

You Built Your Business, Now Protect It

3 Risks Financial Advisors Cannot Afford To Ignore



Sponsored by

fa-mag.com

Presented by



Featuring



Emily Agramonte
Business Development,
Coalition Cybersecurity



Jessica Burch
Managing Partner,
Bryce Point Insurance & CFN



Paul Smith
Senior Vice President, AIF,
Starkweather and Shepley



Brendan Roberts
Consultant,
NRS Compliance



CONFIDENTIAL

CYBER RISK, SOLVED.



Coalition®

COALITIONINC.COM



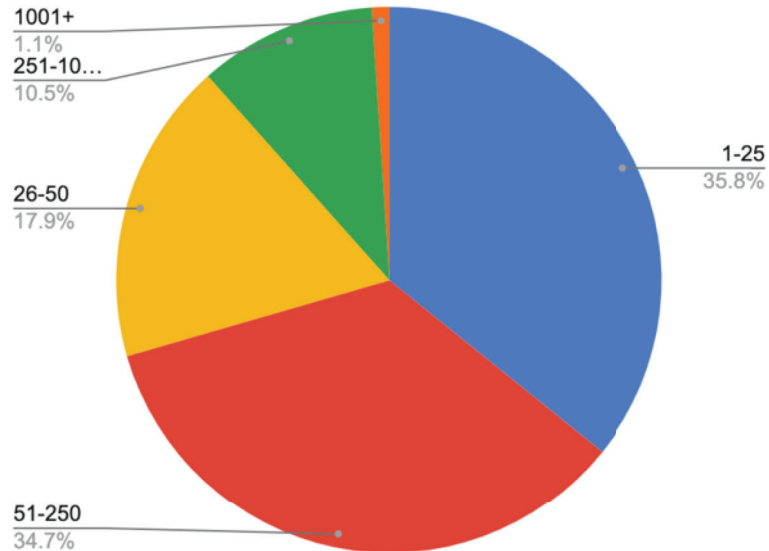
Brokers report many client objections to purchasing cyber...

