

Morgan Stanley

# Advanced Defense

Property/Casualty Insurance  
as an Asset-Preservation Strategy

It takes a considerable effort to protect significant wealth. That's why investment strategies for ultra high net worth families tend to focus on asset preservation. A variety of sophisticated techniques are employed to identify and help mitigate market risk. Complex trust and estate plans are often created to preserve wealth as it passes from one generation to the next. However, when it comes to protecting themselves from the omnipresent threat of liability suits and the loss of valuable possessions, relatively few ultra high net worth families are as well prepared. In fact, many families lack a cohesive strategy to protect themselves from even the most immediate and apparent threats to their financial well-being.

**DESIGNING A COHESIVE STRATEGY TO HELP PROTECT YOUR ASSETS CAN INVOLVE HIGHLY COMPLEX ISSUES REQUIRING A PROFESSIONAL.**

In a survey of successful families, though nearly two-thirds of respondents have liability insurance, many do not carry high enough limits and up to 10% lacked expanded liability coverage entirely. In an increasingly litigious environment, this lack of coverage can be financially devastating as successful families can be targeted for their wealth, and judgments are relatively common and can be severe. A recent study found that 10% of financially successful families were forced to pay judgments of \$100,000 or greater, and 3% experienced judgments greater than \$1 million over the last ten years.<sup>1</sup>

Umbrella liability policies are just the tip of the iceberg. Relatively few ultra high net worth families have adequate coverage for household staff, art and antique collections, liability emerging from the board involvements and a variety of other exposures. People who pore over their investment statements every month may go a decade without a full insurance review. In essence, they compromise their overall asset-preservation strategy by failing to plan for hidden risks they have never even tried to identify.

# Affluence Creates Exposure

Many aspects of the affluent lifestyle create loss or liability exposures that should be carefully considered as part of an overall risk management plan. For example:

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Do you serve on a corporate or nonprofit board?

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Do you employ household staff?

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Have you ever let your children and their friends use off-road or marine equipment, particularly without supervision or training?

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Do your teenagers invite friends over to use the pool, and are they always supervised?

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Do you frequently invite guests aboard your boat, yacht or plane?

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Have you contributed the use of your vacation house to a charity auction?

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Do you own valuable art or collectibles and have they been recently appraised?

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## Concerns With a Fragmented Insurance Strategy

Most families buy insurance in somewhat piecemeal fashion. They may use one agent for homeowners' insurance, a second for auto, a third for their boat and perhaps even a fourth for art or other high-value possessions. Those with multiple homes often use different agents in each of the regions in which they own property. While there is an argument to be made for specialized experience in certain areas, having multiple agents handling different lines of business can result in serious gaps in coverage. Additionally, an insurance

broker with global resources can help align local policies, such as insurance of foreign residences with limited coverage and written in multiple languages.<sup>2</sup>

## Understanding the Limits of Your Insurance Company

The unique risk profiles posed by ultra high net worth families fall outside the realm of expertise for many insurance companies, leading to exactly the sort of fragmentation you should seek to avoid. For example, most "mass market" insurance companies do not allow their agents to place coverage for risks in multiple states. This effectively forces you to work with multiple agents, often with no professional coordination of coverage between them. Kimberlee Connell, Managing Director, West Zone Leader at Marsh Private Client Services, offers an example: "Let's say that you purchase an umbrella liability coverage in one state and own a vacation home in another. Your boat, ATV or other "toys" kept at your vacation home may not be covered under your umbrella policy. That could create a serious pitfall."

## The Holistic Risk Mitigation Review

Even if you ultimately decide not to purchase all of your insurance policies from a single agent, there are compelling reasons to have an experienced professional conduct a comprehensive review of your risk mitigation strategy. Your personal risk advisor should be able to assess whether

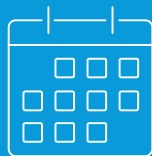
you are adequately covered and identify opportunities to reduce your premiums by consolidating policies at fewer carriers. They should also be able to identify an ineffective use of premium dollars. For example, Kelley Beach of Marsh Private Client Services explains, "High net worth clients often have very low deductibles on multimillion dollar homes but completely inadequate or even nonexistent liability coverage. By increasing their home deductible by a modest amount, the client can often save enough to pay for the missing, and much-needed, liability coverage."

