

# Hidden Risks

Property and casualty insurance is often neglected by wealth managers and their clients.

BY JOSEPH WEISS



A WEALTH MANAGER IS LIKE AN orchestra conductor. While he does not play each instrument required for a symphony, he knows how to bring them all together to produce a beautiful piece of music. Similarly, advisors need to be familiar with a range of issues to help clients grow, manage and protect their wealth.

That said, why are so many advisors out of tune when it comes to asset protection?

Property and casualty insurance, which cover both hard assets like homes, jewelry, fine art, and the liability associated with them, are often overlooked in financial planning.

Many wealth managers overlook property and casualty insurance because they do not write the business and often don't clearly understand its full importance. Clients, meanwhile, often look upon insurance as an expense that can be avoided.

Yet neglecting insurance needs is a mistake.

The asset protection and liability needs of high-net-worth individuals can be significant, often requiring the involvement of sophisticated property and casualty insurance policies.

Advisors need to be aware that, absent proper insurance coverage, a client's entire wealth could be left exposed.

## Liability Limits

There are two major areas of concern when evaluating the property and casualty exposure of high-net-worth individuals. First is the complex task of insuring assets such as custom homes, art collections, jewelry, yachts, exotic automobiles and aircraft. Specialty insurers, rather than mass-market carriers, are required to cover these types of assets. The second concern is liability—whether an individual is protected against catastrophic financial losses if he is held liable.

Let's discuss liability issues first. There is no doubt that affluence can make someone a target for liability lawsuits. In today's litigious environment, there are more liability risks for high-net-worth individuals than at any other time in history. Keith McVicker, CEO and president of Lane McVicker, LLC, wrote in the April 1998 issue of *Trusts & Estates* that "for a clear majority of the affluent, risk of liability loss represents

the most catastrophic potential of their property-casualty form." He goes on to say, "the fact that defense costs (without a cap) are paid by the carrier in addition to the policy limits further illustrates the magnitude for potential loss."

The message here is clear: Not only do your clients have the risk of the liability, but they would also incur the cost of the legal defense fees without the proper liability insurance. In other words, if your client has a net worth that exceeds the liability limits provided by his present carrier, he has a problem. One is most likely to find this situation with clients who have bought property and casualty insurance from mass-market carriers. Specialty insurers such as AIG, Chubb and Fireman's Fund, however, can provide liability limits up to \$100 million. Ascertaining the liability limits of a client's policy should be one of the first steps taken by a wealth manager in evaluating coverage. As Allstate states in its advertising, "Covered? Don't hope so, know so." Of all that you do for your client, ensuring they have adequate liability limits

to protect their net worth may be one of the most important asset protection services you can provide.

#### Hidden Liability Issues

There may be cases where high-net-worth clients need extra liability coverage. Insurance specialists can identify potential worst-case scenarios that merit the need for extra coverage. They can also take steps to reduce the likelihood of these scenarios becoming a reality.

Many specialists, for example, will do complimentary background checks on household help where there is a potential for employment practice liability. It's not unusual for household workers to sue their employers, so anyone employing nannies, maids, chauffeurs or other types of domestic help has this type of exposure.

There may be situations where a client erroneously believes his liability issue is covered or does not exist. McVicker notes that a number of scenarios can be "overlooked by even the most sophisticated advisor."

For example, he says, "Your client moves from a state where worker's compensation coverage for his domestic help is a required part of the home owner's policy to a state where it is not. Unknowingly, he does not secure a separate worker's compensation policy and is consequently exposed to a potential liability payout."

In yet another example, he says, "Your client's wife operates an interior design company where her employees come on the household premises to work. Clearly excluded by every home owner's policy in the land (umbrella also) are business pursuits. Your client is exposed big time." Examples like these are common in the lives of the affluent and must be factored into the protection side of wealth management. Does this mean that a wealth management firm has to know all the possible scenarios to which its clients will be exposed? Of course not, but the firm should seek advice from a specialist on the types of questions to

ask to uncover potential problems.

A few more hidden liability issues merit mention. Many high-net-worth individuals have exposures as a result of serving on various boards. "One of the first questions I ask my wealthy clients is what boards they serve on," says Gary Rathbun of Private Wealth Consultants. Directors & Officers (D&O) insurance is relatively new, but is gaining popularity in protection planning.

Another area of liability is when

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someone serves as a family trustee, which is why Fireman's Fund launched an insurance policy several years ago to cover family members who serve in such a role.

Advisors need to be aware that the list of scenarios where liability is lurking will continue to grow and will require vigilant oversight.

#### The Property Component

The proper insuring of hard assets such as homes, yachts, jewelry and collections is the second area of critical importance. While the topic is broad in scope, a few general rules apply. As mentioned earlier, your client will likely need a specialized insurer to sufficiently cover such assets. The reality, however, is that many affluent individuals don't have enough property insurance, as it is estimated that as many as one-half to three quarters of the affluent are insured by mass-market carriers. As with the liability side, there are several scenarios where clients believe they are covered when in fact they are either grossly underinsured or not covered at all. One example is flood insurance. The National

Flood Insurance Program provides flood insurance but with a \$250,000 limit on home damage and \$100,000 on contents. An affluent client seeking to insure a desirable coastal home would likely need an excess policy offered by a specialty insurer to be adequately covered.

#### Conclusion

The inclusion of property and casualty insurance in wealth management services will become more mainstream in

the coming years. How can you speed up the process in your own practice? Visit the Web sites of specialty insurers for the lists of representatives in your area. Interview them to learn their particular knowledge and specialties. If you select an agent you want to use as a consultant, find out what documents he will want clients to bring to a meeting. Find out who at the agent's firm will greet the client and what the process will be like. You may elect to have the initial meeting at your office to break the ice. You may wish to explain to your clients the advantage of using one insurer for price saving. You might also set the stage for the insuring of assets and liabilities not yet acquired by building in a review process at the outset. Finally, you can educate your client on the importance of evaluating as well as covering property and casualty risks. *Rw*

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