

Preferred Risk E&O Insurance FAQ

1. What is Preferred Risk E&O insurance?

Preferred Risk E&O Insurance is a professional liability insurance program designed especially for financial professionals with clean records. The program is underwritten by CNA Insurance and offered and administered by Marsh Consumer.

2. What kinds of savings are possible?

Qualified financial professionals pay 20% to 50% less than comparable E&O coverage for higher risk individuals. This represents a potential savings of hundreds of dollars for the typical insured.¹

3. How can I qualify for this program?

Currently, you must either be: a current NEB member or a non-member who successfully answers NEB's E&O Insurance screening questions for preferred risk agents and advisors.

4. How is Preferred Risk E&O different from traditional E&O programs?

It allows you to pay a premium commensurate with your E&O risk profile. Since applicants have passed stringent eligibility questions, CNA's premium is substantially lower than the premium charged for non-qualifying risks.

5. What are the policy's limits of liability?

The Limits of Liability are:

\$1 million each claim \$2 million individual insured annual aggregate \$10 million total policy aggregate for all insureds

6. What are the policy's deductibles?

The policy's deductibles are:

\$500 - life, health, accident, long-term care \$2,500 - disability income, fixed, or indexed annuities \$5,000 - mutual funds, variable annuities, investment advisor (RIA)

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7. What basic coverages are available under the policy?

Preferred Risk E&O Insurance provides protection against your liability for wrongful acts in the rendering of, or failure to render, professional services. This includes (but is not limited to) activities related to the sale, attempted sale, or servicing of life insurance, accident and health insurance, managed health care organizations contracts, long-term care insurance, and Medicare supplemental insurance.

8. What coverage options are available?

A. Coverage for activities relating to the sale, attempted sale, or servicing of disability income insurance.

B. Activities relative to the sale, attempted sale or servicing of variable annuities or mutual funds, (if purchased) that are registered with the Securities Exchange Commission, if required, through a Broker/Dealer that is a member of the Financial Industry Regulatory Authority. Also activities relative to the sale, attempted sale or servicing of stocks and bonds by a Registered Investment Adviser, (if purchased).

9. What is the total cost for basic package options?

E&O Insurance Coverage Options and Pricing:

Package A: For life, accident, and health coverage: \$495 per year

Package B: For life, accident, and health coverage, plus fixed and indexed annuities: \$595 per year

Package C: For life, accident, health, fixed and indexed annuities, plus variable annuities/variable life and mutual funds: \$695 per year

Prices reflect the total cost of coverage, which includes both premium and NEB admin fee (see below).*

*NEB admin fees are calculated monthly and cover sponsorship and affiliation management, background check services, and administration of mandatory compliance, ethics, and business practice updates for the Preferred Risk E&O program. Monthly NEB admin fees for non-members: Option (A) \$10.58; Option (B) \$12.33; Option (C) \$11.92; RIA coverage \$2.66; Disability coverage \$2. All prices (\$495/\$595/\$695) reflect the total cost of their respective coverage, which includes both premium and NEB admin fees listed above.

10. Can I get coverage for disability insurance and, if so, how much does it cost?

Yes, you can purchase disability insurance coverage. It costs an additional \$50, and may be added to any of the three coverage packages shown above.

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11. Can I purchase coverage for my activities as a registered investment advisor representative (Series 65) and, if so, how much does it cost?

If you are an RIA representative, you can purchase E&O Insurance coverage for an additional \$400. However, you must also purchase coverage for life, accident, health, fixed/indexed annuities, variable products and mutual funds (Coverage Package C).

12. What coverage is provided to me as Registered Investment Advisor Representative?

Activities relative to the sale, attempted sale or servicing of variable annuities or mutual funds, (if purchased) that are registered with the Securities Exchange Commission, if required, through a Broker/Dealer that is a member of the Financial Industry Regulatory Authority. Also activities relative to the sale, attempted sale or servicing of stocks and bonds by a Investment Adviser Representative, (if purchased).

13. Are there any additional costs added to the costs quoted above?

No, they represent your total cost of coverage, including the insurance premium plus NEB's administrative fee.

14. What are my payment options?

Preferred Risk E&O offers three different payment options. You can either:

Pay annually by credit card,

Pay annually by check, or

Pay monthly by checking account or credit card. First payment will represent payment for the first three months, with nine subsequent monthly payments.

A \$5 service charge will be added to your monthly payment

15. Does Preferred Risk E&O offer an extended claim reporting period?

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Yes, the Errors and Omissions policy features unlimited extended reporting for no additional premium. In other words, you (or your heirs) can still file a claim for an event that occurred while you were covered under the Preferred Risk E&O Insurance program even if you retire, become disabled, change careers, or die. You must have been an insured in the Program for a minimum of six months and paid applicable premium to qualify. However, this coverage will cease if you secure replacement E&O coverage from another carrier. This coverage is not available if your coverage is cancelled for non-payment of premium.

