Risk Management for the Affluent

Property and Casualty Insurance

BY KIRK HODGSON

Property and casualty insurance—protection for homes, cars, fine art, jewelry, liability, etc.—is a critical part of personal wealth management, yet many high-net-worth consumers still view it as a footnote in their overall plans.

When one has substantial wealth, insurance should transcend policies. There are steps your clients can take, with the right provider, to proactively reduce exposure from the following:

- Liability lawsuits (prominence and wealth can make your client a target)
- Personal staff (housekeepers, nannies, chauffeurs, etc.)
- Teenage drivers
- Natural catastrophes such as wildfires and hurricanes
- Flooding
- Yacht ownership
- Threats to personal safety and security
- Personal business pursuits (farms, vineyards, family-office endeavors)

Recent innovations in the high-net-worth insurance marketplace have paved the way for robust risk-management solutions. There are three key players that specialize in property and casualty insurance for the wealthy: AIG Private Client Group; Chubb; and Fireman’s Fund, whose parent is the German company Allianz AG. Other options can be found in the Lloyd’s of London market, one of which is Hiscox PLC. Most wealthy U.S. consumers, however, buy insurance from mass-market carriers. The agents who represent these carriers may not be in a position to offer the breadth of coverage, high limits, or pre/post-event service of a specialist provider, which means that the availability of these benefits isn’t known until another trusted advisor tells them.

Advantages of Independent Insurance Advisors

Generally there’s a vast difference in quality and service between mass-market and luxury goods. The same is true for insurance, yet one doesn’t need to be a billionaire to benefit from a specialized program. If your client has a net worth in excess of $5 million, a mass-market insurance carrier may not be equipped to address your clients’ complex personal risk-management needs. The same concern holds true for mass-market agents and brokers. You’ll want to discuss these issues with your client and perhaps introduce an independent agent or broker who specializes in personal insurance for high-net-worth individuals and families. These professionals can customize an insurance program that fully protects high-value assets.

Another benefit of retaining an independent insurance agent or broker is that he/she works for your client, not an insurance company. If your clients are not regularly presented with options on how to address their insurance needs, it may be time for a change. A good advisor will test the market at least every two years, because of the following:

- The high-net-worth insurance landscape is evolving. Historically this was a stagnant market, but now there are frequent innovations.
- Better pricing may be available.
- As your clients accumulate assets, other offerings may become more relevant.

Identifying Common Pitfalls

Any one of a wide range of triggers should alert you to the need to discuss property and casualty insurance with your clients. The following are some of the circumstances that underscore the need for a more sophisticated approach to insurance.

The insurance program is messy. Your clients acquire assets over time, so it is not uncommon that they will insure them in the same haphazard manner. The summer residence, for example, may be with a different agent and carrier than the house in the city. The fine art may be insured independently from the cars. Whatever the combination, the result is fragmented, making insurance more difficult and expensive to manage. This unorganized approach also could cause gaps in coverage that aren’t revealed until a claim is denied.

There isn’t enough liability insurance in place. Does your client’s net worth exceed liability coverage limits? If a lawsuit puts your client’s personal wealth at risk, the last thing you want to worry about is running out of insurance. A specialist insurance carrier can offer up to $100 million in liability coverage on a single policy—to safeguard your client, your client’s family, and your client’s assets against claims of property damage and personal injury. In addition, value-added services such as complimentary background checks on domestic staff can further enhance protection.
There isn’t enough homeowners insurance in place. According to Marshall Swift/Boekh, which provides rebuilding costs for insurers, 59 percent of U.S. homes are underinsured, by an average of 22 percent.1 If one of your clients had to rebuild a home in today’s market, would the homeowners insurance sufficiently cover the expense? Many properties are insured based on values that are vastly underestimated, particularly after post-Katrina inflation on materials and labor. Your clients can offset costs due to increased coverage limits by taking higher deductibles; assuming more of the up-front risk may result in premium savings. The insurance carriers that specialize in covering luxury homes also have appraisers or risk-management specialists who visit homes to assess replacement costs of the structure as well as potential liability exposures, e.g., lack of pool fencing or loose stones in a walkway. Determining the accurate replacement cost means fewer out-of-pocket costs at claim time.

Your clients don’t know what’s excluded from their policies. As with any contract, someone should read the fine print. Each of your clients’ policies lists coverage exclusions. Don’t wait until claim time to find out what is—and is not—protected. A high-net-worth insurance provider is more likely to address the special circumstances that can come with wealth or simply offer coverages that traditionally have been ignored in the mainstream marketplace. The guidance of a seasoned, high-net-worth agent or broker can preempt this problem altogether.

Private collections are not insured properly. Distinct insurance coverage is available for fine art, jewelry, wine, antiques, and other collectibles, yet many include these items within a homeowners policy and unknowingly diminish their protection. Regardless of the overall policy limit, homeowners policies generally cap limits on contents coverage. The value of covered items also may be subject to depreciation. Insuring high-value collections more appropriately can provide broader, more-flexible protection.

No one has considered the insurer’s financial strength. In the event of a hurricane or other large-scale event, will the provider be able to pay your clients’ claims? In some instances, an individual’s net worth may rival, or exceed, the assets of smaller carriers. Look for financial strength and stability when choosing an insurer. Consider the major rating agencies’ (A.M Best, Standard & Poor’s, and Moody’s) assessments of the insurer based upon the company’s claims-paying ability.

Conclusion
Finding the right insurance professional to be a trusted advisor to your wealthy clients is an appropriate strategy for comprehensive risk management. Property and casualty insurance is a vehicle to protect both physical and financial assets from a myriad of risk exposures that affluent individuals and families face. An annual review of placed insurance can help identify changes in exposure and gaps in coverage—much like reviewing asset classes in a financial portfolio. The review should be administered by a trusted insurance advisor who can identify when one’s needs have outgrown the capabilities of the current carrier, and then deliver more meaningful solutions.

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Endnote