

# IN A VOLATILE BUSINESS CLIMATE, THE RIGHT PROTECTION CAN MAKE ALL THE DIFFERENCE.

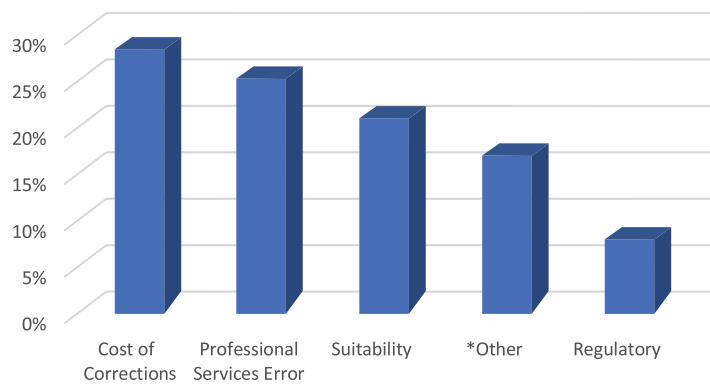
With dedicated underwriting and claims teams, The Hartford is prepared to provide comprehensive solutions coverage. Our coverage can help insure against potential damages, settlement awards and defense costs stemming from investment advisory activities.

## RISK IS A DYNAMIC

### EXPOSURE

that every Registered Investment Adviser (RIA) faces on a day-to-day basis. The Hartford understands these complex and evolving risks and provides solutions to help mitigate them.

Claims Experience - Prior 5 Years



\*Other includes Directors & Officers, Employment Practices and Fraudulent Transfers.

Take a look at these claim scenarios, which demonstrate the types of exposures RIAs face and how The Hartford products can help.

## CLAIM 1: COST OF CORRECTIONS

### What happened

Cost of Corrections claims including traditional trade errors when placing orders to buy or sell equity securities, *typically unknown by the investment advisers' client*. This can include overlooking an order to sell or buying or selling an incorrect number of shares. However, more complicated issues may also lead to a Cost of Corrections claim under the policy including:

- Data input errors in electronic trading platforms resulting in incorrect implementation of trade-related restrictions, notifications, alerts, etc.
- Errors resulting in the failure to follow redemption or conversion protocols for fixed income investments.

### What followed

Payments ranging from *nominal amounts* exceeding the retention to *limit losses*.

### What could help

Advisers should ensure policies and procedures are up to date, as well as maintain a trade error log. Cost of Corrections issues should be evaluated at least annually, along with updates to business practices that will potentially eliminate future errors.

## CLAIM 2: PROFESSIONAL SERVICES ERROR – UNAUTHORIZED SALE OF AN INVESTMENT

<b>What happened</b>	Alleged breach of contractual and fiduciary obligations to a client. More specifically, the investment adviser sold a stock position that their client had intended to hold. The stock had increased in value after the sale.
<b>What followed</b>	Loss exceeded \$250,000
<b>What could help</b>	Implementing clear investment advisory agreements with clients, as well as up-to-date system notes, alerts and rules to ensure the contractual obligations are met.

## CLAIM 3: UNSUITABLE INVESTMENT SELECTED BY THE INVESTMENT ADVISER

<b>What happened</b>	Speculative trading and high-risk investments were purchased in clients' retirement accounts.
<b>What followed</b>	Loss exceeded \$1,000,000
<b>What could help</b>	<p>Under the Employee Retirement and Income Security Act of 1974 (ERISA), an Investment Adviser has a fiduciary duty to act solely in the interests of the participants with care, skill, prudence, and diligence then prevailing that a prudent man acting in a like capacity and familiar with such matters would use. Avoiding use of high-risk investments and trading strategies helps prevent suitability claims.</p> <p>Additionally, certain states require advisers, by law, to identify and report elder abuse. Recognizing red flags is the key to early abuse detection and prevention. This can include frequent, large withdrawals. Putting strong policies and procedures in place to directly address elder abuse is imperative.</p>

## CLAIM 4: SOCIAL ENGINEERING FRAUD

<b>What happened</b>	The fraudster, who appeared to be an existing vendor, requested a wire transfer to their new bank account and provided this information. The transfer was then made to the fraudster's account.
<b>What followed</b>	Loss exceeded \$250,000
<b>What could help</b>	Social engineering scams can be costly. However, if employees know the signs of potential fraud, they can help prevent these losses. <b><i>The most important way to prevent these losses is by call-back verification to a pre-determined number for changes to bank account information and large and/or repeated transfer requests.</i></b>

## CLAIM 5: REGULATORY

<b>What happened</b>	During a routine SEC review, the examiner observed that the investment adviser was calculating fees and assets under management incorrectly. This resulted in both the underbilling and overbilling of fees in certain years, as the investment adviser's fee disclosures didn't match their actual billing practices.
<b>What followed</b>	The investment adviser was required to pay back clients for the excessive fees that were charged. Defense costs toward legal fees were over \$1 million.
<b>What could help</b>	Implementing policies and procedures to address supervision, calculation, review and billing of advisory fees.

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