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Insurers Offer New Policies For the Wealthy

Plans Establish Higher Limits On Replacement for Homes, Art; Covering 10,000 Bottles of Wine

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As the ranks of the rich have grown, insurers are introducing new products designed to cover the vacation homes, yachts, art collections and other concerns of wealthy individuals.

Among the latest coverage options: Fireman's Fund recently launched an insurance policy that covers insured family members serving as trustees against allegations that they bungled the family trust funds. Chubb is launching a new set of free services targeted at policyholders with a net worth of at least $5 million. The offering, called "Signature Suite," includes extensive background checks on cooks, nannies, drivers, yacht captains and other household staffers; screenings to determine policyholders' susceptibility to kidnapping and identity theft; and special software to help customers keep track of their art and antiques collections.

Insurance companies say providing coverage to the rich is a fast-growing business that is benefiting in part from a trend to build large houses filled with costly fixtures and specialized collections, such as jewels, antique guns and wine. Specialized insurers typically have higher coverage limits and cover more events -- often paying the entire cost of rebuilding a luxury home. And as individuals' net worths increase, so does their demand for excess liability coverage, which protects assets from personal-injury or property-damage lawsuits, above the liability limits set by home and auto policies.

For insurance companies, the rich are an expanding client base. The number of people in the U.S. with more than $1 million in financial assets grew nearly 10% last year to about 2.5 million, according to a report by Merrill Lynch & Co. and consulting firm Capgemini.

Still, consumers should steer clear of policies that are loaded with coverage lines that might be irrelevant to their situations. Indeed, some wealthy people live frugally and don't need all the additional coverage. Gary Pasternack, director of property and casualty insurance advisory services at Bessemer Trust in New York, says that he has seen some clients pay 20% to 30% more in premiums after switching to insurers that specialize in the high-net-worth sector. But, he says, benefits are often superior, including broader coverage and more-personalized claims service.

Insurers who are targeting high-net-worth households include Chubb Corp.; American International Group Inc.'s six-year-old Private Client Group; Fireman's Fund, a unit of Allianz AG; and Atlantic Mutual Insurance Co.

Wealth-management firms are also jumping into the insurance advisory game to help clients figure out what their risks are and navigate the thicket of insurance options. In recent years Bessemer Trust, J.P. Morgan Private Bank, Wachovia Wealth Management and Harris myCFO have all launched or expanded their insurance advisory services. (The advisory services are generally free if clients already have assets under management, but J.P. Morgan and Wachovia also provide insurance brokerage services.)

Business is booming for high-end insurers. AIG Private Client Group, whose average policyholder pays some $18,000 in total annual premiums, says its net premium underwritings grew by about 40% in the first seven months of this year. Fireman's gross personal insurance premiums -- which average $3,749 annually per policyholder -- totaled $900 million in 2004, up more than $100 million from two years earlier. And Chubb wrote $2.83 billion in net personal insurance premiums last year, up 22% from 2002. High-end insurers say it is still too early to tell whether the devastation wrought by hurricanes Katrina, Rita and Wilma will have an effect on premium pricing.

To qualify for a specialty insurance policy, a person typically must start by insuring a house for at least $500,000. AIG Private Client Group generally requires homes to be insured for at least $1 million. The costs of high-net-worth coverage can vary greatly depending on factors including the value of the assets being insured and where the policyholder lives. Not all policies are available in all states, since insurance is regulated by state. Bundling all insurance coverage with one provider, and taking a higher deductible, can reduce premium costs significantly.

Nationwide, the property and casualty insurance industry wrote a total of $216.7 billion in personal homeowners and car insurance premiums in 2004, a 5% increase from a year earlier and a 15% increase from 2002, according to an analysis by the Property Casualty Insurers Association of America. The typical American homeowner is expected to pay $677 for home insurance and $870 for auto insurance in 2005, according to estimates from the Insurance Information Institute.

