



ACE Private Risk Services®

Wealth at Risk: How Affluent Consumers Over-Pay to Be Under-Insured

Survey Reveals Common Opportunities to
Maximize the Value of Personal Insurance Programs



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Insurance Intelligence
White Paper

Executive Summary

The unprecedented destruction of wealth due to the financial crisis and its lingering effects have forced affluent consumers and even the super rich to do something they rarely like to do—take a hard look at their personal insurance program. Though motivated at first by a desire to reduce cost, many discover that the policies they've had in place year after year are not only full of wasteful spending but plagued by dangerous gaps in coverage, as well. They're over-insuring against minor threats, while under-insuring against major ones.

The problem is especially acute when an affluent consumer insures his or her homes and automobiles with mass-market policies designed for the average consumer—as most do. In that case, according to a survey of 600 independent agents and brokers that ACE conducted, affluent consumers are most likely to be inadequately protected against:

- Financially ruinous liability lawsuits
- The total destruction of their home
- Damage to or loss of jewelry, fine art, and other valuable collections

At the same time, they are most likely paying too much in premium because they are:

- Over-insuring against small losses by carrying low deductibles
- Missing the opportunity for discounts earned by consolidating their policies with one carrier
- Missing credits for alarm systems and other loss-prevention devices

Finally, they are unlikely to have the correct amounts of coverage for the general contents of their home and the other structures on their property, such as fences, driveways, and detached garages. But there is an almost equal chance that the amounts are more or less than needed.

Since the degree and complexity of risk grows with wealth, discerning the areas of over- and under-insurance requires a careful review of each affluent client's assets, activities, and lifestyle by an expert risk consultant, typically an independent insurance agent or broker. Once these areas are identified, the agent or broker can deliver a comprehensive personal insurance program that cost-effectively protects the affluent consumer's family and long-term financial well-being.

“On average, about 75 percent of the people whose policies I review are not in the right insurance program (meaning that they are either under- or over-insured). This is especially true when it comes to high net worth individuals.”

– Patti Clement, VP/
Managing Director, HUB
Private Client Advisors,
New York, NY



In California, 75 percent of homeowners affected by the 2007 wildfires in San Bernardino and Riverside counties were under-insured by an average of \$240,000, according to a survey by United Policyholders, a consumer advocacy group.¹

Waking Up From Complacency

A key source of the problem of over- and under-insurance is that most affluent consumers still insure their homes and automobiles with mass-market policies designed for the average consumer. These policies may have been fine for a number of years after they purchased their first car or home. But as their wealth has grown, these consumers have remained unaware that the size and complexity of the risks they face have also grown beyond the capacity and flexibility of their mass-market policies.

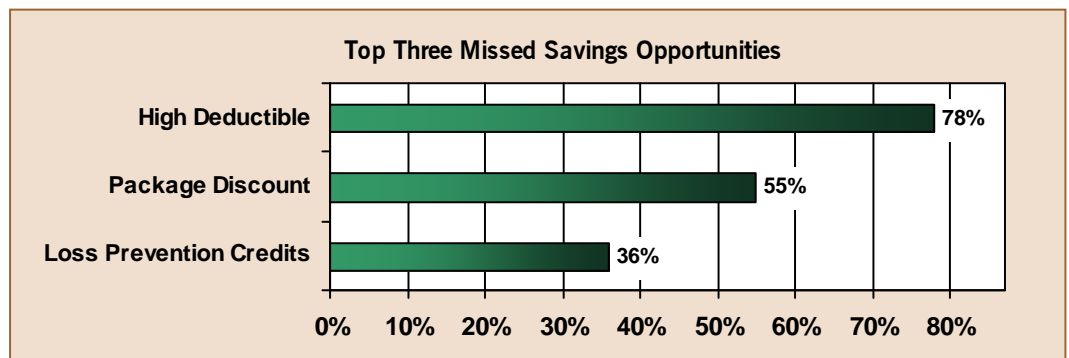
Affluent consumers' newfound interest in saving money due to the recession, therefore, represents a valuable learning opportunity. For years, many did not even recognize that a problem existed unless disaster struck. For instance, whenever a wildfire swept through an exclusive California neighborhood, newspaper stories invariably recounted stories of homeowners whose insurance would not cover the full cost of rebuilding their homes. But affluent consumers wise enough to reach out to an agent or broker with the expertise to understand and address his or her unique needs can avoid being part of the next news story.

To illustrate this issue further, ACE Private Risk Services conducted a survey among independent agents and brokers who specialize in serving the personal insurance needs of affluent and high net worth consumers. These agents were asked to identify the areas where new clients previously insured with a mass-market carrier were likely to be over- or under-insured. They were also asked to identify what savings opportunities were frequently overlooked. Based on more than 600 responses to this survey, we present the key findings in this white paper.

Finding Savings, Cutting Waste

According to the survey, affluent consumers are likely paying for coverage they don't need or missing a savings opportunity in three primary areas:

- **Deductibles too low:** When the deductible amount was framed as a savings opportunity, 78 percent of the agents said that affluent consumers were likely paying too much in premium by carrying a low deductible. When the deductible amount was framed as an issue of being over-insured against minor losses, 44 percent said affluent clients were likely over-insuring themselves with their deductible. From either perspective, the deductible amount topped the list as an area of wasteful spending.
- **Package discounts:** 55 percent of agents noted that affluent consumers do not take full advantage of consolidating their insurance policies with one carrier.
- **Loss prevention credits:** 36 percent of agents said that affluent consumers are unlikely to get credit for alarm systems and other loss-prevention measures protecting their homes or vehicles.



Deductibles Too Low

- 78 Percent Say Likely Overlooked Savings Opportunity
- 44 Percent Say Likely Over-Insured

Many affluent consumers with mass-market homeowners and auto insurance policies carry deductibles of \$250, \$500, or \$1,000. Ironically, they pay a substantial amount in premium for such low deductibles, but when they have a minor fender bender, they won't file a claim for two reasons: 1) they're worried their insurance rates will go up, and 2) paying to repair the damage entirely out of their own pocket is relatively affordable for them.

The annual savings in premium for insuring a million-dollar home with a \$2,500 deductible versus a \$500 deductible can be about \$900.

Instead, affluent consumers should consider how much they can pay out of pocket without significantly affecting their lifestyle, and then ask their agent to estimate the premium savings they could achieve with a range of deductibles up to their maximum amount. In this manner, they can assess the trade-off between risk and savings.

