



Enhanced Liability Insurance for Financial Advisors post FMA

You can now access professional negligence insurance which provides better protection for the claims most likely to be made against you as a financial advisor

It is easy to imagine a client making a claim against an advisor when they believe they have suffered a loss in investment value. No matter how spurious the claim is, an advisor would be required to defend their actions through a potentially costly and time consuming legal battle.

The problem to date...

Until now professional negligence insurance for investment advisors has generally provided only restricted protection in respect of claims where negligence is alleged.

That cover has suffered from limitations with these most often being:

- ▶ Cover limited to a maximum Limit of \$50,000 for all claims
- ▶ Cover not provided to settle a claim (restricted to defence costs only)
- ▶ For cover provided under a scheme; the limit for all Insured Advisor's capped at a maximum of \$1,000,000, creating a 'first come, first served' scenario (i.e. the limit could be used up by others and not available to you if there was ever a 'run' on claims)

Where cover now goes further...

A new insurance scheme now provides more meaningful insurance protection with the key features being:

1. Cover for 'legacy' risk^(a)
 - cover applies not only to defence costs but also to any payments required to settle the claim (it can be more cost effective to settle with the claimant than to go through a protracted legal process)
 - the limit is \$50,000 for each claim **and up to \$100,000 for all claims in the policy period**

- **no overall cap applying to any other parties insured under this Scheme.**

^(a)(essentially claims arising out of acts prior to the new regulatory regime)

2. Where you can demonstrate that you are acting in compliance with the regulations set out under statute and industry established codes of conduct the limit increases to \$50,000 for each claim **and up to the full policy limit in respect of all claims in the policy period.**

3. Where you hold a compliance certificate^(b) then your limit increases as follows:

- Without additional premium – to **\$200,000 for each claim and up to the full policy limit in respect of all claims in the policy period.**
- If requested for an additional 10% of the underlying premium – to **\$500,000 for each claim and up to the full policy limit in respect of all claims in the policy period.**

^(b)An insured must possess a valid and up to date compliance certificate following an independent review process by a suitably qualified and recognised compliance organisation.

This new scheme is available to any 'non-aligned' investment advisor.

The insurers are various syndicates at Lloyds of London (accessed through underwriting agency DUAL New Zealand Ltd). The Security rating for Lloyds is A+ as at 09 September 2010.

The broker to this scheme is Aon New Zealand and you can apply for terms by contacting:

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Aon New Zealand

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