Financial Institution Loss Scenarios from Chubb

Contract Stipulation Overlooked

COVERAGE SECTION	Investment Advisors Errors & Omissions Liability
Cause of action	Failure to Adhere to Contract Provisions
Type of organization	Investment Adviser
Number of employees	Under 20

DESCRIPTION OF EVENT

An investment adviser managed a large public pension retirement fund. The fund manager sent a letter to the adviser stating that the adviser's contract was being terminated at the end of the business day and instructing the adviser to cease trading at that time. That day the adviser liquidated the portfolio of thinly traded securities and put approximately 75% of the funds in cash or cash equivalents. The advisory contract contained a stipulation that the adviser must advise the client if more than 25% of the fund's assets are cash, but the adviser did not advise the fund manager for several days. During that time, the stock portfolio, had it remained intact, would have increased in value by more than $10 million. The fund sued the adviser, alleging failure to adhere to contract provisions.

RESOLUTION

The case settled for over $8 million.

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Could this happen to your organization? Contact your trusted Chubb agent or broker.

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