The savings are often substantial. Using the ACE Platinum Portfolio policy as an example, the annual savings in premium for insuring a million-dollar home with a \$2,500 deductible versus a \$500 deductible could be about \$900. So, the homeowner must decide if he is willing to risk paying an additional \$2,000 for a loss (\$2,500 - \$500) to save \$900 per year in premium. Since ACE's typical homeowner files a claim only once every 11 years, taking the higher deductible would be the better choice. The total premium savings would come to \$9,900 over 11 years, far outweighing the additional \$2,000 paid at the time of the one loss. As the table below shows, the homeowner would come out ahead after only two years without a loss.

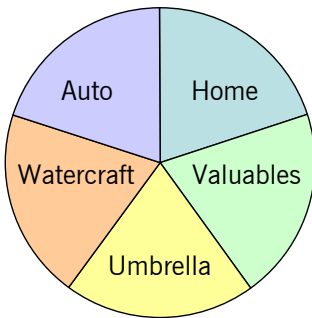
Example of Potential Savings with High Deductible					
\$2,500 Versus \$500 Deductible on Home Insured for \$1 Million					
Year #	1	2	3	5	11
Cumulative Premium Savings	\$900	\$1,800	\$2,700	\$4,500	\$9,900
Additional Deductible Paid If Loss Occurs	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
Net Cost/Savings	-\$1,100	-\$200	\$700	\$2,500	\$7,900

ACE's typical homeowner files a claim only once every 11 years.

ACE makes the decision even easier by providing an additional and unique benefit known as the "Deductible Reserve." When a customer chooses a homeowners deductible of \$2,500 or more, ACE will set aside 10 percent of the deductible amount in a reserve for each claim-free year on the policy. When the customer has his or her first claim, ACE applies the reserve against the deductible amount to effectively reduce the customer's out-of-pocket expense. For instance, after five claim-free years with a \$2,500 deductible, the reserve would equal \$1,250. If the customer has a claim in the sixth year, the reserve will effectively reduce the deductible payment by half. The same logic applies if the customer chooses a deductible of \$1,000 or more on his or her auto policy.

Package Discounts

▪ 55 Percent Say Likely Overlooked



Enticed by promises of savings from heavily advertised auto insurance carriers, even affluent consumers can find themselves tempted to place their auto insurance with one company and their homeowners insurance with another. But the apparent savings can be illusory. Spreading the policies across different carriers not only increases the potential for gaps in coverage, it can diminish or negate the package discounts achieved when multiple policies are placed with one carrier. These discounts can be 10 percent or higher.

Affluent consumers can maximize the benefits of package discounts by choosing a carrier that can handle a wide range of their needs so that the discount applies across the most insurance policies possible. For instance, ACE Private Risk Services allows the package discount to apply across homeowners, auto, valuables, umbrella (excess liability), and watercraft policies. Additionally, the policies can be written as part of one package with common term dates and one consolidated bill, saving the affluent consumer time as well as money.

Loss Prevention Credits

▪ 36 Percent Say Likely Overlooked

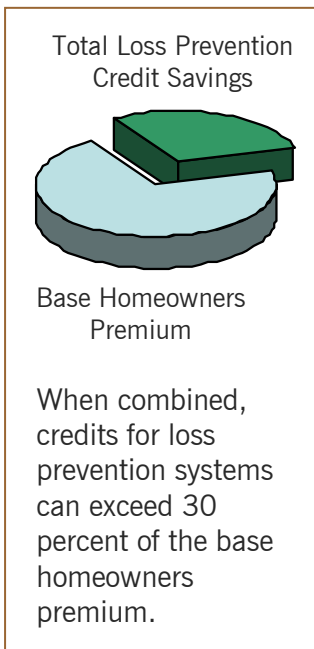
Affluent consumers frequently fail to get credit for alarm systems and other loss prevention measures protecting their homes or vehicles. Often linked to a central monitoring station or local authorities, typical systems in the home can include:

- Burglar alarms
- Fire alarms and sprinkler systems
- Electrical back-up and lightning protection
- Temperature monitoring
- Water leak detection with automatic water shut-off
- Gas leak detection

Discounts for living in a gated community may also be missed.

When combined, credits for such systems can exceed 30 percent of the base homeowners premium—a substantial savings.

Typical systems in automobiles include alarms, fuel cut-off switches, hood locks, steering locks, transmission locks, ignition cut-off switches, and location transponders. Depending on the sophistication of the devices, discounts can range from five to twenty percent on comprehensive auto coverage premium.



Preventing Catastrophic Loss

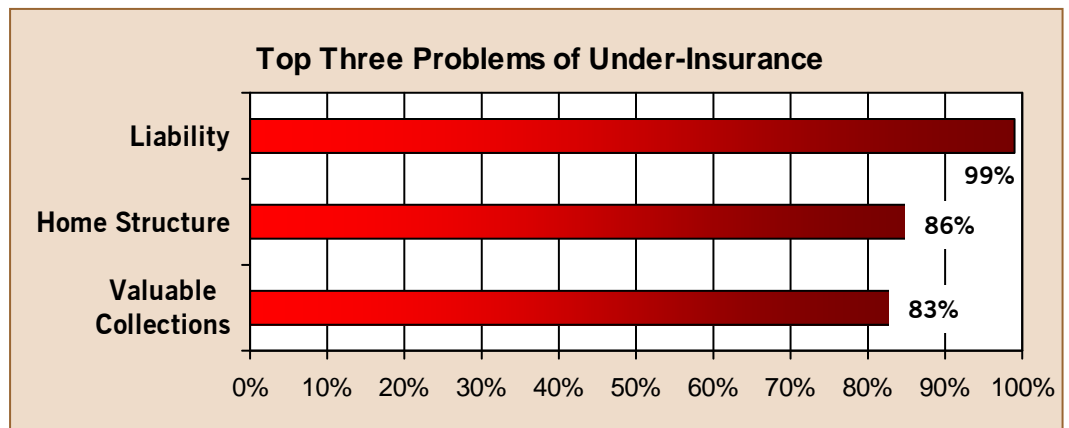
After eliminating unnecessary coverage and taking full advantage of discounts and credits to lower premium, the prudent affluent consumer will seek to redeploy some of those savings to key areas of under-insurance.

According to our survey of 600 independent agents and brokers, affluent consumers are likely to be under-insured in three main areas:

- **Liability:** 99 percent of agents said that affluent consumers were likely to be under-insured in at least one form of liability coverage. Umbrella liability coverage, which guards against the threat of multi-million-dollar lawsuits, topped the list, with 89 percent of agents noting a likely problem.
- **Home structure:** 86 percent of agents reported that affluent consumers with mass-market policies are likely to have inadequate coverage to rebuild their home if it is totally destroyed.
- **Valuable collections:** 83 percent of agents noted that affluent consumers were likely to be under-insuring their jewelry, fine art, and other high-value items.

