ADVOCATE BROKERAGE CORP
Insurance Specialists

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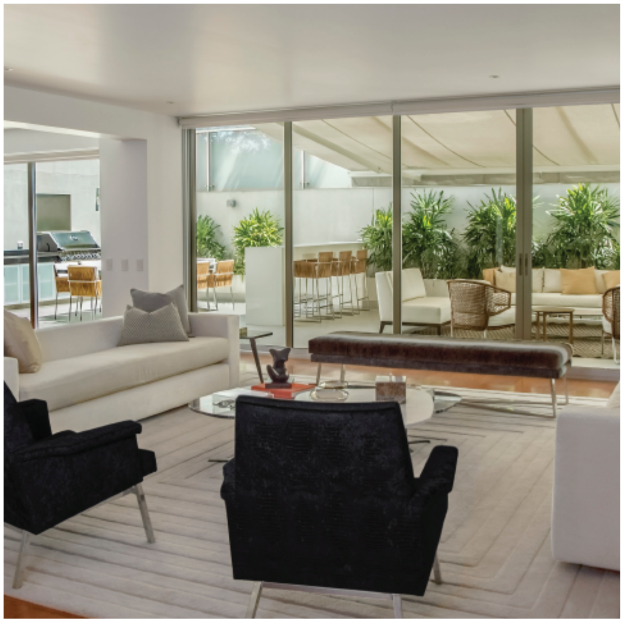
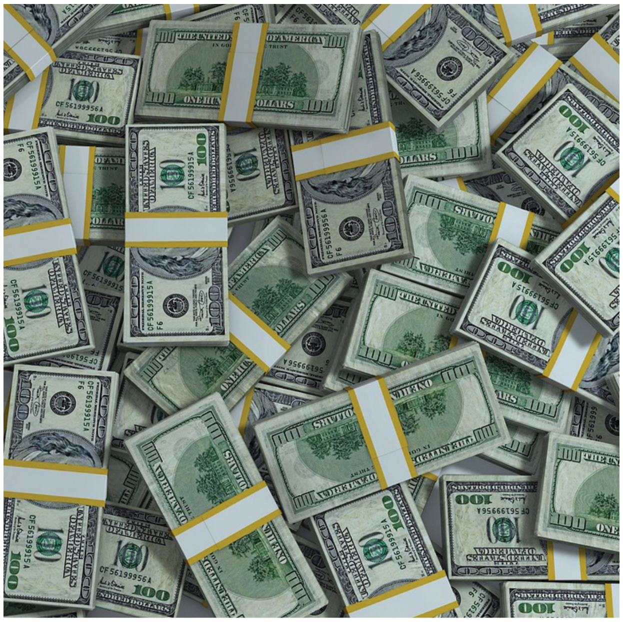
Stop Overpaying to be Underinsured

Understanding the Benefits of High Net Worth Insurance

If you live in a house in the Tri-State area, there is a very good chance that your dwelling has a replacement value of at least $1,000,000.

In the financial services industry you often hear these words tossed around when defining clients: Middle Market, Affluent, High Net Worth, Ultra High Net Worth. It can be hard to understand what the terms mean let alone determine which definition you fall into.





Cambridge Dictionary provides the following definitions:

Middle Market refers to people who usually buy things that are neither very cheap nor very expensive.

Affluent is defined by having a lot of money or possessions.

High New Worth (HNW) is a designation used to talk about individuals who have more than $1,000,000 of liquid assets. In the Tri-State area, we expand this category to include the Ultra High Net Worth.

Ultra High Net Worth refers to those with $30,000,000 in liquid financial assets.

In the United States as of 2014, 12 large metropolitan areas feature over two-thirds of the country's HNW population with the largest portion, unsurprisingly, residing in New York City and surrounding suburbs.

How does this relate to you?

It's important to be realistic about which category you belong to so that you can ensure proper risk management and wealth preservation.

