

The Four Insurance Pillars for an RIA Practice

By Bayard Bigelow, III, MBA, CPA

We are frequently asked the question of what insurance the typical advisor should have. This article will generally describe the four pillars of what we would consider an appropriate insurance program for a small personal service business. When we use the word appropriate we mean two things – it is the very same program which we use in our business; and, it should provide coverage for most of the exposures Registered Investment Advisors in various practice platforms face.

In answering this question we possess no particular expertise, other than that of insurance generalists, in commenting upon forms of insurance other than professional liability insurance. Remembering that the purpose of this article is to paint in broad strokes what constitutes an insurance program appropriate to a hypothetical small practice, any questions you may have on these other lines should be directed to appropriate qualified insurance professionals. This is the only article in this series in which any insurance other than professional liability insurance will be addressed.

Apart from these disclaimers, we would offer one other introductory comment. We will try to make subsequent articles a bit spicier. But let us not delude ourselves – it is exceedingly difficult to make an insurance program description as enticing as say **The Da Vinci Code**, no matter how hard we try.

Professional Liability Insurance

As a simplification and generalization, the most significant risks you and your practice will face are due to errors or omissions in the rendering or failing to render appropriate professional advice. As the remainder of this series will cover this type of coverage extensively, we will defer further comment, other than to note that this is the closest you will come to “catastrophe insurance” – professional liability claims are typically large and expensive to defend, albeit infrequent.

Workers Compensation Insurance

Nearly every employer in the U.S. is required to purchase Workers’ Compensation Insurance. Its purpose is to compensate employees for work related temporary or permanent injuries, disease or death. The employee need only demonstrate that the injury or disability is related to his or her employment, and does not need to prove that the injury or disability is the employer’s fault.

Coverage is available in every state; each state maintains a workers compensation bureau to which either employee or employer may turn for information or guidance. Policies are provided by some combination of a state insurance fund, private insurers or an assigned risk pool depending upon state regulation.

The rating, or determination of the premium charged, is a function of the overall experience of the class of employees being insured; the amount of payroll, subject to audit; and the employer’s individual claims experience. As employment related injuries are relatively rare in white collar settings, premium is relatively low. However, a single claim will significantly affect premium. Employers may also be required to post certain notices conspicuously so that employees are aware of its existence.

Commercial General Liability and Business Owner’s Insurance

CGL policies, in general, will cover claims for (1) bodily injury, (2) property damage, (3) other personal injury (including slander and libel), and (4) advertising injury or “piracy.” While the industry promulgates a standard Commercial General Liability (“CGL”) policy, insurers will frequently deviate from the accepted industry standard policy, employing their own rates, policy terms and conditions. In other words, each CGL policy is unique and should be carefully read and thoroughly understood to evaluate whether or not it meets your business needs. A practical solution in general is to use the services of an insurance broker to provide understanding and guidance.

It should be noted that when the CGL policy refers to property, it means your exposure to damage to property owned by others, such as leased office space or leasehold improvements owned by the lessee. It does not cover property which you own, in other words, first party indemnification of your office furniture and equipment, including electronic equipment, arguably your largest physical business asset. Slander or damage to reputation falls under personal injury. Advertising injury protects companies from charges of negligence that result from the promotion of its own goods or services.

Filling in the gaps of a CGL policy, especially coverage for property which you own, requires a different policy generally known in the industry as a Commercial Package Policy or a Business Owner’s Policy (“BOP”).

While the lines between policies may sometimes be blurred, the CGL/BOP policies do not cover professional liability claims, nor do they cover certain other types of claims. For this reason, we will separately address both professional liability coverage and, in fact, will devote several articles in this series to professional liability insurance or Errors and Omissions Insurance (E&O for short); and we will briefly touch upon the other coverages which may be needed, but frequently are not, to properly protect your practice.

Other Insurance Products

Several other types of insurance may be relevant, depending upon the nature of your practice. Nonetheless, it is not unusual for a small to medium sized practice to purchase at least one other type of coverage. Insurance products which we have seen purchased include legal, third party administrators', accountants' or tax preparers' professional liability insurance; commercial automobile insurance; commercial umbrella written excess of a CGL or BOP limit of liability; Directors' and Officers' insurance; Employment practices liability insurance; and a variety of bonds including ERISA bonds, and fidelity bonds. These specialized types of coverages are beyond the scope of this article but may be applicable if your practice has these or similar insurance exposures.

Summary

The insurance program for a small practice is typically built upon four pillars – professional liability insurance; workers compensation insurance; commercial general liability or business owner's insurance; and a variety of other insurance products specific to the needs of the practice.

About the Author

Bayard "Bud" Bigelow, III, MBA, CPA is President and Chief Executive Officer of Markel Cambridge Alliance, which offers E&O for Financial Planners and Registered Investment Advisors. This insurance program has been continuously in operation since 1989 and is widely endorsed.



Professionals interested in obtaining information about the program may contact:

Markel Cambridge Alliance
4600 Cox Road • Glen Allen, VA 23060
TEL: (800) 691-1515 • FAX: (802) 864-9369
www.markelcambridge.com