1. My company is small
2. I don't use complicated technology
3. I don't store data
4. Insurance is too expensive

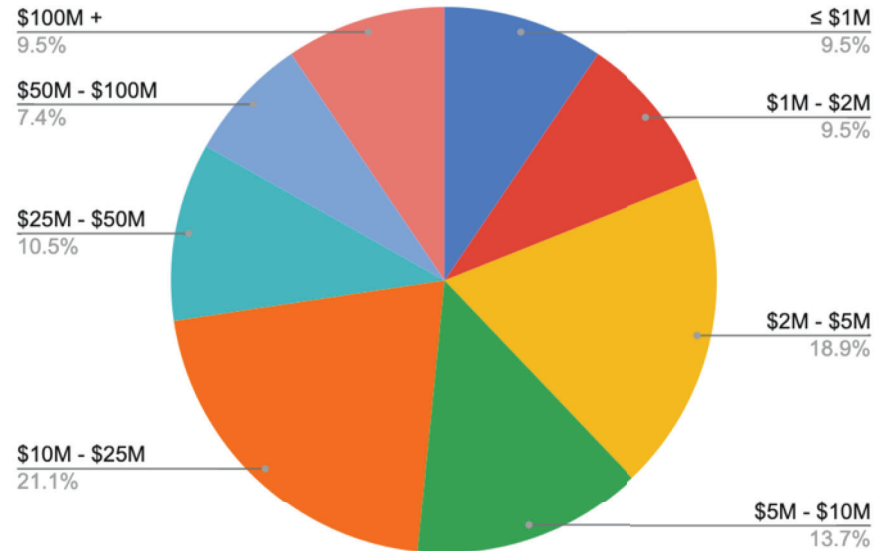


My company is too small

% Claims by Employee Count



% of Claims by Revenue Band



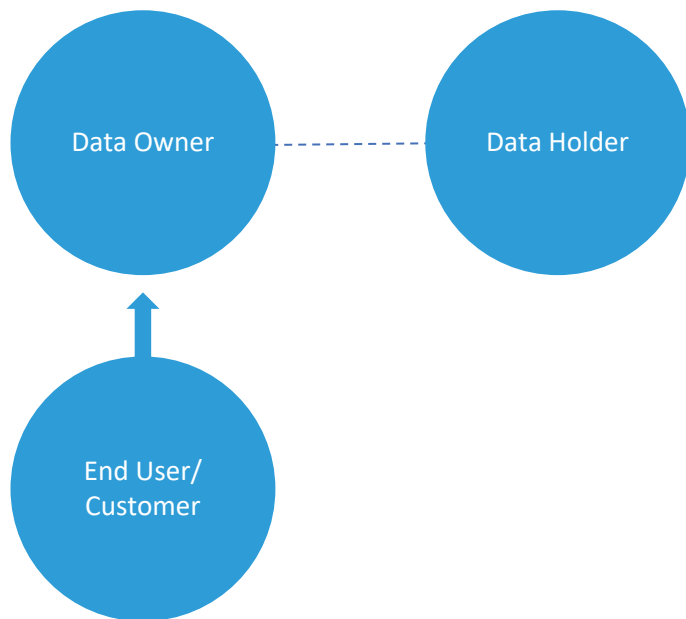


I don't use complicated technology





I don't have data





Insurance is too expensive

The value of cyber insurance far exceeds the cost

- Pricing: we can sell policies as low as \$25k limit, for as low as \$50!
- Coverage: policy covers broad exposures - including bricking, social engineering, fraud, BI/PD
- Vendor Panel: best in class [vendors](#) available to clients in the event of a claim
- Additional value: cybersecurity platform, included for free with your policy!



Paul Smith
Senior Vice President, AIF,
Starkweather and Shepley

Sponsored by



Presented by





STARKWEATHER & SHEPLEY
INSURANCE BROKERAGE INC.

E&O, D&O, EPL, Fiduciary, Crime, and 3(16) Bonding.....

What's the difference, and why should you care?

Chalice Webinar – November 2019



Errors and Omissions

- Professional Liability Insurance is coverage for harm done to others in the delivery of your **Professional Services** (defined term) / Policy will pay for defense and damages and cost of defense up to Policy limits – generally starting at 1Mil
- Policies can be “Targeted” to specific profession, or written on a Miscellaneous Policy Form (example; services as a 3(16) Named Plan Fiduciary) – for which there are almost no Targeted Policy Forms (as of yet)
- The definition of Professional Services can be found on the Declarations Page of a Miscellaneous Policy and is critical to the strength of the coverage



Who needs E&O coverage?

Most professionals delivering a Professional Service where there is risk of harm to others, have E&O coverage:

- ✓ Compliance Officers
- ✓ Registered Representatives / IARs
- ✓ Attorneys
- ✓ Third party Administrators
- ✓ Hedge Fund Advisors



What's not covered by an E&O / D&O Policy (it depends.....)

Different Policies, covering different Professional Services have different exclusions – targeted toward the insured's activity

- Dishonest Criminal Act
- Contractual Liability (activity may be covered)
- Acting as a Named Fiduciary (or broad ERISA Exclusion)
- Acting with discretion in a BD Policy (Registered Rep coverage)
- Known or pending claims prior to effective date of Policy
- Insured against insured



Directors and Officers Insurance

Common D&O Risk Scenarios

- Employment Practices (if not separated)
- Shareholder actions (most expensive / severe risk)
- Reporting Errors (public companies)
- False statements in a Prospectus or PPM (Funds)
- Failure to comply with Regulations (FINRA / SEC)
- Breach of Fiduciary responsibility (sale of company)
- Strategic Partners of the firm (failed M&A)



What Can Fiduciary Insurance Cover?

Breach of fiduciary duties

- Negligent administrative errors in managing plan business where a fiduciary breach is the result (*be sure policy covers administration*) Improper disclosures to plan participants such as delayed entry (*health and welfare delay can bring the highest claims*)
- Imprudent investment selection, and or selection of 3(38) investment manager
- Unreasonable Fees, paid by plan participants (significant rise in participant suits)



Bonding (Fidelity and Surety)

Do I need to be bonded?

- **ERISA Fidelity Bond:** will cover against theft of Plan or beneficiaries assets – required by SROs, Regulators and ERISA (Section 412) for those handling plan funds
- **Surety Bond:** will cover against entity becoming insolvent, with outstanding obligations at risk (RIA and BD Registration) Obligee is the party requiring the coverage
- **Performance Bond:** insurance carrier will step in and complete unfinished project (construction, product design.....)





