

# Managing Personal Risk within a Family Business

Presented by:

**Kimberly Frasca-Delaney**, Senior Vice President, Client Advisor at Whittier Trust

**David Beeton**, Private Risk Advisor and Assistant Vice President with the Private Client Group at Willis Towers Watson

**David Shaw**, Publishing Director, *Family Business Magazine*

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# Today's Agenda

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- There will be time for questions (enter them from your computer) anytime during and after the presentation
- Presentation and supporting materials will be emailed to all participants after the webinar
- The live webinar will run for 60 minutes
- The audio portion of this webinar will stream through your computer. If you are not hearing sound, please check the speaker volume on your computer or the volume control on the player (located just under the photo in the top left-hand corner)

# Today's Speakers

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Kimberly Frasca-Delaney, Senior Vice President, Client Advisor, Whittier Trust



David Beeton, Private Risk Advisor and Assistant Vice President with the Private Client Group at Willis Towers Watson



David Shaw, Publishing Director, *Family Business Magazine*

# Overview

Family businesses often take on various functions on behalf of individual family members, including bill paying, household management, investment management, oversight of insurance procurement, and tax and legal matters. Personal insurance and the intersect between the business and the family often remains an overlooked component of a total risk profile.

## Personal Lines Marketplace Overview Red Flags and Risk Management Considerations Asset Protection Case Studies

# Personal Insurance Market Outlook

## Key takeaway

Carriers are actively looking to shed unwanted risks. Homeowners should be vigilant about paying their premiums as well as strictly adhering to all underwriting requirements to prevent non-renewals.

## Rate predictions

### Most risks:

**Homes under \$1,000,000:** +3 to +5%

**Homes over \$1,000,000:** +5 to +7%

**Cat-exposed:** +20% to +50% or non-renewed

**Cat-exposed with losses:** +50% to +100% or non-renewed

## Spotlight on COVID-19

- The pandemic has had limited impact on personal lines so far.
- Almost all insurance carriers/state governments have allowed payment extensions of at least 60 days.
- With fewer autos on the roads, many insurance carriers have begun to credit back auto premiums.
- Overall insurer losses could trigger further property rate increases.

### Homeowners rates continue to rise due to increasing risk.

- While plumbing failures remain the number one source of residential water-related loss, 2019 was the one of the wettest years on record, another significant contributing factor.
- Wildfires have burned nearly 70 million acres in the past decade in the U.S.
- Climate change will remain a focus, as cat losses continue to increase in frequency and severity.

### Replacement costs for home and auto losses are higher.

- The cost of building materials has ballooned, due to increased demand by the housing industry as well as new tariffs.
- Skilled labor shortages will likely continue to be a problem when the housing boom resumes.
- Advanced technologies in new vehicles are driving up repair costs.

