

Hedge Fund Case Study

Client Concern/Issue:

A U.S. based hedge fund invests primarily in short duration commodities contracts. The fund's day to day trading activities are all done electronically, and thus, any resulting breakdown with their computer systems or power outage at their office would affect their ability to operate. In addition, the hedge fund is concerned that the loss of one or more of their Portfolio Managers would be detrimental to the financial strength of the fund.

ERS Solution:

ERS worked with the hedge fund to create a captive to insure against the potential loss of several Critical Employees, any covered expenses they might incur as a result of a Governmental Action and their loss of revenue due to a Mechanical Breakdown of or loss of power to their computer system. Secondly, they worked with the domicile to tailor the Governmental Action coverage form to specifically provide coverage for SEC fines and penalties up to a \$250,000 policy limit.

Results/Benefits:

The hedge fund has successfully financed risk unique to their business and outside of the scope of their primary insurance policy each of the four years and has generated an underwriting profit within the captive. In the current year the insured is anticipating a significant decrease in operating income due to poor performance by the fund in the first 2Qs. They have decided not to buy coverages through their captive this year and have placed the captive in dormancy. This is an effective strategy to keep the captive operating and available for use in the future without dissolving the captive. Once the fund rebounds, they would like to continue financing risk through their captive insurance company.

Disclosures

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