

# Prudential Financial, Inc.

## Sponsored Agents E&O Program

### Commonly Asked Questions

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#### General Questions

**1. Who is the E&O Carrier?**

Continental Casualty Company (CCC), a subsidiary of CNA, is the E&O carrier for the February 1, 2010 – February 1, 2011 policy period. CCC and CNA have an A.M. Best rating of A as of February 1, 2010. For ease of reference we will refer to the carrier as CNA in this communication.

**2. Who is covered under the CNA Agents E&O Policy?**

#### **Agents**

Agents who are contracted with Prudential and who have enrolled for coverage are Insureds under the CNA Policy.

**Note:** Any corporation, partnership, or other business entity or agency which is owned or controlled by an enrolled Agent, or under which said Agent is doing business or employed is also an Insured under the CNA program, but solely with respect to the liability of such organization as it arises out of the enrolled agent rendering or failing to render Professional Services.

#### **Associate Producers**

Associate Producers who maintain an Associate Producer Agreement with an Agent and who have enrolled for coverage are Insureds under the CNA Policy.

**Note:** An Agent who has an Associate Producer enrolled in the CNA program (and any corporation, partnership or other business entity owned or controlled by the Agent, or under which the Agent is doing business) is an Insured under the Associate Producers coverage for liability of the Agent arising out of the Associate Producer rendering or failing to render Professional Services. See question #33 concerning an exception that applies to Associate Producers.

#### **Employees and Marketing Assistants**

Any marketing assistants or other employees of an enrolled Agent while acting under the direction of or on behalf of the Agent. However, such coverage does not include marketing assistants or other employees acting as agents, sub-agents, brokers or sub-brokers who are licensed by any insurance or other regulatory authority to sell property and casualty, life or accident & health insurance and receive commission or fee income.

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1

**Note:** An employee who is licensed and engages in insurance activity will be an Insured under the enrolled Agent's coverage as long as the employee **does not** receive commission income.

### **Heirs, Executors**

Any heir, executor, administrator, assignee or legal representative of the Agent in the event of the insured agent's death, incapacity or bankruptcy;

**Important Note: Employees, Marketing Assistants, Corporations, Partnerships and other business entities owned by the Agent do not have their own limits of liability; they share the limit afforded to the enrolled Agent.**

### **3. What does the term "Claims made and reported" mean?**

This means that the policy applies to any Claim (as defined in the policy) first made against you and reported to the insurer during the policy period (or extended reporting period) as allowed under the terms of the policy. No coverage exists for claims first reported after the end of the policy period unless, and to the extent, the extended reporting period applies.

### **4. What are my obligations under the policy for reporting claims?**

In addition to the "claims made and reported" limitations described in response to the previous question, the CNA policy also requires you to report claims to the insurer as soon as practicable. A failure to provide timely notice may result in the insurer seeking to exclude coverage to the extent the insurer's interests have been prejudiced by the failure to supply timely notice.

Accordingly, once a claim has been made against you, it is important that you report the claim to the CNA as soon as practicable during the same policy period so that you do not jeopardize your coverage.

### **5. What constitutes a claim?**

The term Claim is defined as (i) a written demand for monetary damages or (ii) a civil adjudicatory or arbitration proceeding for monetary damages. The term Claim does not include a demand or proceeding for injunctive or non-monetary relief or any criminal proceeding.

### **6. What about the reporting of "potential" claims, i.e. circumstances that do not meet the policy definition of "Claim"?**

The policy permits you to report any circumstances which you first become aware of during the policy period, which may give rise to a "Claim" in the future. Generally, no coverage is provided for fees and expenses incurred prior to the time such circumstances result in a "Claim". However, if any Claim otherwise covered under this policy is subsequently made against you

that arise from these circumstances, the Claim will be deemed to have been made at the time written notice was received by the Insurer. As such, it may be in your interests to report such circumstances to the Insurer.

**7. Who is responsible to report Claims? Will the Company do this for me?**

It is solely your responsibility to report any Claims to the carrier. While the Company reserves the right to report such claims, the Company assumes no obligation to do so on your behalf.

