The Overlooked Gap in Financial Advice

How financial advisors can protect clients whose wealth may be at risk due to gaps in Property and Casualty coverage.

CHUBB®

OLIVER WYMAN

Research guide

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Abstract

Addressing wealth management challenges by understanding P&C risks

The wealth management industry is experiencing a period of change and disruption, leaving many financial advisors feeling that they need to find new ways to provide additional value and grow their businesses.

One way that financial advisors can provide additional value and grow their business is by understanding and addressing their clients' Property and Casualty (P&C) insurance needs, i.e. protection for their home, auto or jewelry or liability exposure.
Many successful families and individuals are not adequately protected against such risks and may not achieve their financial objectives because of unexpected and unprotected P&C losses.

Our research found that only **28%** of financial advisors address their clients' P&C insurance needs, even though **77%** of successful individuals want their advisors to provide that support and nearly **40%** would consider switching to an advisor who provided it. To address this gap, we explore and quantify:

- **The extent to which successful individuals and families are underinsured,** either lacking coverages entirely or buying products with the wrong features, and the reasons why.

- **How critical it is to help safeguard successful clients' assets so they can achieve their financial goals,** and conversely, how ignoring P&C risks might put these financial plans at risk.

- **How aiding successful clients with their P&C needs can help financial advisors grow their business** by deepening their client relationships, accessing new referral networks and enabling better market differentiation.

- **The steps financial advisors should take to address this need:** understand P&C coverage and the gaps that exist in their clients' coverage; develop a network of P&C partners that can work with their clients; and follow up throughout their clients' lives to ensure that they remain protected.

This research was commissioned by Chubb and conducted by Oliver Wyman. All analyses and opinions reflect Oliver Wyman's point of view and are independent of Chubb.

Why does this matter?

85%

of successful families state that it is of **significant importance** to have their financial advisors act as their "*quarterbacks*" to help them navigate all of their financial matters

Wealth management is at a crossroads

The industry is experiencing a strong fee compression driven by an acceleration of asset flows into low-fee passive products [i]. This is further compounded by the rise of robo-advice, i.e. the use of automation and digital techniques, which is profoundly impacting clients' views of who financial advisors are, and what they should be paid [ii]. Given these pressures, FAs need to look for ways to continue to provide value to their clients and justify their fees.

In addition, clients are expressing a desire for FAs to manage their entire financial picture, not just their investments. In a recent Oliver Wyman survey, 85% of successful families stated that it is of significant importance that their financial advisors act as "quarterback" to help them navigate all of their financial matters [iii]. These clients view their financial needs as complex and global in nature, and may also want their FAs to partner with experts in other areas to assess and address their specific needs [iv].

Financial advisors can add value and grow their business by understanding and addressing their clients' P&C insurance risks. Many successful families and individuals don't buy enough coverage, or buy the wrong kind, simply because they don't receive the right advice. While financial advisors don't need to provide technical advice about P&C insurance, they can directly benefit by the following:

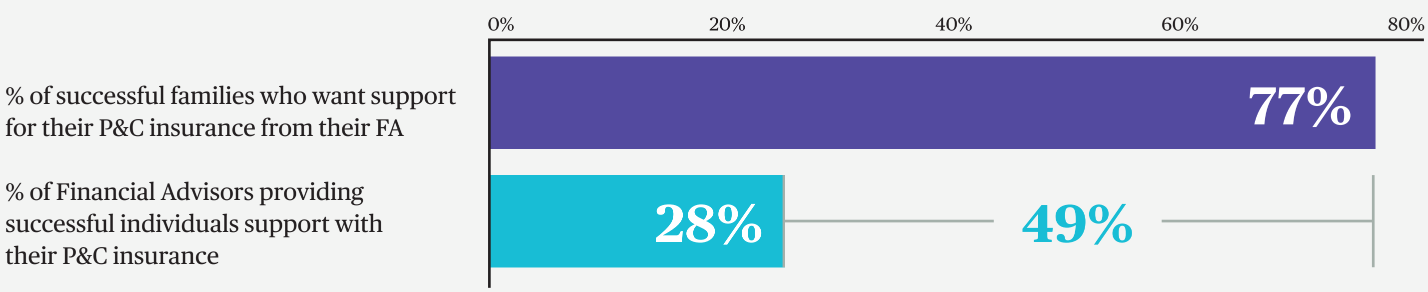
1. **Educate themselves about P&C coverage so they can proactively identify** when their clients are inadequately protected;