The ultimate goal of an expert review is to help you understand whether your individual policies form a cohesive and efficient plan to properly transfer, and ultimately mitigate, the risks you and your family face. A thorough risk mitigation review should include any of the following areas that apply:

- Personal Liability
- Multiple Properties
- International Properties
- Flood, Earthquake and Wildfire
- Art and Collectibles
- Jewelry and Other Valuables
- Special Ownership Vehicles (Trusts, LLCs, etc.)
- Domestic Employees
- Board Memberships
- Aircraft
- Automotive
- Marine
- Business Exposure
- Kidnap and Ransom

"Holistic risk and liability management allow for curated coverage and efficient pricing while permitting appropriate calibration of liquidity across one's portfolio."

—Joe Toledano, Head of Annuities & Insurance, Morgan Stanley



## When to Schedule a Comprehensive Risk Management Review

You should always understand what aspects of your lifestyle create risk management concerns and whether your current insurance policies adequately address those risks. You should have a review every year prior to the policy expiration/renewal, and in any period of transition, such as:

Retirement	Liquidity events
When your children become teenagers	Joining a board, or adopting other significant responsibilities
An increase in hosting events or entertaining at your homes	Significant purchases or sales of physical assets
New hobbies (art collecting, boating, flying, etc.)	

# Bundling Specialties

As you might expect, risk mitigation strategies for ultra high net worth families typically involve far higher coverage limits than you find in standard policies. They also tend to cover a wider range of personal property and may address relatively uncommon liability concerns. For example, standard policies won't cover a \$250,000 Bentley, a \$4 million yacht or an important art collection. Specialized homeowners' policies may exceed the standard \$2 million limit by fiftyfold in extreme cases, and umbrella liability coverage should almost invariably reach eight-figure limits.

Designing a cohesive strategy to help protect all of these assets can involve highly complex issues, requiring specialized expertise to properly value the assets, understand policy limits and often provide services to assess and reduce the possibility of loss. It is equally important to understand the potential gaps and duplications among all of these policies. For example, if you move a valuable painting from one home to another, will it still be covered? Under which policy? What if you move it to your yacht? What if you ask a household staff member to take it to the yacht, and they slip and drop it in the water? What if they get

hurt when they slip? Where does the coverage in one policy's coverage end and the next begin?

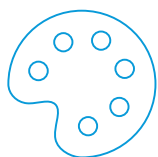
So, despite the highly specialized knowledge required, there is a compelling case for having a single, knowledgeable risk mitigation expert look at appropriate bundling of policies. Just make sure that this expert has substantial experience working with ultra high net worth families and the resources to properly handle the full spectrum of needed coverage.

Perhaps the most distinctive advantage of bundling is that you create incentives

for carriers to offer greater value. According to Tyler E. Banks of Willis Towers Watson, "You will always get the benefit of the doubt when you have all of your policies with one carrier. Your ability to leverage coverage options grows exponentially with the more diverse risk profile you can present to an insurance carrier. Not to mention it is always much easier to handle difficult claim situations when dealing with one insurance company."

# Coverage Highlights

Many aspects of the affluent lifestyle create very specific risk and liability concerns. Here are some of the issues and opportunities your risk mitigation plan might have to address.



## ART AND COLLECTIBLES

Many, if not most, art collections in ultra high net worth households exceed the coverage limits for household items in their homeowners' policies. There are also threats to the value of your art that may not even be covered at all. For example, what if sunlight fades the colors in a painting? Those with substantial collections are well advised to work with specialists who understand how to properly value and protect your investments whether they are on display at your home, in transit or on loan.



## YACHTS

Comprehensive yacht policies should include fine art coverage for items kept or transported on the yacht and additional living expenses, to name a few. Worldwide navigational limits, pollution protection, coverage for fire at sea and crew coverage are also standard for many high net worth yacht policies.



## AVIATION

Aviation policies cover jets, helicopters and other privately owned aircraft, along with hangars and private runways. These policies tend to have tight restrictions on who can operate the aircraft and many technical areas. Careful review of liability coverage is essential, given the potential for catastrophic accidents.



