



Expectations of the High Net Worth Consumer

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Wealth Creates Risk

- There are 2.8 million people in the United States with investable assets (excluding real estate) of \$1 million or more.
- As individuals accumulate wealth, their insurance profile inherently becomes more complex.
- As an individual's wealth profile changes, often their insurance protection does not.
- A wealth manager is in a unique position to recognize potential red flags that create risk and recommend an appropriate insurance advisor.



Client Profile

needs

Core Personal
Insurance
Products

Annual Insurance
Review

Risk Assessment
& Risk
Management

Highly Specialized
Insurance Products &
Services

Mass Market

Affluent

High Net Worth

Ultra High Net Worth





- Investment Planning
- College Planning
- Tax Planning
- Retirement Planning
- Estate Planning

Risk Management Process



Risk Identification

Interview with the client to gather potential exposure to risk in the following categories:

- Real Property (Homes, Vacation Homes, Condos)
- Personal Property (Autos, Collections, Yachts, Aircraft)
- Personal Security
- Personal Liability

Risk Assessment

Quantification and analysis of risk based on the following factors:

- Stage of Life
- Current insurance portfolio
- Magnitude of risk as identified in the previous step

Risk Mitigation

Solutions to prevent and minimize exposure to identified risks. For example:

- Water, fire, and intruder detection systems
- Software and internet firewalls
- Trusts and LLC's

Risk Transfer

Develop an insurance solution most suitable to the remaining risks, including:

- Self-insurance
- Property & Casualty products



In the past 12 months, how often have you discussed each of the following types of property & casualty insurance risk with your clients?

	Often	Sometimes	Rarely	Never	Rating Average	Response Count
Auto	15.8% (29)	27.2% (50)	29.3% (54)	27.7% (51)	2.69	184
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My Client's Universe

How do I address:

- Homeowner Insurance
- Valuable Articles Insurance
- Liability Insurance



Homeowner Insurance




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“With no fire hydrants in the remote area of the island, near the old Tom Nevers Navy base, fire crews were forced to shuttle in water from Sconset.”

“With the design of the house and lack of water, the winds drove the fire through the whole building,”



HO-3, HO-5, HO-6, HO-6A. What's the difference?

- All risk coverage: **Covered for all causes of loss, except those listed in the exclusions**
- Named peril coverage: **Covered for only the causes of loss listed in the policy**

Policy type	Dwelling/ Structure	Personal Property
HO-3 Homeowner policy	All Risk	Named Peril
HO-5 Homeowner policy	All Risk	All Risk



Extended Replacement Cost

- Also known as Replacement Cost Extension
- Total loss coverage
- Defined: If the cost to replace a home following a total loss is greater than the amount of coverage on the policy, the insurer will pay the reconstruction cost (up to a certain limit)
- Included in some policies, endorsement that must be purchased on others
- Pay attention to limit of coverage. Many companies cap the coverage at a certain percentage (e.g. 20%, 25%)



Extended Replacement Cost

- **In theory:** Financial protection for an individual from a catastrophic loss to their home.
- **In practice:** All policies are not created equal.

Example:

Coverage A	\$700,000	\$700,000	\$700,000
Amount to Rebuild	\$1,000,000	\$1,000,000	\$1,000,000
Policy provisions	No extended replacement cost	Extended replacement cost, 20% extension	Extended replacement cost, uncapped
Amt. of Coverage available	\$700,000	\$840,000	\$1,000,000
Impact to client	\$300,000	\$160,000	\$0



Valuation of Home and Personal Property

- Valuation is as important as coverage
- Common methods for valuation:
 - Multiplying square footage by standard construction costs for the area
 - Using room estimators provided by Marshall & Swift or Boeckh
 - Drive-by exterior inspections
 - In house appraisal



Why Is Valuation So Important?

