

Risky Business

My Word

By Charles Williamson

August 1, 2008

I have seen this scenario far too many times: A driven individual turns a start-up into a multimillion-dollar company, amassing enough wealth to retire very comfortably. However, when it comes to protecting that wealth—including homes, cars, fine art and jewelry—this same high-net-worth individual views insurance as a footnote to an overall financial plan. When working with high-net-worth clients, it is of paramount importance to discuss property and casualty insurance.

This summer's floods and fires have been a harsh reminder that property can be destroyed at any moment. Admittedly, a discussion about insurance is not as sexy as one about growing wealth. But I have seen numerous cases where individuals worked long and hard to build a nest egg, only to lose it because of a lack of proper coverage.

Homeowners: How Much Is Enough?

Legions of properties are insured for significantly less than it would cost to rebuild the home, particularly because policies do not factor in the rising costs of materials and labor. According to Marshall & Swift/Boeckh, a company that supplies building-cost information to insurers and government agencies, 66% of homes were underinsured last year by an average of 18%. Natural catastrophes expose the vulnerability of homeowners whose properties are underinsured. The 2007 wildfires in California underscored the fact that having an underinsured home can be financially devastating. The media documented myriad cases of individuals who were unable to rebuild homes destroyed by fire because their policies did not pay total replacement costs and had little coverage for contents.

It is essential to review the insurance carrier's property disclosure form, which outlines what a carrier means by replacement costs. Many homeowners also do not have policies in place to protect against flooding, which is not covered by a standard homeowner's policy.

Liability Insurance Is Critical

With jury awards growing higher, a lawsuit can easily put personal wealth at risk. We recommend that clients' net worth not exceed their personal liability coverage limits.

For example, if your client has assets worth \$3 million, he should have

at least \$3 million worth of personal liability coverage. For high-net-worth clients, most mass-market insurers can only provide up to \$5 million in personal liability coverage. If this is not enough for your client, contact an independent insurance broker who works with insurance companies specializing in the high-net-worth market. These companies can provide up to \$100 million in personal liability coverage.

Insure the Collectibles

While many basic homeowners' policies include coverage for fine art, jewelry, wine, antiques and other collectibles, there is typically a limit; the value of the item may not be fully insured. If your client is a collector, it behooves you to recommend a more appropriate policy.

Whether your client is high-net-worth or working to become so, it is incumbent upon financial planning professionals—often the most trusted advisors—to position insurance as a critical protection for the assets they have worked so hard to build. Working with an independent insurance broker is particularly important for high-net-worth clients who may have very sophisticated needs, but an independent broker can provide all of your clients with a broad choice of coverage and carriers. Many insurance carriers will be happy to give you a list of referenced brokers.

Your relationship with your clients is based on trust and good advice. Sound advice on protecting your clients' assets is just as important as your advice on growing them.

Charles Williamson is president of AIG Private Client Group, which provides property and casualty insurance to affluent and high-net-worth individuals.