Launching a Fund? Here's Why Insurance Deserves a Seat at the Table

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As you contemplate your new fund launch, and for some of you, launching a new investment management firm will also come into play at the same time, this is a major undertaking—demanding significant time, energy, resilience, and financial resource.

Navigating the complex path of securing investors, ensuring that you are up to speed with the ever-changing regulatory requirements, and appointing the right service providers is no easy feat. This high-stakes journey calls for robust protection—not only for your business and team, but for your investors as well.

This is where the financial institutions insurance market plays a pivotal role. Securing effective, reliable insurance coverage is essential—and doing so requires the guidance of a seasoned, specialist broker. The right broking partner can craft a tailored insurance strategy, connect you with top-tier insurers, and ensure you are well-covered should things take an unexpected turn. Just as importantly, they can help manage costs without compromising on quality.

In the sections ahead, we'll outline the key types of insurance you should consider, what each cover, and who benefits. We'll also provide a user-friendly "cheat sheet" of common insurance terms, along with practical advice on how to position yourself for the best possible insurance outcome. Additionally, we'll touch on important technical considerations for those planning to work with a third-party 'ManCo'.

TYPES OF INSURANCE NECESSARY – WHAT DO YOU NEED?

The most effective and wide-reaching insurance solution available for covering the needs of an investment manager, their fund, and associated entities is the Investment Manager Insurance ("IMI") policy—known in the U.S. as a General Partner Liability ("GPL") policy.

These policies are modular in design, giving firms the flexibility to choose coverage across the following areas:
a) Directors' & Officers' Liability for the fund manager
b) Fund Liability and Fund Directors' & Officers' Liability
c) Professional Liability / Errors & Omissions (E&O) for the fund manager
d) Crime and Fraud
e) Employment Practices Liability for the entity
f) Regulatory Investigation and Response

At a very minimum, managers are strongly advised to include coverages a) through d), as well as f).

For Alternative Investment Fund Managers (AIFMs) that choose to satisfy their Professional Liability insurance obligations through coverage (rather than holding 'own funds'), specific regulatory requirements apply. These include an annual limit equal to 0.9% of relevant assets under management and a per-claim limit of 0.7%, separate from broader capital requirements.

It's also important to understand that these policies typically operate with a defined annual coverage pool—known as the "annual aggregate limit"—rather than offering unlimited protection per claim per year. This aggregate limit can be fully used by a single claim but is designed to cover all claims made within the policy year.

Crucially, firms should pay close attention to when discussions began with prospective investors and service providers. Coverage must be in place from the point where any liability could reasonably arise.

While insurance protection may not be mandatory, certain regulatory frameworks—such as the Alternative Investment Fund Managers Directive (AIFMD)—require managers to allocate capital as an alternative to insurance. However, meeting regulatory minimums alone should not be mistaken for a thoughtful, strategic approach to risk management. Comprehensive insurance is not just a compliance exercise—it's a key component in safeguarding your firm's future, your people, your investors, and your reputation.

BOTTOMS VERSUS BALANCE SHEETS – HOW DOES THIS WORK?

For most firms, the use of custodians, depositaries, and administrators significantly reduces the risk of criminal loss. Instead, the bulk of liability exposure typically arises from the obligations set out in the fund's governing documents. This makes **Professional Liability insurance**—also known as civil liability cover—a critical layer of protection.

Professional Liability coverage is designed to protect against claims stemming from the firm's professional services and activities, including those provided to funds, managed accounts, and similar clients. In contrast, **Directors' & Officers' (D&O) Liability insurance** addresses the personal liability risks faced by individuals in leadership roles—namely directors, officers, partners, and members—as a result of decisions made in the course of their duties.

In simple terms: Professional Liability insurance protects the firm's balance sheet, while D&O insurance protects the individuals steering the business.

UNDERSTANDING 'INSURANCE TALK'

Insurance terminology can often be complex and unintuitive. Below is a breakdown of key terms, their typical meanings, and important provisions to be aware of:

Retroactive Date or the Retro Date

This is the date from which your activities are covered under the policy.

For newly launched firms, coverage typically begins on the official trading start date. However, it's crucial to recognize that many high-risk, exposure-generating activities occur well before launch—such as engaging investors, drafting fund documentation, appointing service providers, and recruiting key personnel. These pre-launch actions can give rise to both professional liability and directors' and officers' (D&O) exposure.

Therefore, it's essential that the Retro Date aligns with the earliest point at which these foundational **activities** began—not just the date the firm went live.

Limit of Liability / Indemnity or otherwise referred to as the Policy Limit

This refers to the total amount of coverage—or the "pot of money"—available to respond to claims made under the policy.

Typically, this is set on an annual basis and represents the maximum the insurer will pay out for all claims during the policy period.

