



Managing the Emerging Property and Liability Risks of the Affluent

EXECUTIVE SUMMARY

In the Winter 2006 issue of *The Journal of Wealth Management*, the Chubb Group of Insurance Companies reported on the growing range, incidence and severity of property and liability risks confronting high-net-worth clients. This report picks up where the last one left off, introducing potential dangers to wealth accumulation that have emerged since 2006. For example, social media was still in its infancy in 2006, but its proliferation since then creates an array of complicated risks, such as libel and slander.

Many other risks to wealth have increased or become more intricate. Travel-related risks have become more complex, as more executives take long overseas assignments to advance their careers, and their college-age children participate in study abroad programs, often in dangerous regions. The threat of litigation to deeper-pocketed clients has never been so great, emerging from a wide range of activities, including vehicular use, service as a director or officer, or employing household staff.

Financial planners are in a unique position to help their high-net-worth clients understand and assess these risks to their financial and emotional well-being. This report reinforces the concept of a comprehensive risk management approach to affluent clients' property and liability exposures involving a systematic identification of these risks, followed by their assessment, mitigation and prevention. The last line of defense is the transfer of the remaining financial exposures to an insurance company. This sophisticated process is akin to the ways in which corporate risk managers apply qualitative and quantitative methodologies to their companies' property and liability exposures.

The fiduciary responsibilities laid out in the Financial Planning Association's new Code of Ethics elevates the importance of helping manage clients' property and liability exposures. While financial planners have an obligation to manage the asset side of clients' "balance sheets," the heightened fiduciary responsibilities insist upon similar consideration of the liabilities. Certainly, few financial planners have the expertise to confront such potentially daunting losses with a comprehensive risk management methodology.

In that regard, this report argues that financial planners should leverage the advice and assistance of independent insurance agents and brokers who have access to sophisticated property and liability insurance products and services tailored to the needs of the high-net-worth market. While more financial planners have pursued this course since the previous report's publication, others are urged to follow.



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PART ONE: THE THREATS MULTIPLY

Technology Risks

Each day seemingly dawns with a new or expanded threat to high net-worth clients. Consequently, the strategies to contain these risks must keep apace.

The Chubb report published in *The Journal of Wealth Management* in 2006, “Managing Personal Risk in an Era of Rising Wealth and Proliferating Threats,” underscored the financial consequences of technology-related risks like identity theft. Since then, the means by which personal information can fall into the wrong hands are more wide-ranging, due to the extraordinary growth in social networking websites like Facebook, LinkedIn and Twitter. Wireless communications also have expanded, as have the capabilities of smart phones and computers. Blogging activities also have escalated.

These technologies may make our lives more interesting and informed, but they also create complex financial exposures like identity theft, slander, libel and personal security perils. One’s reputation also is at risk, with consequent social and business repercussions.

Jim Fiske, U.S. marketing manager at Chubb Personal Insurance, recalls a meeting he had last year with a group of independent insurance agents in Texas. “One of the agents noted that his client’s son and friends had created on MySpace a real-looking but fictitious page for their teacher,” says Fiske. “They had imported pornographic material and superimposed the teacher’s head on the bodies. The teacher filed a lawsuit for slander, which is not covered by most standard liability insurance policies. The boy’s family was on the hook for a million dollars in defense and settlement costs.”

While the financial repercussions of such scenarios can be significant for parents, the social and business fallout for them and their children can be everlasting. “When we were kids, teachers scolded us that ‘This will become part of your permanent record.’ Essentially, that was just a threat,” Fiske says. “Yet, when it comes to posting derogatory comments about teachers, fellow students and others, social media posts are indeed a permanent record. They can affect a person’s reputation with friends and business contacts.”

Kevin Desmond, a regional manager at Chubb Personal Insurance, points to other ineradicable penalties. “When you apply for a job, all the recruiter has to do is conduct a Google search on your name. Everything you said when you were a teenager is there for perusal, including possibly uncompromising photographs,” he explains. “We’re beginning to see negative words and images having an impact on a young person’s job prospects, as well as their college and post-college admissions.”

