

INSIGHTS TO ACTION

Delivering Effective Personal Risk Management

CHUBB®

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Risk Management Is A Critical Component of Wealth Management

AGENDA

- Expectations of the high net worth consumer
- Current state of personal risk management
- Understanding the exposures and the fine print
- Taking action (a proactive approach)

Client Expectations

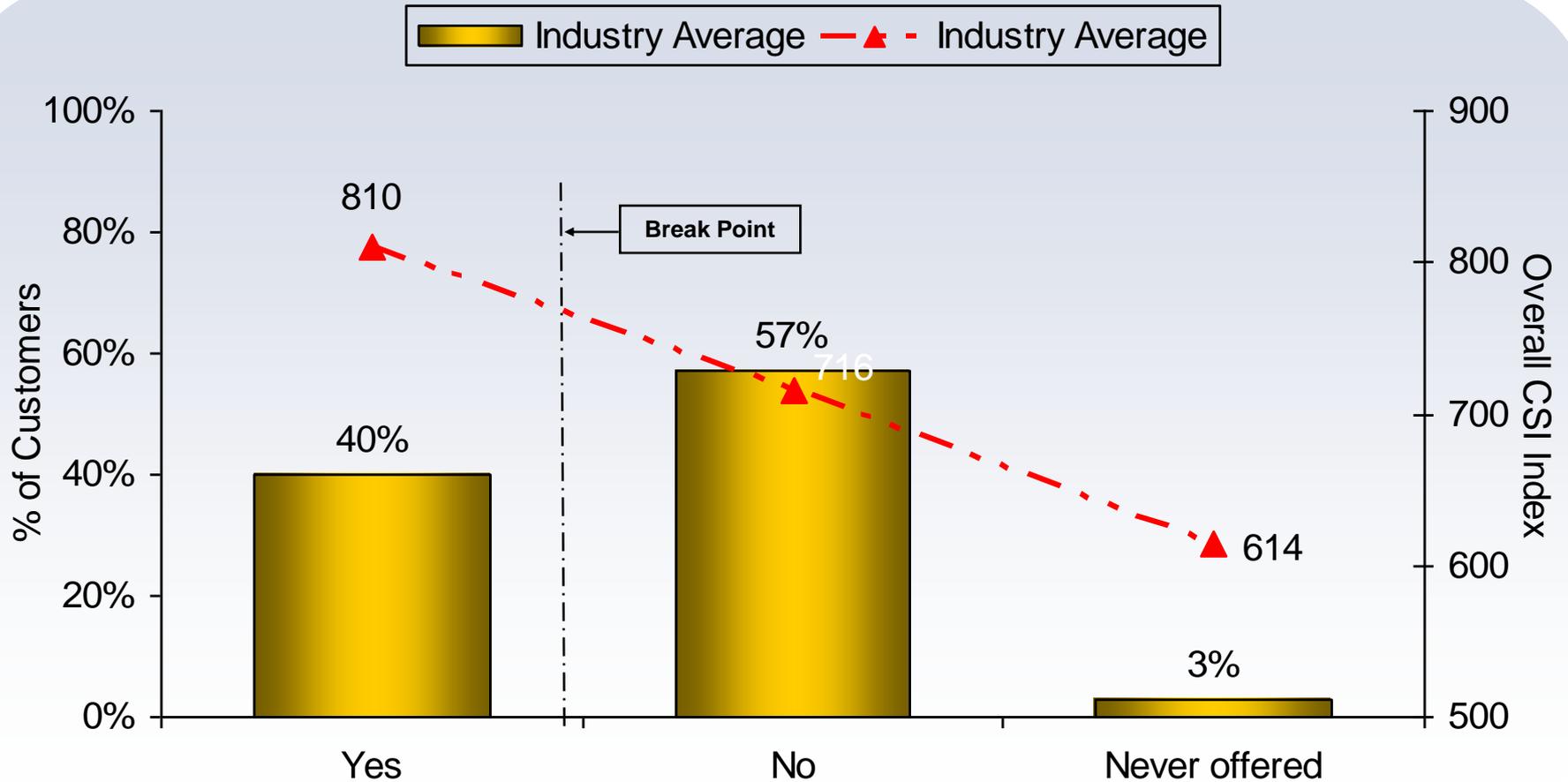
Functional Attribute Consideration Drivers

