

# FINANCIAL RISKS INSURANCE LIMIT OPTIONS

Typically, Asset Managers purchase two types of Financial Risks insurance:

## 1. PROFESSIONAL INDEMNITY (PI)

PI insurance responds to a Manager's legal liability to third parties (e.g. Investors/ Customers) arising out of the provision of professional services.

## 2. DIRECTORS' AND OFFICERS' LIABILITY (D&O)

D&O insurance responds to the legal liability of the Manager and/or the Fund (e.g. to Shareholders or Regulators) arising out of the management of the entities themselves.

## WHAT'S THE DIFFERENCE BETWEEN PI AND D&O?

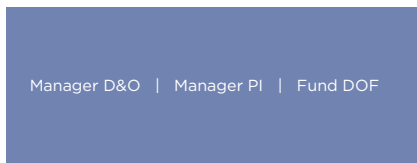
The main difference between PI & D&O insurance policies is the capacity in which the wrongful act, which gives rise to the claim, is committed. The PI policy will trigger when the wrongful act occurs where services are being provided to customers. Conversely, the D&O policy relates to acts committed in the course of the overall management of the companies by individuals i.e. the three policies required:

- PI in respect of the Manager (this is typically the most costly cover within this group)
- D&O in respect of the Manager
- D&O in respect of the Fund

## WHAT ARE THE DIFFERENCES/BENEFITS OF THE RESPECTIVE OPTIONS?

These insurances are generally purchased using one of the following aggregate limit structures:

### ▼ ONE LIMIT



Shared limit

In this structure there are three separate policies insuring the different interests, however all insureds share the same aggregate policy limit. Each insured party may independently erode that limit, on a first come first served basis, therefore potentially reducing the cover limit available to the other insureds.

**Example:** Opting for a \$5m single limit across the policies would provide 'Total Group' protection of \$5m for any claims. The limit would pay out on a "first come, first served" basis, therefore in the instance there was a claim paid under the Manager PI policy to the value of \$1.5m, the total limit would be reduced by that amount (to \$3.5m inclusive) for all three contracts in respect of any subsequent claims.

### ▼ TWO LIMITS

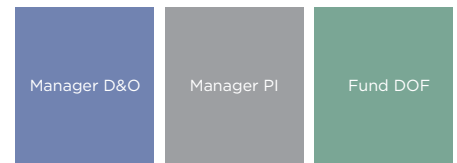


First limit | Second limit

Use of this structure provides separate limits in respect of the Manager and Fund entities. Whilst the Manager entities share a single aggregate limit across their PI & D&O exposures, there is a separate and independent limit available for the Fund entities' D&O exposures. Any erosion of the limit available to the Manager entities will not impact the cover available to the Fund entities, and vice versa.

**Example** Opting for a \$5m limit with this structure would provide total Group protection of \$10m (\$5m for the manager PI and D&O inclusive, and another \$5m for the fund D&O).

### ▼ THREE LIMITS



First limit | Second limit | Third limit

Under this structure a separate limit is provided in respect of the specific interests of each entity (all three policies have their own limit). As a result, this option provides the broadest form of cover and minimises the potential for conflicted interests in the event of a claim.

**Example** Opting for a \$5m limit option would provide total Group protection of \$15m. There would be a \$5m limit for Manager PI, \$5m for Manager D&O and \$5m for Fund D&O.

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www.apldn.com | +44 (0)20 7337 6800 | For more information please email [alex.burtonbrown@apldn.com](mailto:alex.burtonbrown@apldn.com)

AssuredPartners London, Centennium House, 100 Lower Thames Street, London, EC3R 6DL