

TEN QUESTIONS HELP REVEAL IF YOU ARE OVERPAYING TO BE UNDERINSURED

Most high net worth (HNW) families fail to adjust their insurance programs to protect their assets. They choose their insurance agent and carrier early on in their wealth building years. Then, because few people like to think about insurance, they rarely take a close look at those choices again. They continue to place their home, auto, watercraft, valuable collections, and umbrella liability insurance with mass-market carriers that are not specifically structured to meet their needs—a problem that remains unnoticed until their house burns down or they get sued, maybe for millions of dollars.

Fortunately for wealth managers and their HNW clients, 10 simple questions can in most cases identify the key areas where they are likely underinsured or missing savings opportunities, according to our survey of 600 independent insurance advisors.

If the answer is “no” or “not sure” to any of the questions listed below, you are likely at risk.

You should strongly consider a consultation with an independent insurance agent or broker experienced in dealing with HNW families. Click on any of the questions to learn more about each potential issue.

Are you underinsured?

1. [Do you have umbrella liability coverage, and have you chosen a coverage amount that matches your net worth and future employment income stream?](#)
2. [Will your homeowners policy pay to rebuild your home with similar quality materials and craftsmanship no matter how much it costs?](#)
3. [If you recently expanded or upgraded your home, did you discuss it with your insurance agent?](#)
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Are you overpaying?

8. [Have you recently evaluated the potential for reducing the cost of your insurance program by raising your homeowners and auto policy deductibles?](#)
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Do you have umbrella liability coverage, and have you chosen a coverage amount that matches your net worth and future employment income stream?



Many HNW families assume that the liability coverage in their homeowners and auto policies will protect them if someone is injured on their property or in an auto accident they cause. They are right—up to a point. The liability coverage limits in these policies will usually pay up to \$300,000 and rarely more than \$500,000. These amounts will be sufficient in most cases, but jury awards and settlements can reach into the tens of millions of dollars. In 2008, \$29 million was awarded to the family of a four-year-old boy who suffered a debilitating spinal cord injury while riding as a passenger in a vehicle involved in a head-on collision. In 2012, a wealthy Floridian was convicted of manslaughter due to an auto accident and settled a related civil case for \$46 million.

Ninety-two percent of independent insurance advisors say HNW families likely have insufficient umbrella liability insurance.

Moreover, in today's economic and political environment, families with substantial assets are more likely than usual to be targets of these multi-million-dollar lawsuits. Their wealth represents the proverbial "deep pockets" that lawyers are trained to pursue. In many states, if you are found only 1 percent responsible for an accident, you can be held liable for 100 percent of the damages to the injured parties. Without sufficient protection, you could be forced to sacrifice your home, savings and investments, and future income stream from employment to pay damages in excess of your liability coverage.

Umbrella liability coverage protects your net worth and lifestyle in the case of a financially ruinous lawsuit. It steps in when the liability coverage in the homeowners or auto policy has been exhausted. Coverage can be purchased through carriers that specialize in serving HNW families, usually starting at \$1 million, and going as high as \$100 million.

If you already have an umbrella policy in place, it is important to have the right amount of coverage to protect your net worth. To be fully protected, consider your equity in real estate holdings, the value of your personal possessions, savings and investments, and your future income stream from employment when setting a coverage limit.

Surprisingly, the cost per million dollars in coverage can amount to only a few hundred dollars. This cost can often be offset by taking a higher deductible and bearing more responsibility at the low end of risk.

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② Will your homeowners policy pay to rebuild your home with similar quality materials and craftsmanship no matter how much it costs?

Many families believe that their homeowners policy will pay to fully rebuild their home if it burns down or is otherwise destroyed by a covered cause of loss. But the reality is that most homes in the U.S. are underinsured.

The extent of this problem is supported by an annual study conducted by MSB, a leading worldwide provider of building cost data and estimating technology for the property insurance industry. Its 2012 study estimated that 61 percent of American homes are undervalued for the purpose of insurance.¹

The problem may be worse for HNW families who own luxury properties, especially if they insure their home with a mass-market policy. The reason is that standard industry tools that estimate the cost of rebuilding a home may not adequately value the higher quality materials, superior craftsmanship, and unique architectural features in luxury, custom-built, or historic homes.