## MULTIPLE HOUSEHOLDS

Multiple properties no longer require multiple policies. Today, multi-household families have the option of consolidating homeowners' insurance for as many homes as they own, including international properties. It often makes sense to bundle excess liability and coverage for valuables with homeowners' insurance under a single policy to maximize pricing leverage.



## INDEPENDENT DIRECTORS

Although public companies are commonly recognized as targets of shareholder suits, high net worth individuals who are members of not-for-profit boards might be unaware of the risk exposure this can generate, and might be operating without adequate protection.



## KIDNAP AND RANSOM

Kidnap, ransom and extortion coverage can go as high as \$50 million and includes consultation and training. Many carriers also offer classes in how to identify and avoid dangerous situations, and may discount premiums for families who complete the training.

# An Ounce of Prevention

Even with outstanding coverage, a major loss or liability suit is unsettling at best and traumatic at worst. A well-qualified personal risk advisor should be able to work with your Financial Advisor on strategies to help reduce the likelihood of a loss or lawsuit.

Some carriers make many of these services available to ultra high net worth clients. Some carriers offer risk/security assessments, wildfire defense services, background checks for domestic employees and other services to their ultra high net worth clients. Your personal risk advisor might also be able to engage specialists to provide security for your family while traveling abroad.

# Cautionary Tales<sup>3</sup>

The following is a sampling of typical gaps in coverage, both those that were discovered in time and those that, unfortunately, were not:

**1 CHARITY GONE WRONG**  
A couple offered to host a charity auction at their estate. During setup, several workers were instructed by the housekeeper to take a route through the pool area. The patio was wet, causing one of the workers to fall into the pool and almost drown. He later developed a chronic/progressive neurological disorder with no known cure. The homeowners were sued and held liable for their staff member's actions and the subsequent injuries.

**2 CAUGHT IN THE ACT**  
The family office invests with many third-party hedge fund managers. Despite performance reports, fund audits, and on-site due diligence suggesting otherwise, one third-party manager is revealed to be operating a Ponzi scheme within their business. The family office is accused of negligence and breach of fiduciary duty, including failure to provide adequate due diligence and oversight of the third party. Despite relatively small values invested with the dishonest third party, defense costs and settlement exceed \$2,000,000.

**3 LIVING IN A CYBER WORLD**  
My Holdings LLC discovered four wire transfers made under fraudulent circumstances. Three of the wire transfers came from an account in the name of the LLC, and one came from an account in the name of the client. The wire transfers occurred after the email of the client's sister was compromised. The sister, who had authority to send wires and not knowing fraudulent invoices had been received, inadvertently approved of the payments from the checking account on behalf of the LLC and the client for over \$100,000 in a period of less than three weeks. Police reports with copies of the fraudulent emails and transfers were made with the appropriate authorities. The clients ultimately recovered the monies under their Fraud Safeguard policy. Had the client not been covered by their Fraud Safeguard policy, the chances of a successful recovery of monies would have been extremely remote.

**4 TEXTING WHILE DRIVING**  
A young driver was involved in a head-on collision, killing a female student in her early-twenties. His cell phone records proved that several text messages were sent and received at the approximate time of the crash. The driver's record also showed that this was not the first time he was engaging in dangerous driving behavior. The family of the victim sued the young man for negligence. They also sued his father, claiming that as the owner of the vehicle he was negligent in entrusting his vehicle to his son in light of his driving record. A jury ruled in favor of the victim's family with total awards exceeding \$20,000,000.

# The Professional at Your Disposal

If you have not had a recent, comprehensive review of your risk mitigation strategy, your Financial Advisor can arrange for a free consultation with an insurance broker who understands the needs of ultra high net worth families.

<sup>1</sup> Source: "The Overlooked Gap in Financial Advice." Oliver Wyman Research sponsored by Chubb. 2018; Successful families defined as those clients that meet at least two of the following criteria: \$1mm+ investable assets, \$250k+ household net income, \$1mm+ primary residence value

<sup>2</sup> Source: "Assets at Risk. A Property and Casualty Checklist For You and Your Family." Marsh Private Client Services. 2019.

<sup>3</sup> Cases provided by Hub, Willis and Marsh. 2020.

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