


The X's and O's of Personal Property and Casualty Insurance Policies

In the Huddle

AGENDA

- Homeowner Insurance
- Personal Liability Insurance
- Key Components of a Good Risk & Insurance Analysis
- Selection Criteria for a Risk Advisor



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Phil Witte

"For all his brilliance, we're going to have to replace Trewell. He never quite seems able to reduce his ideas to football analogies."

Homeowner Insurance



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Homeowner Insurance

Breaking down the coverage:

1. Insurance Services Office (ISO) forms HO-3/HO-5/HO-6/HO-6A
2. Extended Replacement Cost
3. Valuation of the home and personal property
4. Settlement Basis
5. Catastrophe Exposures and Flood Insurance
6. Premises Liability
7. Additional Living Expenses, Rebuilding to Code, Debris Removal



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HO-3, HO-5, HO-6, HO-6A. What's the difference?

- **All risk coverage:** Covered for all causes of loss, except those listed in the exclusions
- **Named peril coverage:** Covered for only the causes of loss listed in the policy

Policy type	Dwelling/Structure	Personal Property
HO-3 Homeowner policy	All Risk	Named Peril
HO-5 Homeowner policy	All Risk	All Risk



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Extended Replacement Cost

- Also known as Replacement Cost Extension
- Total loss coverage
- Defined: If the cost to replace a home following a total loss is greater than the amount of coverage on the policy, the insurer will pay the reconstruction cost (up to a certain limit)
- Included in some policies, endorsement that must be purchased on others
- Pay attention to limit of coverage. Many companies cap the coverage at a certain percentage (e.g. 20%, 25%)



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Extended Replacement Cost

- In theory: Financial protection for an individual from a catastrophic loss to their home.
- In practice: All policies are not created equal.

Example:

Coverage A	\$700,000	\$700,000	\$700,000
Amount to Rebuild	\$1,000,000	\$1,000,000	\$1,000,000
Policy provisions	No extended replacement cost	Extended replacement cost, 20% extension	Extended replacement cost, uncapped
Amt. of Coverage available	\$700,000	\$840,000	\$1,000,000
Impact to client	\$300,000	\$160,000	\$0



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Valuation of Home and Personal Property

- Valuation is as important as coverage
- Common methods for valuation:
 - Multiplying square footage by standard construction costs for the area
 - Using room estimators provided by Marshall & Swift or Boeckh
 - Drive-by exterior inspections
 - In house appraisal



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Why Is Valuation So Important?

- 2 out of every 3 homes in the U.S. are underinsured by 25% or more (Marshall & Swift/Boeckh estimate, 2007)
- Many insurers leave it up to the individual to determine the amount of coverage for their home
- Insurers have cut back on coverages
- Construction costs are on the rise
- Homeowners are remodeling like crazy



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Settlement Basis Replacement Cost vs. Actual Cash Value

- Homeowner contracts offer a settlement basis of replacement cost or actual cash value for personal property.
- Be certain that a client knows their settlement basis on their homeowner policy.
- Replacement cost: insurer will pay the full cost to replace a covered item with no depreciation
- Actual cash value: insurer will pay only the current depreciated value of the item



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When Disasters Strike


- Flood:
 - Defined: "A general and temporary condition of partial or complete inundation of two or more acres of normally dry land or of two or more properties..."
 - Not covered by homeowner policies
 - Coverage can be purchased from the National Flood Insurance Program (NFIP)
 - Coverage can be purchased privately
 - Who should buy it? What should they buy?



