Benchmarking:
The Over/Under of Coverage & Limits

Using benchmarking can be a powerful strategic tool for high-net-worth individuals as they make decisions about how to move forward with proper insurance coverage. Benchmarking uses data analytics taken from claims activity to offer insureds comparisons of coverage to lower insurance costs. The value of benchmarking also offers insight into the probability of loss, preparing insureds to create short and long-term goals as part of their overall risk mitigation.

The question high-net-worth individuals want to immediately ask their insurance broker is, *what type of exposure does my current insurance strategy hold?* From there, they will learn the next steps to ascertain coverage limits using benchmarking as a guide—and focus on long-term and short-term goals.

Why Benchmarking?

Data from insurers and BRP clients show the top two percent of clients carry a specific limit of coverage based on specific net worth—this is benchmarking. Relaying this information to affluent individuals helps to hold more meaningful discussions with their insurance brokers to help stave off lawsuits, for example. For pentamillionaires, who are individuals with a net worth of $5 million or more, the minimum coverage they hold will differ from millionaires or decamillionaires, the latter whose wealth extends from $10 million and beyond. **Usually, lawsuits within the private risk management industry, including excess liability, do not crest above $10 million, but when they do, the numbers are staggering.**

> A specific loss occurred, for example, that involved a boating loss with injuries in the state of Florida to a pentamillionaire. The boater's engine was idling, and two to three swimmers were nearby floating in the water. As the engine struck the people in the water, serious injuries occurred. The total payout to the swimmers, who all lived, was $75 million against the owner of the boat. Performing a benchmarking assessment with an insurance broker will detail claims examples, like this one, and how similar affluent demographics experience loss.

Lawsuits, Claims Activity, & Benchmarking, Oh My!

Even if an affluent individual's wealth falls below pentamillionaire status, benchmarking remains a solid strategy to use. Affluent individuals are increasingly becoming the targets of multi-million-dollar lawsuits. In today's litigious environment, to mitigate overall loss, personal excess liability policies are used.

> A client's daughter allowed her friend to drive her car, and while speeding, the car jumped an embankment and struck a building, severely injuring another passenger. The auto policy covered $500,000, and the excess liability policy paid an additional $5 million to the other passenger[1].

While not much use for benchmarking exists surrounding homeowners' coverage, the strategy is not to be overlooked.

> In the case of a house painter who fell 15 feet while working on a high-net-worth individual's home, the combination of homeowners insurance and personal excess liability coverage came into play. The painter had no medical insurance or worker's compensation to cover his expenses and sued the homeowner. The case settled for $900,000—of which the homeowner's policy paid $300,000 and the personal excess liability policy paid $600,000[2].

Many high-net-worth individuals who have highly visible profiles within the community also benefit from benchmarking. Having their names published as active donors in local philanthropic organizations creates inherent risk exposures; as these individuals understand these risks and draw from benchmarks to discover ways to protect themselves, exorbitant losses can be minimized—especially if they sit on a not-for-profit board. Not-for-profit organizations run lean operations and vetting new board members may not be as stringent as for-profit corporate board organizations.

> An internet defamation lawsuit occurred as a Florida consultant sued a Louisiana woman for posting defamatory statements on an internet bulletin board, calling the consultant a "crook" and a "fraud". The verdict was for the plaintiff, and the case was settled for $11.3 million[3].

Coverage Limits

A thorough assessment of a high-net-worth individual's assets coupled with a review of geographic benchmarking data will let individuals know the minimum and maximum coverage limits for homeowners' insurance. Deciding upon flood insurance coverage falls into this category for use of benchmarking insight.

Also, the size of one's wealth and the age of the individual matter when deciding coverage limits. For example, if an individual is worth $10 million and experiences a $10 million loss, everything is gone. A 60-year-old high-net-worth individual who has worked for 30-40 years will want protection for the full asset portfolio; a younger individual has the value of time to consider in accumulating future earnings and wealth when deciding upon coverage limits. In all cases, benchmarking will provide the necessary data to to make the best decisions.

[1] BRP Partner Case Studies, Chubb—Real example of Chubb Group personal excess liability claims, 2021.
[2] BRP Partner Case Studies, Chubb—Real example of Chubb Group personal excess liability claims, 2021.
[3] BRP Partner Case Studies, ACE Private Risk Services – Jury Verdict and Settlement Research, 2021.

Initiate Meaningful Conversations with Your Broker - Consider Asking These Questions:

- How do other affluent individuals similar to me make their insurance coverage decisions?
- Where are my liability gaps in coverage based on my assets and portfolio worth?
- How can I remain a valuable contribution to society through my philanthropic activities and be protected?
- What can I do to prevent large losses or expensive lawsuits—what strategies have I overlooked?
- How can I utilize my homeowner's insurance coverage and a personal excess liability policy to protect myself and my family?

Connect with our Private Client team to help ensure you and your assets are properly protected.

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