High	Competitive rates	16.5
	Provides and pays for choices at claim time	12.7
	Agents, Reps provide advice I can trust	10.7
	Reputation for handling claims fairly	10.6
Medium	Financially stable company	8.5
	Meet all insurance needs	8.4
	Allows me choices to customize a policy	6.3
	Will not raise rates or drop due to a claim	6.0
	Collectible car specialists	5.8
	Understands luxury vehicle owners	5.8
Low	Quick and easy quote process	4.1
	Rewards safe drivers	3.0
	Website handles all needs	0.6
	Conveniently located offices	0.6
	Has a toll-free number can handle all needs	0.6



The Importance of an Annual Review

- More than two-thirds of customers have not had an annual policy review offer.



Role of the CFP[®] practitioner in Personal Insurance

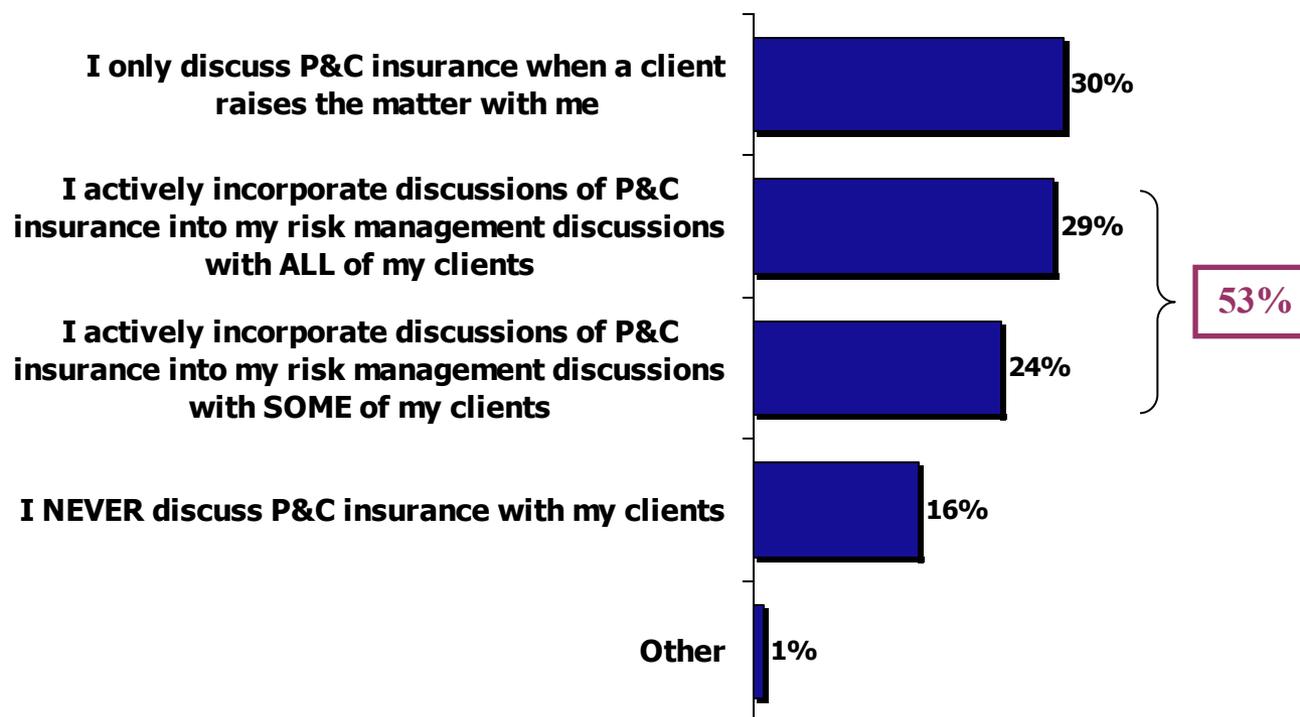
- Proactively discuss personal insurance
- Recognize changes in exposures
- Recommend annual insurance review
- Connect client with an appropriate agent to address a change in exposure or obtain an annual review

Current State

- Trusted Advisor Research Study
- Financial Advisor Magazine Research

How P&C Insurance Issues/Risks are Handled

Trusted advisors are discussing P&C Insurance risks/issues with their clients in some form – more than half doing it proactively.



