



FINANCIAL INSTITUTIONS CLAIMS EXAMPLES

A claims experience that delivers on our promises to Financial Institution customers



1. A bank faces the theft of funds

Travelers insured a UK high-street bank. One of the bank's customers (a UK-listed plc) routinely made quarterly payments to a third party of amounts ranging from £350,000 to £500,000. In respect of each payment, a director at the firm would email the bank, setting out instructions for the transaction in a pre-agreed format.

The insured received a set of instructions requesting it to make eight payments of £100,000.

Even firms with controls in place can be the victims of fraud.

The request for payment was discovered to be fraudulent, though not until after approximately £450,000 had been transferred. This kind of situation is increasingly common.

Sophisticated fraud requires sophisticated protection.

As fraud becomes increasingly complex, financial institutions must have protections in place to prevent it, investigate it and minimise the damage it can cause. Once the insured notified Travelers of its loss under the terms

of its crime policy, we paid the legal costs it incurred when investigating the extent of its responsibility for the fraud. We then reimbursed the insured after it reached a settlement with the customer

“We are grateful for the speed and efficiency with which you have dealt with this claim.”



2. A fund manager's trading error leads to a loss

Travelers insured a London-based investment advisor that operated an in-house fund on behalf of professional investors. In response to market conditions at the time, the insured's investment committee decided to reduce the fund's equity exposure by selling a proportion of futures contracts on the S&P 500 index in two tranches. However, in the process of initiating two sales, the insured inadvertently sold twice the number of contracts intended.

A reversal was attempted but came too late. The insured aimed to rectify the error by repurchasing the extra S&P contracts on the reopening of the relevant futures market on the evening of the following day. However, in the time between the erroneous sale and the repurchase, the markets moved against the insured, resulting in a loss of approximately USD 1 million.

Financial Institutions liability insurance protects against claims of negligence or error. Following an investigation of the incident and a review of available evidence, Travelers reimbursed the insured for this loss.

“May I express my thanks to you for your efforts on this matter; they have been very much appreciated. The insured also would like me to pass on thanks for your support in what has been a very worrying time for them.”



3. An investment manager must defend against a hack into its client database

Travelers insured an investment manager based offshore. The insured's IT team noticed some unknown files on the company server, following which a further review by the IT team revealed that a third party had obtained access to the insured's computer systems. The insured was concerned about the theft of money or client data, as well as the risk of a subsequent regulatory investigation.

Correct cyber cover is key

Having the right cover helped our insured investigate the problem and get back to business quickly. Our insured's Financial Institutions insurance policy underwritten by Travelers included the option of cover for forensic investigation following discovery of a data security breach. Fortunately, the investigation had isolated the threat at an early stage and there had been no theft of money or data from the insured or any of its clients.

“I would like to thank insurers for their support in relation to this claim, which has been much appreciated.”



4. A wealth manager breaches its investment mandate

Our insured, a wealth manager based in London, employed a portfolio manager who oversaw a number of accounts that came with a mandate to invest partly on a high-risk basis. As a result of the global financial crisis in 2008, the portfolio manager had

taken a conservative approach to all investments regardless of mandate. This had resulted in profits for the investors until around 2012, when the accounts started to lose money.

The insured received a complaint from an investor saying the manager had breached the investment mandate by not making enough “high-risk” investment decisions, which had allegedly resulted in a loss to the portfolio.

Having Travelers cover helped the insured preserve client relationships.

We worked with the insured to establish any liability and to mitigate any loss from potential legal/regulatory action. We reimbursed the insured in respect of its compensation to the affected customers.



5. A fund manager based offshore is defrauded by a broker

Travelers insured a fund manager based offshore which managed funds on behalf of segregated portfolio accounts. The insured was responsible for making and executing all investment decisions on behalf of the funds. The insured appointed a third-party execution broker to carry out trades on its behalf, then transferred sums exceeding USD 10 million to this broker for trading. On a regular basis, the broker sent electronic statements of account back to the insured to show the results of the trades and profits/losses, and the fund manager made intermittent withdrawals.

Some years after appointing the broker, the insured heard rumours suggesting the broker was involved in a fraud. The insured demanded repayment of the balance of the funds (together with the profits from the trades), but, to its horror, was told the broker could not pay. It was discovered that the money had been stolen and the broker's

principal had vanished. There was no realistic chance of any recovery.

Knowing how to spot fraud doesn't prevent large losses But it can help mitigate the risks.

A rising global awareness of fraud, a more robust response rate and greater clarity around what fraud actually means, allows insurers to act quicker to help the insured.

Having the right cover protected the fund manager's business.

Fortunately for the insured, Travelers insured both the fund manager and the funds for crime losses. After confirming that the money could not be recovered, Travelers reimbursed the funds for their losses.



6. Asset manager is investigated by a foreign regulator

Our insured, an asset manager based in London, received a notice from the German Federal Financial Supervisory Authority (BaFin) alleging that it had breached certain regulatory requirements regarding positions it held within the German regulatory jurisdiction. BaFin had concluded that the insured had made numerous breaches, and, under German law, each individual breach was punishable by a fine of up to €1 million.

Ultimately, BaFin closed its investigation and imposed a relatively small fine on the insured. The insured incurred external legal costs in seeking advice throughout the process.

Travelers cover provides the legal protection customers need in an increasingly litigious world.

The insured's policy with Travelers offered cover for the legal costs of defending the investigation.

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