- 2 out of every 3 homes in the U.S. are underinsured by 25% or more (Marshall & Swift/Boeckh estimate, 2007)
- Many insurers leave it up to the individual to determine the amount of coverage for their home
- Insurers have cut back on coverages
- Construction costs are on the rise
- Homeowners are remodeling like crazy



Settlement Basis

Replacement Cost vs. Actual Cash Value

- Homeowner contracts offer a settlement basis of replacement cost or actual cash value for personal property.
- Be certain that a client knows their settlement basis on their homeowner policy.
- Replacement cost: insurer will pay the full cost to replace a covered item with no depreciation
- Actual cash value: insurer will pay only the current depreciated value of the item



When Disasters Strike

- **Flood:**
 - **Defined: “A general and temporary condition of partial or complete inundation of two or more acres of normally dry land or of two or more properties...”**
 - **Not covered by homeowner policies**
 - **Coverage can be purchased from the National Flood Insurance Program (NFIP)**
 - **Coverage can be purchased privately**
 - **Who should buy it? What should they buy?**



When Disasters Strike

- **Hurricanes**
 - **Most critical coverage is wind**
 - **Included in most policies in non-catastrophe areas. In hurricane-prone areas, the homeowner contract could be ex-wind. A separate policy must be purchased for wind coverage.**
 - **A select few insurers will insure wind as part of the homeowner policy subject to stringent underwriting**
 - **Critical issues: location, loss control, capacity, cost**



When Disasters Strike

- **Earthquake**
 - Offered as policy endorsement.
 - Underwriters use mapping software to determine PML (Probable Maximum Loss). Significant factor in underwriting decision.

- **Wildfire**
 - Similar to Earthquake, insurers use maps of brush areas to determine PML (Probably Maximum Loss). Significant factor in underwriting decision.
 - Wildfire defense services are provided by some insurers offering pre-loss and post-loss assistance



Premises Liability

- Homeowner's contract generally provides a moderate limit of personal liability coverage
- A good offense is a good defense. Know your risk factors:
 - Swimming pools, trampolines, dogs, domestic staff, etc.
- Obtain personal excess liability coverage (“umbrella policy”)



Read the Fine Print

- **Additional living expenses (a.k.a. Loss of Use coverage)**
 - Coverage for living expenses (lodging, meals, etc.) when you are unable to live in your home following a covered loss.
- **Rebuilding to code (a.k.a. Law and Ordinance coverage)**
 - Coverage that pays for the cost to comply with new or changing building codes following a covered loss.
- **Debris removal**
 - Coverage that pays for the demolition and removal of damaged property following a covered loss.

KEY QUESTION: What's the Limit?

