

Property and Casualty Carrier Options for the High Net Worth Client

For clients with something to lose, insurance is not funny. So it is ironic that without proper advice many high net worth clients might choose an insurance carrier based on a funny television ad.

The purpose of this white paper is to highlight differences between midmarket P&C carriers (those who generally run funny TV ads) and carriers that specialize in high net worth clients (like Chubb, Pure, AIG, etc.). Product features, contract terms and claims performance differ widely.

Because of these wide differences, in some cases the highlights that follow in this report need to be generalized. But it is common industry knowledge that HNW carriers provide more favorable contract terms and better claims performance than midmarket carriers on virtually all dimensions.

And the premiums are not always more expensive. HNW carriers have high dwelling limit minimums (typically \$1mm, but as high as \$3mm for Chubb in California). They also are selective in who they will accept and are quick to non-renew policyholders with a history of multiple small claims. As a result they reduce the administrative cost of a large number of small claims leading to lower overall cost. Midmarket carriers will sometimes write HNW homes, but it's not in their target appetite for risk so pricing and terms may be sub-optimal. For example, if a client needs a \$10mm umbrella and the client's carrier only goes up to \$5mm, the client simply has the wrong carrier.

Liability/Umbrella

Liability protection is most important for HNW clients. With regard to financial risk, losing their house to a fire won't break them but backing over a child without adequate insurance might.

- HNW carriers offer umbrella limits of \$25-\$50mm whereas midmarket maximum umbrellas are sometimes \$5mm or lower.
- HNW carriers generally offer "defense outside limits". If a midmarket carrier has "defense inside limits" that means years of legal expense beyond the defendant's control can eat up the limit leaving little for settlement.
- In a high dollar suit HNW carriers tend to retain top talent local outside counsel. Midmarket carriers use more junior in-house legal staff. Remember, if a client is sued and makes a liability claim, the insurance carrier's lawyer becomes the client's lawyer.

Homeowner's

When a HNW client has a homeowner's property claim, they are concerned about both money and the hassle factor. HNW carriers address both:

- In the event of a total loss, HNW carriers offer a valuable option: cash out or rebuild. This option is very helpful for clients who want to get on with their lives elsewhere, or if neighboring properties were damaged leading to long unsightly rebuild periods. Midmarket carriers typically offer rebuild only.
- Assuming rebuild, the HNW carriers will pay up to 100% over the dwelling limit if the cost of material and labor is higher than expected. Midmarket carriers generally limit coverage for this cost overrun risk to 25%.
- Midmarket homeowner's contracts are full of fine print exclusions and sublimits. Examples include mold, sewer drain backup, loss of computer equipment, etc.. One midmarket contract even had a dog bite exclusion...so to achieve a low price they were excluding one of the leading causes of homeowner liability claims! HNW carrier contracts have fewer exclusions and higher sublimits.
- Most contracts have temporary living expense benefits. But a midmarket carrier might have a client stay in a motel for up to 30 days vs a HNW carrier paying \$15k per month to rent a similar sized house for over a year.
- Some HNW clients have art/jewelry collections in the millions. Midmarket carriers are not equipped to deal with that.

Auto

HNW clients have expensive vehicles, multiple vehicles, collector vehicles and expensive motorized toys.

- HNW carriers establish an agreed value per vehicle...a dollar value in your contract. For a new car it's typically the amount you paid, so if you total your new car you get your money back. Midmarket carriers pay depreciated value, also known as "blue book". Most people know how much their new car depreciates the minute you drive off the lot. If a client totals their new car with a midmarket carrier...ouch.
- When a car is being repaired, HNW carriers only use Original Equipment Manufactured parts. Many midmarket carriers reserve the right to use aftermarket parts.
- HNW carriers cover replacement rentals of equivalent value for extended periods. They don't force a client to drive a budget compact while his or her Mercedes is in for repairs.

