NEWSLETTER

Professional Services Exclusion Precludes Coverage for Improprieties by Trust Manager

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In an unreported decision, a Minnesota appellate court has held that a professional services exclusion in a policy issued to a trust management and equity-investment management firm precluded coverage for claims arising out of the firm's alleged improprieties in the management of two client trust accounts. *Reinhardt v. Certain Underwriters at Lloyd's, London*, 2007 WL 900731 (Minn. Ct. App. Mar. 27, 2007).

The clients, who obtained the management firm's right to sue the insurer for failing to provide coverage, argued that the firm did not provide professional services. They relied in large part on the fact that the firm had checked a box in a renewal application indicating that it did not render "professional services for others for a fee or compensation."

The court first pointed out that the investment firm admitted that it provided professional services when it qualified its answer on the renewal application by adding language stating "No one outside our client base." The court also noted that it is settled Minnesota law that a "professional service" within the meaning of an insurance exclusion, "is one calling for specialized skill and knowledge in an occupation . . . The skill required to perform a professional service is predominantly intellectual or mental rather than physical." The court concluded that serving as a trust manager and equity-investment manager requires such specialized skills and thus "clearly involves professional services" under Minnesota law.