**8. Does CNA provide a defense?**

CNA has the right and duty, subject to the policy's terms and conditions, to defend any suit against you seeking sums payable under the policy even if the allegations of the suit are groundless, false or fraudulent.

**9. Does this coverage apply to negligent acts committed prior to the effective date of the policy?**

This policy will provide coverage, subject to its terms, conditions and exclusions, for negligent acts, errors or omissions committed prior to the effective date of the policy if they were committed on or after: (1) The date you first became contracted with Prudential; or (2) The date from which you have maintained in force continuous E&O coverage (whichever date is earlier).

With respect to professional services and as a Registered Representative or Investment Advisor Representative, you will not be covered for negligent acts, errors or omissions in connection with Investment Advisory Services or the sale or attempted sale or servicing of securities (other than variable insurance, variable annuities and mutual funds), which were committed prior to your date of contract with Prudential.

**10. Am I covered for claims involving life products of insurance companies other than Prudential?**

Coverage is provided for the sale and servicing of non-Prudential life and health insurance products. Non-sponsored life and health products are covered only to the extent such sales are permitted by the agent's contract.

**11. What happens to my errors and omissions insurance if my contract with Prudential is terminated?**

There is no coverage for any errors, omissions or other wrongful acts which occur after the termination of your Prudential contract. You have three years from the date of termination of your contract with Prudential to promptly report any claims for negligent acts or omissions, which occurred prior to the termination of your contract. If you retire or become disabled while contracted with Prudential you have an unlimited period to promptly report claims for negligent acts or omissions which occurred prior to the date of such retirement

or disability in the sale or servicing of Prudential and Prudential-sponsored products as well as approved non-sponsored outbrokerage.

**12. Am I covered for financial planning and investment advice?**

Yes, financial planning activities, such as recommendations to a client regarding savings, investments and anticipated retirement benefits, are covered under the policy. Investment Advisory Services given in your capacity as a Registered Investment Adviser are covered, provided such services have been approved, in writing, by Pruco Securities.

**13. If I am currently covered under another E&O program, can I join the Prudential program when my current coverage expires?**

Yes. You may join the Prudential program when your current coverage expires by notifying Prudential and providing evidence of your existing E&O coverage 30 days in advance of your current coverage's expiration date.

**14. May I purchase E&O coverage on my own?**

Yes, however, if you were enrolled in the Prudential sponsored CNA program for the February 1, 2009- February 1, 2010 policy period, in order to help avoid any potential gaps in your E&O coverage or problems with your prior acts coverage, the policy you purchase on your own should reflect coverage beginning February 1, 2010. In addition, you should ensure that your new E&O coverage (which is written on a claims made basis) includes prior acts coverage for future claims that might be asserted based on past acts or omissions occurring or alleged to have occurred prior to February 1, 2010. Additionally, your coverage must reflect a minimum limit of liability of \$2M per claim. NOTE: You must submit a Declination of Coverage form with a copy of the certificate from your outside E&O carrier showing appropriate proof of coverage to Jennifer McClure in Corporate Operations & Controls (fax # 973-367-8505).

**15. I decided to obtain my own E&O coverage, but my limits are for \$1 million. Is this sufficient to satisfy my E&O coverage obligation?**

No. You are required to maintain coverage that is equivalent to that made available by the Company through CNA (i.e. minimum \$2M per claim/\$2M aggregate). You must either show proof of increased coverage or enroll in the Company sponsored program. This applies to both Basic and P&C coverage limits.

**16. Have our rates increased or decreased this year and how do the rates for Prudential agents obtained through CNA compare with the industry?**

This year, the Basic Life/Health premium decreased by 10%, while the P&C premium increased by 5%. Overall, the majority of agents will see a decrease in their 2010-2011 premium. The rates obtained for Prudential agents through CNA remain among the best in the industry. Based on a peer comparison,

the rates made available to Prudential agents through CNA typically run about \$250 - \$550 lower than for comparable programs in the industry.

