# STARKWEATHER & SHEPLEY

INSURANCE BROKERAGE INC.

*Starkweather & Shepley has a dedicated Financial Institutions team that is prepared to provide you with products and solutions that fit your risk profile. Our team will design coverage to insure against:*

- *Damages*
- *Settlements*
- *Defense Costs*

**Investment advisors face substantial risk. The claim examples below show how insurance can help mitigate significant monetary losses.**

## 1. Errors & Omission (E&O)

An elderly woman won $300 million in a lottery. The RIA offered options and the client was most concerned about preservation of capital. The funds were invested in guaranteed income with a low rate of interest. Five years later, family members brought a demand against the advisor for failing to grow the assets appropriately.

- Defense Costs were $800,000
- Settlement was $3.2M.

## 2. Cost of Corrections (E&O)

A client asked an employee of their RIA to withdraw a sum weekly to invest into an investment vehicle. For a period of eight weeks, the employee did not make the appropriate transfers during an increased market. Upon recognition of the error, the client lost in excess of $375,000 in potential earnings.

- The paid claim was $125,000 after a $250,000 retention.

## 3. Directors & Officers (E&O)

An RIA with $225 million AUM, having a sole owner who acted as the company's chairman, CEO, COO, CCO, and Lead Portfolio manager, was accused of material misrepresentation on the firm's ADV. The SEC filed a formal order of investigation and its findings included serious conflicts of interest from their advisory clients in connection with recommending investments in 3 private funds.

The owner of the RIA knowingly or recklessly failed to tell their clients that:

One of the private funds' managers was in the process of acquiring at least 49% of the RIA. As part of that acquisition, the owner had agreed to raise millions of dollars for the private funds from his advisory clients; and the fund manager was paying for the acquisition by making a series of installment payments over time, the timing and amounts of which were, at least partially, tied to respondents' ability to direct client money into the private funds.

The Directors & Officers portion of the policy paid $2 million. After the SEC investigation, several clients who invested in the 3 private funds filed action against the RIA. Because these were all considered "interrelated claims", the $2 million limit policy was already exhausted and there was nothing left to pay the additional client claims that trickled in after the SEC findings.

## 4. Cost of Corrections (E&O)

An RIA made an error in their client's portfolio. While reallocating, they pulled the margins out of the portfolio to rebalance. The investment advisor mistakenly forgot to put those margin investments back into the client account. The client noticed on their quarterly statement that those investments were missing. The end result over the 3 month period was an investment loss to the client of $100,000. The RIA was obligated to make the client whole on the error. The E&O paid the $100,000 under the Cost of Corrections insuring clause, reimbursing the RIA, who had reimbursed the client on the error.

## 5. Employment Practices Liability

A CEO at an RIA would often have Friday Happy Hours, inviting employees to partake in socializing in the office. A lawsuit was brought against the CEO for sexual harassment based around the activities that occurred at these office "parties". The employee brought suit for emotional distress in the amount of $1,500,000.

- Defense costs and the settlement total was $1,000,000.

## 6. Cyber: Cyber Extortion Threat

An RIA found evidence of ransomware on its servers. They contracted an IT vendor to restore the data and mitigate the damage caused by the virus, without paying the ransom amount demanded. The insured provided the insurer with a Statement of Work and all itemized invoices from the IT vendor. An attorney was secured but no further action was needed.

- Insurer paid/reimbursed the insured $40k in expenses.

## 7. Cyber

A client received an email about an open receivable balance of $75,000. Wire instructions were provided in the email to make a payment. Within 30 minutes, the client received a second email which included a signature formatted like the previous emails that requested the receivable balance. Fortunately, the insured sent a note to the requesting party asking if the email was valid! The fraudulent email had come from an email address ending in ".org" and not ".com".

The client's email had been compromised allowing such email request. The loss under the Cyber Liability policy included IT Forensics to determine the depth of the email compromise within the network. The insurer suggested that the client implement changes such as two factor authentication and no more forwarding emails to personal g-mail accounts as post breach solutions.

- Claim of $25,000 was paid by the insurer.

STARKWEATHER & SHEPLEY
FINANCIAL INSTITUTIONS RISK SOLUTIONS

## Let Us Help You...

Starkweather & Shepley has the expertise you need to navigate your investment advisory risk.

Please contact me to learn more:


Jessica Thayer
SVP & Financial Institutions Leader
800.854.4625 • jthayer@starshep.com