Written observations on social networking sites and blogs are growing, according to a survey of 1,000 Americans conducted by Opinion Research Corporation in February 2010. The Chubb-sponsored survey indicates that more than one in four respondents (27 percent) had posted a comment on a social media site or blog, while 37 percent of respondents earning \$100,000 or more annually had made such posts. Yet, only 2 percent said their lawyers had reviewed their comments before posting them.

Another survey sponsored by Chubb and conducted by Opinion Research in April 2010 indicates that 20 percent of 1,040 respondents had shared a negative product or service experience with others on a social networking site.

“A foolish post or a tweet could cost a person his or her job or trigger a libel lawsuit,” warns Christie Alderman, new product and services manager at Chubb Personal Insurance.

In fact, libel and slander cases arising from social media interactions appear to be on the upswing. Recent lawsuits include one in which a fashion designer alleged that a popular singer made “derogatory and false” comments about her

on Twitter. In a lower-profile case, a landlord sued a former tenant for making comments on social networking sites about “moldy” conditions at an apartment building.

Social media also is causing more individuals to knowingly or unwittingly violate intellectual property rules. Sixty percent of the respondents to the February survey said they “rarely or never” obtain permission to cut and paste articles or artwork from copyrighted websites before emailing or printing them.

And all this online activity may be connecting both adults and children to a broad variety of criminals, ranging from stalkers to sexual predators to home invaders. Increasingly, mobile technologies are “broadcasting” people’s whereabouts to not only friends but also potential foes, leaving users and their unattended homes and possessions exposed to physical harm and theft. More than one-third (36 percent) of respondents to Chubb’s April survey indicated that they use a mobile technology that tracks their location.

Even relatively harmless actions like joining a social network or “friending” someone can create unintended personal and business consequences. This risk became clearer in July 2010, when a hacker legally collected and published online the personal details of more than 171 million Facebook users. Exposed to the public were the users’ account names, phone numbers, URL profiles, email addresses and “buddies.” Imagine how this information can be put to bad use by identity thieves, stalkers and others or the business or social ramifications when private information regarding one’s political or religious beliefs is so publicly detailed.

These growing and relatively new exposures are unsettling, to say the least. And they tend to affect affluent clients more than the general population, given their greater financial means and the fact that they typically own and use a greater array of information technologies.

Travel Risks

Other potentially alarming financial risks for high-net-worth clients and their families derive from their travel habits.

In the 2006 report in *The Journal of Wealth Management*, it was noted that affluent Americans have the financial means to travel more often and to visit a wider array of countries than less affluent Americans. It also is more common for wealthier individuals to journey to exotic locales to enjoy adventuresome vacations like deepwater diving and mountain climbing, posing greater risks to personal safety.

Many high-net-worth clients also tend to travel to less-developed regions, often plagued by inferior medical services, poor roads, political instability and a higher degree of criminal activity. Kidnappings and terrorism are other growing concerns in many countries.

A March 2010 survey by Virtuoso Luxe cites India, Vietnam and Cuba as the top emerging destinations for vacationers, with the Galapagos Islands, China and Chile rounding out the top six. “Seeking adventure” was cited as one of the six top reasons for traveling to such destinations.

Corporate executives also are traveling more. A report by Dow Jones noted a more than 25-percent increase in corporate travel in 2010, much of it driven by the increasing globalization of corporations.

It also is not uncommon today for executives to serve long stints abroad to enhance their careers, and more overseas assignments are anticipated. Sixty percent of companies planned to boost their expatriate populations in 2010, according to financing firm GMAC’s Global Relocation Trends survey. The “most active emerging destinations” for these expats are Russia, China and India, locations the study cites as the “most challenging destinations,” pointing to security issues, cultural barriers, travel risks and shaky legal landscapes.