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When Disasters Strike

- Hurricanes
 - Most critical coverage is wind
 - Included in most policies in non-catastrophe areas. In hurricane-prone areas, the homeowner contract could be ex-wind. A separate policy must be purchased for wind coverage.
 - A select few insurers will insure wind as part of the homeowner policy subject to stringent underwriting
 - Critical issues: location, loss control, capacity, cost


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When Disasters Strike

- Earthquake
 - Offered as policy endorsement.
 - Underwriters use mapping software to determine PML (Probable Maximum Loss). Significant factor in underwriting decision.
- Wildfire
 - Similar to Earthquake, insurers use maps of brush areas to determine PML (Probably Maximum Loss). Significant factor in underwriting decision.
 - Wildfire defense services are provided by some insurers offering pre-loss and post-loss assistance


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Premises Liability

- Homeowner's contract generally provides a moderate limit of personal liability coverage
- A good offense is a good defense. Know your risk factors:
 - Swimming pools, trampolines, dogs, domestic staff, etc.
- Obtain personal excess liability coverage ("umbrella policy")


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Read the Fine Print

- Additional living expenses (a.k.a. Loss of Use coverage)
 - Coverage for living expenses (lodging, meals, etc.) when you are unable to live in your home following a covered loss.
- Rebuilding to code (a.k.a. Law and Ordinance coverage)
 - Coverage that pays for the cost to comply with new or changing building codes following a covered loss.
- Debris removal
 - Coverage that pays for the demolition and removal of damaged property following a covered loss.

KEY QUESTION: What's the Limit?



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X's and O's

- X Does the policy contain All Risk coverage for home and contents?
- O Does the policy have extended replacement cost?
What's the percentage of the extension or is it unlimited?
- X How is the value of the home derived?
- O Does the policy include replacement cost coverage for personal property?
- X Does the home have potential exposure to a catastrophe such as flood, windstorm, earthquake or wildfire and if so, are the proper coverages in place?
- O What are the policy limits for additional living expenses, rebuilding to code and debris removal?



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Personal Liability Insurance



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Liability Insurance

Breaking down the coverage:

- What is it?
- Underlying coverage requirements
- Worldwide liability
- Personal injury
- Defense costs
- Non-profit D&O
- How much?



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What is Personal Liability Coverage?

- Coverage that an individual purchases to protect current assets and future earnings in the event of a covered lawsuit or settlement.
- Coverage for damages a covered person is legally obligated to pay for bodily injury (personal injury) or property damage which takes place anytime during the policy period and are caused by an occurrence, unless stated otherwise or an exclusion applies.



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Types of Personal Liability Coverage

- Primary liability
- Excess liability
- Umbrella liability




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Underlying Insurance

- Required types and amounts of primary liability insurance that must be maintained in order for the excess liability policy to respond without a gap.


Example

Excess (from \$300,000 up to \$5,000,000)
Primary \$300,000


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Common Underlying Liability Limits

- Personal Liability (Homeowner Limits)** \$300,000
- Registered vehicles**
 - Combined Single Limit \$300,000
 - Split Limit \$250K/500K/100K
- Unregistered vehicles** \$300,000
- Watercraft**
 - less than 26 feet or 50 hp \$500,000
 - more than 26 feet or 50 hp \$500,000


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Worldwide Liability

- Coverage follows the individual.
- Auto policy territorial restrictions are U.S. and Canada.
- Look for worldwide liability coverage so that the client is protected for liability exposures outside of the U.S.
- Does the excess liability policy provide coverage for an individual that drives a non-owned vehicle when overseas (rents a car while on vacation)?


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Personal Injury

- Broader liability coverage than bodily injury.
- Includes bodily injury, shock, mental anguish, or mental injury; false arrest, false imprisonment or wrongful detention, wrongful entry or eviction, and libel, slander, defamation of character, or invasion of privacy.
- Not the industry standard so look for a policy or endorsement that extends liability coverage to include personal injury.



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Defense Costs

- The costs to defend a lawsuit, whether groundless or not, can be substantial.
- Defense costs should be outside of the policy limit.
- Capped vs. uncapped?



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Non-Profit Directors and Officers Liability Coverage

- Protects an individual who serves on the board of a non-profit organization for liability from allegations of bodily injury or property damage.
- Claim example:
 - A client volunteers on the board of directors of his condominium association. The board installs a playground with a faulty swing and a fellow association member's child is injured. The board is sued for negligent oversight and there is inadequate professional liability coverage (D&O) for the loss. As a result, the board members are named personally in the lawsuit, thereby exposing their personal assets.