2. **Develop networks with, and connect** their clients to, the right P&C partners, e.g. insurance brokers or carriers that specialize in financially successful families; and

3. **Follow up** throughout their clients' lives to ensure that they remain protected. It is especially important to revisit clients' coverage when their financial situation changes or grows, e.g. when they buy real assets, or have a significant life event, such as the birth of a child, sale of a business, or entering retirement.

Successful families and individuals expect their financial advisors to address their complete financial picture, including protecting them from P&C risks. However, most FAs do not provide this support. This clear **expectations gap** is illustrated below.

Figure 1. *Expectations gap for personal P&C insurance support*[v]



Financial advisors who recognize this opportunity and take steps to educate themselves can demonstrate their value to their clients, justify their fees, and grow their relationships.

This paper shows how the current insurance bought by successful families and individuals is often inadequate, demonstrates why it is in the interest of FAs to help their clients secure the right P&C insurance, and provides a "playbook" for FAs to use as they provide the necessary advice. Oliver Wyman surveyed 200 successful families or individuals and 200 financial advisors to measure the need and identify the potential impact on FAs who provide this advice.

This paper covers the following:

- **Section 1:** Outlines the need for protection, specifically the ways in which financially successful individuals are inadequately protected from P&C risks, and describes the main driver of this inadequacy: a lack of proper advice.

- **Section 2:** Describes how financial advisors stand to directly benefit by addressing their clients' P&C insurance risks, which in turn helps them safeguard their clients' invested assets (and thus the FA's livelihood), deepen their client relationships, develop valuable connections with new networks, and differentiate themselves in the marketplace.

- **Section 3:** Articulates a "playbook" that the FAs can use while holding initial conversations with their clients, as well as follow-up conversations as their clients' financial picture evolves.

In order to best describe the unmet needs and illustrate the impact that financial advisors can have, we will use the three stories below, describing Ramona and Tom in Chicago, Rick and Sue in Dallas and Sonja in Seattle.

Early Career → Mid-Career → Late Career → Retirement

Figure 2. *Stories used in paper*

Sonja

Recently successful in Seattle

Single in her early 30s who was an early employee of a tech company that recently had an IPO. She just bought a new expensive car and began working with an advisor to manage her newfound wealth. She rents a house in downtown Seattle but frequently drives to the nearby national parks for an outdoor escape.

Financial goals

- Save for her MBA
- Buy her first home
- Begin her retirement savings

Rick and Sue

New parents in Dallas

Couple in their early 40s who have five year old twins. They live in a four bedroom home with a mortgage in the Highland Park suburb. Their backyard has a pool and a large trampoline and is a favorite with their kids and their kid's friends.

Financial goals

- Continue building their retirement savings
- Save for the twins' college
- Build home equity

Ramona and Tom

Close to retirement in Chicago

Couple in their early 60s who have two adult children who have left home. They live in a three bedroom home in the Glencoe suburb. Their home has significantly appreciated in value since they bought, representing 50% of their total wealth.

Financial goals

- Retire by their late 60s
- When they retire, sell their home in Chicago and buy a condo in Florida to take advantage of lower taxes and the weather

1.

Many financially accomplished families and individuals are not adequately protected for property and casualty risks

1. Many financially accomplished families and individuals are not adequately protected from P&C risks because they didn't get the right advice

Successful families have busy and complex lives.