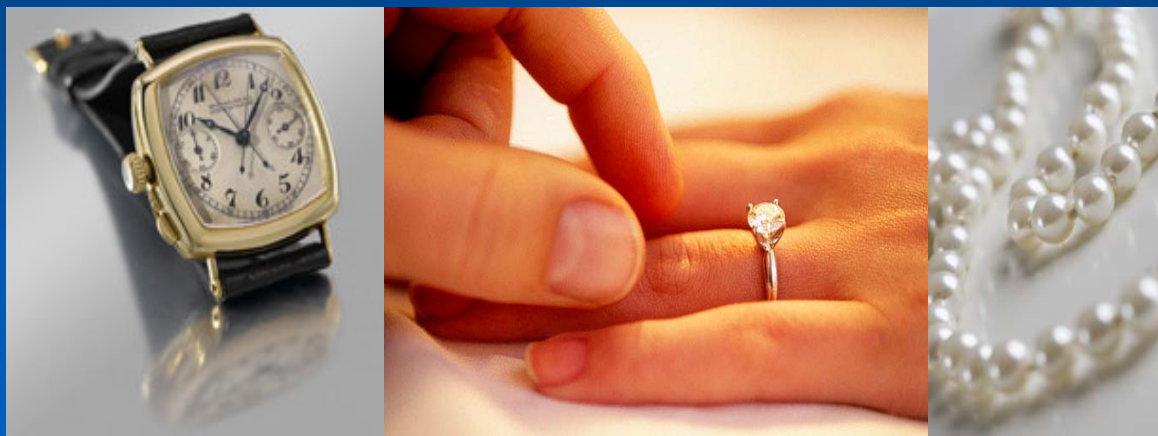


Engage your Client

- ✓ Does the policy contain All Risk coverage for home and contents?
- ✓ Does the policy have extended replacement cost? What's the percentage of the extension or is it unlimited?
- ✓ How is the value of the home derived?
- ✓ Does the policy include replacement cost coverage for personal property?
- ✓ Does the home have potential exposure to a catastrophe such as flood, windstorm, earthquake or wildfire and if so, are the proper coverages in place?
- ✓ What are the policy limits for additional living expenses, rebuilding to code and debris removal?



Valuable Articles Insurance



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Valuable Articles

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Valuable Articles Coverage

- Limitations in homeowner policy
- Blanket vs. itemized
- Newly purchased valuable items
- Art in transit
- Pairs and sets
- Valuation



Limitations in Homeowner Policy

- Homeowner policies contain limits for many valuable items:

<u>Item</u>	<u>Standard Limit</u>
– Jewelry	\$1,500 (lost, misplaced or stolen)
– Silver	\$2,500 (stolen)
– Stamps	\$1,500
– Coins	\$200

- Even if the homeowner limit for a valuable item like jewelry is adequate, a covered loss would be subject to the policy deductible.



Valuable Articles Coverage

- Also known as a “Personal Articles Floater” or “Floater” policy.
- Individually lists and insures specified valuable items.
- Items typically insured on a Valuable Articles Policy include jewelry, art, silver, furs, wine, and virtually any type of collectible (stamps, coins, musical instruments, sports memorabilia, etc.)
- Blanket vs. itemized



Important Considerations

- **Flexibility for coverage**
- **Claims philosophy of insurer**
- **Requirements for appraisals**



Important Coverages

- **Worldwide coverage**
- **Mysterious disappearance**
- **Newly purchased valuable items**
- **Valuable articles in transit**
- **Pairs and sets**
- **Appreciation protection**



Engage your Client

- ✓ Do I have valuable items that are inadequately covered by my homeowner's policy (i.e. Engagement ring, art work, etc.)
- ✓ Is it easy for me to add valuable articles coverage? (blanket and itemized coverage is available and appraisals aren't required for small items)
- ✓ Does the policy include worldwide coverage, coverage for mysterious disappearance, and protection for newly acquired items and pairs and sets?
- ✓ How is a claim going to be handled for a valuable item?



Personal Liability Insurance



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Excess Personal Liability Umbrella Liability

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\$5 MILLION TO FAMILY FOR DEATH OF BICYCLIST

**NBA Referee Files Suit Against Writer Over
Twitter Post**

Published March 15, 2011 | FoxNews.com

\$2 Million to Motorist for Car Accident

**GIRL RECEIVES SETTLEMENT FOR INJURIES AFTER
PARTY WHERE ALCOHOL SERVED TO MINORS**



Liability Insurance

- **What is it?**
- **Underlying coverage requirements**
- **Worldwide liability**
- **Personal injury**
- **Defense costs**
- **Non-profit D&O**
- **How much?**



What is Personal Liability Coverage?

- Coverage that an individual purchases to protect current assets and future earnings in the event of a covered lawsuit or settlement.
- Coverage for damages a covered person is legally obligated to pay for bodily injury (personal injury) or property damage which takes place anytime during the policy period and are caused by an occurrence, unless stated otherwise or an exclusion applies.



Liability Claims Scenarios

Your Home:

A guest at your pool party (16 year old boy) dives unknowingly and unwarned into the shallow end of the pool and suffers devastating paralysis and injuries.

You are sued for \$3,000,000.



Liability Claims Scenarios

Your Car:

You turn a corner and accidentally injure a successful entrepreneur in the crosswalk.

Medical costs, lost earnings, and damages amount to \$5,000,000.



Liability Claims Scenarios

Your Volunteer/Community Work:

You donate your time to the condominium association's board. The playground installed by the board had a faulty swing and a child is injured.

