



More Hedge Funds Buying Key Man Life Insurance Post-Financial Crisis

Institutional Investors and Employees Driving Demand, Says SKCG Group

White Plains, NY – June 25, 2012 – Talk about key man. More than \$600 billion is currently managed by hedge funds whose founders will turn at least 60 in the next decade, according to Institutional Investor magazine. The retirement – or death – of star traders can wreak havoc on an asset management firm. “Billions of dollars worth of assets...are at stake,” the publication states in its June, 2012 cover story on the dearth of succession plans at hedge funds. That’s why institutional investors are pressuring hedge funds to buy key man life insurance to protect against the risk of a manager’s sudden demise, asserts SKCG Group, the risk management and insurance advisor to many of the world’s largest hedge funds.

“Hedge funds are unique. Their ‘product’ is achieving positive returns and that product is often completely dependent on the intelligence and skill of one or more individuals within the firm,” says David Parker, President of the Employee Benefits Division at White Plains, New York-based SKCG Group. “If a fund loses one of those individuals, the next step is often the dissolution of the company. Key man insurance can make the difference between an orderly wind down and a chaotic one,” he adds.

SKCG estimates insurance companies wrote 10% more key man policies in 2011, compared to 2008. It has become one more item on the institutional investors’ check list, a list that has been growing since the financial crisis caused investors to turn a keener eye to hedge funds’ operational risks, according to Parker.

Investors aren’t trying to insure against the loss of the manager so much as they are seeking to protect their investment by promoting an orderly transition or dissolution of the fund, says Parker. They worry about the time it takes to unwind illiquid investments, while other demands on the funds’ cash continue, such as paying rent and vendors. Cash from key man insurance can go a long way towards alleviating those concerns.

Top level hedge fund executives are also driving demand, according to SKCG. Often they have left secure jobs for positions at hedge funds where year-end bonuses are important contributors to their compensation. If something happens to the fund manager, they may not get them.

“Hedge fund employees are realizing this aspect of risk and they’re looking for more security,” comments Parker, “They know that if a key man insurance policy is in place to provide liquidity for the firm, they are going to be in a better position as they seek new opportunities,” he adds.

In comparison to other policies investors are asking funds to purchase, key man insurance is relatively inexpensive. A 35 year-old hedge fund manager in good health can buy a 10-year, \$10 million term policy with a guaranteed premium for approximately \$3,000 a year, and \$20 million in coverage for about \$6,000, according to Parker. Its low cost may be contributing to the rise in demand, Parker posits.

“If an investor is asking for something in their due diligence check list that is not costly, like key man life insurance, fund managers eager to attract assets will consider the coverage,” Parker adds.

About SKCG Group

SKCG Group is one of the 15 largest insurance and risk management advisory firms in the United States. SKCG serves U.S. and international commercial and private clients who require sophisticated advice addressing multiple risk factors. SKCG’s technical expertise in identifying and analyzing risk, coupled with its ingrained culture of senior-level attention and client service, results in high levels of customer trust and loyalty. From insurance and private client services to group benefits and retirement planning services, SKCG’s marketplace success is due to its industry knowledge, analysis, experience and unique carrier relationships. Among SKCG’s numerous disciplines are Real Estate Owners and Developers, Financial Service Firms including Asset Managers and high net worth individuals and families. SKCG is a subsidiary company of AssuredPartners, Inc. To learn more please visit www.skcg.com.

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