

Financial Institution Loss Scenarios from Chubb



Not the Client's Intention

COVERAGE SECTION	Investment Advisors Errors & Omissions Liability
Cause of action	Failure to Follow Investment Guidelines
Type of organization	Investment Adviser
Number of employees	Under 25

DESCRIPTION OF EVENT

An investment adviser had discretionary authority over approximately \$75 million of the client's assets. The employee in charge of the account believed that the client intended that the account be used as a hedging fund for the rest of the client's investments and therefore took a substantial short position in U.S. Treasury securities. As interest rates rose, the account's value declined by two-thirds in one month. The client sued the adviser and its directors and officers, claiming that he had directed the adviser to invest the account conservatively and had been led to believe that the funds were invested in Treasury bonds, thereby reducing the risk of loss.

RESOLUTION

The claim settled for more than \$20 million.



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

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