The undervaluation becomes clear when the home is destroyed. Suddenly, the homeowner discovers that it costs far more to rebuild the home than the coverage limit in the policy. While mass-market policies may provide a buffer of 20-25 percent above the coverage limit, it is often not enough—especially when losses are caused by a natural disaster affecting a large number of homes. The increased demand for local building materials and labor can easily outpace supply and drive costs higher than usual.

The problem can be solved by seeking policies from carriers that specialize in insuring high-value homes. These policies offer a kind of coverage known as “full replacement cost,” which promises to fully rebuild the home with similar quality materials and craftsmanship no matter how much it costs in relation to the coverage limit in the policy. In effect, this coverage shifts the responsibility for properly estimating the cost of replacing the home to the insurance company. Therefore, the carriers will often send an expert to the home to document its features and estimate the replacement cost. The visit also gives the expert a chance to suggest ideas for better protecting the family and the home.

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Eighty-three percent of independent insurance advisors say HNW families are likely to have insufficient insurance to fully rebuild their home after a total loss.



③ If you recently expanded or upgraded your home, did you discuss it with your insurance agent?



Adding a room, finishing the basement with a lavish entertainment center, expanding the kitchen or bathroom, and other major remodeling will materially affect the cost of rebuilding the home if it is destroyed. If you didn't inform your agent and have the coverage limit for your home raised appropriately, your home could be underinsured.

Your personal property could be underinsured, too. The amount of personal property coverage is typically set as a percentage of the home structure value listed on the policy. If you purchased additional or upgraded furnishings as part of the remodeling but didn't adjust the home value, you may not have enough personal property coverage.

The best course of action is to inform your insurance agent before you start remodeling your home. The agent will be able to discuss special risks to address during the course of construction, especially if you reside elsewhere while the work is being done.

In many cases, special coverage called "builder's risk" must be added because homeowners policies may restrict coverage during the course of construction, a time of peak risk for fire, theft, vandalism, and other damage to your property.

Importantly, the agent can also help you review the insurance the contractor has in place. Worker's compensation insurance is a critical component. It provides coverage if a worker is injured. If the general contractor doesn't have enough, the injured workers can sue you, too. The general contractor may also engage subcontractors such as electricians and plumbers who are not covered by the general contractor's policy. Their policies need to be checked, as well.

Eighty-three percent of independent insurance advisors say HNW families are likely to have insufficient insurance to fully rebuild their home after a total loss.

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④ If you own a significant amount of jewelry, artwork, fine wine, or other precious items, have you insured them with a valuables policy and made sure to account for any change in value from year to year?

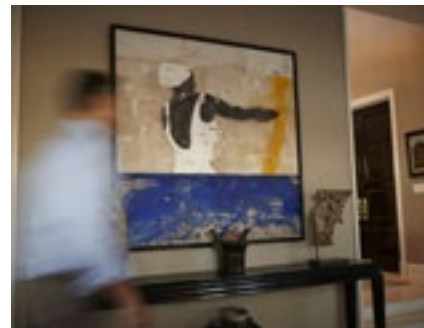
Many families do not realize that their homeowners policy restricts the amount it will pay for jewelry, silverware, furs, stamp and coin collections, and breakage of fragile items such as marble statues, musical instruments, and bottles of fine wine. The special limits of coverage in standard policies may equal only one or two thousand dollars. In special policies geared toward the HNW, the limits are higher, but they exist nonetheless. Thus, for HNW families, who may have collections valued in the hundreds and sometimes millions of dollars, the risk due to not having additional protection can be significant.

Therefore, it is important to estimate the values of your precious collections and then match them against the limits in your homeowners policy. In the vast majority of cases, you will want the added protection of a valuables policy, also known as ‘scheduling’ a specific item. Scheduling allows you to declare a value for individual items on a valuables policy so that you can be adequately reimbursed for the item if it is lost, stolen, misplaced, or damaged. The valuables policy also covers some causes of loss excluded by homeowners policies, such as flood. And it has no deductible.

Each year, you should check to see that the value listed for each item or collection on a valuables policy remains up to date. The market prices for collectible items, like fine art and items made with precious metals, can fluctuate greatly. Tróv, a leader in tangible asset management based in the San Francisco Bay Area, CA, reports that clients who do not proactively manage their valuable articles can be underinsured by up to 40 to 60 percent.

