



Legal Risk Management Tip April 2007

Protecting Yourself—Errors and Omissions Insurance: The Must Have Insurance for Every Firm and Individual

Errors and Omissions Insurance (“E & O”) is one of the most important policies that financial institutions and advisers should obtain. E & O protects the business organization, its officers, directors, and employees in the event a client asserts a claim as a result of any mistake or failure to act on the part of the firm or adviser. Errors insurance covers various faults, including but not limited to inaccuracies, miscalculations, oversights, trade errors and legal fees. Omissions coverage pertains to any non-fraudulent failure to act by the firm or individual.

Contrarily, general liability insurance is not the same as E & O. General liability insurance does not cover lawsuits resulting from investment mistakes or failures to act. E & O coverage also should not be confused with Directors and Officers Insurance (“D & O”). D & O only covers the firm directors and officers from potential lawsuits brought forth by stockholders, employees, clients and other parties for which the directors and officers are responsible.

Examples of How E&O May Provide Protection:

- **Unauthorized Trades**
- **Misappropriation**
- **Trade Errors**
- **Breach of Fiduciary Duty**
- **Breach of Contract**
- **Failure to Supervise**
- **Misuse of Authority**
- **Material Inaccuracies**
- **Inadequate Research**
- **Solicitation Discrepancies**

It is important to note that E & O insurance will cover all of the above mentioned examples so long as the error or omission does not involve a fraudulent violation of industry rules and regulations.

How E & O Coverage Works

E & O has various levels of coverage ranging typically from \$500,000 to \$2,000,000+ depending on your business model. Similarly, the retention and cost of E & O coverage varies. E & O providers take into consideration a multitude of factors including, but not limited to, the level of risk your business will assume, number of employees with professional designations and assets under management in discretionary and non-discretionary accounts.

E & O is an important safeguard for your business. While there are other forms of insurance that also should be considered dependent upon your business model, E & O insurance has a place in every securities business.

Michelle L. Jacko, Esq., CEO of Core Compliance & Legal Services, Inc. (“CCLS”) and Managing Partner of Jacko Law Group, PC. CCLS works extensively with investment advisers, broker-dealers, investment companies, hedge funds and banks on regulatory compliance issues. For more information about this topic and other compliance consultation services, please contact us at (619) 278-0020, info@corecls.com or visit www.corecls.com.

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