Brendan Roberts
Consultant,
NRS Compliance

Sponsored by



Presented by





NRSTM

»» Compliance Confidence

NRSTM

»» Compliance Confidence

Compliance As a Safeguard Against Enforcement

In the SEC's Fiscal Year 2019, which ended in September, the SEC:

- Brought 206 enforcement actions against investment advisers and investment companies, up from 115 in 2018
- Ordered \$4.3b in monetary remedies (penalties and disgorgement combined)
- The median penalty ordered in 2019 was \$200,000; the median disgorgement was \$694,663, an all-time high.
- 57% of enforcement actions included charges against one or more individuals, focused mainly on CEOs, CFOs, and CCOs.
- All of this in a year shortened by a 35-day government shutdown

Compliance As a Safeguard Against Enforcement

Notable 2019 Enforcement Actions Against Firms:

- Nomura Securities International were charged with failure to adequately supervise bond traders who made false and misleading statements to clients.
- BMO Harris Financial Advisers and BMO Harris Asset Management Corp were charged with failing to inform clients about certain aspects of how advisers chose investment products, which lead to advisers profiting off of more expensive investment vehicles.
- Two subsidiaries of Prudential Financial Inc. were charged with failing to disclose conflicts of interest and making misleading disclosures to the boards of 94 of their private funds.
- Deer Park Road Management Company LP, a private fund manager, was charged with compliance deficiencies stemming from its valuation procedures.

Compliance As a Safeguard Against Enforcement

Notable 2019 Enforcement Actions Against Individuals:

- Broker-dealer AOC Securities LLC and its former CEO were charged with failure to supervise a broker who provided inflated price quotes to clients.
- SBB Research Group, LLC, and two top executives, for multiple years of misreported fund values.
- Two former executives of Corinthian Colleges, Inc., for the company's failure to disclose material risks related to the company's primary source of revenue.
- A municipal adviser and its principal (name undisclosed) with breaching its fiduciary duty in connection to a \$6m bond offering.

Compliance As a Safeguard Against Enforcement

While there may be bad actors, most of the actions in the last two slides could have been mitigated or stopped by compliance.

- In many enforcement cases, the action hinges on proper supervision, oversight, and disclosure.
- If a firm is found to have recidivist activity in successive examinations, those examinations will regularly be passed to enforcement. Enforcement actions are not limited to bad actors who intentionally cause losses to the firm or clients.

Compliance As a Safeguard Against Enforcement

It is foreseeable that examinations in the next two years will heavily focus on new requirements found in Reg BI and Form CRS.

- When any new rule is adopted, examiners will look at the firm's compliance to any supervision and disclosure required by the rule.
- Accurate disclosures in Form CRS, and a reworking of all duty of care/conflict of interest language which is affected by Reg BI, is foreseeable in examinations.
- Compliance consultants have already begun preparing clients for implementation of the new requirements, based off our interactions with the regulators and firms throughout the country.

Compliance As a Safeguard Against Enforcement

NRS provides compliance consulting on all matters for investment advisers and broker-dealers

- Based on our 40+ years of experience in the industry, and close connections with regulators, our clients benefit from policies & procedures, mock examinations, and compliance testing which mirror regulatory actions.
- Proper compliance programs not only prevent losses for your clients, but also prevent enforcement actions by regulators.
- When preparing for a new rule or regulation, insight from compliance consultants is invaluable.



Thank you.

CE CREDITS



This webcast qualified for the following continuing education credits:

- The CFP Board – 1 hour
- Investments & Wealth Institute™ (previously known as IMCA) – 1 hour

If you would like to receive credit for participating in this live webcast, please follow the directions below.

***NOTE: YOU WILL HAVE 10 DAYS AFTER WATCHING THE LIVE WEBCAST TO REPORT FOR CREDIT VIA OUR WEBSITE.**

Financial Advisor Magazine will then report to The CFP Board and Investments & Wealth Institute™ on your behalf. After 10 days the webcast will no longer be available for reporting.

1. Visit our website http://www.fa-mag.com/ce_center.php
2. Select the designation you would like to report the webcast to.
3. If you have already registered to complete and report CE credits with us, please login using your username and password.
If you are new to our CE Center, please complete the registration form in its entirety. (*Note: You will need to supply your ID# generated from Investments & Wealth Institute™.*)
4. Once you are logged in to your CE Center account, SCROLL TO THE BOTTOM OF THE PAGE to find the list of CE exams and webcasts we offer. (Please read the important information on that page regarding the CE reporting process.)
5. Click on the webcast you attended and complete the short questionnaire and print the "Certificate Of Completion" page for your records.
6. The webcast credit will be reported by *Financial Advisor* magazine the first week of the new month for the previous month. Allow 10 business days for the credit to be posted on your account.

If you have any questions regarding CE credit reporting, please email Heidi Pope at heidi@fa-mag.com

To view the slides and a recording of this webcast please visit:

<http://www.fa-mag.com/ChaliceWebNov19>

For upcoming webcasts, please visit: <http://www.fa-mag.com/webcasts.html>

Please send your questions, comments and feedback to: dawn@fa-mag.com