“A lot of these individuals do not realize that they have accumulated a significant amount of money and have therefore outgrown their existing insurance program. If nobody is paying attention, as their assets accumulate over the years, this will lead to an increased host of potential liability issues that can result in disastrous financial results if a loss occurs.”

– Patti Clement, VP/
Managing Director, HUB
Private Client Advisors,
New York, NY



Umbrella Liability

- **89 Percent Say Likely Under-Insured**

Many affluent consumers assume that the liability coverage in their homeowners and auto policies will protect them if someone is injured on their property or in an auto accident they cause. They are right—up to a point. The liability coverage limits in these policies will usually pay up to \$300,000 and rarely more than \$500,000. These amounts will be sufficient in most cases, but multi-million-dollar awards and settlements are not uncommon. The 2008 data from Jury Verdict Research indicates that 14 percent of personal injury awards exceeded \$1 million and 4 percent exceeded \$5 million.²

Moreover, in today's economic and political environment, affluent consumers are more likely than usual to be targets of these multi-million-dollar lawsuits. Their wealth represents the proverbial “deep pockets” that lawyers are trained to pursue. In many states, if someone is found only 1 percent responsible for an accident, he or she can be held liable for 100 percent of the damages to the injured parties. Thus, an affluent

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Surprisingly, the cost per million dollars in umbrella liability coverage can amount to only a few hundred dollars.

driver may be the last car in a ten-car smash up, but lawyers for the other damaged parties may be able to sue that person for the entire amount of damages—if only because he or she is partially responsible and has the ability to pay. Affluent consumers without sufficient protection can be forced to sacrifice their homes, their savings and investments, and their future income stream from employment to pay damages in excess of their liability coverage.

Umbrella liability coverage protects the affluent consumer's net worth and lifestyle in the case of a financially ruinous lawsuit. It steps in when the liability coverage in the homeowner or auto policy has been exhausted. Coverage can be purchased through carriers that specialize in serving affluent consumers, usually starting at \$1 million, and going as high as \$100 million.

Surprisingly, the cost per million dollars in coverage can amount to only a few hundred dollars. Thus, the savings in taking a higher deductible and bearing more responsibility at the low end of risk can more than pay for protection at the high end of risk—the kind of risk that can devastate an affluent consumer's family and lifestyle.

For those who already have an umbrella policy in place, agents in the survey also noted several common deficiencies:

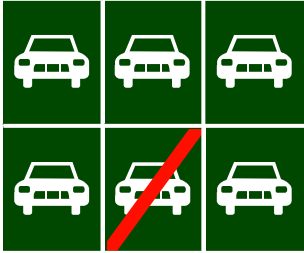
- The amount of umbrella coverage is too low and will not fully protect the client's net worth. To be fully protected, affluent consumers should consider their equity in real estate holdings, the value of their personal possessions, savings and investments, and their future income stream from employment when setting a coverage limit.
- A gap exists between the point when the auto or homeowner coverage stops and the umbrella coverage begins. For instance, if the liability limit in the auto policy stops when losses exceed \$100,000, but the umbrella coverage doesn't start until losses exceed \$300,000, the consumer has a \$200,000 gap in coverage.
- Company cars are not listed on the umbrella policy. Affluent consumers who drive company cars may assume that the company-provided auto insurance has them completely covered, even when they are driving the car for pleasure. Thus, they forget to tell their agent about the car when structuring the umbrella policy.

"We find that 95 percent of prospective clients have two critical areas necessitating change—deductible amounts and umbrella limits. Put simply, we always increase the home deductible (current deductibles typically range from \$1,000 - \$2,500) to a minimum of \$5,000, \$10,000 or more. The savings is often \$750 (at \$5,000) or much, much more.

More importantly, the cost increase from a \$5 million umbrella coverage limit to a \$10 million limit can be less than the \$750 we saved on the home deductible change.

It's not rocket science; it's just good common sense and a proper allocation of resources. Our typical client carries a \$10 million personal umbrella and the increased home deductible change paid for the increase. I am constantly stunned that more agents don't advise their clients accordingly."

– Dan Glunt, Principal, Fort Point Insurance Services, Inc., San Francisco, CA



The latest estimate is that one in six drivers nationally may not have insurance.

Disgruntled former and current employees may file baseless suits, hoping the homeowner will settle to avoid onerous legal expenses and possible damage to his or her reputation.

Uninsured/Under-Insured Liability

▪ 82 Percent Say Likely Under-Insured

The Insurance Research Council (IRC) has noted a direct relationship between the unemployment rate and the number of uninsured drivers on the road. The latest estimate is that one in six drivers nationally may not have insurance.³ In a handful of states, the ratio can reach one in four. Moreover, these drivers account for a disproportionately high percentage of fatal accidents—20 percent.⁴ Should one of these drivers cause serious injury to an affluent consumer, he or she will not have the resources to pay for lost income, pain and suffering, co-pays and other costs not covered by regular health insurance.

The risk extends beyond the road, too. Homeowners under economic stress may be cutting back on coverage. If an affluent consumer sustains a serious injury at a neighbor's home, the neighbor may not have enough liability coverage to pay for treatment and potential lifelong care. During one party at a hillside home, for example, an entire deck collapsed under the weight of too many people. The cost of treating multiple serious injuries quickly overwhelmed the overall liability limit in the host's policy.

To protect against these situations, affluent consumers can purchase additional uninsured/under-insured liability coverage as part of their umbrella policy from carriers who specialize in serving this market. Coverage typically starts at \$1 million for as little as \$100 in annual premium, with options up to \$10 million. Considering the example of the deck collapse, consumers should check that coverage is not limited to vehicular accidents.

Employment Practices Liability for Domestic Staff

▪ 70 Percent Say Likely Under-Insured

The standard liability coverage in a homeowners or umbrella insurance policy does not apply to lawsuits brought by domestic employees for wrongful employment practices. These practices include discrimination, sexual harassment, wrongful termination, and other claims. As affluent customers are forced to reduce staff and ask those who stay to do more, disgruntled former and current employees may file baseless suits, hoping the homeowner will settle to avoid onerous legal expenses and possible damage to his or her reputation.

Adequate protection requires employment practices liability coverage, which may be available as a separate policy or as an optional endorsement to an umbrella policy. This coverage will pay for damage awards and legal fees to defend against even groundless suits.

Not-for-Profit Directors & Officers Liability

▪ 64 Percent Say Likely Under-Insured

To their credit, affluent consumers contribute a significant amount of their money and time to not-for-profit organizations. A study sponsored by the Bank of America and published in 2009 found that nearly half serve as voluntary board members.⁵ What these volunteers may not know is that their good deeds expose them to the threat of liability lawsuits.

