

## 1. Beneficiary Errors

The agent fails to make a change of beneficiary prior to the death of the customer. The beneficiary under the policy files suit and the agent gets drawn into the litigation with both the named beneficiary the alleged proper beneficiary fighting over the proceeds of the contract.

## 2. Cancellation Errors

The agent becomes involved in the billing process and becomes involved in reminding his customer when to send payments in to the carrier. The customer relies on the agent and, when the agent fails to continue the reminder, the policy is canceled in error.

## 3. Conditional Receipt

The agent obtains a premium from the customer and fails to give the customer a conditional receipt or explains it incorrectly, leading the customer to believe that he has coverage effective immediately. The prior life company has the right to review information before coverage is effective. If the customer dies, the beneficiary argues that based on the agent's actions in accepting the premium, the policy is in force.

## 4. Delay Errors

This would involve a delay on the part of the agent in obtaining medical information, processing coverage or delivering the policy. For example, the agent places the policy in his files and does not deliver it until three months later. The life policy is not effective until delivered to the customer. The customer has to remain in the same health, as he was when the application was taken. In the interim between the date of delivery and the date that the customer receives the policy a health condition for the customer has changed and the carrier would no longer write the policy. This change in health condition before delivery would prevent the customer from having insurance and allow the carrier to deny coverage. If the delay was on the part of the agent, the agent would be found responsible for the loss.

## 5. Disclosure Error at the Time of Sale

The agent fails to advise his customer that he is earning a commission on the sale of the product and later, when the customer discovers that this information was not revealed to him on the sale, the customer becomes dissatisfied with the price of the premium he was charged.

## 6. Disclosure Errors on the Application

The agent fails to properly record on the application all of information given to him by the customer. For example, the agent is told that his customer has been having numbness in her fingertips, but believes that this information is not important. Therefore, he does not disclose this on the application to the carrier. Later his customer is diagnosed with neuropathy and when the customer turns this claim into the insurance carrier, the carrier denies coverage, stating that the earlier complaint of numbness was not disclosed on the application. The customer alleges that this information was disclosed to the agent, but the agent failed to properly record it on the application.

## 7. ERISA Errors

The agent is deemed to be a fiduciary under ERISA because he has exercised discretionary control over ERISA plan assets. The customer alleges that it is a small entity and relied solely on the agent's advice for its investment activities although the agent was never named as a fiduciary in any contract. The investments deteriorate and the customer sues the agent for breach of duty.

## 8. Failure to Explain Coverages

The agent fails to fully explain the coverages under the policy being purchased. For example the agent fails to explain to his customer that the health policy he is selling provides only limited benefits for mental health coverage, limiting stays to 30 days in an institutional setting. After the customer spends 60 days in the hospital, he finds that 30 days of his bill for hospitalization will go unpaid. He accuses the agent that this coverage should have been explained to him in more detail. Typical areas of insurance, which agents fail to explain in detail, include maternity coverage, prescription coverage, mental health, drug abuse, AIDS and other riders put on health policies.

## 9. Failure to Explain Policy Provisions

The agent fails to explain that provisions in, for example, a group health policy requiring an employee to be actively at work on the date the program starts or claims will not be covered. An employee is not working at the time the policy incepts and later the employer who purchased the group health policy looks to the agent for payment as a result of the employee's unpaid health claim.

## 10. Failure to Explain Policy Values and Illustrations

The agent presents a policy illustration without a proper explanation. For example, the agent presents a life policy illustration, which suggests the policy will remain in force during the lifetime of the customer without additional premium payments being necessary beyond the 10th year. The illustrations are not explained properly as the agent fails to point out that the illustrations are based on current interest rate assumptions and are not guaranteed. As interest rates fall and the customer finds that premium payments are needed beyond the projected date, the customer makes claim against the agent.

## **11. Financial Product Error/Break Point Violations**

The agent receives a commission on the sale of financial products. The commission increases at a certain level of investment. The agent works the investment so that he maximizes his commission, without any other justification for the level chosen. The customer later claims the agent was not acting in his or her best interests.

## **12. Financial Product Error/Suitability of Financial Products**

The agent places the customer in a financial product that is not suitable for the customer's needs or income. For example, the agent recommends to his customer, a retired schoolteacher, that real estate limited partnerships are the best investment for the customer's needs. Real estate limited partnerships are extremely volatile and illiquid. The customer who needs liquidity and stability is dissatisfied when the condition of the financial product does not meet his or her needs.

SPECIMEN

# Important Contacts

## Questions on Coverage or Certificate Requests

Affinity Insurance Services, Inc.  
1100 Virginia Drive, Suite 250  
Fort Washington, PA 19034  
Phone: (800) 621-0711 | Fax: (877) 443-9183  
Email: [info@agents-eo.com](mailto:info@agents-eo.com)

## Questions on Claim Reporting

ProEquities, Inc.  
Legal Department  
Phone: (888) 123-4567  
Email: [Legal@protective.com](mailto:Legal@protective.com)

## Questions on Enrollment & Premium Payment

Affinity Insurance Services, Inc.  
1100 Virginia Drive, Suite 250  
Fort Washington, PA 19034  
Phone: (800) 621-0711 | Fax: (877) 443-9183  
Email: [info@agents-eo.com](mailto:info@agents-eo.com)



**ProEquities, Inc.**  
**Broker/Dealer E&O Program**  
**Claim Report Form**  
**Policy No. 00012345679-01 | February 1, 2020 – February 1, 2021**

Today's Date:		Date you became aware of this Claim:	
Name:		Rep ID#:	Branch #:
Business Address:			
Email Address:			
Phone Number:		Fax Number:	
What type of business does this claim involve? If written through any company other than ProEquities, Inc., provide the name of the company, policy number, and policy dates:			
<b>Please attach a description of the circumstances leading to this Claim including copies of all pertinent correspondence. If you have been served with a lawsuit, a copy of the suit <u>must</u> be enclosed.</b>			
Alleged Amount in Controversy (if any): \$			
Who is making this Claim against you: Name: Address:			
If you have discussed this matter with anyone at ProEquities, Inc.'s Home Office, please identify the individual below: Name: Phone Number: Email Address:			
Besides the policy referenced above, do you have any other Errors and Omissions Insurance? If yes, provide requested details below:  Insurer Name: Policy Number: Limits of Liability:			
<b>SEND THIS COMPLETED FIRST REPORT FORM TO:</b> ProEquities, Inc. Attention: Legal Department 2801 Highway 280 S., Legal 3-4, Birmingham, AL 35223 Email: legal@protective.com			

**DO NOT DISCUSS THIS MATTER WITH ANYONE OTHER THAN A REPRESENTATIVE OF ZURICH, AON, OR PROEQUITIES**