* Significantly higher % than other primary roles at the 95% confidence level

Reasons Why P&C Insurance Issues Are Not Discussed With Clients

#1

**Not Licensed To Sell
P&C Insurance**

- "Because I am not licensed to sell it."
- "Because I don't sell it; only mention it in relation to designation of beneficiaries."
- "I'm not licensed for P&C."
- "I don't deal with insurance."
- "Not licensed to do so."
- "Not an insurance guy."
- "Focused on financial results."
- "I am an investment person."
- "I deal mostly with lending against clients' securities portfolios."
- "Not offered within our service portfolio; not an expert in field, therefore not best suited to provide such advice."
- "I only work on the investment end of their financial picture. If a client is looking for a full financial plan I refer them to CRP's on our approved list."
- "Don't have enough knowledge in that area."
- "It's not our area of expertise."
- "It is not a topic I deal with. Someone else in the firm probably does."
- "I am not qualified to do so."
- "Not my field of expertise."

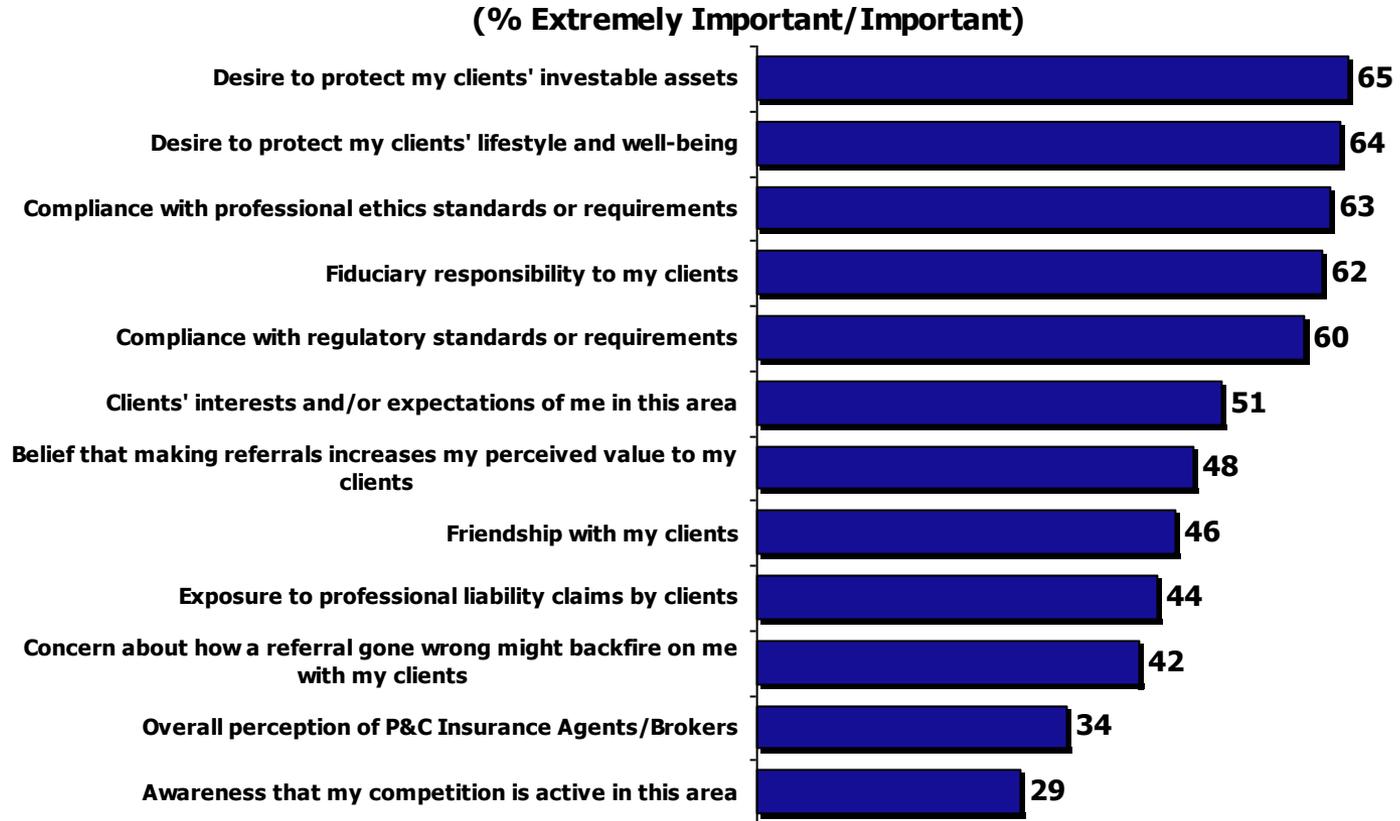
#2

**Focused On
Financial/Investment
Issues**

#3

**Lack of
Knowledge/Expertise**

Reasons for Discussing P&C Insurance

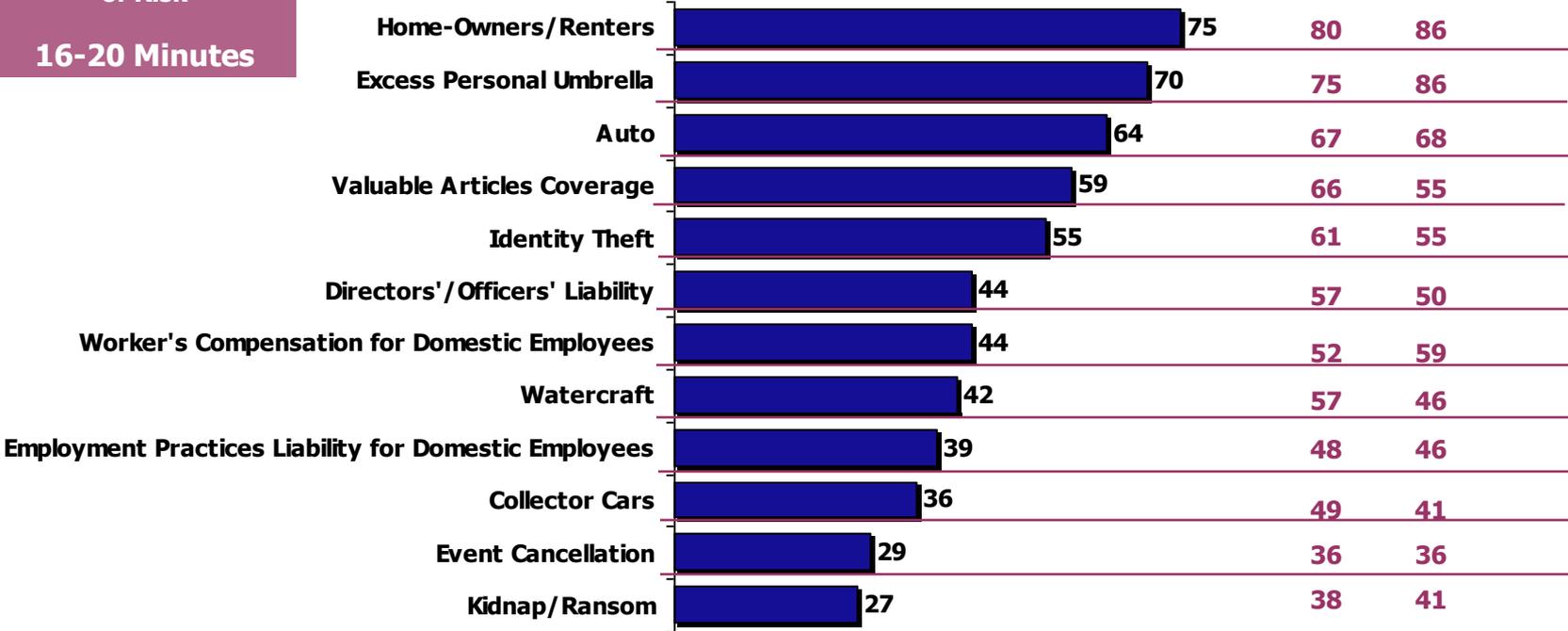