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How much is enough?


- How much is there to lose?
- Considerations
 - Physical assets (home(s), personal property, valuable possessions, etc.)
 - Investable assets
 - Future earnings
 - Potential inheritance
 - The legal environment
 - Risk profile and potential for loss



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X's and O's


- X How much does the client need? How much does he/she have to lose?
- X What excess liability limits are available from the insurer?
- O Are the underlying limits adequate?
- X Does the Personal Liability policy provide:
 - ✓ Worldwide liability?
 - ✓ Personal injury?
 - ✓ Defense costs outside of the policy limit?
 - ✓ Non-profit Directors and Officers liability coverage?



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Pre-Game Analysis

- Wealth creates risk.
- Insurance is not a commodity.
- Affluent clients require more than off-the-shelf, industry standard policies.
- An independent agent is best qualified to address an affluent individual's personal insurance exposures.



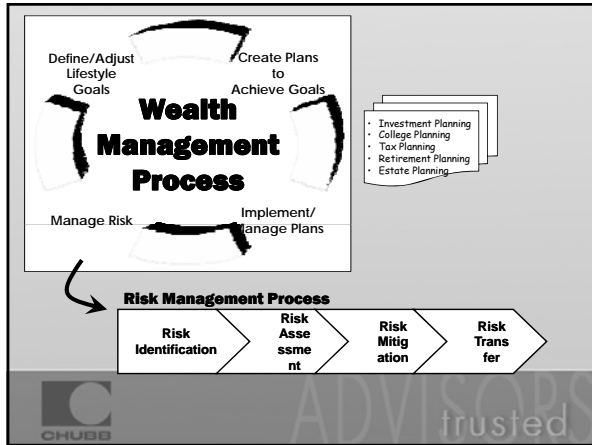
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Post-Game Analysis

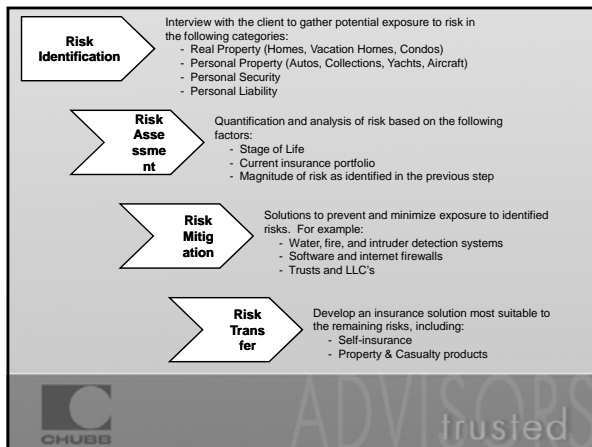
- A client's personal property and casualty insurance program should be reviewed annually, just like a financial plan.
- The annual insurance assessment should include:
 - Evaluation of risk profile/potential for loss
 - Analysis of current coverage (Does the policy provide the protection the client needs?)
 - Analysis of current insurer (Is the client with the right insurance company?)
 - Recommendations for limits, specialty coverages
 - Recommendations of loss control measures to control potential property or liability exposures



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Drafting the Right Team

Find an insurance advisor who:

- Understands the risks confronting the wealthy
- Utilizes a risk management process rather than a policy comparison process
- Ascertains the breadth of risk and its frequency and severity before identifying solutions
- Represents multiple insurers including those with highly specialized product portfolios
- Provides a level of service that is in line with the expectations of your best clients



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- Chubb Personal Insurance works with more than 3,000 independent agents and brokers nationwide
- Chubb Personal Insurance has created a Cornerstone designation for 300 agents in the U.S. who meet specific criteria that establish their personal lines expertise and commitment
- The Chubb Personal Insurance Agency Referral Network can be accessed at www.chubb.com or by speaking with a Chubb representative



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The Wrap-Up Q&A



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