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HIGH STAKES FOR THE HIGH-END MARKET

BY RUSS BANHAM

The recession has taken a toll on everyone's investment portfolios, but high net worth individuals have been particularly hard hit in the last year. In response, affluent customers are watching their expenses and cutting back like the rest of the country.

When it comes to insuring the affluent, independent agents and brokers must address singular exposures in the tens of millions of dollars, from stolen Picassos and horrific kidnap and ransom schemes to a yacht running aground in Cape Cod. But, as the current economy demonstrates, even those with higher incomes have limits on what they'll pay to transfer their risks.

"Rich people feel a lot more vulnerable these days," says Celia Santana, president of Personal Risk Management Solutions in Manhattan, New York. "They think if Lehman Brothers and Bear Stearns can collapse, anything is possible."

Santana is among the rare breed of agents who specialize in the insurance and risk management needs of people with annual premiums in excess of $10,000 or assets of more than $10 million—although several of her clients earn that much in a year. This year she has noticed clients are more interested in their insurance policies—what they cover and cost, and how to improve both. So has Dan Glunt, founder and owner of Fort Point Insurance in San Francisco. "A significant number of the ultra-affluent are asking if they have enough liability insurance," he says. "At the same time, they're looking for ways to reduce the premium by self-insuring, taking higher deductibles to reduce the cost."

He explains the penny pinching this way: "Many affluent people have about 75% of their total wealth wrapped up in their investment portfolios, which isn't insurable. The other 25%, represented by their homes, boats, cars and property, is insurable. With portfolios worth perhaps 40% less than two years ago, more focus is being given the insurable portion. And that's where we come in."

Other agents servicing high net worth individuals report similar findings. "We're fielding a lot of calls from clients about their renewal policies, looking for ways to amend coverages or reduce the premium, more so than I've seen in the past," says Brian Bettini, president of San Rafael, Calif.-based Allen, Bettini & Carter.

Recession Breeds New Risks

While the rich are still rich, they're now hesitant to pay more for some things. Santana, Bettini and Glunt acknowledge that they are working closer with clients to streamline insurance costs, while counseling wealthy clients on how to decrease and mitigate new risks caused by the recession. "Wealthy people, just like the rest of us, have lost significant amounts in their investment portfolios and are suddenly very concerned about protecting the assets they have," says Claudia Wetteland, senior vice president of ACE Private Risk Services. "In a downturn they become a target for lawsuits. Even if the suits are unsubstantiated, they still need proper coverage."

When people lose their jobs, go through a home foreclosure and/or suffer devastating investment losses, they're more apt to commit crimes. For example, a disgruntled nanny, gardener or chauffeur let go for financial reasons might find cause to sue a former employer for wrongful termination, discrimination or sexual harassment. More ethically-minded people in these difficult times also create risks for the affluent. "An average income earner might reduce his or her auto liability limits," says Santana. "We're advising our clients to increase their uninsured/underinsured motorists coverage."

She's also suggesting broader liability protection at higher limits, to protect against crimes like kidnap and ransom, extortion and employment practices liabilities.

Carriers Capitalize Despite Downturn

Absorbing the property-casualty risks of these wealthy insureds is a handful of carriers specializing in the market, and despite the effects of the recession, competition is alive and well in the sector.

ACE Private Risk Services most recently joined the ranks in January 2008 after acquiring the high net worth personal lines insurance business of The Atlantic Companies. "The economy has made people examine their spend(ing) for insurance and the value they're getting, which we see as a plus for us as a new market entrant," says Wetteland.

ACE is now competing against veterans in the business—Chubb Personal Insurance, Fireman's Fund, Travelers and Chartis Private Client Group (American International Group's new name for its p-c and general insurance business). The insurers offer packages of insurance policies and endorsements addressing the unique risk transfer needs of high net worth individuals, with products like Masterpiece (Chubb) and Platinum Portfolio (ACE). Since the wealthy can be cleaved into sub-categories like "new money" or "ultra-affluent," the policies within the packages are custom-tailored to each insured's particular profile.

There are subtle differences in the offerings from the insurers, from coverage limits to policy cost, but most tend to provide similar coverages and services. Free background screening of new hires, like nannies and financial advisers, is offered by most of the carriers.(ACE and Fireman's Fund actually use the same international security firm—The Guidry Group.) Since the insurers absorb the risk of a nanny or financial adviser causing financial loss, the background screening makes sense. "While most financial advisers are men and women of high skill, integrity and unimpeachable character, recent scams like (Bernie) Madoff give pause for consideration among the wealthy, whose status invites greater exposure to such risks," explains Wetteland.

Policyholders Get Picky

"Wealthy people are watching their expenditures," says Jim Fiske, U.S. marketing manager at Chubb Personal Insurance. "Many wealthy people are not ready to make the acquisitions they may have made a few years ago, such as a second home, a bigger one or a new car with all the gizmos. They've gotten shellacked on their portfolios and are more risk averse. Consequently, we're seeing clients for the first time in a long time stepping up and looking closely at their risks. They want a more comprehensive evaluation taken (by their agents)."