In some cases, insuring collections with a valuables policy can represent a savings opportunity. Many possessions—such as antique furniture, precious rugs, marble statues, and rare books—may qualify as fine art. Insuring these items as fine art on a valuables policy can cost less than insuring them under the personal property coverage in the homeowners policy. If you add these items to a valuables policy and then reduce your personal property coverage in the homeowners policy by their total value, you will lower your overall insurance premium. Moreover, the valuables policy provides better protection, since a valuables policy typically has no deductible and covers a broader array of risks.

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Eighty-six percent of independent insurance advisors say HNW families are likely to have insufficient protection for their valuable collections.



⑤ Do you have at least \$1 million in uninsured/underinsured liability protection, and does it apply to more than vehicular accidents?



The Insurance Research Council (IRC) has noted a direct relationship between the unemployment rate and the number of uninsured drivers on the road. The latest estimate is that one in seven drivers nationally may not have insurance.¹ In a handful of states, the ratio can reach one in four. Moreover, these drivers account for a disproportionately high percentage of fatal accidents—20 percent.² Should one of these drivers cause serious injury to you or your family, the driver will not have the resources to pay for lost income, pain and suffering, co-pays and other costs not covered by regular health insurance.

The risk extends beyond the road, too. Homeowners under economic stress may be cutting back on coverage. If you or a family member sustain a serious injury at a neighbor's home, the neighbor may not have enough liability coverage to pay for treatment and potential lifelong care. During one party at a hillside home, for example, an entire deck collapsed under the weight of too many people. The cost of treating multiple serious injuries quickly overwhelmed the overall liability limit in the host's policy.

To protect against these situations, you can purchase additional uninsured/underinsured liability coverage as part of an umbrella policy from carriers who specialize in serving HNW families. Coverage typically starts at \$1 million for as little as \$100 in annual premium, with options up to \$10 million. Considering the example of the deck collapse, you should check that coverage is not limited to vehicular accidents.

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Eighty-six percent of independent insurance advisors say HNW families are likely to have insufficient uninsured/underinsured liability protection.



1. http://www.insurance-research.org/sites/default/files/downloads/IRCUM2011_042111.pdf
2. Property Casualty Insurers Association of America (PCI), July 2004

⑥ If you employ household staff such as a nanny, caretaker, or chef, do you have employment practices liability insurance?



The standard liability coverage in a homeowners or umbrella insurance policy does not apply to lawsuits brought by domestic employees for wrongful employment practices. These practices include discrimination, sexual harassment, wrongful termination, and other claims. Disgruntled former and current employees may file baseless suits, hoping you will settle to avoid onerous legal expenses and possible damage to your reputation.

Adequate protection requires employment practices liability coverage, which may be available as a separate policy or as an optional endorsement to an umbrella policy. This coverage will pay for damage awards and legal fees to defend against even groundless suits.

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Seventy-two percent of independent insurance advisors say HNW families are likely to have insufficient liability protection when they employ household staff.



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If you serve as an unpaid board member of a not-for-profit organization, do you realize the organization's insurance program may not fully protect you from liability lawsuits brought against it?



To their credit, HNW families contribute a significant amount of their money and time to not-for-profit organizations. In a survey commissioned by ACE among households with \$5 million or more in investable assets, 62 percent of respondents reported serving or having served as a volunteer board member or trustee of a not-for-profit organization. Among this group, 35 percent did not have directors & officers insurance to protect them, and another 10 percent were unsure if they did. These volunteers may have not realized that their good deeds exposed them to the threat of liability lawsuits.

Volunteer board members can be held liable for the actions or inactions of the not-for-profit organization. While the organization may carry insurance to protect itself, a limited budget typically prevents the purchase of a gold-plated insurance program. Coverage limits may be inadequate to cover some lawsuits. Moreover, in a difficult economic period when not-for-profits may be forced to trim paid staff, the risk of wrongful termination and other wrongful-employment-act lawsuits rises.

Not-for-profit directors & officers insurance offers protection if you serve as a volunteer board member of a charitable organization against some of the more common types of lawsuit threats.

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Sixty-five percent of independent insurance advisors say HNW families are likely to have insufficient liability protection when they serve as a volunteer board member of a charitable organization.



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Have you recently evaluated the potential for reducing the cost of your insurance program by raising your homeowners and auto policy deductibles?



