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THE CASE FOR UNINSURED/UNDERINSURED MOTORIST COVERAGE

By Mark Battat

Imagine that you and your wife are in your car and are struck by another motorist, resulting in a serious impact that leads to substantial injuries, including severe lacerations and many broken bones requiring surgery and a lengthy hospital stay. Will $30,000 worth of Bodily Injury coverage ($15,000 each person) take care of your hospital bills and recovery costs? And you drive a big sedan that only received front end damage. Would $5,000 Property Damage coverage be enough to pay for these repairs? Absolutely not! But in some states, such as California, those are the minimum liability limits that policyholders are required to carry. The problem is: you don't know the other driver's policy limits so you need to be sure you protect yourself regardless of the other driver's coverage.

continued on page 2

DOES A CHILL WIND BLOW ON FLORIDA'S HURRICANE EXPOSURES?

By Robert J. Clark

I was recently asked by a new client why it was so difficult to find a carrier who would provide Homeowners insurance for his residence in Naples, Florida. He reminded me that Naples's last major hurricane was Wilma in 2005. *Haven't the insurance companies recouped their losses since then? And why are so many insurance companies exiting Florida if no such storms have hit the state since then?!* Fair questions from a smart client – questions that prompted me to survey the market landscape to provide him with some clarity.

The insurance marketplace in the Southeast part of the U.S., especially Florida, is unlike anything our industry has encountered. Major companies, such as State Farm, Safeco and MetLife, have formed exit strategies. And for the majority of Floridians, the only choices for Homeowners insurance are Citizens Property Insurance Corporation (a state-run entity that is currently Florida's largest insurance company by a wide margin) or a handful of other start-up companies – many of which are unrated and minimally funded.

CONTENTS

WHAT IS THIS "WIND" THING ALL ABOUT?

If you're a Florida resident, or an adviser who's helped facilitate insurance placement for one of your clients who owns a residence in Florida, you're familiar with "wind coverage." Simply put, it's coverage that includes the peril of hurricane damage.

continued on page 3

Uninsured/Underinsured — continued from page 1

Back to our scenario: Two people with major injuries requiring hospitalization and operations, and extensive car damage. The other driver has only minimum limits. Would you be stuck with paying the rest of these bills yourself? The answer is NO – *just as long as you have Uninsured/Underinsured Motorist limits.* Underinsured Motorist limits act as a "difference in coverage" when the other person's automobile liability limits are too low.

Your Uninsured/Underinsured motorist limits should match the limits of your own policy's primary liability limits (Bodily Injury). So if you have $500,000/$500,000 liability limits, then your Uninsured/Underinsured motorist limits need to be about the same.

You may be asking 'what if the person's injuries exhaust the uninsured motorist liability limits? Many insurance carriers, such as Fireman's Fund, ACE, Chubb, Chartis Private Client Group – offer Excess Uninsured Motorist limits. The minimum is one million dollars, and the annual premium for this coverage ranges anywhere from $100 to $165 per million per year. Higher limits up to $10 million are available.

What limits should you carry on your automobile policy? Many of our clients carry a minimum of $500,000 Combined Single Limit (or $500,000/$500,000 Bodily Injury limits and $100,000 Property Damage limits). Many prefer a Combined Single Limit policy because it gives them greater flexibility in a claim situation. The liability portion of insuring automobiles is relatively inexpensive; it's the physical damage that adds up.

So take a look at your auto policy and make sure you have a generous helping of liability coverage for both primary and uninsured/underinsured motorists. Or call one of our Client Advocates for assistance. Truly, this is a case where it pays to be properly insured!

THE FALL CHECKLIST

Preparing your home for fall and winter is crucial in helping prevent damages during inclement weather.