Successful families may accumulate valuable possessions, including high end kitchen appliances, custom cabinetry, vacation homes, and collections such as wine, art, cars, or antiques. They may travel internationally, sit on the boards of nonprofit organizations, and employ help at home, such as a nanny or a housekeeper. Their lifestyle makes the risks they face diverse and often rapidly changing. In addition, they may be more susceptible to risks simply because they have more money or are in the public eye, e.g. posts on social media that lead to libel suits, being a target of a cyber-attack.

Given this, it may be a surprise that many successful families and individuals are not adequately protected from P&C risks. Often times they purchased coverage when they graduated from college or when they purchased a new home, and have not revisited the carrier or coverages since. The figure below illustrates the different product lines available for a typical financially successful individual.

Home and automobile coverage are a good place for FAs to start talking with financially successful individuals because many individuals have inadequate limits and coverages. In specialty coverage many individuals had bought the wrong type of coverage.

Figure 3. *Availability of P&C insurance protection for financially accomplished individuals*

Risk area	P&C Insurance Product							
Home	Dwelling	Home Property	Home Liability	Other Structures	Flood	Earth-quake	Mold	International
Auto	Collision	Comprehensive	Auto Liability	Un/under Insured	Medical Pay	PIP	Specialty Vehicles	
Watercraft	Collision	Comprehensive	Liability	Medical	Operator	Trailer		
Recreational Vehicle	Collision	Comprehensive	Liability	Medical				
Valuable Collections	Wine	Jewelry	Fine Art					
Staff	EPLI	Workers Comp						
Non-profit	D&O							
Overall	Umbrella Liability							

1. Many financially accomplished families and individuals are not adequately protected for P&C risks

10%

of those surveyed lacked expanded liability coverage entirely

1.1. Financially accomplished individuals may lack certain insurance coverages entirely

They may not have known that they needed protection for some risk categories.

Financially successful individuals may lack entire insurance products. For example, they may not have expanded liability, which provides protection for events that exceed the limits of normal policies. Or, they may lack key coverages within the products they have. For example, they may not have specific coverage in their car insurance to protect against accidents with motorists who can't pay for damages because they don't have any insurance (i.e. uninsured motorist coverage) or don't have enough insurance (i.e. underinsured motorist coverage).

*For example - **Ramona** serves as a director of a nonprofit. She thinks, as many other people do, that she does not have any risk of personal liability if there were a lawsuit against the nonprofit. The reality of today's legal environment is quite the opposite - damages can often be recoverable from the directors and officers of a nonprofit. Ramona could protect herself by securing Directors and Officers (D&O) insurance, which is a type of expanded liability coverage, and very common for this type of work.*

Although 74% of respondents have liability insurance, many do not carry high enough limits and 10% of financially successful individuals lack expanded liability coverage entirely, which could be financially devastating if they face a lawsuit. In an increasingly litigious environment, successful families can be targeted for their wealth, and judgments are relatively common and can be severe. For example, in our study, we found that 10% of financially successful families were forced to pay judgments of $100,000 or greater, and 3% experienced judgments greater than $1 million over the last ten years.

Many successful individuals lack adequate protection for their valuables as well. In fact, 62% of those surveyed lacked jewelry insurance entirely, and were either not covering their jewelry at all or thinking they were covered under their standard homeowners insurance policy, which may only cover a portion of the value.

Of those surveyed, 87% lacked any insurance to cover their artwork. Covering art under the contents portion of a homeowners policy could leave clients heavily underinsured, as most contents coverage will utilize depreciation and not full replacement cost. In addition, the cost to replace artwork can quickly erode at the contents limit if there is a significant loss. On the other hand, separate protection for valuables is often reasonably priced, e.g. $250 for $100k of fine arts coverage annually.

The survey also revealed that only 23% of respondents had heard of employment practices liability insurance and just 6% had purchased the coverage.

24% of survey respondents carry flood insurance, which given recent catastrophes, leaves many underprotected.

