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FOCUS ON HIGH-NET-WORTH INSURANCE

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PERSONAL LINES FOCUS

Focus on High-Net-Worth Insurance

Many individuals don’t recognize their need for specialized coverage

They own an average nine homes overseas, according to an AIG study. They pay upwards of $250,000 annually for personal insurance. And according to Statista research, there were 4.78 million of them in 2015. These are today’s high-net-worth and ultra-high-net-worth individuals. These are also the individuals who make up a burgeoning insurance market in the United States.

That market growth could be due to the definition of high net worth—anyone who has property or assets witha combined worth of over $1 million (high net worth) or $30 million (ultra-high net worth). They are also clients with plenty of property: multiple cars, multiple homes, and multiple risks due to their lifestyles, hobbies, and locations.

Tom Mulroy, senior vice president of Engle Martin, says that lowering of the entry point for asset values is an emerging trend. “It’s no longer about a single residential property value starting at $1 million plus. This lowering of the underwriting baseline is likely due to an emerging populace whose net worth seems to be increasing at a younger age and earlier in their career.”

Yet high-net-worth clients also can be people with negative net worth, but with high-salary jobs and higher-risk lifestyles. And they may not even realize their need for coverage, according to Jeff Ogard, vice president of agency relations for Safeco. He says that new college graduates could well have huge earning potential but are still saddled with student loan and other debt.

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> Engle Martin

Ogard says it's a demographic that is being "tremendously underserved" because many, he believes, simply look for coverage from the same agent who has insured their family, and that agent may not understand the risks or what coverage options might be available.

The market up close

Luckily, as the needs of high-net-worth clients have been growing, the insurance market has been evolving. Competition is healthy, says Sheila Guenette, vice president and director of the personal insurance division at Haylor, Freyer & Coon and creator of the agency's private client/high net worth division. "There are more carriers doing business in the high-net-worth arena and still more middle markets trying to move into it," she points out.

That's led to some larger carriers trying to differentiate with products that set them apart, Guenette adds. Ogard says that, thanks to a number of key acquisitions over the past decade, such differentiation is needed. The merging of large entities and the whittling down of the larger players from five to two created a vacuum in the market. "Whenever there is a vacuum, the free market will certainly create something to fill it," he notes. He's seen smaller carriers create a market from that opportunity.

That means current offerings also could evolve. Pete Walther, president of Marsh PCS, says that the complex nature of high-net-worth clients' risks will demand changes to coverage forms. "Because individual and family enterprise exposures are beginning to intersect, there's a strong need for blended solutions and resources to address emerging risks such as cybersecurity, the gig economy, and entrepreneurial efforts. For many clients and their advisors, this may require a shift in mindset and approach to risk," says Walther.

Mulroy says many high-net-worth customers employ staff, both professional and domestic, yet often don't use appropriate termination protocols, which could leave personal and professional data at risk. Instead, customers should be thinking about how key account passwords are managed, including security codes and bank accounts.

With the high-net-worth space growing, Guenette says the competition is heating up. "Even the middle market carriers are trying to move into this space. For example, Hanover recently developed a product to enter the arena and others are doing the same."

Entering the market doesn't necessarily guarantee success, says Sandy Leon, senior vice president of the private client group for Risk Strategies. It's more of a struggle to be competitive in the space, and rates are inadequate for companies to make a profit, she says. "A lot of carriers will come in with a really great price, then as they start to take on more business and more claims, that price may last only a year."

Leon, who is scheduled to speak at the upcoming PRMA (Private Risk Management Association) Summit, says obtaining coverage in areas of higher claims frequency and severity has always been challenging, but in places like Florida, she says, it's about to get harder. The same is true in California, where wildfires and drought have dominated the news. "California is the new Florida," Leon says. "It's not a capacity issue. The problem is that carriers are not making money. We're seeing rate increases from all the carriers, and they're using a lot more caution in areas such as Florida, because that's where wealthy people are aggregating."

Coverage landscape

That kind of market pressure is causing carriers to look at their brokers and agents to get a better sense of the market needs, says Guenette. "With regard to coverage, I can tell you that these carriers come to the Assurex Global Private Client Practice Group to solicit feedback from us on the types of coverage clients are looking for."

She sees a growing focus on cyber, but also says family practice insurance—such as insuring non-professional estate executors—is gaining momentum. Insurers, she says, are doing what they can to differentiate their offerings. "Overall, they're scrambling to find a way to separate themselves from the rest, just like we do every day; but in this arena, specialized coverage options are meaningful."

Also meaningful is how carriershandle natural disasters, which Walther observes is playing a large role in shaping coverages. Some carriers, he notes, are reducing capacity in coastal states or tightening underwriting guidelines. Still, other carriers are moving on the opportunity to fill coverage gaps left by exiting players, he adds.

Thanks to a changing risk landscape and advances in technology, he says there's plenty of opportunity to create new risk mitigation strategies. "Data, science and technology will play an increasing role in identifying, assessing, and valuing risk. It is critical to calibrate one's risk tolerance to this increasingly dynamic risk landscape and take care in developing and implementing strategies to manage and mitigate risks," he says.