Buying Protection

Wealthy individuals often seek excess liability or "umbrella" policies, which protect assets from personal injury or property damage above the liability limits set by home and auto policies. Here's a look at several policies offered by some insurers:

COMPANY	PRODUCT	COMMENT	ANNUAL PREMIUM*
Fireman's Fund	Prestige Excess	This can cover up to $100 million in damages. Includes up to $25,000 for professional public-relations services to "manage reputational damage stemming from a lawsuit."	Base policy costs about $250 a year for $1 million in coverage and $1,500 to $2,000 for $10 million.
AIG Private Client Group	Excess Liability	Provides up to $100 million in excess liability coverage. Policyholders can choose a defense lawyer from a panel provided by the insurer.	A policy in New York costs about $400 for $1 million in coverage and $1,380 for $10 million.
Chubb	Masterpiece Excess Liability	Coverage can go up to $100 million and includes coverage for serving on nonprofit boards and for worldwide car rentals.	About $170 to $400 per $1 million of coverage.
Atlantic Mutual	Atlantic Master Plan	Atlantic encourages its customers to bundle their homeowners, auto and umbrella coverage under one policy. Umbrella insurance typically covers up to $10 million.	Umbrella coverage in New York costs about $185 for $1 million in coverage and $1,250 for $10 million.

*Premiums depend on a number of factors, including location and the type and number of assets being covered.
Source: the companies

High-net-worth individuals are buying more insurance than they once did. Fireman's Fund says its new policyholders, on average, are insuring their houses' structures for $980,000, a big jump from $441,000 five years ago, reflecting higher replacement costs as homeowners spend more on building and remodeling. Wealth advisers also are increasingly recommending that clients increase their excess liability coverage to take account of their growing net worths. Several insurers now offer as much as $100 million in excess liability coverage for super-rich families concerned about personal lawsuits. A few years ago it was difficult to find such coverage for more than $10 million.

Charles Klatskin, a Teterboro, N.J., industrial real-estate broker, recently bought a Chubb valuable-articles policy to insure, among other things, a wine collection comprising 10,000 bottles. "I do it mainly for my old wines, because they are not replaceable," he says. "If nothing else, the consolation prize is getting some money." Mr. Klatskin declined to comment on the size of his collectibles policy or the premiums that he pays.

Big brokerages, such as Marsh, Aon and Arthur J. Gallagher, all have private client groups that cater to the very affluent set, procuring specialty coverage such as "Gentleman's Farm" insurance for hobby agriculturalists. There are also specialized firms that focus on advising high-net-worth families, such as Risk Capital Partners in New York and Personal Risk Management Advisors in San Antonio.

To help keep claims -- and premiums -- down, high-end insurers have been launching loss-prevention initiatives to curb potential damages before they happen. These efforts are especially important when insuring second or third homes -- and the valuables inside them -- because policyholders might not be there for large portions of the year, leaving a greater chance for problems to occur. Atlantic Mutual is providing special premium discounts for those who live in gated communities because they are more secure. And AIG Private Client Group, which launched a loss-prevention unit last year, provides free background checks for household staff to avoid hiring grifters or thieves.

Earlier this year, as Southern California was drenched with days of rain, the drains around Eric Yuhl's property failed. Water seeped into his family's custom-built home, ruining the bamboo floors and causing about $200,000 worth of damage. His insurer, AIG Private Client Group, picked up the bill, even waiving the $5,000 deductible, says Mr. Yuhl, a Del Mar, Calif., civil litigator who pays about $12,000 to $15,000 a year in home, auto and excess liability premiums.

"It was a breath of fresh air," says Mr. Yuhl. "And this is coming from an attorney who litigates against insurance companies."

A growing number of insurers are also launching products geared toward the less wealthy. Travelers, a unit of St. Paul Travelers Companies Inc., recently launched a "High Value" home insurance policy targeted at homes valued from $500,000 to $2 million, with new perks such as increased living expenses if you're displaced from your house. MetLife Auto & Home recently introduced a new "GrandProtect" policy that packages auto, home and other property and liability coverage and is targeted toward customers with "complex insurance needs," according to the company's marketing materials.