Such threats are profoundly problematic. An injured or ill person requiring emergency medical treatment often confronts cultural and language barriers. Incorrect diagnoses are common. Medical facilities also may prohibit treatment unless cash is paid upfront, yet most health insurance policies only reimburse medical expenses. It also is not unusual for an injured or ill traveler to require medical evacuation to a superior treatment facility elsewhere. Expediently locating a plane or helicopter with appropriate medical equipment and staff to make this journey is challenging.

Similar risks threaten high school and college-age students who often spend a portion of their studies in foreign lands. According to the Institute of International Education (IIE), the number of students studying in foreign countries had increased 8.5 percent in the 2008 academic year to 262,416 students, four times the number of students studying abroad only two decades earlier. Back then, many students studied in Western Europe; today, they are just as apt to study in China, Mexico and Costa Rica, each among the top 10 destinations for students cited in IIE’s study. Only 10 of the top 25 destinations were in Western Europe.

Young adults and teenagers, lacking the rationality of their older peers, may engage in riskier behavior, such as traveling to dangerous sites, ignoring reports of violent activity or disobeying simple traffic laws. If they are not cognizant or

respectful of the different laws and customs of the host country, they risk arrest and personal harm. Their identity as “Westerners” also makes them targets for kidnap and ransom schemes.

The financial exposures created by children traveling or living abroad are extensive, Fiske notes. He recounts the tale of a client’s daughter, who needed to be airlifted back to the U.S. after breaking her back in a car accident while traveling in Mexico on spring break. “The friend driving the car was not the authorized driver on the rental insurance policy. It could not be tapped to pay the bills, and she didn’t have a health insurance policy issued in Mexico. Lucky for her, another friend was traveling with a parent’s credit card with a very high limit,” he recalls. “People don’t imagine that such scenarios can happen to them — we tend to have an ‘optimism bias’—but they happen all the time.”

Looming Liabilities

Liability risks that elude most Americans tend to confront the affluent population. According to actuarial consulting firm Tillinghast, the American civil liability system produced \$255 billion in direct costs in 2008, a 1.1 percent increase from the \$252 billion in costs produced in 2007. Society is not becoming any less litigious, and the greater wealth of affluent people makes them key targets.

Jury awards in most categories of personal liability are rising. The average vehicular liability jury award in 2008 was \$327,000, up from \$213,000 in 2002, according to the Insurance Information Institute. Average premises liability jury awards were \$849,000 in 2008, substantially higher than the \$550,000 recorded in 2002.

Beyond these more typical liability exposures, high-net-worth clients frequently face more complicated employment practices and directors and officers liability exposures. Such loss exposures and their commensurate costs have increased in recent years.

Many successful businesspeople serve on the boards of public and private companies, putting themselves at personal risk — even if the organization indemnifies them in the event of litigation. A settlement may exceed the financial limits of the directors and officers (D&O) liability insurance policy. In the case of Enron, directors were forced to pay a portion of securities class action lawsuit settlements out of their own pockets.

Some high-net-worth clients may be asked by their employers to sit on the board of a non-profit organization, while others serve such organizations for altruistic reasons or personal networking opportunities. Yet, while a public or private company may have D&O insurance addressing related liabilities, non-profit organizations may not purchase the insurance, buy appropriate financial limits or secure the broadest coverage. This exposes board members to the risk of being sued to the full extent of their personal worth. At a bare minimum, the sued individual must pay the legal defense costs, which can be substantial.

The threat of a D&O lawsuit has increased in recent years, partly because of the recession, which has generated an uptick in corporate bankruptcies. Employment practices liability (EPL) is another mounting concern in the uncertain economy. Many affluent clients are curbing household expenses by reducing the number of domestic employees, which can foster a wrongful termination lawsuit or one alleging a hostile work environment, discrimination and even sexual harassment.