Volunteer board members can be held liable for the actions or inactions of the not-for-profit organization. While the organization may carry insurance to protect itself, a limited budget typically prevents the purchase of a gold-plated insurance program. Coverage limits may be inadequate to cover some lawsuits. Moreover, in a difficult economic period when not-for-profits may be forced to trim paid staff, the risk of wrongful termination and other wrongful-employment-act lawsuits rises.

Not-for-profit directors & officers insurance will protect affluent consumers who serve as volunteer board members of charitable organizations against some of the more common types of suits brought against those organizations.

Home Structure

▪ 84 Percent Say Likely Under-Insured

Agents reported that having insufficient coverage to rebuild a home after a total loss was one of the most common and most serious problems of under-insurance. Eighty-four percent said it was a likely problem, and forty-one percent said it was the most serious problem. These statistics compare with 89 percent and 32 percent, respectively, for umbrella liability. (See chart below.)

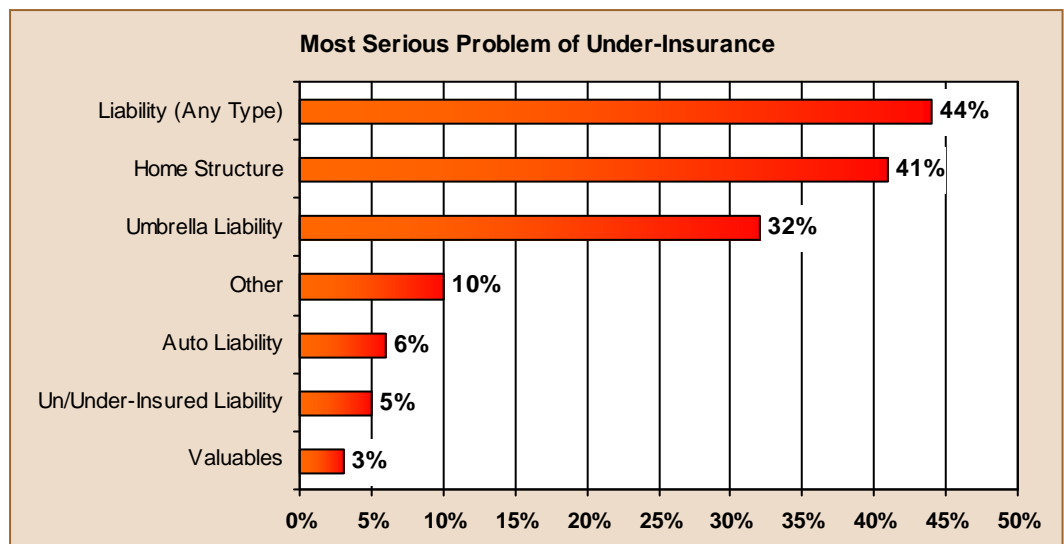
The extent of this problem is supported by an annual study conducted by MSB, a leading worldwide provider of building cost data and estimating technology for the property insurance industry. Its 2009 study estimated that 64 percent of American homes are undervalued for the purpose of insurance by an average of 19 percent.⁶

The problem may be worse for affluent consumers who own luxury properties, especially if they insure their home with a mass-market policy. The reason is that standard industry tools that estimate the cost of rebuilding a home may not adequately value the higher quality materials, superior craftsmanship, and unique architectural features in luxury, custom-built, or historic homes. In addition, affluent consumers are more likely to have expanded the size of their home or created lavish entertainment centers in their basement. And, like most customers, they forget to tell their insurance agent.

The problem of undervaluation becomes clear when the home is destroyed. Suddenly, the homeowner discovers that it costs far more to rebuild the home than the coverage limit in the policy. While mass-market policies may provide a buffer of 20-25 percent above the coverage limit, it is often not enough—especially when losses are caused by a natural disaster affecting a large number of homes. The increased demand for local building materials and labor can easily outpace supply and drive costs higher than usual.

The problem can be solved by seeking policies from carriers that specialize in insuring high-value homes. These policies offer a kind of coverage known as “full replacement cost,” which promises to fully rebuild the home with similar quality materials and craftsmanship no matter how much it costs in relation to the coverage limit in the policy. In effect, this coverage shifts the responsibility for properly estimating the cost of replacing the home to the insurance company. Therefore, the carriers will often send an expert to the home to document its features and estimate the replacement cost. The visit also gives the expert a chance to suggest ideas for better protecting the family and the home.

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Valuable Collections

▪ 83 Percent Say Likely Under-Insured

“Over the last decade, we have frequently seen clients under-insured by up to 50 percent or more across all types of valuable articles.”

– Gerald Escobar,
Principal, Asset Archives

Coverage for valuable collections follows close behind umbrella and home structure coverage as an area likely to be under-insured, and the issue has become more important in recent years. With financial and housing markets still not fully recovered from the recession, valuable collections today represent a greater portion of the affluent consumer’s net worth.

In August 2010, the need for adequate protection will become even more urgent, because that is when the Transportation Security Administration (TSA) henceforth requires all commercial cargo on commercial passenger airplanes to undergo security screening.⁷ Since a significant portion of high-value art is shipped in this manner, affluent consumers must now worry about rough handling of their meticulously packed, highly fragile items.

Insufficient coverage for valuable collections has several causes:

- The consumer does not realize that his or her homeowners policy restricts the amount it will pay for jewelry, silverware, furs, stamp and coin collections, and breakage of fragile items such as marble statues, musical instruments, and bottles of fine wine. In standard policies, the limits may equal only one or two thousand dollars. In special policies geared toward the affluent, the limits are higher, but they exist nonetheless.
- The consumer has not bothered to estimate how much all the high-value items are worth. Over the years, the amount of semi-precious purchases can build up and far exceed the limits in a homeowners policy. Unfortunately, affluent consumers rarely have the time to inventory and record the value of all their possessions, including their most treasured items. They may remember the purchase price of each item. They may have had a few exceptional items appraised and placed on a valuables policy. But they probably don’t have the big picture.
- The consumer has not bothered to keep the values assigned to his precious items in the insurance policy up to date. The market price for collectible items, like fine art and items made with precious metals, can fluctuate greatly. For instance, the London fix for gold rose from \$631 in January 2007 to \$1,114 in March 2010, a 76 percent increase.⁸ For this reason, affluent consumers should have valuable items worth more than \$50,000 reappraised every few years.



The market price for collectible items, like fine art and items made with precious metals, can fluctuate greatly. For instance, the London fix for gold rose from \$631 in January 2007 to \$1,114 in March 2010, a 76 percent increase.