There are also exposures not normally seen in the personal lines space, says Leon. "Sexual harassment is a big one. We're seeing a lot of movement, too, when it comes to social media. Some children are cyberbullying. And in the catastrophe arena, we're seeing a significant increase in art claims. Art collectors are often living in these catastrophe-prone areas."

The catastrophe arena in particular, Leon says, is poised for some significant activity. The recent short-term extension of the National Flood Insurance Program (NFIP) gives a four-month reprieve to those households situated in flood-prone areas. The extension, due to expire November 30, 2018, just covers the hurricane season. But Leon says with 5 million households at risk, it's an issue that's getting relatively little attention—and one she says could significantly impact the high-net-worth market.

Even with the risks, capacity is adequate, says Ogard. "Capacity is not a huge problem even in CAT-prone areas where it has become difficult for mainline companies to do business; there are always mechanisms from the unregulated markets that come in."

He also sees plenty of investment capital in the market. "We certainly see that with a lot of venture capital money buying up independent agencies, and a lot of startups. It's creating very healthy competition and it's certainly creating a lot of innovation."

Claims picture

The competition and innovation could prove useful, particularly in the claims arena. "CAT claims, non-weather-related water damage claims, and emerging risks like cyber are of tremendous concern for our clients," says Walther. "Many of our clients want to know whether we can respond to their needs around the world as their families become increasingly mobile."

Another big claims area, says Guenette, mirrors that of the middle market. "Severity of accidents and the resulting legal action seem to be more commonplace now. Distracted driving affects everyone. The accidents are more serious, the injuries are more serious and the resulting lawsuits are larger."

Mulroy agrees. “Being on the claims side, we continue to see the same types of historical losses, just through different carriers now.”

High-net-worth carriers, Mulroy adds, tend to be more liberal with policy interpretation and claim settlement. “Indemnity and loss adjustment expense payments are historically the measure for underwriting profit; this emerging trend is more likely a function of remaining competitive in this space.”

That’s where claim professionals add real value to the sales process, says Mulroy. “High-net-worth individuals are not typical claimants. After a loss, they expect a high level of personalized service and communication. The financial impact of the loss and how it’s managed by the carrier are critical but doesn’t always get pressed as the immediate issues.”

Advice for agents and brokers

What is also critical: creating a face-to-face bond with high-net-worth clients, says Ogard. “The personal relationship is everything. Direct marketing, telemarketing, and direct mail are not nearly as effective as when a professional introduction is made.”

His approach is to establish relationships with financial planners and work with them to ensure their clients have appropriate insurance coverage. When talking with financial planners, he suggests agents add a question to the ones they ask their clients: “How high is your personal umbrella? If the answer to that is “we haven’t done that,” I remind them that only a fraction of the American public has an umbrella. If you have someone with $2 million invested with you, and they get a $1.5 million judgment, and XYZ Insurance Company writes a check for $100,000 and says ‘have a nice day,’ where do you suppose that other $1.4 million is going to come from?”

Walther takes it one step further, advising financial planners on how to protect net worth via a risk advisor. The right risk advisor and broker, he says, can ensure that clients’ properties and assets are adequately covered. “Think outside the box and go the extra mile when-ever you can. Focus on advice and always put the client’s interests first,” says Walther.

For more information:

Engle Martin

www.englemartin.com

Haylor, Freyer & Coon

www.haylor.com

Risk Strategies

www.risk-strategies.com

Safeco

www.safeco.com

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High-Net-Worth Certification Expanding

For agents and brokers looking to specialize in high-net-worth insurance products, there's good news. The Private Risk Management Association (PRMA) is expanding its offerings. PRMA, which focuses on serving professionals working in the high-net-worth space, has launched a new thought leadership program designed specifically for graduatesof its six-segment Chartered Private Risk and Insurance Advisor (CPRIA) program. Like CPRIA, the Advanced CPRIA (ACPRIA) program was developed by high-net-worth risk and insurance professionals and practitioners.

PRMA Executive Director Lisa Lindsay says the advanced program focuses on thought leadership and peer group collaboration. Offered in a two-part course of study, ACPRIA includes collaborative team study and individual research. The course has earned the endorsement of St. John's University School of Risk Management and Professional Education.

"The curriculum is composed of online recorded modules, but we also offer experts' corner webinars and case study assignments," says Lindsay. "This allows us to make sure the content is relevant and up to date, and that we're able to have discussions about things that are taking place right now." Each module is designed to improve enrollees' knowledge of risk exposures and solutions for high-net- worth clients. Modules include team assignments that build research and critical thinking skills, and individual research submissions on topics of the student's choosing.

While it may be too early to see results from the ACPRIA course, Lindsay says the early results from the original CPRIA course have been significant. To date, Lindsay says, 95% of participants have said the information or knowledge gained from the CPRIA program has benefited their work. Many are reporting immediate results. "People can walk away from a single e-learning module, a course, or the entire curriculum and immediately apply what they've learned.

"They can participate in a format and schedule that fits with their professional and personal life. It's easy to invest in this professional development because of the flexibility of the offering. And again, they will learn something every time they go on to the online university that will allow them to meet their clients' needs on a higher level."

To learn more about the course, visit www.privateriskmanagement.org