Recent cases include a wrongful termination lawsuit filed by the housekeeper of a professional basketball player against him and his wife. The suit alleges that the woman was “harassed and humiliated” and was forced to quit because of “intolerable” working conditions. In another recent lawsuit, a domestic worker in Maryland alleges that her employers never paid her and had reneged on a promise to drive her to and from a nearby train station so she could return home to Washington, DC. The lawsuit alleges that the family violated the federal Trafficking Victims Protection Act by using “psychological abuse and non-violent coercion” to force her to work in “slave-like” conditions.

The grounds for filing such lawsuits against domestic employers have broadened in recent years. Several U.S. Supreme Court decisions and laws have widened employer liability. Statistics bear out the rising risk. In 2009, according to the U.S. Equal Employment Opportunity Commission, 93,277 charges of workplace discrimination were filed — the second-highest level in its history.

According to a 2009 survey by Jury Verdict Research, the median compensatory award for an EPL lawsuit is \$326,640 — an all-time high. It is important to note that even a mere charge of employment practices misconduct must be defended. The related average cost, a 2010 survey by Chubb of private companies indicates, is \$51,975.

Because of their financial resources, employers of domestic staff are particularly susceptible to an EPL claim. “There are organizations that host luncheons to advise and assist domestic employees in filing sexual harassment and wrongful termination claims,” Desmond says. “They well know the deep pockets of the employer and the reputational repercussions such claims would produce. Something as innocuous as a rash comment made by the homeowner to a nanny after a tough day at the office can increase the risk of a lawsuit.”

Household employees invite other financial risks like theft and fraudulent workers compensation claims. Employers share a degree of responsibility for these problems. According to a 2007 Chubb survey, more than 50 percent of domestic employers fail to conduct background checks as part of their job recruitment processes, and more than 40 percent trust their workers with keys to their homes. “Unhappy domestic employees are more likely to steal from their employers or file lawsuits against them,” says Alderman.

Family Security and Property Risks

The 2006 report in *The Journal of Wealth Management* also addressed several ghastly concerns involving family members, including child abduction, home invasion, stalking and carjacking. All these risks can take an emotional toll on family members that can be further aggravated by their financial ramifications.

A 2010 Chubb study indicates these risks remain a major concern of families. Two-thirds of parents of school-age children in the Chubb survey agreed that kids today are exposed to greater risks than they had encountered in their own childhoods. Thirty-eight percent ranked child kidnapping/abduction as their greatest concern, more than car accidents (30 percent). With regard to technology-related risks, parents rated online predators as the top threat (38 percent), ahead of identity theft (25 percent).

As many as 800,000 children younger than 18 go missing annually, according to the U.S. Justice Department. An estimated 3.4 million people were victims of stalking during a 12-month period in 2005 and 2006. Although the most recent FBI statistics show slight declines in violent and property crimes, the affluent remain prime targets for burglary and home invasion — in which thieves often confront the occupants to force them to open safes or provide ATM PIN numbers. In recent years, news reports named billionaire investors, socialites and professional basketball players as victims of home invasion.

Another growing risk for high-net-worth clients regards the homes they own. Many affluent clients enjoy residences in regions that afford great aesthetic pleasures, but are prone to natural disasters like hurricanes and wildfires. According to a study by the Hazards and Vulnerability Research Institute at the University of South Carolina, 91 percent of Americans now live in places at a moderate-to-high risk of earthquakes, volcanoes, wildfires, hurricanes, flooding and other disasters.

Unfortunately, many of them remain unprepared for these events. A Wharton School survey taken three years after Hurricane Katrina indicates that only 17 percent of 1,100 adults living along the Atlantic and Gulf coasts had taken steps to fortify their homes.

PART TWO: MANAGING AND MITIGATING RISK

Managing the complex and evolving property and liability risks of high-net-worth clients requires skill and time. After identifying and assessing these financial exposures, mitigation strategies must be developed, in addition to determining whether to absorb the risk or transfer it in part or in full.

