AMWINS

Navigating Asset Manager
Forms and Submissions

The complex world of asset management requires a deep understanding of the various types of asset managers, the specific insurance forms they need, coverage details, market dynamics and underwriting considerations. Asset managers, including registered investment advisors (RIAs), broker-dealers and financial planners, each operate under different standards of liability. RIAs are held to a fiduciary standard, broker-dealers adhere to a suitability standard and financial planners may not be bound by either. Understanding these distinctions is crucial when assessing risk and insurance needs.

Globally, assets under management (AUM) exceed $130 trillion, with substantial growth expected. Financial planners manage approximately $85 billion of non-discretionary assets, while discretionary managers, like hedge funds and private equity firms, handle trillions. In the U.S., there are more than 15,000 RIAs managing over $100 trillion in assets. The market also includes family offices, fund managers (hedge fund, venture capital and private equity), mutual funds and real estate investment trusts (REITs), each with unique characteristics and risk profiles. With significant opportunities in each of these segments, specialized underwriting and dedicated financial institution teams are essential for providing tailored insurance solutions.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

LEGAL DISCLAIMER

Singular vs. modular policies

When considering insurance policies for asset managers, it's crucial to understand the differences between singular and modular approaches. The details can significantly impact the coverage and protection offered.

- Singular policies provide comprehensive coverage under one policy.
- Modular policies are highly customizable, allowing for both shared and separate limits as well as specific endorsements or coverage parts as needed.

Common additions to these policies include partnership liability and fund liability. It's vital to note that a typical Directors & Officers (D&O) insuring clause or coverage part doesn't adequately cover a fund entity, as these entities face both professional liability and D&O liability exposures. Therefore, having a dedicated insuring agreement or coverage part specifically for fund coverage is essential. Many markets even have a private equity and venture capital- specific policy that is tailored to the unique structure of funds and the entities that own and manage them.

Simple vs. complex submissions

When preparing a submission for asset managers, especially for those more complex segments like funds, thoroughness is key. For simpler submissions, such as those for RIAs without funds, you'll need minimum information; much of what underwriters need can be found on either the Application or in the firm's ADV 1 and 2, which are publicly available through the SEC's website.

However, for more intricate submissions such as fund managers, a comprehensive approach is essential to ensure quick and favorable responses from key markets.

Providing a complete submission

For complex risks, the expectation is a much more comprehensive submission. A lot of the important information isn't readily available online, so knowing what to ask for and why is key when submitting a form.

Here's a breakdown of what to include (in addition to an application):

- **ADV form parts 1 and 2** - Readily available if the advisor is SEC registered, these forms provide a basic overview of the advisor's regulatory standing and operations.
- **Due diligence questionnaire (DDQ)** - Crucial for understanding the internal processes and risk management practices of the firm, but not available online.
- **Exposure information** - Detailed information about the firm's exposure, including types of investments and associated risks to help in assessing the potential liabilities and necessary coverage. If not found in the Application or ADV, details may need to be provided separately.
- **Sample Advisory Agreement** – Provides important details on the nature of the services being provided by the firm, whether or not the firm has discretionary authority, and the fees schedule.
- **Written investor communications and performance reports** - Insight into how the firm communicates with investors and the historical performance of their investments to help showcase the firm's track record, credibility and effectiveness.
- **Private offering documents** - These are not publicly available but include the size and scope of the fund, terms and conditions under which investments are made, management team bios and third-party providers, fees, distributions, potential risks involved and many other helpful items essential to understanding the risk.
- **Financial statements** - Detailed financial information to assess the financial health and stability of the firm or fund, including balance sheets, income statements and cash flow statements. Oftentimes funds have formal audits available; however, an RIA or general partner of a fund may not have audited financials at their level since these are often closely held entities.

Additional considerations for fund underwriting

Underwriting funds can be difficult. It involves not just the firm and its management team, but each individual portfolio company within the funds. Firms can have multiple funds, each with numerous portfolio companies, making the underwriting process intricate.

Underwriters need detailed information about each portfolio company, including financial health and performance metrics. This is important since financial distress (especially bankruptcy) of a portfolio company is a key driver of claims activity.

Investor letters and reports provide insights into the health of the portfolio companies and the overall performance of the funds. They help underwriters understand the underlying risks and exposures.

Since much of the exposure is embedded within the portfolio companies, detailed analysis and documentation are necessary, and including information on items like the percentage ownership, firm's board representation and even underlying insurance purchased at the portfolio company level is expected. This information is not publicly available, making it crucial to gather and provide it comprehensively in the submission.

By understanding and compiling this detailed information at the onset, you can ensure that your submission is robust and complete, which will facilitate a smoother underwriting process and better outcomes from insurers. Knowing what is required and why helps avoid dead ends and unnecessary delays, ensuring a more efficient and effective quote process.

Takeaway

Asset managers need customized insurance coverage that caters to their specific risks and regulatory needs. A thorough and detailed application is necessary for getting comprehensive coverage, especially for intricate risks related to funds.

Recognizing the difference between standalone and modular policies, as well as the significance of specialized fund coverage, guarantees strong protection. Choosing the right policy framework allows asset managers to effectively minimize their exposure to different liabilities and uphold financial stability.

We help you win

Amwins is a leading professional liability insurance broker specializing in financial, professional and management risks. Our experts across the country, and around the world, collaborate to deliver the right solution for your clients.

Contact your Amwins broker today to learn more about providing insurance for asset managers.

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