Believe it or not, insurance carriers also carefully consider these definitions and their product offering is designed specifically to cater to the needs of each segment. The companies that specialize in Affluent and HNW are not, contrary to popular belief, more expensive if you fit their target market.

The truth is, their premiums can be much less expensive than a mass market company.

Some examples of middle market insurers are: Allstate, State Farm, USAA, Nationwide, Occidental andLiberty Mutual. They are excellent companies with strong financial ratings but, their products make the most sense for a middle market individual whose home has a replacement value of between $250,000 - $750,000.

If you are an affluent or HNW individual insured with a middle market insurer, chances are you are overpaying to be underinsured.

HNW insurers target individuals with homes with replacement values of $1,000,000 or higher. Examples of these companies are: Chubb/ACE, PURE, AIG Private Client Group as well as some newcomers such as Cincinnati and Nat Gen Premier.

What does this mean?

Most Americans fall into the middle market category. Middle market carriers specialize in writing policies geared towards this clientele. They price their policies to be extremelycompetitive for the business they concentrate in. This also means there is very little flexibility with their terms and conditions.

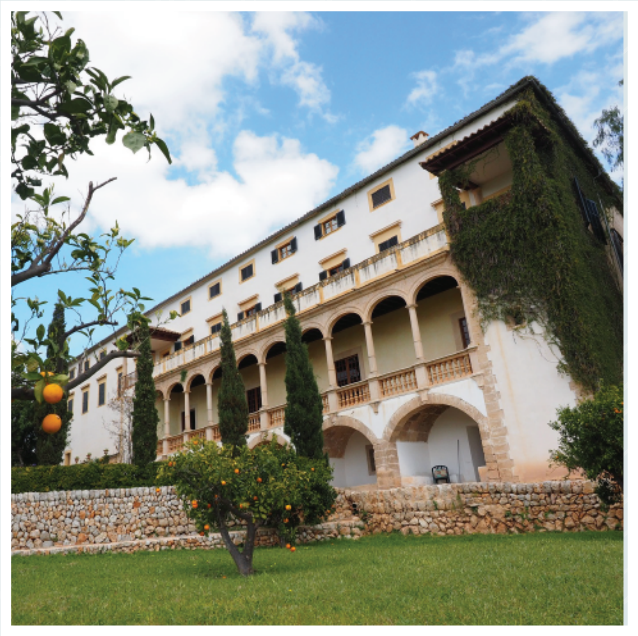
It just so happens that in the New York metropolitan area, where replacement values are much higher than the rest of the country, these middle market companies tend to be much more expensive than the HNW insurance companies, and the coverage is not as comprehensive.

That's right; the coverage is more expensive and not as comprehensive.

With most middle market carriers, the coverage cannot be tailored for the risk, so the same law of percentages that applies on a $500,000 home will be applied to a $5,000,000 home.

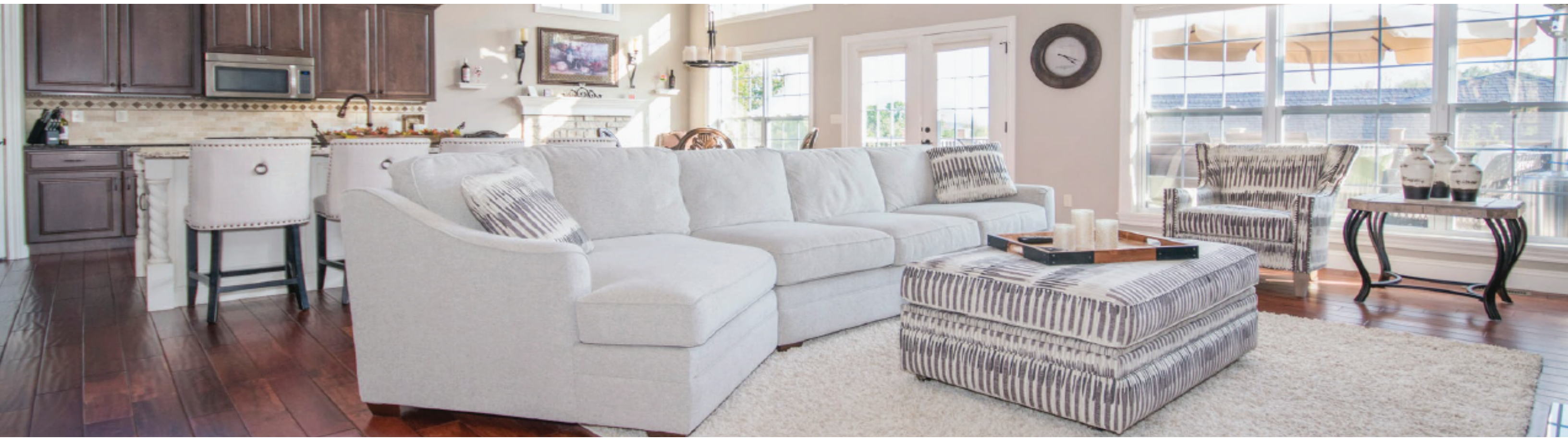
Why does this matter?