Other Coverages

The base contract and optional coverages provided by HNW carriers are specifically designed to address certain risk exposures unique to the HNW client:

- Liability related to domestic employees (employed for 20 plus hours per week)
- Liability related to serving on a not for profit board of directors that doesn't provide adequate D&O insurance
- Cyber insurance to protect against lawsuits related to internet activity such as social media libel
- HNW carriers write and retain risk for optional earthquake and flood insurance. Midmarket carriers typically expect their clients to secure these coverages through governmental agencies such as the California Earthquake Authority or the National Flood Insurance Program. While the pricing may not be significantly different, in the event of a widespread event, its highly likely the payout from the private insurance will proceed more smoothly and quickly than that of the government.

Service

Comparing the client service experience between HNW carriers and midmarket insurance providers is somewhat subjective. Surveys are suspect because relatively few clients have large claims and very few have large claims across multiple carriers which can be rated and compared. Perhaps the person in the best position to opine on claims performance across multiple carriers is the independent insurance broker.

- HNW carriers provide better claims performance: money is paid out faster and with less documentation hassle. Significant support is available to arrange and support replacement and repair, clients aren't left to their own devices. HNW carriers are not tolerant of clients submitting multiple small claims, which could be a disadvantage to certain unlucky or aggressive clients, but it helps control premium cost for the majority.
- HNW carriers conduct on-site (or Facetime during Covid) home appraisals and risk management assessments. This process helps them understand their risk exposure, but also provides useful advice to the homeowner on how to prevent loss.
- If seriously threatened by wildfire, HNW carriers will arrange private firefighters to spray down client homes with fire retardant gel at no additional cost. No midmarket carrier offers this service.

- HNW insurance products are exclusively offered through independent insurance brokers that work on behalf of their clients. Most midmarket product is sold over the web or through captive agents that work for and on behalf of one carrier. Independent brokers have more experience and expertise and provide unbiased product choices. Independent brokers are also in a position to advocate for clients during a claim. In a claims situation captive agents are severely conflicted because the insurance carrier is their employer.
- Insurance is regulated at the state level. Some independent brokers are licensed in virtually all states which allows the HNW client with multiple homes to achieve a single point of insurance contact. This consolidation can result in cost saves, less administrative hassle and most importantly, ensure nothing falls between the cracks.
- Certain exposures are beyond the appetite of even HNW carriers. Examples include assets of high profile clients, assets of ultra-high net worth clients, certain watercraft and aircraft, and high value homes in regions exposed to wildfire or other natural perils. An experienced independent broker can access specialty markets known as excess and surplus to provide solutions. These situations are far beyond the scope of the midmarket carrier and its captive agent.

Action Summary

Financial advisors and CPA's who offer a comprehensive approach address risk management, yet they aren't insurance experts and they aren't licensed to provide it. Risk management for the HNW client can be complex: this white paper only addresses the issue of carrier selection. Clearly, one cannot simply look over limits, deductibles and price then assume carriers are "apples to apples".

Many advisors have adopted a partnership approach: explicitly cover P&C risk with each client then team up with a "go-to" experienced independent property and casualty broker.

What to Look for in an Insurance Broker?

Size and time in business are not good criteria for selecting an insurance broker. Large brokerages might accept personal lines business but because they are interested in large commercial accounts tend to download the work to junior employees or service centers. And "in business for 50 years" tells you nothing about the competence of the current staff. Here's what to look for:

- Independence...offer multiple HNW carrier options
- Endorsed...better brokerages are “directly appointed” (show up on the carrier’s website)
- Experience...the individual handling the client account is a highly qualified insurance expert
- Resourced...better brokers also handle commercial lines and operate in most states
- Coordination...your broker should either have, or be able to establish, an effective working relationship with your financial adviser

Good independent insurance brokers frequently have access to the same carriers. They add incremental value by creating an insurance program that addresses unique client risk exposures in the context of an overall financial plan and providing quality service over time. For the HNW client, the right insurance broker is the key to the right insurance.

For more information visit desertinsurancesolutions.com.

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