2024 Mid-Year RIA Insurance Update

September 15, 2025

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2024 Mid-Year Update

Criteria	Professional Liability ("E&O")	Cyber
Underwriting	No major changes in underwriting. Application, ADV and info around trading policies and procedures all necessary to receive terms. Additional coverages such as D&O, Employment Practices and Fiduciary Liability can be included in the E&O policy	Streamlined application process with rating primarily a function of revenues, cyber security controls (MFA, encryption, employee training) and a website / domain scan for vulnerabilities
Capacity	Despite a significant increase in demand from market growth and RIA custodian requirements, capacity remains robust due to strong appetite from traditional players as well as recent entrants	Continued robust capacity for RIAs seeking $1m-$5m in limits due to the participation of numerous carriers in the space
Pricing	Absent client-specific changes/issues (significant AUM growth, change in investment strategy, claims etc.), renewal pricing is often flat and competitive, which we would expect to continue throughout the end of the year	After the last 12-18 months of flat to slight decreases in renewal premium, we have recently begun to observe 5-10% price increases due to sustained claims activity
Claims	While claims activity remains relatively infrequent, we have observed a higher volume of trade error claims due to the volatility in the financial markets and an increase in regulatory related claims	Claim activity remains elevated, and continues to be almost always a function of human error / business email compromise with the majority of claims dollars being spent on forensics and system rectification costs post breach

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Issues Found in Recent Policy Reviews

- Missing trade error coverage (aka “Cost of Corrections”)
- No coverage for private fund managed by the RIA, and exclusion of other alternative assets
- Exclusion of certain services offered by RIA (e.g. tax prep, insurance product sales, trustee, bill pay)
- Strict call-back requirements in funds transfer fraud coverage
- Funds transfer fraud coverage does not extend to client money, rather RIA money only (non-compliant with custodian requirements)
- Policy is cancellable by the Insurer
- No coverage for independent contractors
- Third party coverage excluded from Employment Practices Liability

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Recent Claims Examples

- Client entered two extra zeros on buy order, resulting in 6-figure trade error
- Adult child of deceased RIA client alleges unsuitable investments
- Advisor failure to execute client sell order, resulting in significant loss
- Portfolio model error in rebalancing
- SEC action related to mutual fund share-class selection
- Client of RIA hacked and tricks RIA in sending money to fraudulent account ("Social Engineering")
- Multiple examples of RIA employee clicking on bad link/attachment, leading to data breach and the necessity of forensic work and client notification
- RIA senior executive is fired and sues for wrongful termination

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