If you live in a $500,000 house, you will automatically get 70% of this limit (or $350,000) as your Personal Property limit. But, if you live in a $5,000,000 house it is highly unlikely that you need $3,500,000 for Personal Property. HNW insurance carriers allow more customization with Personal Property limit selection so that you are only paying for the coverage you need.



Why high deductibles make sense

Mass Market carriers recommend lower deductibles. People who live in houses valued at $1,000,000 or higher usually do not put in claims for $1,000. In fact, as your broker, we would advise against putting in small claims and urge you to take a deductible that saves you substantial premium. This also helps you avoid the pitfall of putting in unnecessary small claims which can in the long term result in higher premiums and/or companies not offering renewal coverage. HNW carriers favor this deductible strategy so much so that their contracts usually waive the deductible for a major loss which pays $50,000 or more.



Middle market carriers do not price their products towards the high end marketplace, so the savings to increase your deductible from $1,000 to $5,000 would not save you enough money to incentivize you. The savings with a HNW company for a higher deductible can often be hundreds to thousands of dollars a year.

An Example - Hurricane Deductibles:

Mass Market companies use hurricane deductibles liberally, even in non-coastal areas. Coastal in Westchester County means a location that is within 1000 feet of the Long Island Sound.

We recently reviewed a Scarsdale homeowner policy written with Allstate with a dwelling limit of $1,500,000, a general policy deductible of $1,000 and a special hurricane deductible of $75,000 (5% of the dwelling limit).

In this example, the HNW carrier would apply the same general policy deductible of $1,000 for a hurricane claim in non-coastal Westchester County. If for example, you think about the damage to so many homes in non-coastal areas from Hurricane Irene, you realize that it would be very unfortunate to have such a high hurricane deductible.

The coverage is completely different.
Wait…. What?

If you've read this far, you may be asking yourself Am I Overpaying to be Underinsured? To determine your answer, ask yourself two simple questions:

What is your house insured for and who determined this number?

- Perhaps your dwelling limit was determined based on your mortgage requirement.

- Perhaps your dwelling limit was determined by a very sophisticated sounding estimator that was used, where your square footage was entered into the computer along with the year built and construction type of your house, and it spit out a number, voila!

- Perhaps your insurance company had a third-party appraisal company conduct a home appraisal. If so, did you receive a copy of the report?