Aggregate Limit

Put simply, the **Aggregate Limit** is the total amount of coverage available for **all** claims made during the policy period—typically over 12 months.

Once this limit is exhausted, no further claims will be paid under the policy, regardless of the number or size of claims

Deductible / Retention
This refers to the amount your firm must pay out of pocket in the event of a claim—similar to an "excess" in other insurance contexts. It's the portion of financial responsibility you must absorb before the insurer steps in to cover the remainder of the claim.

Exclusions
These are specific activities, events, or behaviours that are not covered under the policy. Exclusions define the boundaries of coverage and must be carefully reviewed and negotiated to ensure they don't unintentionally limit critical protection.

Circumstance(s)
A circumstance is an event, issue, or situation that has the potential to give rise to a claim—even if no formal allegation or complaint has been made yet. These insurance policies rely heavily on timely notification, meaning any such circumstances should be reported to the insurer as soon as they are identified, in line with the policy terms.

Conditions
These are the obligations your firm must meet to maintain full entitlement to coverage. Failure to comply with policy conditions—such as timely notification or cooperation with insurers—can result in denial, limitation, or reduction ("haircut") of the claim payment.

Claims Made
This is a defining feature of many financial lines insurance policies. Coverage is triggered when a claim is made (and reported) during the policy period, regardless of when the underlying act or omission occurred. If the policy has lapsed or is not active at the time the claim is made, coverage will typically not apply—even if the incident happened during a prior policy period.

PRESENTING YOUR FIRM EFFECTIVELY TO INSURERS

Think of your insurance policy as a financial backstop—it helps collateralize your business and safeguard against risks that could significantly impair or even jeopardize your firm's financial stability.

To get the best outcomes from your insurance program, **transparency, collaboration, and trust** must underpin your engagement with insurers. A well-prepared and professionally presented submission fosters confidence and can directly influence pricing, coverage scope, and claims responsiveness.

Appointing an experienced, specialist broker is key. The right broker doesn't just place coverage—they act as your strategic advisor, helping you position your firm credibly and clearly to underwriters, ultimately ensuring your premium delivers maximum value when it's needed most.

MANAGEMENT COMPANIES AND DELEGATION

The contractual landscape in the alternatives space is intricate—particularly under regulatory regimes such as **UCITS** and **AIFMD**, where the use of **Management Companies (Manco's)** and outsourced arrangements adds further complexity.

Delegation structures can carry significant operational and liability implications, making expert interpretation essential. Once again, the involvement of a seasoned broker with deep sector knowledge is not just helpful—it's essential to ensure your risks are properly understood, assessed, and covered.

THE RIGHT WORDING – WHY IS THIS SO CRITICAL?

The right insurance policy wording is critically important for asset managers and funds because it directly determines **what risks are covered**, **how claims are handled**, and **the extent of financial protection** provided. Here's why it's especially vital:

1. Tailored Coverage for Complex Risks

Asset managers and funds face unique exposures—such as errors in investment decisions, regulatory investigations, and breaches of fiduciary duty. If the policy wording isn't specifically tailored to these risks (e.g., through proper Directors & Officers (D&O), Professional Indemnity (PI), or Crime insurance), coverage gaps can leave them financially vulnerable.

2. Clarity During Claims

Insurance claims often hinge on exact wording. Vague or poorly defined terms (e.g., "wrongful act," "loss," "professional services") can lead to delays, disputes, or denials. Precise language helps avoid ambiguity and ensures faster, smoother claims resolution.

3. Regulatory and Investor Expectations

Investors and regulators expect robust risk management. Clear, comprehensive insurance policies signal that a fund or manager has strong governance. This can influence investor confidence and even due diligence outcomes.

4. Coverage Consistency Across Jurisdictions

Funds operating across multiple countries need wording that accounts for local regulations and legal standards. Poorly drafted wording can lead to compliance issues or non-enforceable coverage in some jurisdictions.

5. Mitigation of Emerging Risks

With evolving threats like cyber-attacks, ESG-related liabilities, and changing regulatory landscapes, policy wording must be current and flexible enough to address these emerging risks. Outdated wording may exclude these exposures.

We cannot emphasize enough how critical the right wording is, and the right wording, specific to you. When wrong or inaccurate wording is used, this can result in denied claims or uncovered risks—potentially exposing funds and managers to millions in losses. Customized, carefully reviewed policy language is a cornerstone of effective risk management in asset management.

At IndemniFI, we pride ourselves at being at the forefront of the funds industry, to work with our clients during every step of their journey, whether they are an emerging manager or an established manager or service provider. Reach out to our team to chat about your upcoming needs, so we can ensure that your launch is a smooth one and you are protected for the unexpected.