- 17. Who can tell me what coverage's I am currently enrolled for?**  
You can check your current certificate or call our third party administrator, Aon Affinity at 866-369-4538 option #1.
- 18. How may I obtain a copy of my certificate of E&O coverage?**  
Upon enrollment in the Company sponsored program, our third party administrator, Aon Affinity, will automatically send a copy of your certificate to you. If you do not receive it, please contact Aon Affinity Insurance Services at 866-369-4538, option 1. You may also print a certificate from Aon's website [www.pru.agents-eo.com](http://www.pru.agents-eo.com).
- 19. Who do I call with questions about my coverage?**  
You may contact our third party administrator, Aon Affinity Insurance Services at 866-369-4538, option 2.
- 20. Are my E&O premiums pro-rated if I am hired anytime during the year after the renewal enrollment period ends?**  
Yes, E&O premiums are pro-rated based on the month you begin your employment with Prudential.
- 21. I plan to fully retire shortly after the expiration of my current policy. Do I need to renew my coverage?**  
Yes. In order for a retired or disabled agent to be entitled to the unlimited Extended Reporting Period (ERP), you must enroll for coverage during the policy period in which you plan to retire. Failing to enroll in coverage will jeopardize your ERP and it may result in a gap in coverage if you conduct business between the policy expiration date and your retirement date.

### **Emeritus Agent Questions**

- 22. I am an Emeritus Agent who has chosen to retain my retired agent's contract. Am I still obligated to sign up for E&O?**  
Yes. Maintaining E&O coverage has always been a requirement under all versions of the Emeritus Agent contract/agreement.
- 23. I am an Emeritus Agent who no longer sells Prudential products or Prudential sponsored outbrokerage products (Service Only). Do I still need E&O coverage?**  
Yes. As long as you maintain your Emeritus Agent contract, you must maintain appropriate E&O coverage based on the products you continue to

service. If you continue to hold a P&C license and service your P&C book, you must also purchase the appropriate P&C E&O coverage.

## **P&C Questions**

- 24. I no longer sell or service my P&C book. If I voluntarily terminate my P&C appointments but still wish to retain my P&C license, am I required to purchase P&C E&O coverage?**

Yes, if you retain a P&C license, you must purchase P&C E&O coverage.

- 25. I no longer sell or service my P&C book. If I voluntarily give up the remaining book (and associated commission trail) and terminate my P&C license and appointments, am I required to purchase P&C E&O coverage?**

If you choose to give up your P&C book and terminate your P&C license and appointments, you do not have to purchase P&C E&O coverage.

- 26. I am a member of field management who *supervises* agents that sell and/or service the P&C product. I, myself, however, do not personally sell or assist with the sale of P&C products. Am I required to purchase P&C coverage?**

No, you are not required to purchase P&C E&O coverage if you do not sell or assist (e.g. joint sale, attending sales call or writing a policy on a custodial basis) in the sale of the P&C product. If, however, you assist with P&C sales or write policies on a custodial basis for any agent, then P&C E&O coverage must be purchased in order to be covered in the event of a claim.

- 27. I am a member of field management who continues to sell and/or service my personal P&C book. Am I required to purchase P&C E&O coverage?**

Yes.

- 28. I am an agent with a P&C license and appointment with our sponsored outbrokerage carrier. However, I am not authorized to transact new business with the carrier. Am I required to purchase P&C E&O coverage?**

Yes, as long as you continue to hold a P&C license, you must maintain P&C E&O coverage.

- 29. Are assigned risk policies considered sponsored or non-sponsored P&C as it relates to the purchase of E&O coverage?**

Assigned risk policies are considered non-sponsored P&C. Writing assigned risk policies will require the purchase of the non-sponsored P&C E&O coverage.

- 30. If I become P&C licensed at some point during the year, will I need to purchase P&C E&O coverage at that time (FSAs see below)?**  
Yes. Upon becoming P&C licensed, you will be sent a P&C enrollment form to complete and send to Aon Affinity Services. Your P&C E&O coverage premium will be pro-rated as of the date you became licensed.
- 31. If an FSA obtains a P&C license at some point during the year, while on payroll deduction, will we require purchase of P&C E&O coverage?**  
Yes, on a monthly basis, Corporate O&C will receive notice of FSAs who become P&C licensed and will notify Aon to add the P&C coverage and issue a revised certificate. Additionally, Payroll will increase the biweekly payroll deductions to include the P&C premium.