Companies specializing in serving affluent consumers provide the best coverage. Policies from these companies offer a degree of protection against market volatility because some will pay up to 50 percent more than the scheduled amount to replace an item. In addition, these carriers provide the ability to cover groups of items, such as a wine or art collection, on a blanket basis in which an overall coverage amount is set for the group. This approach eliminates the tedium of trying to estimate the value of each individual item, and makes the overall policy easier to manage.

In addition to superior coverage, these companies offer specialized services to prevent loss to valuable items. For instance, they can bring in experts to identify the need for a backup generator to keep a temperature-controlled wine cellar operating during a sustained power outage. They may also be able to assist in the evacuation of precious items from homes caught in the path of a hurricane. The affluent consumer, who is often an avid collector, appreciates the prevention of loss to the original piece much more than being adequately reimbursed to replace it.

Additional Customization Opportunities

There are two additional and important aspects of coverage that most agents acknowledge are likely to be improperly matched to affluent consumers' needs; furthermore, there is an almost equal chance that the amount of coverage is either more or less than required.

- **Other structures:** 37 percent of respondents say affluent clients are likely over-insuring the structures on their property other than the home itself; 29 percent say the opposite.
- **Personal property:** 33 percent of respondents say affluent clients are likely over-insuring the general contents of their home; 30 percent say the opposite.

Other Structures

▪ 37 Percent Say Likely Over-Insured / 29 Percent Under-Insured

Virtually all homeowners policies provide a coverage amount for the primary dwelling structure on the property and a separate coverage amount for the other structures on the property. These are defined as detached garages, swimming pools, driveways, fences, and so forth. Frequently, the amount of coverage for other structures is automatically set at 10 to 20 percent of the coverage amount for the primary dwelling.

Standard percentages usually work well for standard homes and properties. But affluent consumers typically do not live in standard homes. They own luxury homes or condominiums on exclusive properties. If the home is insured for \$2 million, they would have \$200,000 to \$400,000 in coverage for their other structures. If they only have a fence and a driveway in addition to the home, they're probably over-insured. If they live in a New York City brownstone with no other structures, they're grossly over-insured for other structures. By dropping the coverage for other structures to zero in a policy for a \$3.5 million brownstone in New York City, the owner could save about 4 to 5 percent in annual premium.

But the case with other structures is not always one of over-insurance. Under-insurance can occur when, for instance, the affluent consumer owns a property with a \$1 million home, a swimming pool, a tennis court, and a detached garage with a second-story guest room. In that case, the standard percentage may be inadequate.

So the key point about other structures is that each consumer should be prepared to discuss his or her unique situation with the agent. Chances are the standard percentage will be inaccurate, and an adjustment will be warranted.

Affluent consumers should also seek policies that provide the flexibility they need with regard to other structures. The ACE Platinum Portfolio is one policy that allows consumers to drop the percentage to zero if no other structures exist. It can also go as high as the consumer may need. Companies specializing in this market will often send a professional appraiser to examine the property and determine the coverage required for other structures, instead of simply assuming a standard percentage of the home coverage amount will suffice.



By dropping the coverage for other structures to zero in a policy for a \$3.5 million brownstone in New York City, the owner could save about four to five percent in annual premium.

Personal Property

▪ 33 Percent Say Likely Over-Insured / 30 Percent Under-Insured



Personal property represents the general contents of the home—the furniture, rugs, artwork, appliances, kitchenware, electronics, clothes, lawnmowers, and so forth. The problems with standard coverage amounts for personal property mirror those for other structures. Coverage for personal property automatically starts as a percentage of the coverage amount for the home structure—usually 50 to 70 percent. Yet, the amount of personal property relative to the home value can vary greatly.

Typical situations prone to over-insurance include the following:

- An affluent couple who have just purchased their dream home may have a multi-million-dollar property full of sparsely furnished rooms and empty closets.
- An affluent customer may own a luxury vacation home that does not contain as much as the primary residence.

Reducing coverage for personal property from 70 to 40 percent can cut total premium for the home by 9 percent.

But there is an almost equal chance that a consumer is under-insured. A typical example is a couple of wealthy empty-nesters who have downsized to a luxury condominium or townhouse in an exclusive community. They may have accumulated fine furniture and other possessions that far exceed in value the standard percentage of coverage in relation to the residential structure. In some cases, many of their possessions—such as antique furniture, precious rugs, marbles, and rare books—may qualify as fine art. Surprisingly, moving these types of items from general contents to valuables coverage as fine art can both cost less and strengthen protection, since a valuables policy typically has no deductible and covers a broader array of risks.

Moving fine art pieces from general contents to valuables coverage can both cost less and strengthen protection.

Adjusting the amount of coverage can have a significant impact on premium. For instance, reducing coverage for personal property from 70 to 40 percent can cut total premium for the home by 9 percent.

Thus, similar to the coverage for other structures, affluent consumers should discuss their individual situation with their agent to determine if they are over- or under-insured. In some cases, it may be worthwhile to hire a company that can inventory and estimate the value of the contents of the home. This service gives the affluent consumer the necessary information to optimize the amount of coverage for personal property. To take advantage of that information, the affluent consumer must then find a policy that has the flexibility to adjust the amount of personal property coverage outside the norm, if necessary, to match the replacement cost of their possessions.

Importance of the Risk Review

This white paper has discussed in detail the most common areas of under- and over-insurance. Other areas that at least 50 percent of agents identified as likely to be under-insured were:

- 73% Flood
- 72% Mold
- 66% Auto Liability
- 63% Property Association Loss Assessment or Club Loss Assessment Exposures
- 57% Worker's Compensation
- 56% Earthquake
- 54% Loss of Use (of the Home)
- 51% Incidental Business Activity Exposures

Other commonly missed opportunities for savings were:

- 19% Insuring a collector car with a low-cost collector car insurance policy instead of a regular auto policy
- 16% Storing infrequently worn jewelry in a bank safe deposit box instead of at home
- 13% Getting premium credits for a newly built or rehabilitated home
- 10% Getting premium credits for having no recent accidents

How should an affluent consumer determine if any of these risks and savings opportunities apply to him or her? The best way is to ask an independent insurance agent or broker for a thorough risk review. The review could involve anything from a face-to-face meeting in which the agent walks the consumer through a series of questions to a questionnaire sent in the mail followed up by a phone conversation. Regardless of the delivery method, the review should cover:

- **Physical and financial assets.** What homes, cars, recreational vehicles and watercraft does the consumer own? In particular, the agent should probe for high-value collections. Disclosing a rough idea of financial assets is also important. Otherwise, the agent will be unable to determine net worth for the purpose of gauging liability coverage limits.
- **Occupation, activities, and family status.** Does the consumer work from home, volunteer on not-for-profit boards, manage a family trust, employ domestic staff, travel internationally, or plan to renovate or expand his or her home? Are there particular concerns for family safety? Is a child about to reach driving age?
- **Tolerance for risk and safety habits.** Is insurance seen primarily as protection against catastrophic loss, or is it also expected to cover relatively small losses? Are alarm systems and other protective measures in place to reduce the risk of both small and large losses?