The board is sued for negligent oversight, and there is inadequate professional liability coverage (D&O) for the loss.

Board members (including you) are named personally in the lawsuit, thereby exposing your personal assets.



Liability Claims Scenarios

Your Children:

Your teenage daughter maintains a blog where she posts messages and photos. Disparaging remarks about her high school principal are included on the website.

You are sued for defamation of character.



Liability Claims Scenarios

Your Domestic Employees:

The nanny gets bitten for the second time by the family dog. Injuries are severe.

You are sued by the nanny for \$2,500,000.



Types of Personal Liability Coverage

- **Primary liability**
- **Excess liability**
- **Umbrella liability**



Underlying Insurance

- Required types and amounts of primary liability insurance that must be maintained in order for the excess liability policy to respond without a gap.

Example

Excess (from \$300,000
up to \$5,000,000)

Primary \$300,000



Common Underlying Liability Limits

- Personal Liability (Homeowner Limits) **\$300,000**
- Registered vehicles
 - **Combined Single Limit**
\$300,000
 - **Split Limit**
\$250K/500K/100K
- Unregistered vehicles **\$300,000**
- Watercraft
 - **less than 26 feet or 50 hp**
\$50,000
 - **more than 26 feet or 50 hp**
\$500,000



Worldwide Liability

- Coverage follows the individual.
- Auto policy territorial restrictions are U.S. and Canada.
- Look for worldwide liability coverage so that the client is protected for liability exposures outside of the U.S.
- Does the excess liability policy provide coverage for an individual that drives a non-owned vehicle when overseas (rents a car while on vacation)?



Personal Injury

- **Broader liability coverage than bodily injury.**
- **Includes bodily injury, shock, mental anguish, or mental injury; false arrest, false imprisonment or wrongful detention, wrongful entry or eviction, and libel, slander, defamation of character, or invasion of privacy.**
- **Not the industry standard so look for a policy or endorsement that extends liability coverage to include personal injury.**



Defense Costs

- **The costs to defend a lawsuit, whether groundless or not, can be substantial.**
- **Defense costs should be outside of the policy limit.**
- **Capped vs. uncapped?**



How much is enough?

- How much is there to lose?
- Considerations
 - Physical assets (home(s), personal property, valuable possessions, etc.)
 - Investable assets
 - Future earnings
 - Potential inheritance
 - The legal environment
 - Risk profile and potential for loss



Engage your Client

- Do you frequently entertain guests in your home?
- Do you have a long commute to work or take long automobile trips?
- Do you conduct business from your home?
- Do you make statements to the press?
- Do you have children who drive or use the internet?
- Do you employ domestic staff?
- Do you serve as a director or officer of non-profit or for profit organization?



Final Analysis

- A client's personal property and casualty insurance program should be reviewed annually, just like a financial plan.
- The annual insurance assessment should include:
 - Evaluation of risk profile/potential for loss
 - Analysis of current coverage (Does the policy provide the protection the client needs?)
 - Analysis of current insurer (Is the client with the right insurance company?)
 - Recommendations for limits, specialty coverages
 - Recommendations of loss control measures to control potential property or liability exposures



Drafting the Right Team

Find an insurance advisor who:

- Understands the risks confronting the wealthy
- Utilizes a risk management process rather than a policy comparison process
- Ascertains the breadth of risk and its frequency and severity before identifying solutions
- Represents multiple insurers including those with highly specialized product portfolios
- Provides a level of service that is in line with the expectations of your best clients



The Chubb Personal Insurance Agency Referral Network

- Chubb Personal Insurance works with more than 3,000 independent agents and brokers nationwide
- Chubb Personal Insurance has created a Cornerstone designation for 300 agents in the U.S. who meet specific criteria that establish their personal lines expertise and commitment
- The Chubb Personal Insurance Agency Referral Network can be accessed at www.chubb.com or by speaking with a Chubb representative



The Wrap-Up Q&A



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