1. Many financially accomplished families and individuals are not adequately protected for P&C risks

87%

of respondents said they use standard carriers to cover their risks

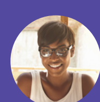
Figure 5. *Uninsured motorists*

1 in 8 drivers are uninsured

Source: Insurance Research Council

Even if the successful individual is adequately insured, they need to make sure their insurance would protect them if they had an accident with a driver that isn't.

Many drivers with insurance are still underinsured, meaning they don't have enough coverage to fully protect themselves. These individuals may simply buy the minimum amount of insurance required, with limits far too low to cover the damage caused in some accidents. Accidents with uninsured or underinsured drivers can cause large unforeseen losses to successful families - even if the accident was not their fault.



***Sonja** likes to take long drives in her new $50,000 car to nearby national parks to go hiking. She thought she bought "good" car insurance with comprehensive protection – "that's what comprehensive means", she thought, but she did not purchase uninsured/underinsured motorist protection because "she didn't know what that meant". Given her driving habits, she could be at risk for a large loss in case of a collision with an uninsured/underinsured driver.*

Common loss prevention options that can lead to savings:

- Smart home technologies
- Fire alarm system
- Burglar alarm system
- Water leak detention
- Water shut off
- Temperature monitoring

1.2. Many are buying policies with the wrong features

Many successful families think they are protected because they purchased some form of insurance; however, they often purchase policies with the wrong features, leaving them exposed to significant risk.

This sub-optimal protection can manifest itself in three ways. First, families buy some amount of coverage, but not enough to adequately protect themselves. Second, they overpay for costly policy features they don't need. And third, they leave money on the table by not taking advantage of discounts. These three behaviors are in large part a result of successful families buying standard policies, with standardized features, instead of customized policies that address their specific needs. In our survey, 87% of respondents said they use standard carriers to cover their risks[ix]. Often, these three behaviors can be simultaneous - resulting in successful families overpaying for inadequate coverage.

16%

of successful families indicate that they do not know the fair value of their possessions

Assessing accurate liability limits is something FAs are uniquely positioned to do because they gather all this information to manage their clients' money.

1 Many successful families have some coverage, but not enough to fully protect their assets.

This may be caused by three issues: insufficient valuation updates; standard products that don't address the unique needs of successful families; and standard products that underestimate the total exposure in certain areas.

Standard insurers don't provide sufficient valuation updates.

In many cases, asset values are not updated regularly, homes are not insured to full replacement value, and personal property and valuable collections are underprotected. This can be a significant issue down the road, given that claims are typically paid on the reported value, not the actual value. Coverage often follows the pro rata condition of average, in which claims paid out are discounted by the amount an item was underinsured. The best defense against this is to have an accurate assessment performed regularly, which is often provided free of charge by insurance companies and/or brokers that specialize in providing premium service to successful families. Most successful families and individuals do not take advantage of this service: In our survey, 70% of families said they never or rarely had a professional assessment done, and 16% indicated that they do not know the replacement value of their possessions at all.

Mass-market products use heuristics/assumptions that are could be grossly inappropriate for financially accomplished families' unique situations.

One area where this is common is in "other structures" coverage within a homeowners policy, i.e. all of the edifices/elements of a home other than the primary dwelling such as a pool house or detached garage. Standard policies often assume that other structures should be valued at 10% of the value of the primary dwelling, instead of sending an appraiser to accurately assign a value. For many families, 10% may not be nearly enough protection[xi].

***Rick and Sue** have a $1.5 million house with a limit of $150,000 for other structures on their homeowner's policy, but the total value of their detached garage, one-bedroom guest cottage is closer to $500,000. They could secure adequate protection and peace of mind for a moderate premium increase (e.g. $250) if they raised their other structures coverage to $500,000.*

Standard policies do not accurately estimate the total exposure of certain risk categories.

A good example of this is expanded liability protection. Limits are often set at $1 million or $2 million, based on a rough guess, or because that is the maximum allowed by the standard insurance company. To estimate how much expanded liability protection is necessary for a financially successful individual, a quantitative approach should be used that includes insurable assets, investable assets, and a number of years of income [xii].