“The way our firm conducts business is extremely process driven within a framework that the customer specifies. We try to understand the exposures at hand, gauge our customer’s risk tolerance, design the program together, and monitor it. Significantly, our firm does not separate sales and service, which helps keep communication at a high level and allows us to stay closer to our customer’s evolving needs.”

– Gilbert M. Lai,
Senior Vice President –
Member, Lane
McVicker, LLC,
Morristown, NJ

Finally, none of the findings from the risk review can be put into action unless the insurance policies chosen have the capacity and flexibility to be tailored to each affluent consumer's unique needs. Among the features affluent consumers should look for are:

- Full replacement cost for the home structure
- Ability to properly estimate the cost of replacing a unique high-value home
- Flexibility to set other structures coverage from zero to as much as needed
- Flexibility to set personal property coverage from zero to as much as needed
- Protection for market value increases in valuables coverage
- Ability to cover groups of valuables on a blanket basis
- Umbrella liability limits available from \$1 up to \$100 million
- Ability to add uninsured/under-insured coverage that goes beyond vehicular accidents
- Ability to add employment practices liability and not-for-profit directors and officers liability coverage, if necessary
- Ability to combine a wide variety of coverages within a package policy that earns a package discount
- High deductible options for home and auto coverage that significantly reduce premium
- A robust selection of loss prevention services that reduce the risk of both minor and major losses

Only a handful of companies offer such policies. As one of the few, ACE Private Risk Services offers the ACE Platinum Portfolio program, which can bundle homeowners, auto, valuables, watercraft and umbrella liability coverage into one package policy that offers the savings of a package discount and the convenience of one bill.

Exhibits

I. Prototypical Case Studies

- Young Affluent Family
- Established Affluent Family
- Empty-Nester Affluent Couple

II. Thirteen Warning Signs of Being Under- or Over-Insured

III. Survey Methodology and Results

IV. References

Exhibit I: Before-and-After Prototypical Case Studies

Young Affluent Family

Jane and Gary are a typical successful dual income couple in their mid-thirties with two young children. They have recently moved to a larger home within their town of Westport, CT, drive a BMW and an Infinity Coupe, and employ a full-time nanny to take care of the kids and help with household chores.

Their insurance plan exhibits many of the typical patterns of over- and under-insurance, and Jane and Gary could significantly improve their financial security while reducing their total premium of \$8,093* by almost \$800 or 10 percent by rebalancing their program as follows:

Savings Opportunities

- Raise deductibles on the homeowners policy from \$500 to \$2,500 and on the auto policy from \$500 to \$1,000.
- Earn a 10 percent package credit by placing their homeowners, valuables, auto, and umbrella policies with the same carrier.
- Reduce other structures coverage from 20 to 7 percent, since the home has only a fence and driveway.
- Reduce personal property from 70 to 40 percent, since they are young and have not had the time or financial resources to furnish their new home lavishly or accumulate many valuable items.
- Take advantage of loss prevention credits for water and gas leak detection systems in the home.

Improved Coverage

- Acquire full replacement cost coverage for their home, which requires increasing the insured value of their home from \$1 million to \$1.5 million.
- Raise the umbrella liability limit from \$1 million to \$5 million to protect their net worth and future income stream.
- Add uninsured/under-insured liability coverage and, because of the nanny, employment practices liability coverage.
- Move \$30,000 in coverage for china, fine art and miscellaneous jewelry from personal property to blanket valuables coverage, which is also less expensive.

*For the purpose of before-and-after comparisons in the case studies, all premium estimates are based on coverage rates for the ACE Platinum Portfolio program.

The table below shows a before-and-after comparison of policy characteristics that address the imbalances.

Jane and Gary could significantly improve their financial security while reducing their total premium of \$8,093 by almost \$800 or 10 percent by rebalancing their program.

Young Affluent Couple – Insurance Program Comparison		
Homeowners	Before	After
Home structure limit	\$1.0 million	\$1.5 million
Other structures limit*	20% (\$200,000)	7% (\$105,000)
Personal property limit	70% (\$700,000)	40% (\$600,000)
Deductible	\$500	\$2,500
Water leak detection credit	No	Yes
Gas leak detection credit	No	Yes
Package credit	No	Yes
Homeowners premium	\$3,735	\$2,845
Valuables		
Jewelry limit (scheduled)	\$27,000	Same
Jewelry limit (blanket)	\$0	\$15,000
Musical instrument limit	\$5,000	Same
Silverware limit	\$5,000	Same
China (blanket) limit	\$0	\$5,000
Fine Art (blanket) limit	\$0	\$10,000
Package credit	No	Yes
Valuables Premium	\$445	\$624
Auto**		
2009 BMW X6 deductible	\$500	\$1,000
2009 Infinity G37 Coupe deductible	\$500	\$1,000
Package credit	No	Yes
Auto Premium	\$3,698	\$2,643
Excess Liability		
Umbrella liability limit	\$1 million	\$5 million
Uninsured/Under-insured liability limit	\$0	\$1 million
Employment practices liability (1 staff)	No	Yes
Package credit	No	Yes
Excess Liability Premium	\$215	\$1,200
Total Premium	\$8,093	\$7,312

*Other structures are a driveway and fence. **For the sake of brevity, only those aspects of coverage that changed are listed.

Established Affluent Family Case Study

Susan and Jeff are a well-to-do couple in their late forties with kids in their teens. They live in a luxuriously appointed home on a large property with horses in Rancho Santa Fe, CA, and also have a ski home in Telluride, CO. They own a Mercedes S550, Porsche 911, Range Rover HSE, and a Jeep Grand Cherokee, which their oldest teen drives. They employ a full-time caretaker to tend the horses and grounds, which include a stable, swimming pool, tennis court, full perimeter fence and entrance gate, and guest house, where the caretaker lives.

Paying \$19,255 annually for an insurance program with the usual problems of over- and under-insurance, Susan and Jeff could better secure their long-term financial well-being while saving more than \$2,200 or 11 percent of their premium by rebalancing their programs as follows:

Savings Opportunities

- Raise deductibles on homeowners and auto policies from \$500 to \$2,500.
- Earn a 10 percent package credit by placing their homeowners, valuables, auto, and umbrella policies with the same carrier.
- Reduce other structures coverage from 20 to 5 percent for the ski home, since the only significant other structure is a driveway.
- Reduce personal property for the ski home from 70 to 30 percent, since the lodge is not the primary residence and isn't lavishly furnished.
- Take advantage of loss prevention credits for water leak detection systems and being part of a gated community.

