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2025 Mid-Year RIA Insurance Update

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2025 Mid-Year Update

Criteria	Professional Liability ("E&O")	Cyber
Underwriting	No major changes in underwriting, as applications are becoming more streamlined with the broader availability of key information in ADVs and other public filings; auto-renewals are more common now as well	Streamlined application process with rating primarily a function of revenues, cyber security controls (MFA, encryption, employee training) and a website / domain scan for vulnerabilities; auto-renewals are common
Capacity	Capacity continues to remain robust from both existing carriers and new entrants, driven by manageable claim activity and favorable financial performance for carriers in this space	Continued robust capacity for RIAs seeking $1m-$5m in limits due to the participation of numerous carriers in the cyber market
Pricing	Absent client-specific changes/issues (significant AUM growth, change in investment strategy, claims etc.), renewal pricing is often flat and competitive, continuing a trend we have seen over the last couple of years	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, yet overall pricing remains attractive in light of heightened claim activity
Claims	We have observed a higher level of claim activity of late, seemingly spurred by volatility in the financial markets (e.g. trade error claims), as well as suitability claims related to elderly clients	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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Cyber Crime Coverage Considerations

- Many of our clients tell us that Cyber Crime (aka Social Engineering, Fraudulent Instruction, Fraudulent Deception, Funds Transfer Fraud) is arguably their biggest risk management concern
- The typical scenario is a client of the RIA getting hacked, resulting in fraudulent wire instructions being sent to the RIA
- Although seemingly every RIA has a documented procedure to perform a voice verification prior to sending money to a new account, mistakes can happen that lead to a loss (e.g. RIA does not want to bother/upset client, is busy/distracted, or is otherwise convinced that request is legitimate)
- All the major custodians now require RIAs to carry insurance to protect against this risk
- Insurance coverage is available through several different types of policies (e.g. Fidelity Bond, Cyber, E&O), although oftentimes sub-limited, and potentially excluding coverage for RIA client money and/or if insufficient verification steps were taken
- Close examination of policy wording is critical to ensure optimal language for coverage responsiveness

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Tail Insurance Considerations

- In light of the significant ongoing consolidation in the RIA space, "tail" insurance is involved in virtually every M&A transaction
- E&O/D&O/Cyber policies have change of control language, such that the existing policy will not respond to events that occur post-closing, although the policy does include the option to purchase an extended reporting period during which events that happened pre-closing but only come to light post-closing can be reported
- In addition to this change of control language, buyers do not want to assume potential liabilities from the acquired company, such that a requirement to procure tail insurance is almost always included in the purchase agreement
- Tail coverage is typically evidenced by a 1-2 page endorsement to the existing policy of the acquired company, available in terms of 1-6 years, costs .75-2.5X of the existing premium, and is non-cancellable
- Although typically required by the buyer to manage risk, the acquired firm and its individuals also benefit from the tail coverage if something unforeseen comes up down the road, as the buyer's go-forward policies are unlikely to offer coverage for prior acts of an acquired firm/individuals

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