### Dependence on excess and surplus (E&S) lines has increased.

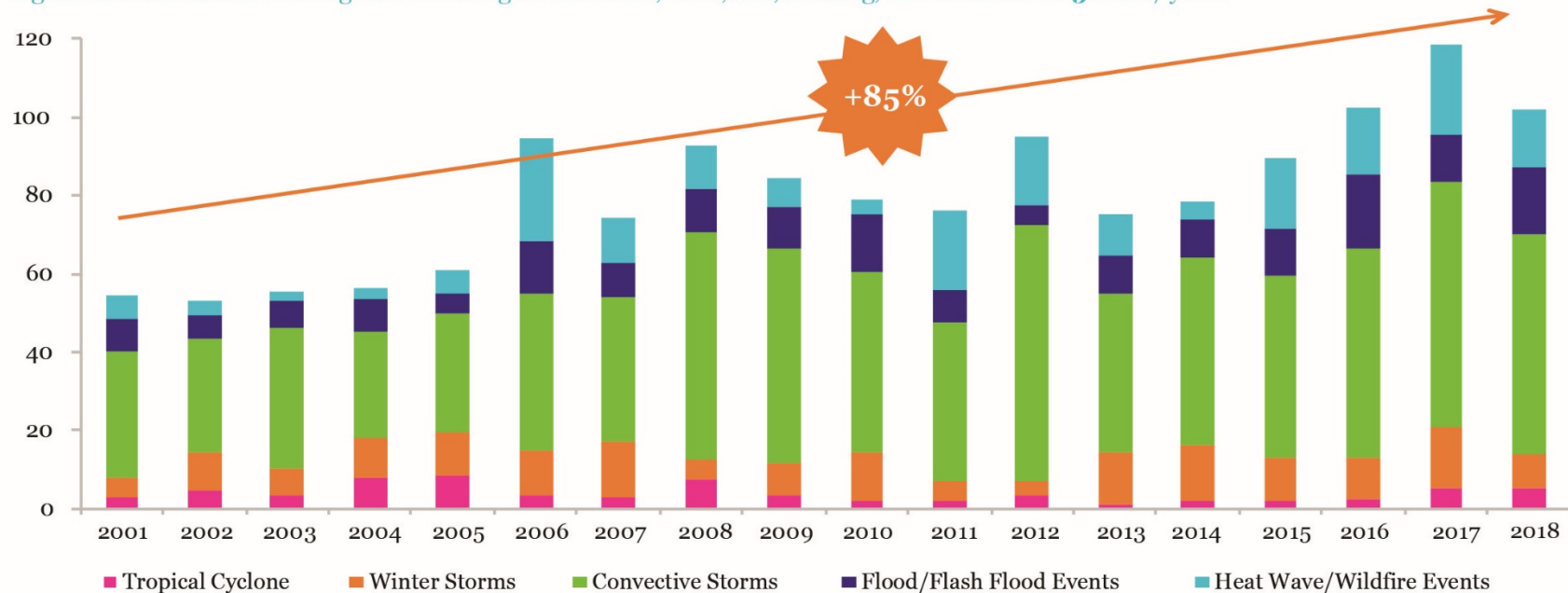
- Admitted markets have constricted appetite, most prevalent in cat-prone areas.
- E&S carriers have more flexibility in pricing and coverage.
- E&S wholesalers are struggling to keep up with demand for alternative solutions.
- Price appropriate options are very limited for hard-to-place risks, leaving clients at the mercy of the temperamental E&S market.

# Market Trends 2020

## Trends affecting the personal insurance market for successful families and individuals

Count of Major Event Occurrence Frequency by Year<sup>1</sup>

Significant increases in all categories including winter storm, wind, hail, flooding, and wildfires: +85% in 17 years



### 2019 Data Preview<sup>2</sup>

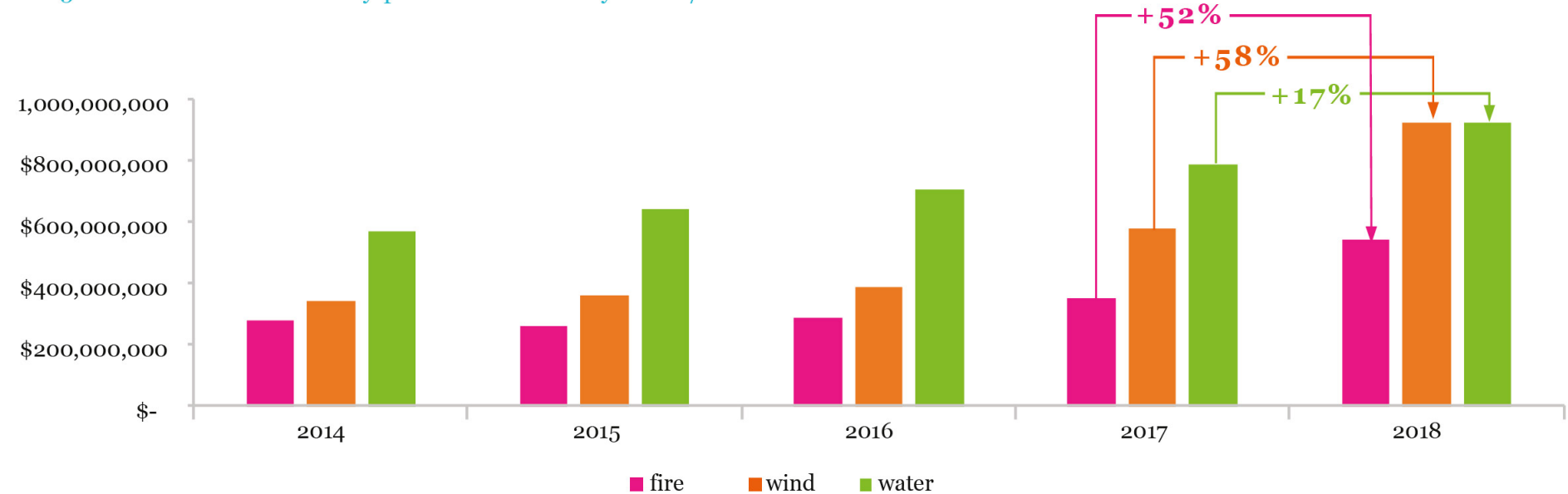
- The US saw 59 \$1B weather and climate events from 2000-2009
- From 2010-2019 that number more than **doubled** to 119 \$1B events
- Early stats from 2019 suggest it was the **second wettest year on record**