The mass-market insurance companies cap dwelling limits at between 110 – 125%, putting the burden on you, the client, to make sure your house is properly insured, and essentially washing their hands if your house is drastically underinsured at the time of a total loss.
To make matters worse:

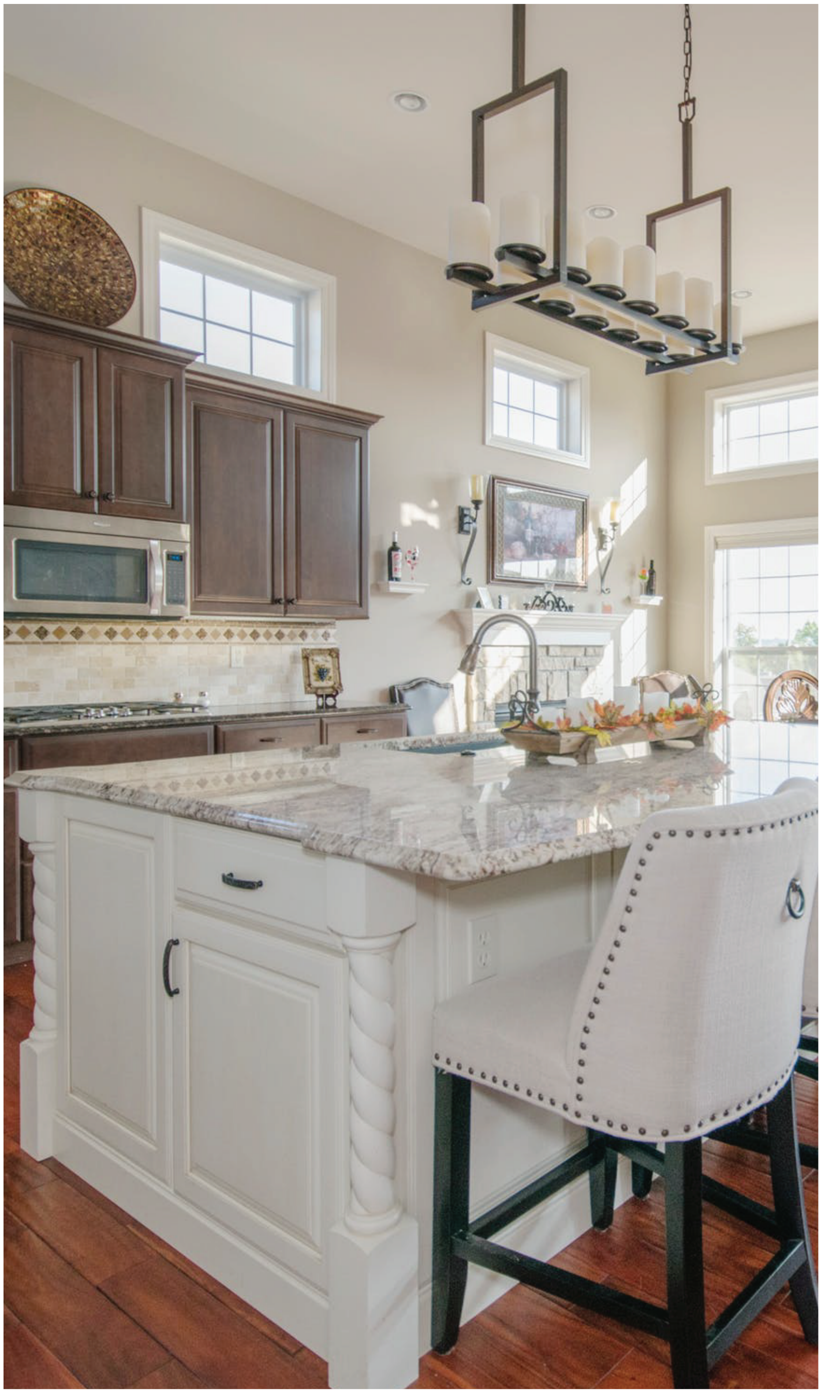
- Some companies have small print that states the extended replacement coverage only applies if the dwelling is insured 100% to value.

- Other companies include an 80% co-insurance clause which states that in order to receive the full amount listed on the policy; the home must be insured to at least 80% of the actual cost to rebuild. Other wise, they will only pay a percentage of the loss.

To ensure proper protection, the HNW carriers include Guaranteed Replacement Cost protection without any cap in coverage. This means that in the event of a total loss to your home, they will pay whatever the cost to rebuild your home, even if it exceeds the amount listed on the policy. This is a drastic improvement in coverage. Even better...