1. Purchase two washable furnace filters. Install one in November, the other in March. Wash monthly. Do this for each forced-air furnace in your home.
2. Hire a service to thoroughly clean all heating ducts, removing dust and particles.
3. Clean any outdoor windowsills and check all window and sliding glass door frames as well as the surrounding wood on the outside for any holes or dry rot and repair them as needed.
4. Check all doors, windows and sliding doors to make sure they are properly weather-stripped.
5. Remove leaves from gutters, pipes and drain areas weekly; more frequently if you have deciduous trees.
6. Arrange for a fireplace service to clean each chimney flue and inspect each firebox. Replace or repair tiles that are cracked.
7. While standing on the ground, eyeball your roof on all sides. Have a roofer repair/replace any damaged/missing shingles.
8. Turn off the pool heater or solar system when you are no longer swimming.
9. If you have a guest house that will not be inhabited, turn the heat to 45 degrees and the water heater to "vacation."
10. Vacuum behind your washer and dryer to remove lint and dust that could be a fire hazard. Have a professional do this if you are unable to do it yourself.
11. Remove any seasonal flowers after their last bloom.
12. Store outdoor furniture and umbrellas in a covered, watertight location.
13. Check your firewood inventory and order more if needed. Keep firewood stacked AWAY from your home and covered with a well made tarp to keep it dry.
14. Have the carpets in your home steam cleaned – especially if you have pets that travel indoors and out.
15. Consider installing a Water-Flow alarm to detect any leaks. This is especially handy if your home will be vacant while you are living in another location.
16. If you plan to be away and a cold snap or large winter storm arrives, make sure you have a house-sitter or trusted individual stop by your house daily to check that your pipes have not cracked.

Hurricanes — continued from page 1

Many companies offer policy terms excluding wind, leaving the insured to find a policy covering only hurricane coverage, either through Citizens or a non-admitted market. This is no real solution, especially if a mortgage lender is involved, as they will most certainly require hurricane coverage. But wind exposure is precisely what drives a company's willingness – or lack thereof – to provide coverage. Companies are required to model their wind exposures for reinsurance purposes. They are excruciatingly careful not to exceed their capacity within a specific geographic area; otherwise they run a risk of paying more reinsurance costs. Think of this in terms of an income tax bracket: policies are to carriers what income is to you. The more income you make, the higher tax bracket you fall into. Similarly, the cost of reinsurance is proportionate to the increased risk exposure a company has in certain zip codes.

There are only a handful of carriers writing high profile personal lines business, including high value residences and condominiums. The short list includes Chubb & Son, Fireman's Fund, Chartis (formerly AIG), ACE Private Risk Services and PURE (Privilege Underwriters Reciprocal Exchange). To determine eligibility for wind coverage in Florida, all of these carriers maintain stringent underwriting matrixes governed mainly by location – a home's proximity to the coastline. The residence characteristics, such as its size and age, construction materials, the uniqueness of its architecture, security, fire and hurricane protection, also factor in. The home, in its entirety, must pass a rigidity test. If it does, it then moves to the next requirement – supporting business. Many companies require additional lines of business to be written in conjunction with the Homeowners policy: automobiles, valuable articles (e.g., fine art and jewelry), seasonal or secondary homes or Personal Excess Liability.

For more standard homes, there are a couple dozen Homeowners carriers domiciled in Florida, the majority of which are unrated with A.M. Best or Standards & Poor's. Their contract verbiage is vastly different from what is included in high-end carriers' policies and, therefore, would likely fall significantly short of meeting the needs of a high-net-worth client.

Finally, there are Excess & Surplus Lines markets such as Lloyd's of London, Scottsdale or Lexington that can deliver tailored solutions when called upon. These markets have little to no capacity concerns; however, they are not governed by a specific state's insurance regulatory body – meaning they can charge higher premiums, ensuring they receive proper rate for their risk exposures.

UNDERWRITING – THE PROCESS OF ELIMINATION

A company's underwriting guidelines determine an exposure's eligibility. In the example of my aforementioned client, he purchased a home in Port Royal (Collier County), a prestigious and private single-family community located almost directly on the Gulf of Mexico coastline. The purchase price totaled over $5 million, but the insurable replacement value on the structure alone is just over $2.5 million, representing a bit smaller-than-average residence in this area. The interesting thing is how easily I could eliminate carriers who might offer insurance coverage on this home. Take a look at the following underwriting matrix for Collier County Florida:

COMPANY	DISTANCE TO WATER	MIN. ACCOUNT PREMIUM	MIN. AGE OF HOME CONSTRUCTION	HURRICANE SHUTTER REQUIREMENT	MIN. DWELLING COVERAGE
A	< 1 mile	$15,000	2002	Yes	$2,000,000
B	< 1 mile	$25,000	2002	Yes	$2,500,000
C	< 1 mile	$50,000	2002	Yes	$1,000,000
D	< 1 mile	Not writing	Not writing	Not writing	Not writing
E	< 1 mile	$15,000	1995	Yes	$1,500,000

As the residence is less than one mile from the water, Company D is eliminated. The next column represents the total account premium. Fortunately, I do write all of this client's additional assets; however, the total account premium is less than $25,000. So we've now eliminated both Company B and Company C. The dwelling was constructed in 2005 and is equipped with impact-resistant glass throughout; we are left with two deliverable solutions (A & E).

