

Hedge fund advisers paying higher PI rates

HEDGE FUNDS

by Jennifer Aaron

Professional indemnity insurers possess little knowledge of the fund of hedge fund industry and are hiking premiums for advisers who recommend them as a result, warns Cockburn Lucas.

Mike Horseman, managing director for Nottingham-based IFA Cockburn Lucas Independent Financial Consulting, said there was a cloak of security surrounding hedge fund managers' method of investing.

He said: "There are a lot of advisers who are unsure whether they have approval to market that kind of product to clients.

"Sadly, professional indemnity insurers do not understand hedge funds or fund of hedge funds so they put excesses on premium.

"I have PI cover which protects me if I give bad advice on a retail product, but I will pay a premium to them if I start recommending fund of hedge funds to clients because they become a

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Mike Horseman,
Cockburn Lucas



bit wary when you mention that investment product."

Mr Horseman blamed the higher premiums he faces on the UK hedge fund industry for not providing a clearer description of the investment product and also the benefits.

He said: "The hedge fund industry should provide open, transportable education about hedge fund of funds.

"We need to work together with people in the hedge industry to help educate the FSA and PI people about why this strategy will make us more risk averse.

"There is plenty of evidence to suggest if you are including an element of hedge within a portfolio you are technically increasing the efficiency of the portfolio."

Gordon McAra, head of communications for the Alternative Investment Management Association, said he was surprised hedge fund investing would have an impact on PI cover.

He said: "Maybe the underwriters could be taking a draconian view on things or they just have limited information about the area."

Last year, the FSA produced a note on opening the retail market to hedge fund investing, which would mean making it available as a fund of hedge funds.

However, Aima pointed out that putting together a compliance structure to deal with the retail market could prove to be

difficult and would take some time.

Tracey Mullins, director of public affairs for the Association of Independent Financial Advisers, said: "PI insurers have been known to become nervous when a regulator comes out and

says it would be reviewing a product. They, like other insurers, are influenced by external factors such as news headlines, which could be the issue surrounding hedge funds at the moment, as it has received a fair bit of coverage of late."



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