

Private Wealth

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Filling The P&C Insurance Gap

Wealth managers should consider adding a property and casualty insurance specialist to their consulting teams.

By Joseph M. Weiss

It's standard practice for wealth managers to seek help from accountants and attorneys to meet the needs of their high-net-worth clients. But it may be time for advisors to consider using another outside expert: a property and casualty insurance specialist.

Many wealth managers are indeed beginning to recognize the importance of such consultants, and the role they play in helping wealthy clients mitigate risk. By adding a property and casualty expert to its team of accountants and attorneys, a wealth management firm can create a triad of disciplines that serves as a strong foundation for serving clients.

P&C insurance—often overlooked in financial planning—is an integral tool for managing a client's risk. The insuring of hard assets such as homes, cars, yachts and jewelry, and the liability associated with them, should be a standard part of wealth management.

Advisors, however, may be intimidated by the idea of adding a property and casualty specialist to their practices. This is partly due to the fact that advisors often do not have the training to conduct due diligence on an insurance professional. They simply don't know the right questions to ask. General securities license training, for example, does not require property and casualty insurance education. For many financial services professionals, insurance training focuses on life insurance and annuities.

One exception is the curriculum for the Certified Financial Planner (CFP) designation. CFP candidates receive about 35 hours of property and casualty training in their first 180 hours of course work, according to professor Michael Snowdon of the College of Financial Planning. Snowdon, however, acknowledged that property and casualty insurance often isn't part of a CFP's day-to-day work.

In this article, we take a look at how advisors can bridge this knowledge gap and competently conduct a search for a property and casualty consultant.

Due Diligence

There are typically two types of insurance consultants to choose from when it comes to serving the high-net-worth market: independent agents and large risk management firms such as Marsh and Hub International.

Independent agents specialize in working both with wealthy clients and the underwriters who can provide the insurance limits and expertise for that market. These underwriters include insurers such as Chubb, AIG, Fireman's Fund and Pure. The large risk management firms may rely on the same insurance underwriters used by agents, but are able to provide additional risk management services to affluent individuals.

Which one is the right choice for your wealth management practice? You may occasionally need or want the services of either one depending on the client. Therefore, you will need some tools to evaluate which will be the best for your situation.

Note that we did not mention mass-market insurance companies. This is because they generally cannot provide the policy limits or tailored risk management needed for the affluent market.

Evaluating Independents

Capabilities and security are the two primary factors that should be considered when doing due diligence on a P&C advisor. In the last ten years, security has become just as important as capabilities. Cyber criminals have unfortunately become a real threat, and the sensitive nature of insuring such items as luxury homes, art collections and jewelry—where valuations and

lists of assets are needed for coverage—have made the protection of this information a top concern.

Regarding due diligence on independent agents, references from top CPAs or attorneys who work with the affluent can be a source, as well as the Web sites of top insurers. Chubb, for example, lists agents on its Web site and has a special “Cornerstone” designation for top performers.

The agency’s Web site is often a good place to start due diligence on an agent’s capabilities. You can use this information to formulate questions about how they work with clients, the information they collect and the depth of their resources. But be wary. Many will say they can handle everything, but any agent can simply collect information on a client’s residence or assets. The key question will be whether they use the information to undertake proactive risk management. This may include employing professionals to conduct background checks on household help, analyzing personal security, advising on the protection of items such as art or jewelry, or looking into personal vulnerabilities due to travel patterns or data storage.

Sadly, many agencies are not yet at this level and aren’t capable of serving affluent clients. Spencer Houldin, president of Ericson Insurance Services LLC, a successful independent agency that caters to the wealthy, spent considerable time retooling his agency to have the right capabilities. He says advisors should make sure potential property and casualty consultants have the resources to advise on true risk management and have taken steps to protect clients’ personal data. Have they done background checks on their administrative help and protected their databases? Finally, find out how the agents handle claims. Do they employ a claims manager to walk clients through the process or do they simply hand your client off to the insurer? Many top-performing agencies are strictly sales oriented and provide no assistance in the claims process.

It is also important to consider what the independent agency offers in terms of coverage versus price. Many agencies have grown out of the mass market, where their primary strategy was to compete on price. Although price is important, remember that you are seeking asset protection and risk management for your client and therefore need an agency focused on coverage.

Evaluating Large Firms

Risk management is a top priority at large firms and they already have the existing relationships and resources to provide these services. The individual coordinating the coverage is often not on commission, so he or she will seek to maximize protection while minimizing the premium. These firms also have global resources to assist large clients no matter where their personal or business activities take them. This is often an advantage to ultra-high-net-worth clients with international business interests and properties. Finally, these firms usually have a local presence in most of the affluent markets, so partnering and getting to know their representatives may be as easy as dealing with a local independent.

When it comes to the way insurers secure client information, Paul Viollis, CEO of Risk Control Strategies Inc., notes that the bar has been raised throughout the industry. Advisors need to know if the insurer or agency does background checks on its own personnel and adheres to best practices. He suggests making sure that the agency or provider you select also has non-disclosure agreements with any parties that have access to your client’s information. Advisors should also inquire about what resources are available if a client has special security or privacy needs. While many of these criteria favor the larger risk management firms because of their size and resources, many independents have made the capital investments in these security measures as well. Small independents can be just as competitive on security through the use of outside contractors and insurers.

In conclusion, the addition of a P&C insurer relationship to your wealth management practice is a sound way to address personal risk management for your high-net-worth clients. Your clients and their families will be grateful you added this level of service to your practice.

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