Remember that this illustration represents one county and, more specifically, within a mile from the coastline. If this house was located more than one mile from the water, a new set of criteria would be in play; in general, the terms improve the further away from the coastline the home is located.

WHAT SHOULD YOU DO?

1. **Make an appointment with your insurance professional.** With a thorough risk management review, a good adviser can better understand your overall exposures and financial objectives. They will discuss with you, in detail, components such as coverage, deductible management and market availability.

2. **Get a second opinion.** It is important to find an adviser with access to all available markets. Hearing "this is your only option" can be uncomfortable. It may be the truth, but make sure you have confidence in the person who's saying it.

3. **Obtain a mitigation inspection.** The inspection (ranging from $85 – $150) reveals construction characteristics about a specific residence, which can considerably drive down premiums. Your adviser will have a list of vendors that perform these inspections; however, in most cases, if no mitigation features are uncovered, the inspection is free.

A MATTER OF TRUST(S)

By Frank Rapisarda

In recent years Personal Trusts have mushroomed in the estate planning process with a subsequent increase in the use of legal entities to hold and transfer property. The insurable interests – meaning those parties or entities exposed to the risk of loss created by trusts – must be protected to avoid unintended loss consequences.

To complicate matters, there is a limitless variety of trusts used to provide tax savings and other benefits, including protection from creditors and avoidance of probate. A trust allows the transfer of property as a direct gift to your heirs, keeping personal ownership of assets off the public record, thereby avoiding the cost and public disclosure of probate. Still more reasons account for the use of trusts.

- Divorced and non-married couples are afforded flexibility for dividing ownership of residences, vehicles and businesses without having to sell them
- Ownership of property in other states can be transferred to heirs without going through the probate process of that state
- Assets can be shielded from lawsuits as ownership is obscured

When property is transferred from the original owner to another legal entity, such as that created by the trust, the insurance policy covering that property must be modified to recognize this change of ownership. To avoid gaps in coverage, the policy must be structured to protect the interests of all parties who have an insurable interest in the event of a property or liability claim. Your insurance counselor will want to identify the parties at risk amidst the various types of trusts as well as any new exposures that may have been created. In order to determine coverage requirements, the following questions will be considered:

- What property does the trust hold?
- If a residence, who will occupy the home?
- Who are the parties to the trust?
- Is any business conducted on the premises?
- Does the entity own other property?
- What are the duties of the trustee regarding physical maintenance and control of the property?
- What are the rights of the beneficiary?
- Is there any other applicable insurance covering the property?

To illustrate the pitfalls of failing to consider insurance in the planning process, consider the Homeowners policy. This policy was written and developed for individuals wherein ownership of the property is deeded in a traditional manner, in the name of an individual, husband and wife, parent and child, siblings or domestic partners. With this in mind, it is evident that if a property is transferred from an “individual” to a different and unique entity, such as a trust, and no modifications are made to the policy, the unintended consequence is that the insurance policy may not protect either the individual

who previously owned the property or the new entity owner. In some cases, a trust can create a series of new exposures even when there is no change in the use of the property. For example, the trust may assume some liability for bodily injury or property damage that occurs on the premises.

Both from a liability and property damage standpoint, the named insured must be clearly described in the policy for coverage to apply. Only those individuals or entities defined as *insureds* are covered; hence, if the property is legally owned by the trust, the trust must be named as an *insured*.

As the use of trusts in estate planning has grown, the insurance industry has developed appropriate endorsements to handle the most common varieties of trusts. It takes skill and experience to comprehensively assess coverage requirements, however. A select group of insurance carriers also specialize in meeting the residential coverage needs of high-net-worth clients. Your Willis Client Manager will work with you and the insurance company to ensure that the exposure to loss for each entity under a trust agreement is addressed.

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