# Market Trends 2020

## Trends affecting the personal insurance market for successful families and individuals

### Water, Wind, and Fire Paid Losses All up Significantly

5-Year Trend of P&C Industry-paid Losses in Luxury Home / Condo<sup>3</sup>



### Key Facts on Damage Trends<sup>3</sup>

- Comparing 2018 vs 2017, industry-paid losses were up significantly for water, wind, and fire
- For the first time in 5 years, paid wind losses equaled water losses
- Plumbing-supply system failure remains the #1 source of residential water losses



## Risk Management Considerations & Red Flags



# Unique Considerations

- **Multiple Households**
- **Art & Collectibles**
- **Domestic Employees**
- **High Valued Automobiles, Watercraft, & Other Vehicles**
- **International Exposures**

## Risk Management & Red Flags

### Common Areas Successful Families are Exposed

- Multiple Brokers/Agents or insurance carriers in a single client insurance program
- Lack of any ongoing review process as client needs change
- Public Profile and/or media exposure
- Coastal property or property in catastrophic locations
- High limit personal liability coverages (or the potential need for it)
- Significant valuables – art, jewelry, fur, wine, silver, other collectibles
- Dwellings under construction
- Property in alternate ownership structure –Trusts, LLCs, FLPs, etc.
- High performance vehicles and/or watercraft
- Young drivers in the household
- Directorship exposure, both for profit and nonprofit
- Domestic Employees

# Business and Personal Insurance Crossovers

- **Property Insurance**
  - Personal ownership of commercial property leased back to the business or as investment real estate
- **D&O, E&O, Crime**
  - Insurance coverage for Owners, Partners, Directors' & Officers' personal exposure
- **Cyber – Growing and evolving threats**
  - Phishing, Social Engineering, Ransomware
- **Corporate Vehicles – Business Owned Vehicles for personal use**
  - Limitations – Who is a permissive driver
  - Does Personal Umbrella extend over the use of corporate vehicles

## Asset Protection & Insurance

# Use of Entities & Trusts

## Trusts, LLCs, FLPs

- Estate Planning
- Tax Purposes
- Privacy
- Protection from creditors & other liabilities

# Insurance as First Line of Protection

- **Entity Integration**
  - Entity name missing on policy
  - Named Insured vs. Additional Insured vs. Additional Interest
  - Adequate Limits of Liability & Defense
- **Insurance to Value**
  - Actual Cash Value vs. Replacement Cost
- **Coverage for Catastrophic Loss**
  - Fire, Wind, Earthquake, Flood
- **Carrier Selection**
  - Private Client vs. Mass Market
  - Admitted vs. Non-Admitted (Excess & Surplus Lines)
    - Policy Language, Special Terms & Conditions, Sublimits

## Common Underwriting Challenges

- Intermingling of commercial/investment properties and personal use properties (residential) under a single entity
- Includes Apartments/Multifamily, Commercial Property, Commercial Business
- Revenue generated outside of rental income derived from owned residential rental properties
- Employees – besides domestic staff, personal assistant, groundskeeper, maintenance, etc.
- Ownership of more than 5-10 residential rental properties under same entity as the personal use properties



# QUESTIONS?

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