<u>Property & Casualty Risk Management in The Planning Process</u>

By Daniel Verdun
FPANJ Gold Business Partner, James A Connors Associates, Inc.

I'd like to highlight the importance of incorporating Property & Casualty risk management when designing and customizing a financial plan. P&C is dynamic and the definitions of coverage options are broad. It encompasses several lines of specialty endorsements and various coverage subject lines, and every insurance contract has different terms, conditions and exclusions, which most financial planner hardly ever review. For those reasons many financial planners are reluctant to stray too deep into the world of P&C. The depth of P&C risk management they assume is simply the recommendation of increasing the personal liability limits on homeowners, increasing the bodily injury/property damage limits on an auto policy and obtaining the maximum limits on an umbrella policy to match a clients' net-worth. This approach could potentially ruin any financial plan and devastate any family's financial goals and objectives. It could also present Errors and Omissions (E&O) complaint for you, the financial planner.

Here's an example to illustrate this point. Imagine you have a client with whom you worked in customizing and designing a comprehensive financial plan, which includes all the 'bells and whistles' of financial planning addressing his financial goals. In creating this plan, you have invested hours of conducting interviews, hosting conference calls, completing fact-finding forms, etc. and suddenly you receive an e-mail from your client informing you that he was just served with a complaint naming him as a defendant for allegations of sexual harassment and wrongful termination. As his financial planner, he's requesting copies of his property & casualty (P&C) insurance policies to include the umbrella policy you recommended he purchase with a $3,000,000 limit to match his net-worth. After reviewing the terms and conditions of his policies, it is determined the umbrella policy excludes coverage for all claims alleging employment practices liability (EPL). Because the umbrella policy was not properly structured to include (EPL), your client may be financially responsible to pay for defense costs, any judgment, a settlement or jury award.

Within a P&C insurance portfolio, there are several coverage subject lines, but for the purpose of personal asset protection, today I will focus on ***personal liability***. Every home and auto insurance policy provides a minimum limit of liability coverage, which includes bodily injury/property damage, PIP (personal injury protection) and UM/UIM (uninsured motorist & under-insured motorist). This coverage is necessary, and obtaining maximum limits (in some cases) is recommended, however the coverage is not sufficient in terms of protecting personal assets. There are many liability scenarios that even the most sophisticated financial planner will overlook, and in some cases, they do not fully understand the difference between an umbrella policy sold through ‘mass-market’ carriers and those offered by the high-end market.

For example, if your client has a net-worth of $5,000,000 (let’s say he’s a senior partner at a law firm and his wife is an executive for a privately held company who is very active in the community fund raising) employs a nanny and a personal assistant, how do you address that liability scenario? He’s the Membership Director for a local Chamber of Commerce and his wife sits on the Board of Directors for a non-profit charity; she also hosts dinners (in her home and other locations) for fund raising purposes. Considering your clients’ personal lifestyle and their professional careers, how do you address the risk and liability of their commitments and what recommendations do you make for umbrella coverage? Do you think their lifestyle creates any vulnerability or exposure to their personal assets? In your opinion, do they face any liability due to their professional careers?

P&C risk management is an essential component in laying the foundation to any comprehensive financial plan. Because there are several forms of liability exposures (both personal and business) and several factors in a client’s lifestyle that create ‘gaps in coverage’ that expose their personal assets, it’s recommended that a financial planner partner with a P&C insurance specialist during the risk management phase. Most financial planners realize the importance of managing the risk within their clients’ investment and financial portfolio, however they fail to realize the very same level of evaluation is required in addressing their client’s P&C needs. Adequate coverage for your clients’ homes, autos, fine art, jewelry, liability, etc. is extremely important because P&C insurance is a vehicle used to protect both physical and financial assets from a variety of risk exposures that your clients are vulnerable to.

What triggers a comprehensive P&C insurance review? Any change to your clients’ lifestyle trends, change in family status, an employment change or any other form of activity that creates risk and exposure to their investment portfolio and/or financial plan. Your clients have worked hard for what they have; make sure you help them protect it by utilizing the knowledge and expertise of a P&C insurance specialist.