16. Is the policy's coverage retroactive to the date of your first continuous E&O?

Prior acts are dependent on your designation.

With respect to an agent or general agent, it is the date the agent or general agent became continuously insured without interruption under any claims made professional liability policy (subject to written proof of such coverage at the time the insured gives written notice to the insurer of a claim under the policy).

With respect to a Registered Representative or a Registered Investment Adviser, it is the latest date the Registered Representative or Registered Investment Adviser contracted with the Broker/Dealer.

17. Do I have protection as a notary public?

Yes.

18. Does the policy cover legal fees and related costs relating to your E&O claim?

Defense costs are included within the limit of liability

19. Does the policy cover the actions of employees or administrative personnel acting on your behalf, and are there any restrictions?

Yes, it does cover those actions. For example, if your secretary makes an error servicing one of your clients and it results in an E & O claim, you would be covered. However, the policy does not cover the activities of other financial professionals with whom you work. If another licensed professional in your office makes an error with your client, you would not be covered.

20. Does the policy offer coverage for failure to supervise, manage, or train your staff?

Yes. Coverage is provided to a General Agent in the supervision, management and training of an insured agent. In other words, if someone who is employed by you commits an error or omission, in conjunction with activities covered under the policy, that results in a claim, you

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will be covered under this policy.

21. Am I protected if I act as a fiduciary advisor to an ERISA plan?

No. Administration of 401(k) and any other retirement plans are not covered activities under this E&O Insurance policy.

22. Am I covered if I provide fee-based financial planning services ancillary to my other professional services?

Yes, as long as the financial planning activities are in conjunction with the professional services you purchased, i.e. sale, attempted sale, or servicing of life insurance, accident and health insurance, managed health care organization contracts, disability income insurance (if coverage is purchased), indexed/fixed annuities (if coverage is purchased).

For a Registered Representative or Registered Investment Advisor, you are covered for financial planning activities in conjunction with the sale, attempted sale or servicing of variable annuities or mutual funds (if purchased) that are registered with the Securities and Exchange Commission (if required) through a Broker Dealer that is a member of the Financial Industry Regulatory Authority. Coverage is also available for the sale or servicing of stocks and bonds by a Registered Investment Advisor or an Investment Advisor Representative (if purchased).

23. Why did NEB select CNA as the E&O Insurance program's underwriter?

CNA met NEB's standards for product design and cost. In addition, the firm met our standards for financial strength and solvency. Specifically, CNA is the 7th largest U.S. commercial insurer and the 13th largest U.S. property & Casualty insurer. CNA provides insurance protection to more than 1 million businesses and professionals in the U.S. and internationally.ⁱⁱ

Key CNA statistics include:

\$10 billion in revenues 100+ years in business 9,400 employees "A" rated for financial strength by A.M. Best

24. Why did NEB select Marsh Consumer as the E&O Insurance program's administrator?

Marsh Consumer, a service of Seabury & Smith, has extensive experience managing insurance programs for trade and professional associations. Marsh (a service of Seabury & Smith) is part of the family of MMC companies. With 24,000 employees and annual revenues approaching \$5 billion Marsh serves more clients in more industries worldwide than any other

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firm in our industry. Marsh works with businesses, public entities, organizations, and private clients in over 100 countries.

25. I had continuous E&O coverage for Life, Accident & Health and now I want to switch over to the Preferred Risk E&O Insurance Program, with optional Series 65 coverage. Will I be covered for Series 65 claims from business I wrote prior to signing up for Preferred Risk E&O Insurance?

Please refer back to #16 for the prior acts definition for a Registered Investment Advisor.

26. The policy refers to "retentions" instead of "deductibles". Are these the same thing?

Yes, those are synonymous terms.

27. Does your RIA coverage protect my firm?

The E&O Insurance policy provides coverage for your corporation or business entity with respect to the liability of your firm arising out of failing to render professional services. Please be aware that your RIA coverage only covers your work on behalf of the RIA firm. All licensed advisers/agents in your firm must purchase their own E&O coverage.

28. Do you offer any other limits of coverage other than \$1 million/\$2 million and do you offer any other deductible options?

No, those are the only limits and deductibles available.

29. What series license do I need in order to be eligible for the optional RIA E&O Insurance coverage?

You need a Series 65 securities license.

30. I've sold Unit Investment Trusts (UITs) and Real Estate Investment Trusts (REITs) in the past. Are my activities covered under any of the policy options?

No. The Errors and Omissions policy excludes coverage for activities relating to those products.

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31. If I fax in my E&O Insurance application on the weekend or a holiday, will I covered that same day?

Yes, you are covered or "bound" the same day you submit the completed E&O Insurance application and pay for your policy provided the application does not indicate that you are ineligible.

i *According to a 2008 NEB marketing analysis, most advisors pay from \$800 to \$1,200 annually for Life, Accident, Health, and Fixed Annuity E & O insurance coverage. Therefore, the NEB equivalent of \$595 (annual, non-member) represents a potential annual savings of 20% to 50%.

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