

MATERIAL COMFORT

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SMART ADVICE FOR SMART PEOPLE



Lesson 1: How to Buy Luxury Insurance

BY MIKE OFFIT

ON A QUIET MORNING in Bel-Air my good friend Howard sat sipping herbal tea in his stark white kitchen. In fact, the entire 6,000-square-foot Norman-style house was perfectly white from ceiling to carpet. Howard hates germs. The renovation had run to several millions of dollars, and he and his wife, Judy, had sought out great white Art Deco antiques to complement the decor. Suddenly an unwelcome visitor started oozing in from under the door. Within minutes the ruptured sewer line just above Howard's property drained all the raw waste coming down from homes on Stone Canyon Road into his house. The family spent months at the Hotel Bel-Air and then in a nearby luxury apartment while their condemned home was rebuilt. Howard's customized homeowner's insurance policy, which covered the costs of repairing his home and his temporary living expenses, made sure of it. Remarkably, about 75 percent of very affluent households in the United States are covered through mass-market insurance companies, with policies that would have left them deeply out-of-pocket in such a nightmare scenario. Three large luxury insurers—AIG, Chubb, and Fireman's Fund—are trying hard to change that ratio. Here's how.

ONE AGENT, ONE PHONE CALL

"Many extremely affluent clients are like small companies and require services similar to those of a commercial customer," explains Charles Williamson, president of AIG Private Client Group.

Their needs can include homeowner's insurance for several houses around the world that contain valuables such as fine art and wine; excess liability and employment-practice insurance; yacht, aircraft, and automotive policies; not to mention travel and kidnap and ransom coverage. "The advantage of a large, sophisticated insurer is its ability to write virtually identical policies almost anywhere and handle the full range of needs through one agent and one phone call," says Mark Schussel, vice president of public relations for Chubb.

A THOROUGH APPRAISAL

Since most large policies have high deductibles of \$5,000-plus, "the client is taking a risk along with us," says Chris Heidrick, vice president of marketing for Fireman's Fund personal insurance. "If your company does not send out an expert team to evaluate your risks and appraise your property, they're really not protecting your interests."

When a group of knowledgeable appraisers come to examine your home, they will scrutinize its custom finishes and materials, noting any recent renovations or additions in order to establish the true cost of replacing them after a large-scale disaster. A top policy will allow you to duplicate high-end work to the extent possible, with a significant buffer of 200 percent to sky's the limit, taking into account spikes in the price of material and labor.

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STAYING AHEAD OF THE CURVE

"Anyone can write a check," says Stephen Poux, director of loss prevention for AIG Private Client Group. "We try to be a resource to our clients before, during, and after a crisis." In the wildfire-prone areas of the West, his loss-prevention department will not only send out a consultant to evaluate risk, but it can even apply fire-retardant foam to the exterior of the house. It monitors active fires and sends response teams when there's a threat. It even checks out generators and boilers that, if not properly maintained, can cause concern. "Our engineers will assess mechanical equipment, putting together recommendations for maintenance, upgrades, and repairs," Williamson says. "Avoiding a claim is cheaper and less traumatic for all of us."

Not long ago my wife and I visited one of the world's greatest private wine collections in a Palm Beach basement, just 100 yards from the Atlantic Ocean. Staring at a half-million dollars of claret in one bin, I couldn't help but wonder how a risk like this gets underwritten. Luxury insurers have collection specialists on staff or they work with those who will visit the site not only to appraise your wine, art, or antiques but also to advise on conservation, safety, and security, offering suggestions and even a list of vetted service providers. "We have a responsibility to protect these collections," Heidrick explains, "not just for our clients and ourselves; the preventable loss of art is a tragedy for everyone."

DEALING WITH DISASTER

The worst time to discover what your policy does *not* include is when tragedy strikes. Hurricane Katrina was a wake-up call about the importance of specific coverage, like excess-flood insurance. The average homeowner might rely on the government's National Flood Insurance Program (NFIP), meant for areas where private insurance is expensive or impossible to find. The NFIP has relatively low limits on home damage (\$250,000) and contents (\$100,000) and doesn't cover certain things such as improvements to a basement or living expenses. All three companies offer excess policies that pick up where the NFIP leaves off. Chubb and Fireman's Fund also offer flood policies that step into the "first dollar," or primary role, generally allowing you to avoid the government program and its red tape completely.

In addition the insurers work with a network of committed local builders and contractors to supply such emergency logistics as backup generators, board-and-tarp services (immediate temporary repairs to prevent further damage), and the storage of art and valuables in a remote location before, during, and after a threat. Plus, a premium policy that covers the loss of use of your home can mean the difference between living in a trailer in your backyard or in a four-bedroom rental down the street while repairs are under way.

A BREAKDOWN OF ADD-ONS

More exotic types of coverage, like those listed below, are considered an appendage to the homeowner's policy.

Excess liability insurance is undoubtedly the most vital. "It's simply foolish for a client not to have it," says Chubb's Schussel. With limits up to \$100 million, the policies are designed to safeguard against everything from property damage to slander and defamation charges. All generally cover legal defense costs and may let you pick your own attorney.

Employment practice liability covers judgments and defense costs on suits involving staff: Imagine a party guest who had one too many glasses of the '82 Margaux sexually harassing your housekeeper. "We also provide complimentary background checks," AIG's Williamson points out. "You should know everything about the person watching your house or driving your kids."

Travel medical insurance provides an inexpensive annual policy that will pay for and manage the logistics of evacuating an injured family member from the middle of, say, the Serengeti, and may also cover up to \$1 million in health care costs wherever you are.

Kidnap and family safety coverage can pay costs, including ransoms, in the case of abductions. But more importantly it can provide immediate access to experienced negotiators whose principal motivation is to get your loved one released, not to apprehend the perpetrators. In countries where kidnapping is a business, this may be the defining difference.

Private plane and yacht policies are highly customized. Chubb can train your yacht crew for emergencies in addition to getting you set up with satellite-linked medical monitoring equipment.

THE YEARLY REVIEW

When it all adds up, the final step is paying the bill. Not surprisingly a little negotiating can be worthwhile. AIG's aggressive pricing strategy shook up the market, forcing more flexibility into the process. All agreed that high-value customers should put their account out for review annually. This is often when gaps in coverage are found, new products are recommended, and pricing becomes competitive.

The ultimate benefit of luxury insurance is the level of coverage, service, and convenience it offers. "Our target," Heidrick says, "is the people whose mass-market coverage is just inappropriate and even dangerous for their security." It seems to be the difference between good hands and bespoke velvet gloves. ■

MIKE OFFIT SPENT MORE THAN TWO DECADES ON WALL STREET, DURING WHICH HE WAS HEAD COMMERCIAL MORTGAGE TRADER AT GOLDMAN SACHS. HE ALSO RAN DEUTSCHE BANK'S COMMERCIAL REAL ESTATE DEPARTMENT. SINCE RETIRING HE HAS BEEN A PRIVATE INVESTOR, CONSULTANT, AND WRITER IN NEW YORK.

Who to Call

All three companies—AIG (aigpcq.com), CHUBB (chubb.com), and FIREMAN'S FUND (firemansfund.com)—work through independent insurance brokers unlike mass-market "direct writers," who actually employ their own. So the best way to find someone who can sell you a policy is to log on to the companies' Web sites, read about each of their business lines, then locate a broker near you. Another option is to ask your current broker if he carries these companies; most carry at least two of them and many all three.