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Insurance \\ Risk Management

2024 RIA Insurance Outlook

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2023 Review

Criteria	Professional Liability ("E&O")	Cyber
Underwriting	No major changes in underwriting, with perhaps an increased emphasis on policies and procedures to identify and mitigate trade errors	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 due to market growth and RIA custodian requirements, capacity remained 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, pricing remained relatively flat despite the aforementioned increase in demand, with some instances of reduced pricing observed for traditional RIAs as well as private fund managers	After several years of meaningful pricing increases, we saw flat pricing, and reductions in certain situations for insured's that have increased their cyber security posture
Claims	In addition to a higher volume of trade error claims due to the volatility in the financial markets, we also saw an increase in regulatory claims	Claim activity remained elevated, and continued 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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2024 Outlook

- E&O
  - The vast majority of RIA firms now carry E&O as a result of the insurance requirements announced by the major custodians in 2021-22, such that new coverage uptake will be limited mostly to new firms/breakaways
  - The SEC approval of digital assets in ETFs should allow enhanced coverage options for RIAs that access these type of assets through the ETF structure
  - Current market conditions are quite favorable, and we don't see any major clouds on the horizon unless there is an unexpected surge in claims

- Cyber:
  - While underwriting standards are higher than they were several years ago, we expect the capacity and availability of coverage to remain robust as new entrants continue to enter the market and the underwriting process becomes more streamlined
  - We expect Cyber claim activity to remain high, although meaningfully enhanced underwriting requirements of the last 12-18 months could moderate claims
  - Current market conditions are favorable to insureds who have solid cyber security controls in place, and despite the aforementioned claims activity, we expect pricing to remain stable in 2024 and even decrease in certain situations

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Epilogue re 2021-22 Custodian Insurance Requirements

- Historically, a large majority of RIAs carried E&O coverage, although mostly of their own volition, as requirements from third party constituents such as custodians, regulators, and clients were very limited
- In October of 2021, Schwab announced insurance requirements for its advisory firms, which included E&O and employee/cyber theft, with Fidelity and Pershing following suit in 2022
- The implementation schedule was custodian-specific, but effectively culminated with the Schwab/TD integration at the end of 2023
- While several of the smaller custodians do not have insurance requirements (although some others do), we expect that the vast majority of RIAs now have these core coverages
- As alluded to earlier, both long-time and newer carriers responded to the custodian requirements with added capacity, stable pricing, and coverage endorsements that efficiently met the increased demand
- That being said, the coverage quality can vary meaningfully from a minimalist "check the box" approach, to a more robust package, and we have seen situations where RIAs were surprised to learn that they were actually not compliant based on a flaw in the policy

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Coverage Observations for RIAs

- Windermere has observed a broad range of coverage levels for RIAs, with the primary drivers being risk tolerance by the owners/management, past claim history, and client concentration/diversification
- The following table summarizes observations for the primary professional and management liability coverages available to RIAs (excludes fund managers, which would be meaningfully higher)

AUM Range	E&O	D&O	Cyber	Crime	EPLI
$10+ Billion	$10M+	$10M+	$3M+	$3M+	$3M+
$5-10 Billion	$5-15M	$5-15M	$3-5M	$3-5M	$3-5M
$3-$5 Billion	$3-10M	$3-10M	$1-5M	$1-5M	$1-5M
$1-$3 Billion	$2-10M	$2-10M	$1-3M	$0-5M	$0-2M
$500 Million-$1 Billion	$1-5M	$1-5M	$1M	$0-1M	$0-1M
$300-$500 Million	$1-3M	$1-3M	$1M	$0-1M	$0-1M
$100-$300 Million	$1-2M	$0-1M	$0-1M	$0-1M	$0M

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About Windermere

- Windermere is a full-service insurance brokerage headquartered in Charlotte, NC with offices in Hilton Head and Pawleys Island, SC
- Based on 2022 revenue, Windermere is among the top 1% of independent insurance brokers in the US
- Windermere's three primary lines include Business Insurance, Private Client, and Life & Health, all of which serve clients on a national basis
- Windermere maintains several industry specializations, including Real Estate, Financial Institutions ("FI"), and High Net Worth Private Clients
- Within FI, the primary coverages offered include Professional & Management Liability insurance, as well as the full range of standard business insurance coverages and Benefits
- Windermere is an approved insurance provider for many of the major RIA custodians, including Schwab, Fidelity and Pershing, all of which now have insurance requirements for its advisory firms

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Industry and Product Focus

- Windermere started its FI focus in 2014, and has developed a nationwide client base representing a broad range of FI market segments

- The types of targeted FI include investment advisory and asset management firms, single and multi-family offices, trust companies, broker-dealers, and non-bank lenders

- Coverages offered include Errors and Omissions ("E&O"), Directors and Officers ("D&O"), Cyber, Employment Practices ("EPLI"), Crime/Financial Institution/Investment Company Bonds, ERISA Bonds (First and Third Party), and Fiduciary Liability

- Windermere has access to all of the carriers that are active in the FI space, including AmTrust, AIG, Allianz, Argo, Axis, Beazley, Berkley, CapSpecialty, Chubb, CFC, CNA, Everest, Great American, Hanover, Hartford, Lloyds of London, Markel, Nationwide, Sompo, Travelers, and XL, among others

- In additional to superior market access, Windermere has dedicated claims personnel as well as deep relationships with many carriers, thereby providing invaluable claims advocacy and leverage

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