Since many affluent clients are involved in enterprises that absorb their full attention, they may not be cognizant of the breadth of financial exposures before them. Many also may under-appreciate the value of having a risk management specialist as an advisor, or believe that an agent employed by one of the major, mass-market insurers is their best source for advice. Similarly, they may think that all insurance policies and insurance companies are alike, which is far from the case.

It is up to their financial planners to correct these misconceptions. The fiduciary responsibilities, as spelled out in the Financial Planning Association’s new Code of Ethics, seem to encourage this course. The updated code mandates that CFP certificants owe to their clients the level of care of a fiduciary, always placing the interests of the client ahead of their own interests. The new code defines a fiduciary as, “One who acts in utmost good faith, in a manner he or she reasonably believes to be in the best interest of the client.”

While some financial planners may possess the expertise to provide these services to their clients, and more seem to have sharpened such skills since the previous report was written, most would acknowledge that their fiduciary responsibilities require assistance from risk management specialists such as independent insurance agents and brokers.

“Any planner who thinks he or she can spot all the issues that can crop up and make a determination about how to manage or insure them is kidding themselves,” says Barry Kohler, principal at BDMP Wealth Management, a Portland, Maine-based financial planning and advisory firm. “The key to providing high-quality services to families of wealth with such complex risk situations is to have specialists who spend all their time working in this area and who know from A to Z how to handle these issues.”

The Risk Assessment

What can a financial planner expect from these risk professionals? To begin with, an independent agent or broker can draft a profile of the client's unique personal risks, based on his or her assets, lifestyle, employment, family situation and other factors. They can analyze potential new risks to wealth and emerging trends. They can assess potential risk frequency and financial severity, and quantify which ones pose the greater threat. And they can help determine a variety of risk mitigation tactics to reduce or even eliminate the hazard. Finally, they can provide access to specialized insurance companies that absorb these financial exposures and offer risk mitigation services.

For example, an independent agent or broker can help identify technology risks by asking clients a series of questions, including:

- Do you or a family member use the Internet for personal business?
- Does any third party have access to your personal information, such as an accountant, attorney, banker or domestic employee?
- Do you utilize up-to-date anti-virus and anti-spyware programs on all home computers?
- Do you utilize wireless technologies like a laptop, phone or camera?
- Do you know the appropriate steps to take if you are a victim of identity theft?

Responses to these questions not only identify potential risk factors, they provide the means to dig further with more probing questions.

“Many financial planners, given the rigor involved in the CFP licensing exam, are in a position to ask these questions, but since their focus is not exclusively risk management, they may not be able to analyze the responses to suggest the appropriate risk mitigation,” Desmond says.

Asking such risk questions is not a once and done deal. Since clients' lives are constantly in flux, their risk profiles evolve. Domestic employees are hired or fired, new works of art are purchased, new technologies are acquired, children grow up and study abroad, and so on.

“As their lives change, an independent agent or broker can bring more certainty that their risks are understood and managed,” Alderman says.

Risk Reduction Strategies

Once the risks are identified and assessed, an insurance specialist can suggest ways to help reduce the financial threat. For example, with regard to the technology risks, agents and brokers may recommend mitigation strategies, including blocking children's access to certain websites, educating them on what personal or family information should not be shared online and installing filtering and monitoring software.

Regarding domestic employees and contractors, they may suggest comprehensive background and credit checks. If they have relationships with insurers who serve the high-net-worth market, they also may be able to tap into complimentary background and credit checks.

If a client is buying a new home or renovating an old one, they may propose a variety of ways to shelter the structure from fire, theft and or harm. Some of the high-end insurers they access can provide complimentary infrared scans of clients' walls to discern hot and cold spots. Hot spots may be a sign of an electrical short that could cause a fire; cold spots may indicate missing insulation that could result in a frozen pipe that bursts, creating leaks that cause water damage and even mold. In certain regions, these insurers may also offer services that can dispatch trained firefighting personnel to help protect homes threatened by wildfires by soaking the exteriors with a fire-blocking gel or taking other measures.

