

The Financial Advisor's Role Advising Clients on Lawsuit Risk

Comprehensive financial advisors have a responsibility to address client liability risk, yet they aren't licensed insurance experts. To address this gap advisors should consider a partnership approach: explicitly cover liability risk with each client then team up with a "go-to" experienced independent property and casualty insurance expert.

Changing Role of the Financial Advisor

The financial advisory business has evolved from a transaction to a relationship basis where clients expect the advisor to "quarterback" a team to provide "comprehensive" planning and advice. A critical element of this advice is risk management. Typically, market, interest rate, disability and longevity risk are top of mind for the advisor. The very real risk of devastating lawsuits directed at "deep pocket" affluent clients is frequently overlooked or assumed managed by some unknown insurance agent. If as an advisor you offer comprehensive advice, clients do not want to hear "it's not my job" regarding property and casualty insurance.

The CFP Board "Financial Planning Job Task Domain" number 2C is "evaluate the client's risk exposure (including liability)." And the CFP Board "Principal Knowledge Topic" number D32 is "Property and Casualty Insurance." The CFP Board is clearly saying it's the financial planner's job to address lawsuit risk. Depending on how the advisor positions the practice, it could be argued that there is a fiduciary responsibility to do so.

Property and casualty analysis for the high net worth individual is much more complicated than limits and deductibles. Insurance carriers that specialize in high net worth individuals provide a very different contract than middle market carriers. And it's not just insurance...lawsuit risk can be mitigated by modifying certain activity and structuring protective legal entities. Here's a checklist...clients with any of the following are likely to have non-routine insurance issues:

- Primary residence value above \$1mm and/or contains unique features
- Net worth over \$2mm
- Two or more homes
- Homes or assets in trusts, LLCs or other vehicles for estate planning
- Lifestyle that involves extensive travel, valuable articles, yachts or personal aircraft
- Employ domestic help
- Board member of non-profit
- Adult children on auto policies
- Professional with E+O or malpractice exposure

- Business owner

Financial advisors don't have time to become insurance experts, nor are they licensed to sell it. The solution is to explicitly address your client's liability risk then partner with a trusted experienced property and casualty insurance expert like Desert Insurance Solutions.

Who is Desert Insurance Solutions?

Desert Insurance Solutions has offices in Scottsdale, AZ and La Quinta, CA but is licensed to operate in all states. It's a boutique independent multi-line insurance broker that advises on property and liability risk for sophisticated insurance buyers (high net worth, and/or professional and commercial exposures).

We specialize in teaming with financial advisors to help their clients with risk management. We know the financial advisory business: we also provide E+O and other insurance coverages to RIA's with over \$1B AUM. Partners we work with include:

- UBS Financial Services
- Morgan Stanley
- Stifel
- SC Capital Advisors
- Praxis Wealth Management
- Hardworking Capital
- HHG, Inc.
- Robert W. Baird & Co.

Carrie Babij is President of Desert Insurance Solutions. Before starting Desert Insurance Solutions, Carrie was:

- Senior Vice-President, Wells-Fargo Insurance, Seattle, WA
- Vice-President, Brown and Brown, Seattle, WA

Carrie left her job at Wells Fargo to start Desert Insurance Solutions, which is set up to support the enlightened financial advisor:

- Independent...we are directly appointed and endorsed by multiple quality high net worth and commercial carriers like Chubb and Pure. Unlike captive agencies, we don't force a square peg into a round hole.
- Experience...Carrie is one of the most qualified insurance experts in the area. There are large insurance brokers with offices in the big cities, but large brokers are primarily interested in large commercial accounts so with them your personal lines client is likely to get shuffled off to someone junior.

- Coordination...The advisor is the quarterback. We keep the advisor in the loop every step. We want to provide a value-added service that will enhance the advisor's status with existing clients and provide an edge over your competition in winning new ones.
- Non-Compete...Unlike other agencies we do not sell any savings or investment products. We can provide life insurance if desired. Unlike some agencies, we have no exclusive relationship with one financial advisor. The advisor-client relationship will be respected and never compromised.

How We Work with You, the Advisor

Either in an initial meeting or periodic review, you raise the issue of property and casualty exposures with your clients. Or you could send them a letter alerting them to this exposure. You might share the Desert Insurance Solutions phrase "sweat the big stuff" which is shorthand for high deductibles and high limits, particularly for liability exposure. You also might explain insurance is not a commodity and collect policy declaration pages and collect some basic information. You briefly check limits, but even if limits appear adequate, do not assume everything is ok...instead, submit them to us for a free analysis where we will identify any issues. We can share that analysis with you, or Carrie can review it with your client directly.

We generally prefer that Carrie review the insurance with the client directly so she can probe on various exposures. For example, we recently spoke with a \$20mm client who was absolutely sure his insurance coverage was complete. After a few questions Carrie learned his hobby farm tractor, which he frequently loaned to his neighbor down the street, was completely uncovered for liability if taken off his premises.

We recommend the client be put in touch with Carrie immediately if he or she answers no to any of the following questions:

- 1) Is your insurance agent an independent expert?
- 2) Are you satisfied with the amount of contact and general service you receive from your insurance agent?
- 3) Are you confident that your personal assets are completely protected from a major auto, homeowner, business or professional lawsuit?

Final Thoughts

The unfortunate reality is it is not particularly difficult to become a basic insurance agent. Captive insurers who employ many newer agents can't compete with independent agents on product line and quality of advice so they market insurance

as a commodity and run goofy ads. Agents who compete on price only have an incentive to strip coverage to win business. More experienced captive agents may provide appropriate products for the standard middle-income household. But a product/service mismatch occurs when successful middle-income earners work their way to high net worth status but keep their old insurance program through inertia. More disturbing is the number of basic errors we find when reviewing these legacy insurance arrangements. Some programs have grown obsolete through lack of attention, some are the result of multiple uncoordinated agents and some are just plain wrong.

Why take a chance? Your clients must buy P+C insurance somewhere...it is not optional. Why not make sure it's right and look good at the same time?

Desert Insurance Solutions looks forward to becoming your "go to" insurance broker. You decide how you want to address this issue with your clients. To support you, we have industry articles on how planners and agents work together, client data collection forms for planners, sample insurance analyses, sample client letters and more. Feel free to visit our website, stop by our one of our offices, or call Carrie to set up a coffee and learn how you can ensure your clients are protected.

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