Coverage Improvements

- Increase other structures coverage amount from 20 to 40 percent for the Rancho Santa Fe home to adequately insure the guest house, stable, swimming pool, tennis court, and fence.
- Raise the insured value of the ski home from \$1.7 million to \$2.0 million to account for upgrades made after the initial appraisal of the home.
- Increase umbrella liability protection from \$5 million to \$10 million; add employment practices liability coverage because of the caretaker and \$3 million in uninsured/under-insured liability coverage.
- Raise the total value of items under valuables coverage from \$80,000 to \$125,000.

The table below shows a before-and-after comparison of policy characteristics that address the imbalances.

Established Affluent Family – Insurance Program Comparison		
Home in Rancho Santa Fe, CA	Before	After
Home structure limit	\$3.0M	Same
Other structures limit*	20% (\$600,000)	40% (\$1.2 million)
Personal property limit	70% (\$2.1 million)	Same
Deductible	\$500	\$2,500
Water leak detection credit	No	Yes
Gated community credit	No	Yes
Package credit	No	Yes
Ski Home in Telluride, CO		
Home structure limit	\$1.7 million	\$2.0 million
Other structures limit*	20% (\$340,000)	5% (\$100,000)
Personal property limit	70% (\$1.19 million)	30% (\$600,000)
Water leak detection credit	No	Yes
Gated community credit	No	Yes
Package credit	No	Yes
Total homeowners premium	\$11,183	\$8,531
Valuables		
Jewelry (scheduled)	\$40,000	Same
Jewelry (blanket)	\$0	\$20,000
Musical instruments	\$15,000	Same
Silverware	\$5,000	Same
China (blanket)	\$0	\$5,000
Fine art (scheduled)	\$20,000	Same
Fine art (blanket)	\$0	\$10,000
Sports memorabilia	\$0	\$10,000
Package credit	No	Yes
Total valuables premium	\$713	\$1,278
Auto**		
2007 Mercedes S550 deductible	\$500	\$2,500
2006 Porsche 911 deductible	\$500	\$2,500
2009 Range Rover HSE deductible	\$500	\$2,500
2005 Jeep Grand Cherokee (for teen) ded.	\$500	\$2,500
Package credit	No	Yes
Total auto premium	\$6,611	\$5,203
Excess Liability		
Umbrella liability limit	\$5.0 million	\$10.0 million
Uninsured/Under-insured liability limit	\$0	\$3.0 million
Employment practices liability (1 staff)	No	Yes
Package credit	No	Yes
Total excess liability premium	\$748	\$2,035
Total Premium	\$19,255	\$17,047

Susan and Jeff could better secure their long-term financial well-being while saving more than \$2,200 or 11 percent of their premium by rebalancing their program.

*Other structures are swimming pool, tennis court, full perimeter fence with entrance gate, detached casita (guest house) and 1,500 sq. ft. horse barn/stable. **For the sake of brevity, only those aspects of coverage that changed are listed.

Empty-Nester Affluent Couple Case Study

Arlene and Bob are a couple in their mid-sixties whose kids have left the nest to begin their professional careers. Thus, they have recently downsized from a large Manhattan apartment to a smaller luxury condo in a prestigious new building closer to Central Park. They also own homes in East Hampton, NY, and Vail, CO. They have a \$100,000 jewelry collection and a \$1 million fine art collection, and drive a BMW 750, Porsche Cayenne, and Jeep Grand Cherokee. Arlene volunteers on the board of a not-for-profit community organization, and they employ one full-time housekeeper.

Overall, Arlene and Bob pay \$41,788 in annual premium for their homeowner, auto, valuables, and umbrella liability coverage, but like many affluent people, they are missing opportunities to tailor coverage to their specific needs to maximize the value of their program. By making the following adjustments, they can save more than \$8,000 or 20 percent while also strengthening protection against catastrophic loss.

Savings Opportunities

- Raise deductibles in their homeowners policy from \$5,000 to \$10,000 and in their auto policy from \$1,000 to \$2,500.
- Earn a 10 percent package credit by placing their homeowners, valuables, auto, and umbrella policies with the same carrier.
- Reduce the other structures coverage from 20 to 10 percent for the ski home in Vail, since it has only a short driveway and modest retaining wall.
- Reduce the personal property coverage percentage on the New York City condo from 70 to 50 percent by moving \$400,000 in fine art to less costly and more robust valuables coverage.
- Reduce the personal property coverage for the East Hampton and Vail locations from 70 to 40 percent. As vacation homes, the value of their contents is less than the standard percentage used in relation to the value of the residential structure.
- Take advantage of loss prevention credits for being in a gated community and having water leak detection systems.

Coverage Improvements

- Increase the umbrella liability coverage limit from \$5 million to \$10 million to protect the couple's high net worth.
- Add not-for-profit directors & officers liability coverage, considering Arlene's volunteer board position.
- Add employment practices liability coverage due to the full-time housekeeper.
- Raise the total value of items under valuables coverage from \$1 million to \$1.5 million. In addition to moving \$400,000 of fine art from personal property to valuables coverage, new appraisals of the items originally scheduled for \$1.0 million warrant a \$100,000 increase.

The table below shows a before-and-after comparison of policy characteristics that address the imbalances.

Arlene and Bob can save more than \$8,000 or 20 percent while also strengthening protection against catastrophic loss.

Empty-Nester Affluent Couple – Insurance Program Comparison		
Condo in NYC	Before	After
Condo additions & alterations limit	\$2.0 million	Same
Personal property limit*	70% (\$1.4 million)	50% (\$1.0 million)
Gated community credit	No	Yes
Home in East Hampton, NY		
Home structure limit	\$3.5M	Same
Other structures limit**	20% (\$700,000)	Same
Personal property limit	70% (\$2.45 million)	40% (\$1.4 million)
Water leak detection credit	No	Yes
Gated community credit	No	Yes
Home in Vail, CO		
Home structure limit	\$1.5 million	Same
Other structures limit	20% (\$300,000)	10% (\$150,000)
Personal property limit	70% (\$1.05 million)	40% (\$600,000)
Water leak detection credit	No	Yes
Gated community credit	No	Yes
Package credit - all locations	No	Yes
Total homeowners premium	\$33,178	\$23,913
Valuables		
Jewelry (at home / in bank vault)	\$100,000 / \$0	\$50,000 / \$50,000
Musical instruments	\$15,000	Same
Silverware	\$5,000	Same
China	\$5,000	Same
Fine art	\$1 million	\$1.5 million
Package credit	No	Yes
Total valuables premium	\$3,551	\$2,832
Auto***		
2007 BMW 750 deductible	\$500	\$2,500
2006 Porsche Cayenne deductible	\$500	\$2,500
2005 Jeep Grand Cherokee deductible	\$500	\$2,500
Package credit	No	Yes
Total auto premium	\$4,109	\$3,720
Excess Liability		
Umbrella liability limit	\$5.0 million	\$10.0 million
Uninsured/Under-insured liability limit	\$1.0 million	\$3 million
Not-for-profit D&O liability limit	No	\$1 million
Employment practices liability (1 staff)	No	Yes
Package credit	No	Yes
Total excess liability premium	\$950	\$2,781
Total Premium	\$41,788	\$33,246

*Moved the 20% or \$400,000 taken from personal property to fine art; added another \$100,000 due to general update of fine art inventory. **Other structures are a tennis court and swimming pool. ***For the sake of brevity, only those aspects of coverage that changed are listed.