Similarly, these agents and brokers can provide advice and services regarding the political concerns, criminal activity, legal environment and quality of medical care in travel destinations. This information may be more complete and up-to-date than what typically is provided by travel agents and government authorities or is generally available over the Internet. Furthermore, the insurers often are able to provide access to hostage negotiators, foreign legal counsel and medical evacuation services — professional services that can be lifesaving.

“A typical financial advisor is not going to be in a position to ask questions about the unknown risks of traveling abroad, focusing instead on what they perceive to be the known risks,” says Stephen Lovell, president of Forsyth Heritage, a Walnut Creek, Calif.-based financial planning firm. “Yet, it's the unknown risks that pose the bigger threat. Regrettably, very few financial planners have knowledge of risk management or insurance. In my view, unless they acquire this knowledge, they're not fulfilling their fiduciary mandate with their high-net-worth clients.” Independent agents and brokers can be the key source for this knowledge.

The Complexities of Risk Transfer

Once they have sized up and tried to help contain the risks, independent agents and brokers can review the efficacy of current insurance protections. While insurance is predicated on absorbing these exposures, not all insurance policies are alike, and due to their complex nature, they can be difficult to evaluate. Only someone who is trained in the different types of coverage and is knowledgeable about recent changes in policy terms, conditions, costs, and most significant, the claims-paying reputations and current financial stability of the insurers backing the products is in a position to put together a comprehensive, high-quality insurance program. Armed with this knowledge and based on their assessment of specific financial exposures, the agent or broker may also determine a need for specialized, high-end insurance coverage.

Most personal property and casualty insurance planning begins with an assessment of the homeowners insurance needs. In addition to developing a complete understanding of the potential costs to rebuild a client's home should it burn to the ground or otherwise need to be replaced, the agent or broker can help make sure that the limits for contents are adequate and determine whether riders or other special coverage is in order for artwork, jewelry and other valuables. He or she also will check to make sure the policy includes appropriate provisions for additional living expenses, should the homeowner need to temporarily relocate after a covered loss to the home. As an extra precaution, it is advisable for the policy to include extended replacement cost coverage, which only a few insurers provide as a matter of course, and in some cases, without any limit. This coverage can provide for the full costs of rebuilding regardless of the policy limit.

Agents and brokers also are cognizant of what is not covered under homeowners insurance. Most homeowners insurance policies, for example, do not cover the financial expenses emanating from home invasion, stalking, child abduction and carjacking. Such expenses include lost wages and the services provided by medical, psychiatric services, professional security consultants and security guards, in addition to the costs of recuperation, improving household security, and temporarily relocating one's residence. A specialized insurance policy absorbing these risks can be purchased through a high-end insurer.

With regard to employment practices liability, "Many high-net-worth clients may assume their homeowners insurance policies address these liabilities. They don't," warns Desmond. High-end insurers are able to provide employment practices liability insurance.

Desmond cited the case of a nanny who allegedly injured herself at her employer's home. When the nanny and homeowner could not agree on the extent and cost of her medical treatment, the homeowner terminated her employ, compelling her to file a wrongful termination lawsuit. "The costs of this suit could have been covered by an employment practices liability policy. Furthermore, had the homeowner purchased a workers compensation policy picking up the cost of the injury, he likely would have avoided the litigation in the first place," Desmond says.

To address other liability exposures, the agent or broker can check on the scope of coverage under D&O insurance policies covering clients' corporate and non-profit board activities as well as the clients' umbrella, or personal excess liability policy. It's not surprising for the agent or broker to find that the client may not be covered for suits alleging libel, slander or defamation. Only some insurers build such coverage into their liability forms. In addition, the agent or broker can advise on an appropriate insurance limit — which Fiske notes is a matter that affluent clients and their advisors frequently struggle over.

