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# Risk Retention Reporter

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## **New Nevada RRG to Insure Financial Planners & Broker/Dealers**

A new Nevada-domiciled risk retention group formed as a reciprocal insurer and licensed on January 1, 2007 will provide professional liability for financial planners and broker/dealer firms who belong to **Financial Advisors Legal Association (F.A. Legal)**, a Las Vegas, Nevada-based association established in 1999.

According to Jerry Reiter, who founded F.A. Legal and serves as chairman of the RRG as well as a manager of the RRG's attorney-in-fact — **Financial Advisors Assurance Select Managers, LLC** — also based in Las Vegas, an integral part of the RRG is a risk management program that has its roots in a continuing education company founded by Reiter in 1989 which has since evolved into F.A. Legal.

Reiter explains that, as the association was a natural outgrowth of the continuing education company, enabling the expansion of services to provide legal referrals and defense to individuals and firms who were increasingly faced with a staggering rise in legal claims, so is the RRG an outgrowth of association members' need for comprehensive liability coverage.

"Our motto then and today," says Reiter is, "always place litigation prevention first." This motto, which forms an integral part of the RRG, requires member/insureds to adhere to the *eDefense Manager*, a propriety comprehensive educational and risk management program developed by F.A. Legal that emphasizes good record keeping. "Documentation is the key to defending claims," says Reiter, likening the documentation used to defend a claim to the ammunition used in the Old West.

The RRG was capitalized with \$1.2 million cash provided by F.A. Legal through a surplus note that can be repaid after five years with regulatory approval. RRG insureds are required to make a one-time \$500 surplus contribution. In addition, members will pay annual premium in the range of \$1,350 plus association dues. Reinsurance for the RRG is currently being negotiated with London brokers.

The RRG offers claims-made policies with limits of \$1 million per occurrence and \$2 million in the aggregate, with defense costs included in policy limits. The RRG covers only those claims that go to arbitration, and excludes those that go to trial. For claims brought against individual financial planners in their own practice, the policy requires a \$2,500 deductible which goes towards payment of legal expenses. If the claim is

settled, the insured must also contribute \$10,000 indemnity of the settlement amount.

If the financial professional is affiliated with a broker/dealer firm, the RRG will also cover the broker/dealer as an additional insured, provided the broker/dealer makes a surplus contribution to the RRG on behalf of the individual. For broker/dealer firms that have made contributions for all affiliated financial professionals, the deductible is \$2,500 and the indemnity is \$10,000 toward to the settlement amount.

For broker/dealer firms that have made surplus contributions of less than one hundred percent for their affiliated financial professionals, the legal and indemnity settlement costs increase to three times what individuals pay, to \$7,500 and \$30,000 respectively for a settled claim. Ted Hall, president of Las Vegas, Nevada-based **CHSI Captive Insurance Managers, LLC**, the RRG's captive manager that assisted in its formation, explains that the cost structure for broker/dealers was developed to incentivize the firms to make contributions for all their affiliated professionals. Reiter says that approximately 30% of F.A. Legal's membership is comprised of broker/dealer firms, with about 70% consisting of individual members including insurance agents, registered representatives from NASD firms, commodity traders, financial advisors, and certified financial planners.

The RRG, which is in the process of registering with state insurance departments as required by the Liability Risk Retention Act, will be available to F.A. Legal members in all states.

In addition to CHSI, which is providing captive management services, and Financial Advisors Assurance Select Managers, LLC, which providing day-to-day administrative services, other service providers include: **Albright, Persing & Associates, Ltd.**, based in Reno, Nevada, which is providing auditor services; **Towers Perrin**, based in Minneapolis, Minnesota, which is providing actuarial services; **F.A. Legal**, based in Las Vegas, which is providing underwriting, claims, legal, and risk mitigation services; **Jones Vargas**, based in Las Vegas, which is providing legal services; and **Bank of Nevada**, based in Las Vegas, which is providing banking services. Investment services are to be determined.