Fiske says a "strange tension" exists among clients in trying to curb expenses while reducing risks. "We try to reconcile this juxtaposition, telling them they may actually have to spend more money on insurance to preserve their wealth," he explains. "Reducing insurance coverage to save on the premium is different than canceling the lawn service or deactivating the alarm system. With portfolio values down, insurance is even more meaningful in protecting overall wealth."

Glunt, whose business comes primarily from wealthy insureds in San Francisco, Los Angeles, New York, Jackson Hole, Wyo., Sun Valley, Calif. and Hawaii, agrees that affluent clients are trying to do more with less. "I did some math and found that roughly 50% of our clients had contacted us in the last year to address mechanisms for them to save on their premiums," he says. "Forty percent of that total initialed the recommendations we made—things like scaling back jewelry coverage, deleting earthquake protection or increasing overall deductibles. Yet, when it came to actually undertaking these ideas, only 2% of our book took them."

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An Atypical Insurance Market

Insuring the ultra-rich is not for the faint of heart. Most agents in the market specialize in the segment, foregoing typical Main Street business; however, Bettini says he does it all. "I ended up insuring the affluent simply because the agency is located in Marin County, an area of very wealthy people," he explains. "We've been here since 1925 and have grown with the demographics."

Mario Capobianco, president of New York City-based Bedford Insurance Brokerage Inc., is closer to the typical agent serving high net worth individuals. Capobianco spent 13 years in broker Marsh & McLennan's private client services group before incorporating Bedford six years ago. "High net worth individuals have complex personal insurance needs, such as multiple and foreign residences, private yachts and private jets," he says. "A family office—a private company managing the family's investments and trusts—often controls these assets, which may be under different entity names. The wealthy want someone in a position to provide expert counseling on risk management and insurance, which takes a certain amount of specialization."

In the current economy, adequate personal liability insurance has become the primary concern of the rich, the agent says. "If the house catches fire they can write a check for the deductible and put it back on track, but if a neighbor's child is injured or abducted at their home and they don't have enough liability insurance they're not to happy writing a check for $25 million," Capobianco says. "This is easier said than done, however. The liability insurance therefore needs to be structured in such a way that all the different entities are properly accounted for and covered."

Standard market products frequently fail to address such complex liability exposures and others. "Many wealthy people frequently volunteer their services to non-profit boards of directors," Wetteland explains. "When these organizations falter—and they're more vulnerable in the current economy—the directors come under scrutiny for potentially mismanaging the funds." As a result, many carriers offer non-profit directors and officers liability insurance within their program.

Newly Rich Make Market Target

While many affluent people have less money today than a year ago, others are becoming rich for the first time, representing a significant opportunity for agents to enter the business. "They're entrepreneurs who have finally made it, yet their insurance has been with direct writers who just don't have the expertise to serve their needs," Santana says. "The insurance coverage needed by the wealthy is not a commodity; for a carrier like Chubb this is their sweet spot."

Glunt says 80% of his new business comes from policyholders leaving direct writers. "The market share that agents need to capture belongs to the direct writers," he says. "These carriers just don't have the sophistication to service high net worth individuals. Wealthy people need more than an umbrella policy capped at $5 million."

How do agents solicit the business of a soon-to-be-titan? Tim O'Brien, director of private client services at East Hampton, N.Y. agency, Cook, Hall & Hyde, advises networking with financial planners, accountants, lawyers and other professionals already serving the wealthy. "Integrating property-casualty planning into the larger wealth management process can be very productive," O'Brien says.

Glunt also notes that 7% of his clients actually made significant purchases, like jewelry, high-end automobiles and rental properties, to take advantage of relatively low prices. "They have the liquidity to see the recession as an opportunity," Glunt says. Santana agrees: "Many of our clients see this as a great time to add to their art collections."

Regardless of whether a client is trying to save money or spend it, agents in the market agree there is plenty of business to go around. "Agents don't need to cannibalize each other to build a book of high net worth individuals," says Glunt. "With ACE coming into this market and a revitalized AIG in Chartis, the emphasis should be on removing business that shouldn't be with the direct writers. By placing it with specialty carriers, the clients are better served, the agency industry is better served and the insurers are better served." IA

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Retention Remains Strong

Carriers in the affluent insurance market say their policy retention levels remain strong, despite the economy's impact. "We're not seeing a mass exodus of our client base," says Jim Fiske, U.S. marketing manager at Chubb Personal Insurance. "Nor are we seeing one part of the country suffering worse than another."

Fireman's Fund has had a similar experience. "We've had an extremely good renewal retention, so that tells me that customers are cautious about moving away from specialized services," says Don Soss, vice president and segment leader for high net worth and affluent policyholders. "We're even seeing significant sales increases in regions like Texas, which seems to be growing more than other states."

Finding new prospects is a challenge, however. "Real estate sales are down 6% in Greenwich, Conn., and 15% in Palm Beach, Fla.," notes Jerry Hourihan, senior vice president and national sales manager in the private client group at Chartis. "Our new business is somewhat transaction-oriented, meaning that when someone buys a new home it's an insurance-selling opportunity. Obviously, those opportunities are a bit less in the current economy."

—R.B.