"The smart agent or broker can advise to err on the side of caution, purchasing high limits because of the threat to personal wealth and the relatively low cost of the coverage," he says. "People of means are perceived as 'deep pockets,' and this is not going away."

To the risk novice, the decision sometimes is further complicated by where the client lives. While the average jury verdicts in some states may be much less than other states, this should not be a consideration in determining insurance limits, Fiske cautions.

"Liability cases frequently are tried in jurisdictions other than the defendant's home state," he explains. "We had a client whose son got into a car accident that injured a young passenger in another car for life. The net present value of that person's future medical expenses and wages was settled north of \$5 million — in a jurisdiction other than the state of the parent's residence or the location of the accident. Imagine the financial consequences had he collided with a school bus and injured multiple children. These are the sorts of scenarios our agents and brokers can anticipate. Unfortunately, they've seen it all."

PART THREE: HEADING TOWARD PARTNERSHIP

There appears to be no consistent process among financial advisors to identify and discuss property and casualty risks and insurance needs with clients, other than basic home, automobile and umbrella liability insurance, an independent research project on behalf of Chubb demonstrates.

Although more financial planners appear to have integrated risk management into their practices since the 2006 report, few of those interviewed had relationships with property and casualty agents. On the bright side, when a need for property and casualty insurance surfaces, the advisors are more likely to recommend independent agents and brokers, rather than so-called captive agents of mass-market insurers. The research indicates a perception of independent agents and brokers as fair, balanced and competent.

The advisors posited some ways to better tap into the services provided by agents and brokers, including joining them during periodic reviews with clients or when a significant change occurs to a client's life or economic status, such as the acquisition of a valuable work of art or a vacation home, the receipt of a large inheritance, or participation in a charitable foundation.

These ideas resonate with some financial planners.

"We routinely bring in an independent insurance agent to evaluate the client's risk profile, sitting side-by-side with us, the legal advisor and the tax and legal experts," says Gregory L. Olsen, a partner at Lenox Advisors, Inc., a New York-based wealth management firm. "You need a different level of risk management expertise to assist someone with a net worth of \$25 million versus one with \$250,000."

Olsen embraces the concept to such an extent that he, in fact, is in the thick of classes to become licensed as an independent insurance agent himself. "I recognize the value an agent brings to the client wealth management process," he explains. "I simply want a broader-base knowledge of property and casualty risks to identify them before they rear, and to alleviate them when they do. I also want to bring in the corollary services provided by insurance companies to assist me in reducing risks."

For now, he works with "some extremely competent agents on a routine basis," he explains.

Lovell says his clients have not been immune to extraordinary risk events. "I'd live more happily with less stomach upset if I could identify likely risks and make decisions about whether to accept the risk, reduce it or buy insurance coverage," he adds. "Knowing the right questions to ask of the client is the best way to get at their risks. Frankly, I have many clients whom I think are underinsured."

Informing Kohler of the prudence of having an independent insurance agent or broker as part of his advisory team is "like preaching to the choir," he says. "The only way to provide optimum service to high-net-worth clients is to have a team of advisors, and it should include a tax person, legal person, financial planner, someone with real estate expertise and someone with property and casualty risk expertise."

Why is this advisable? "Life is just too complex today, making it harder and harder to have a perspective that is broad and deep," says Lovell. "I get wary and nervous when someone says they know everything about everything."

Kohler agrees: "You need experts. You don't know what you don't know, and when it comes to risk this is irresponsible. You need someone who understands the nuances of property and casualty risks and the best ways to mitigate, reduce and insure them. A specialized area requires specialists."

As stated in the 2006 report, "The wealth managers and financial planners who understand the message [of a comprehensive, holistic risk management strategy to preserve client wealth] will be performing a valuable service for their clients." This message, in light of the riskier world all of us live in today, has even greater import.



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