70%
of families said they never or rarely had a professional assessment done

2 Many successful families are inadvertently paying for features they don't need, including low deductibles that they don't use and limits of coverage that are too high.

Many financially accomplished individuals have low deductibles on their standard homeowners and auto insurance policies. This may have made sense when they were young professionals; however, as their risks evolve so should their coverage. They often pay substantial additional premiums for these lower deductibles, but may not even file a claim after a minor accident; instead they may elect to pay out of pocket to avoid impacting their premium or having to go through the hassle of filing a claim. In our study, 38% of successful families didn't file a claim after some losses to avoid a premium increase, and 18% said they select plans with the lowest or very low deductibles [xiii]. Raising their deductibles to amounts better calibrated to their risk tolerance could result in substantial savings [xiv].

For example, ***Rick and Sue*** *have a $1,000 deductible on their homeowners policy. That said, they, like many other successful families like them, routinely pay for minor damages to their property out of pocket to avoid the hassle of filing a claim and having it impact their premium, like when a small amount of hail damaged their roof slightly. They could have notable premium savings (e.g. 40%) if they raised their deductible to something higher, like $5,000.*

Financially accomplished individuals may also purchase limits of coverage that they don't need for some products. In Rick and Sue's situation above, we showed how standard carrier assumptions could lead to underinsurance. In other cases, these assumptions can lead to limits that are too high. For example, the standard 10% coverage for other structures coverage may be appropriate for a standard home, but may be too high for a high-value home with no other structures e.g., a semi-detached home in Chicago [xv].

3 Many successful families are not realizing substantial premium savings because they are not taking advantage of loss prevention credits or package discounts.

Many successful families invest in safety equipment to keep their homes and families protected, i.e. burglar or fire alarms, water and gas leak detection systems, backup generators, etc. They may not realize, however, that they could receive loss prevention credits from their insurance company, that could substantially reduce their premiums [xvi].

Successful families are often targets and more likely to occur these kind of losses.

- More water features - higher risk of water damage
- Larger homes - larger target
- More winter fire places - more chances of fire

In addition, successful families often shop around for their auto and homeowners insurance, thinking they are being financially savvy by searching for the best premium for each policy. However, they may find that their discount is more substantial (10% or more) if they place all of their policies with one carrier [xvii].

***Sonja** thought she was doing the right thing by shopping around for the lowest price on auto and renters insurance. However, she didn't realize that if she placed both of her policies with the same carrier, she could have received a 10% discount on both!*

1.3. They are not adequately protected because they don't receive the right advice

In the survey of financially successful families, we sought to understand what was driving them to buy coverage that didn't meet their needs. The key reasons are highlighted here:

Lack of understanding of their risks and exposures

They are unaware of the risks they face, especially in novel and emerging exposure areas, such as cybercrime and social media or online risks.

Hassle prone prior experience with insurance

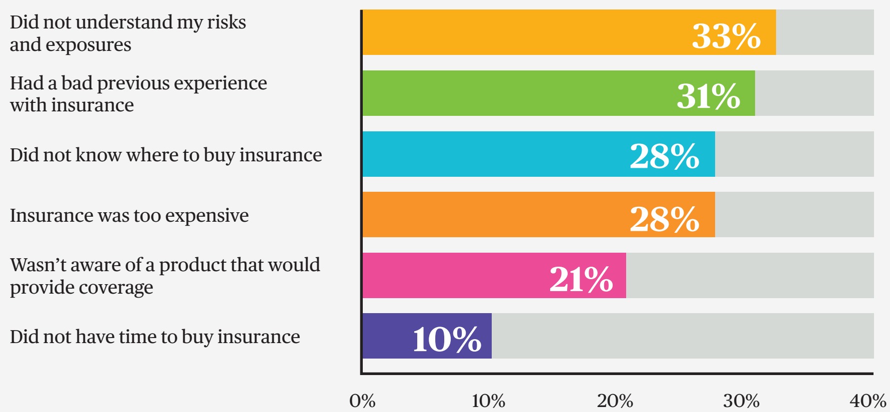
They have been burned by poor onboarding, service, or claims processes in prior insurance experiences.