Frequency of Discussing P&C Risk

Average Number of Minutes Spent Discussing All Types of Risk
16-20 Minutes

How Often P&C Risk Is Discussed
(% Often/Sometimes)

Average Level of Investable Assets
\$1M- 5M \$5M+



Actions Taken Concerning P&C Insurance

2 in 5 trusted advisors are taking some type of referral action when P&C insurance comes up with their clients

42%

	<u>Total</u>
I tell my client to talk to their own property & casualty agent/broker, and I make no referrals to such professionals.	25%
I refer my client to a property & casualty agent/broker with whom I have no financial relationship but from whom I hope to receive reciprocal referrals.	19%
I refer my client to a property & casualty agent/broker with whom I have neither a financial relationship nor hope to receive reciprocal referrals	15%
I refer my client to a property & casualty agent/broker with whom my firm or I have another kind of financial relationship.	8%
I refer my client to someone else at my firm who can act as their property & casualty agent/broker.	16%
I refer my client to a property & casualty agent/broker that my firm owns.	5%
I have a property & casualty insurance license and serve as my client's P&C agent/broker.	11%
Other	1%

My Client's Universe

How do I address:

- Homeowner Insurance
- Liability Insurance



“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,”

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

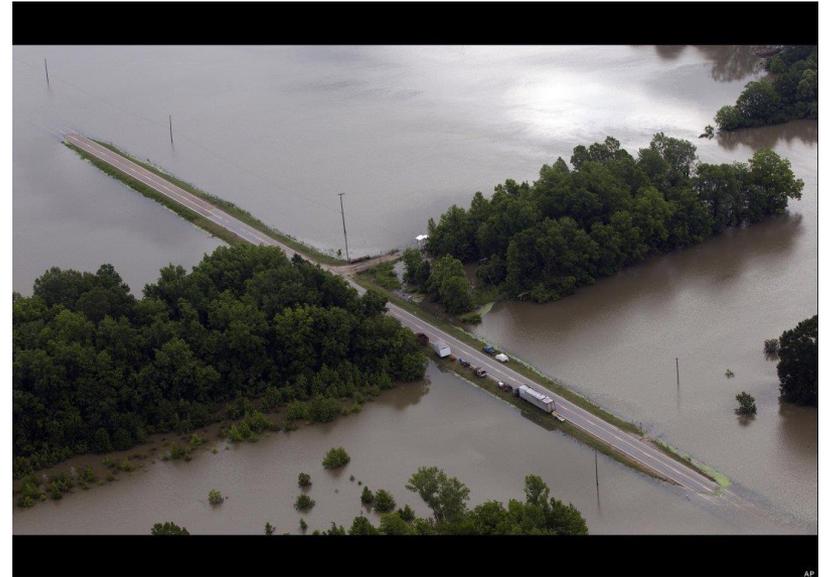
- Valuation is as important as coverage
- Common methods for valuation:
 - Multiplying square footage by standard construction costs for the area
 - Using room estimators provided by Marshall & Swift or Boeckh
 - Drive-by exterior inspections
 - In house appraisal

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)
- 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

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...”
 - Coverage can be purchased from the National Flood Insurance Program (NFIP)
 - Coverage can be purchased privately



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

- **Wildfire**

- 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



Texas Wildfires Continue to Rage: 34,068 Acres Burning in Bastrop



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?

\$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**

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)?
- Uninsured / Underinsured Motorist

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

Questions?

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