Many HNW families with mass-market homeowners and auto insurance policies carry deductibles of \$250, \$500, or \$1,000. Ironically, they pay a substantial amount in premium for such low deductibles, but when they have a minor fender bender, they won't file a claim for two reasons: 1) they're worried their insurance rates will go up, and 2) paying to repair the damage entirely out of their own pocket is relatively affordable for them.

If you do the same, consider how much you can pay out of pocket without significantly affecting your lifestyle. Then ask your agent to estimate the premium savings you could achieve with a range of deductibles up to the maximum amount. In this manner, you can assess the trade-off between risk and savings.

The savings are often substantial. Using the ACE Platinum Portfolio policy as an example, the annual savings in premium for insuring a million-dollar home with a \$2,500 deductible versus a \$500 deductible could be about \$900. So, you must decide if you are willing to risk paying an additional \$2,000 for a loss (\$2,500 - \$500) to save \$900 per year in premium. Since ACE's typical client files a claim for a home only once every 21 years, taking the higher deductible would be the better choice. The total premium savings would come to \$18,900 over 21 years, far outweighing the additional \$2,000 paid at the time of the one loss. As the table below shows, you would come out ahead after only two years without a loss.

Eighty-one percent of independent insurance advisors say HNW families are likely overlooking opportunities to save with higher deductibles.

Example of Potential Savings with High Deductible \$2,500 Versus \$500 Deductible on Home Insured for \$1 Million					
Year #	1	3	5	10	21
Cumulative Premium Savings	\$900	\$2,700	\$4,500	\$9,000	\$18,900
Additional Deductible Paid If Loss Occurs	\$2,000	\$2,700	\$2,000	\$2,000	\$2,000
Net Cost/Savings	-\$1,100	\$700	\$2,500	\$7,000	\$16,900

ACE makes the decision even easier by providing an additional and unique benefit known as the "deductible reserve." When you choose a homeowners deductible of \$2,500 or more, ACE will set aside 10 percent of the deductible amount in a reserve for each claim-free year on the policy. When you have your first claim, ACE applies the reserve against the deductible amount to effectively reduce your out-of-pocket expense. For instance, after five claim-free years with a \$2,500 deductible, the reserve would equal \$1,250. If you have a claim in the sixth year, the reserve will effectively reduce the deductible payment by half. The same logic applies if you choose a deductible of \$1,000 or more on your auto policy.

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⑨ Have you consolidated your homeowners, valuables, auto, watercraft, and umbrella liability policies with a carrier that offers a package discount?

Enticed by promises of savings from heavily advertised auto insurance carriers, even HNW families can find themselves tempted to place their auto insurance with one company and their homeowners insurance with another. But the apparent savings can be illusory. Spreading the policies across different carriers not only increases the potential for gaps in coverage, it can diminish or negate the package discounts achieved when multiple policies are placed with one carrier. These discounts can be 10 percent or higher.

You can maximize the benefits of package discounts by choosing a carrier that can handle a wide range of your needs so that the discount applies across the most insurance policies possible. For instance, ACE Private Risk Services allows the package discount to apply across homeowners, auto, valuables, umbrella liability, and watercraft policies. Additionally, the policies can often be written as part of one package with common term dates and one consolidated bill, saving you time as well as money.

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Sixty-two percent of independent insurance advisors say HNW families are likely overlooking opportunities to save with package discounts.



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Have you and your agent discussed all the safety and loss prevention devices in your homes and autos?



HNW families frequently fail to get credit for alarm systems and other loss prevention measures protecting their homes and vehicles. Often linked to a central monitoring station or local authorities, typical systems in the home can include:

- Burglar alarms
- Fire alarms and sprinkler systems
- Electrical back-up and lightning protection
- Temperature monitoring
- Water leak detection with automatic water shut-off
- Gas leak detection

Discounts for living in a gated community may also be missed. When combined, credits for such systems can exceed 30 percent of the base homeowners premium—a substantial savings.

Typical systems in automobiles include alarms, fuel cut-off switches, hood locks, steering locks, transmission locks, ignition cut-off switches, and location transponders. Depending on the sophistication of the devices, discounts can range from 5 to 20 percent on the comprehensive auto coverage premium.

Fifty percent of independent insurance advisors say HNW families are likely overlooking opportunities to get premium credits for safety and loss prevention devices.

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