Exhibit II: Thirteen Warning Signs of Being Over- or Under-Insured

If your situation matches any of the warning signs below, you could be missing a substantial savings opportunity or risking catastrophic loss.

Ask your agent or broker for a comprehensive risk review, or find one who can perform such a service.

1. It's been more than three years since you and your agent talked about your overall situation regarding homeowners, auto, valuables, and umbrella liability insurance.
2. You would be willing to accept higher deductible amounts in your homeowners and auto policies if they would significantly reduce your insurance premium.
3. You have not consolidated your homeowners, valuables, auto, watercraft, and umbrella liability policies with a carrier that offers a package discount.
4. You and your agent have not discussed all the safety and loss prevention devices in your homes and autos, and therefore may be missing out on credits.
5. You do not have umbrella liability coverage to supplement the liability coverage in your homeowners and auto policies, or you have chosen an umbrella liability coverage amount that is less than your net worth and future income stream from employment.
6. You serve as an unpaid board member for a not-for-profit organization and assume the organization will fully protect you from liability lawsuits brought against it.
7. You do not have at least \$1 million in uninsured/under-insured protection; if you do, it only applies to vehicular accidents.
8. You employ household staff such as a nanny, caretaker, or chef, and do not have employment practices liability insurance.
9. Your homeowners policy will not pay to rebuild your home with similar quality materials and craftsmanship no matter how much it costs. (Check! Most people assume their policy will pay, but most policies cap the amount.)
10. You expanded or upgraded your home recently but never discussed it with your insurance agent.
11. Within the last three years, you have not compiled or updated an inventory of your possessions, developed a rough estimate of their value, and shared the information with your agent or broker.
12. You own a significant amount of artwork, oriental rugs, antiques, and other collectibles, but have not insured them with a valuables policy.
13. Your agent did not ask about the 'other structures' on your property—such as a driveway, patio, swimming pool, and so forth, and the insurance company never reviewed your property to estimate the value of your other structures.

Exhibit III. Survey Methodology and Results

ACE Private Risk Services' conducted its survey in March 2010 among independent insurance agents and brokers who serve the personal insurance needs of affluent and high net worth consumers. The online survey was sent to more than 2,000 individuals and completed by approximately 600 respondents within a one-week period.

The survey asked respondents to consider all the new affluent and high net worth clients (defined as paying \$5,000 or more in annual premium) that previously had a mainstream carrier when they first came into contact with them. They were then asked to assess how well the clients' previous insurance program matched their needs based on an analysis of their risk profiles.

Percent of Respondents Reporting Coverage Type Is Likely to Be Under-Insured, Over-Insured, or About Right			
Coverage Type	Under	Over	About Right
Umbrella liability	89%	1%	10%
Home structure (Coverage A dwelling limit)	86%	5%	9%
Valuables	83%	1%	16%
Uninsured/Under-insured liability	82%	1%	17%
Flood	73%	1%	26%
Mold	72%	1%	28%
Employment practices liability for domestic staff	70%	0%	30%
Auto liability	66%	0%	34%
Not-for-profit D&O liability	64%	1%	36%
Property association or club loss assessment exposures	63%	1%	36%
Worker's compensation	57%	1%	42%
Earthquake	56%	1%	44%
Loss of use of home (Coverage D limit)	54%	3%	43%
Incidental business activity exposures	51%	1%	49%
Off-road recreational vehicle liability	45%	1%	54%
Watercraft	31%	1%	68%
Personal property (Coverage C limit)	30%	33%	37%
Other structures (Coverage B limit)	29%	37%	35%
Deductibles too high (under-insured) or too low (over-insured)	22%	44%	34%
Auto collision	15%	15%	70%
Auto comprehensive	15%	15%	70%

Percent of Respondents Saying Which of the Likely Under-Insured Coverages Is Typically the Most Serious Problem	
Coverage Type	
Liability (at least one type)	44%
Home structure (Coverage A dwelling limit)	41%
Umbrella liability	32%
Auto liability	6%
Uninsured/Under-insured liability	5%
Flood	3%
Valuables	3%
Other	2%
Earthquake	1%
Employment practices liability for domestic staff	1%
Loss of use of home (Coverage D limit)	1%
Mold	1%
Other structures (Coverage B limit)	1%
Worker's compensation	1%
Auto collision	0%
Auto comprehensive	0%
Deductibles too high	0%
Incidental business activity exposures	0%
Not-for-profit D&O liability	0%
Off-road recreational vehicle liability	0%
Personal property (Coverage C limit)	0%
Property association loss assessment or club loss assessment exposures	0%
Watercraft	0%

Percent of Respondents Saying Savings Opportunity Is Likely to Be Overlooked	
Savings Opportunities	
Deductibles too low	78%
Package discounts	55%
Loss prevention credits (e.g., alarm systems for home or auto)	36%
Paying low collector car rates instead of regular auto rates for a collector car	19%
Storing infrequently worn jewelry in a bank vault instead of at home	16%
New or rehabilitated home credit	13%
Accident-free credit	10%
Accident prevention course credit	6%
Credit rating (can it be easily lowered?)	5%
Good student discount	5%
Other	3%

Exhibit IV: References

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About ACE Private Risk Services

ACE Private Risk Services is the ACE Group's high net worth personal lines business, which provides specialty coverage for homeowners, automobile, recreational marine, umbrella liability and collections insurance for affluent individuals and families. Additional information can be found at: www.aceprivateriskservices.com.

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Important Notice: This white paper contains only a general description of the insurance coverages provided by the ACE Platinum Portfolio. Coverage terms are subject to change and can vary by state. The white paper does not include all of the benefits and limitations found in the policy. The insurance policy itself, not this white paper, will form the contract between the policyholder and the insurance company.

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