

Restricted Insurance Agents Errors and Omissions Lapses: Sanctions

The Life Insurance Council of Saskatchewan ("Council") has oversight of Restricted Insurance Agents ("RIA"). Council has consistently communicated the importance of the mandatory requirement that RIA licensees hold a valid policy of errors and omissions insurance ("E&O"). However, Council staff continues to deal with licensees who allow their E&O policies to lapse, and has accordingly amended how it will sanction those licensees.

Effective September 1, 2016, those RIA licensees who allow their mandatory E&O policies to lapse will be subject to a minimum base fine of \$1,000 for each lapse.

The Bylaws of the Life Insurance Council of Saskatchewan are specific with respect to the requirement of RIA licensees to hold E&O in the name of the licensed RIA.

Schedule A, Part III

(1) A restricted licensee shall maintain and provide annually proof of a valid policy of errors and omissions insurance that meets the following requirements:

- (a) a minimum of \$1,000,000 coverage and a minimum aggregate limit of \$2,000,000;
- (b) covers the insurance activities of the licensee; and
- (c) is underwritten by an insurance company licensed to do business in Canada.

Bylaw 2 (1) (4) (d)

(4) A licence imposes on the licensee obligations including but not limited to the following:

- (d) to immediately notify council of any cancellation or non renewal of the licensee's errors and omissions insurance;

The risks associated with not maintaining an E&O policy are significant. E&O Policies are claims-made policies, and cover claims that are made during the policy term. The loss may have occurred in the past, but as long as it is reported during the current policy term, it can trigger coverage. In order to maintain coverage, the policy must stay in force. If the policy is not kept in force and there is a lapse, the licensee may find that they may not have coverage for losses which occurred prior to the lapse.

What if the licensee switches E&O carriers?

- As long as E&O is continuously maintained, (i.e. with no lapses), the RIA's current insurer should cover any claims that arise, even if the event triggering the claim happened when the RIA was insured through a different carrier. If a licensee changes carriers the licensee must ensure that the new carrier includes continuous coverage within the new policy.
- If the E&O policy is allowed to lapse, no insurer is responsible for any claim that arose before and during the E&O lapse, leaving the RIA uninsured for any such claim(s).
- Some E&O insurers will provide "past acts" coverage, but this does not change the fact that the RIA still has a lapse in coverage which is in violation of Council's bylaws.

With respect to switching E&O carriers, an RIA licensee should ensure that it is familiar with the coverage provided through their carrier.

Questions regarding E&O sanctions should be directed to:

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