



## Risk Management Tip for Financial Advisors

By: Andrew J. Fotopulos

Over my 30 years working with financial advisors, I often find firms who utilize one of their clients to handle their Error & Omissions (E&O) Insurance. When we do, we scratch our heads because this decision could lead to unintended consequences, particularly in the areas of privacy and secrecy. This dual capacity scenario is akin to sports controversies where a team's questionable activities are leaked to the public. Having your dirty laundry aired in public could be quite 'deflating' to your business.

The justification for having a client also as your firm's Professional E&O broker is they invest money with you so you feel obliged to reciprocate to secure/retain their assets. The client, now insurance broker, isn't typically satisfied with just your Office Package Policy and Worker's Comp. They want your E&O because it's often a "bigger ticket item." We'd argue this is not in your best interest.

1. You may be unintentionally trading assets to manage for coverage expertise, market specialization, and expanded leverage and/or access to key insurers. Is their investment really worth the millions in increased exposure you may face?
2. Unfortunately, financial firms like yours receive a claim made against them, face formal investigations or subpoenas, or have a routine regulatory inspection reports say unflattering things about them. Do you want a client (who's also your insurance agent) to see this information?
3. Equally troubling is when someone within that same agency gains access to this information and inadvertently discloses it over a few cocktails. Bad news travels quickly so is it worth the reputational risk?
4. Seeing your controls, policies, and procedures you may (or may not) have in place may jeopardize holding onto the same assets you wanted to retain.
5. Worse, their dual capacity can lead them to a third role - as a claimant. They learn from your dirty laundry how to formulate their own claim against you.
6. Now, the once harmless decision of dual capacity turns into a multi-headed hydra when the now claimant takes their claim to your E&O carrier for adjudication. Who has the ear of the carrier and who is more important to the insurer?

In the end, we all recognize an angry investor can be your worse enemy in the claim process. Why make matters worse by giving them the keys to the kingdom? Your fate may be in their hands.

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