- HNW carriers include a Cash Option, which gives the client the option of taking the dwelling limit in cash at the time of a total loss, instead of rebuilding. Many people believe that since their dwelling limit plus the additional override equals more than their market value, they will be fully indemnified at the time of a loss. This is not how insurance works, unless you have a Cash Option.

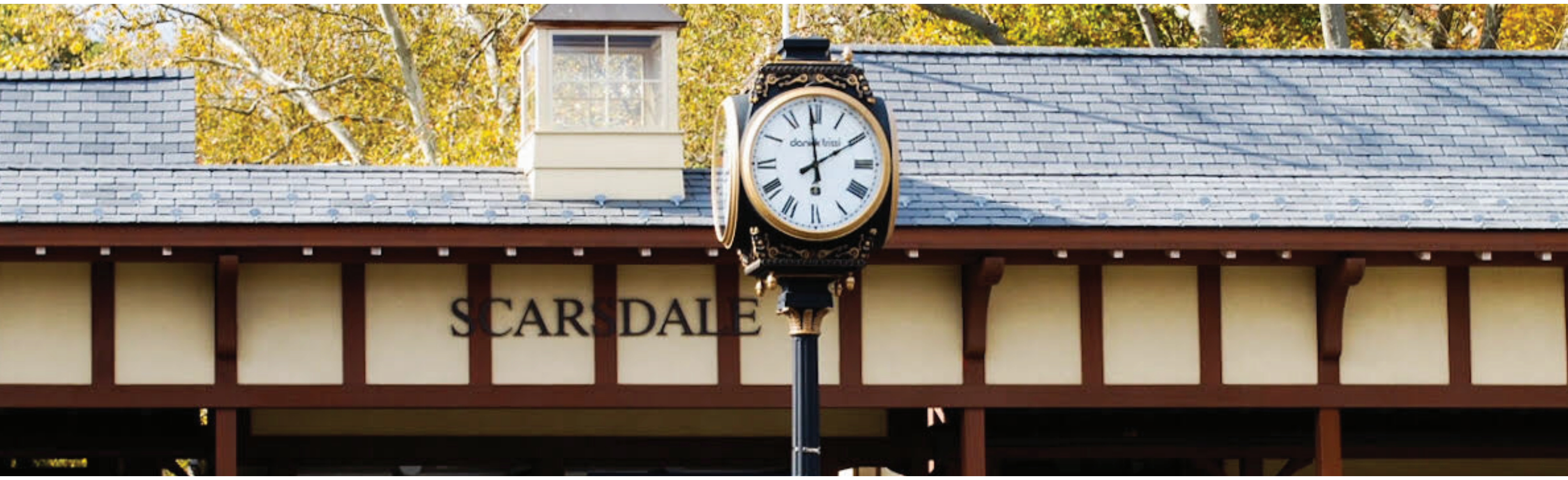
- Additionally, HNW carriers will have an experienced appraiser visit your home to make a detailed and accurate replacement value analysis. They will take photographs and make note of special custom features of your house. This results in a much smoother and efficient claims process in the event there is a claim down the road.



Package Discounts for placing all of your business with one company

Enticed by promises of drastic savings from heavily advertised auto insurance carriers, many HNW families 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 you get when multiple policies are placed with one insurance carrier. These discounts can be substantial.

What many do not realize is that the insurance companies value you, the client, more if they have all of your business. This translates into cost savings as well as more flexibility foryou should problems arise. Depending on the size of your account, concessions can apply should the risk warrant it.



Final Words from Advocate

If you are a typical well off person living in the tri-state area, and you are under the belief that your insurance is good enough because it is with a mass-market carrier, and you believe that your insurance is competitively priced, we urge you to consider reviewing your insurance with someone who specializes in HNW insurance.

There is no obligation or fee for a personal insurance review – and you might be surprised by the results.

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