### **Associate Producer Questions**

- 32. I sponsor an Associate Producer. Why am I required to pay the E&O coverage premium for my Associate Producer?**  
The Associate Producer is the independent contractor of the Sponsoring Agent and not a Prudential employee or statutory agent. It is the responsibility of the Sponsoring agent to provide all support, including payment of the E&O coverage premium and making sure this E&O coverage is maintained.
- 33. Can I pay for E&O coverage for my Associate Producer by check or credit card?**  
The sponsoring agent can make payment by either check or credit card.
- 34. Should an Associate Producer have the same E&O coverage as their sponsoring agent?**  
Yes, the associate producer is required to have the same coverage as his/her sponsoring agent for all products and services. The sole exception is if the sponsoring agent is P&C licensed and the associate producer is not licensed for P&C. In this situation, the associate producer is not required to have P&C E&O coverage, but must have coverage for all other products.
- 35. If I sponsor an Associate Producer who is P&C licensed, but he/she does not sell any P&C products, am I required to purchase E&O coverage for them?**  
Yes, if an Associate Producer is licensed for P&C products you must obtain the P&C E&O coverage.

### **Marketing Assistant Questions**

- 36. I employ a Marketing Assistant (MA). Does my E&O coverage extend to my MA under this program?**

A Marketing Assistant of an Agent enrolled in the company sponsored E&O program, while acting under the direction of or on behalf of that Agent, is covered. However, coverage does not extend to Marketing Assistants acting as agents, sub-agents, brokers or sub-brokers who are licensed by an insurance or other regulatory authority to sell products other than P&C or who receive commissions and/or fees. An MA who is licensed and engages in P&C insurance activity will be Insured under the enrolled Agent's coverage as long as the MA does not receive commission income.

## **FSA Questions**

- 37. As an FSA, are my E&O premiums pro-rated if I go into the production phase of my contract after the renewal enrollment period ends?**  
Yes, upon entering the production phase of your contract, you will be automatically enrolled in the Company sponsored E&O program. E&O premiums will be deducted from your bi-weekly paycheck in an amount equal to the annual premium for the coverage/limits selected, divided by 26 weeks.
- 38. I am an FSA in the production phase of my contract. Do I need to submit renewal enrollment paperwork?**  
No, FSAs are automatically enrolled in the Company sponsored program when they reach the production phase of their contract. No paperwork is necessary. E&O premiums are withdrawn as a biweekly payroll deduction beginning with the first biweekly paycheck.
- 39. I am an FSA currently on payroll deduction. How long will I remain on payroll deduction?**  
FSAs on payroll deduction will remain on payroll deduction until the renewal enrollment following their graduation to a Statutory Agent contract. For example, if you are currently on payroll deduction and graduate to a Statutory Agent contract in 2010, you will remain on payroll deduction until the last pay period of January 2011. You will be removed from payroll deduction commencing with the February 2011 renewal period.
- 40. I am an FSA and just became licensed to sell P&C. Do I need to purchase P&C E&O coverage?**  
Yes, however, you do not need to submit any enrollment paperwork. Corporate O&C will notify Aon and ask that a revised certificate be issued reflecting the addition of the P&C coverage. Payroll will increase your bi-weekly payroll deductions to reflect the added coverage.
- 41. I am in the Career Development FSA Program. Am I required to purchase E&O coverage?**



No, you are automatically covered in the E&O program at no cost to you until you graduate to the full FSA/Agent contract. However, if you have a P&C license and are appointed with one of the company-sponsored outbrokerage carriers (Liberty Mutual, High Point or Homesite), you must purchase P&C E&O coverage.

**42. I am in the College Intern program. Am I required to purchase E&O coverage?**

No, you are automatically covered in the E&O program at no cost to you until you graduate to the full FSA/Agent contract.