Little familiarity with insurance products

They have limited knowledge of insurance in general and the specific products they can use to protect themselves.

1. Many financially accomplished families and individuals are not adequately protected for P&C risks

Figure 6. *Reasons behind sub-optimal purchase of insurance by financially accomplished individuals*



Lack of proper advice underlies each of the reasons why financially successful families may not have the coverage they need. With proper counsel, however, these families could better manage their P&C risks with the right kind of insurance. Financial advisors could be the source of that counsel, providing it to their clients in a hassle-free experience.

2.

Financial Advisors stand to directly benefit by providing advice regarding personal property and casualty insurance to their clients

"Any sound financial plan has a strong case for risk management… 9 times out of 10 to not talk about it is to do yourself a disservice."

-Financial Advisor

2.1. By optimizing insurance, financial advisors can safeguard assets to drive better returns over time

P&C risks can have a large effect on the financial health of financial advisor's clients. When the unfortunate occurs, people may be forced to sell some (or even most) of their investments to cover their losses. This can have a direct impact on their financial priorities, delaying the purchase of a real asset, or pushing off retirement, etc. In some situations, events could be large enough to be financially ruinous.

Some financial advisors, cognizant of this, are proactively having P&C risk management discussions with their clients.

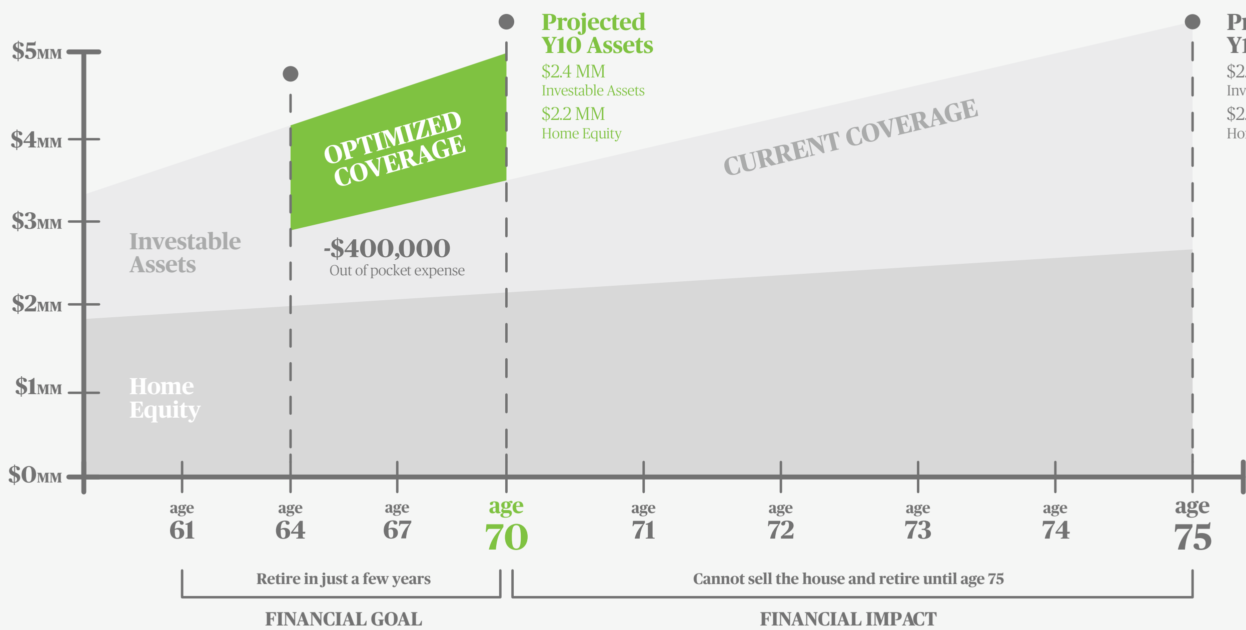
Getting the right type of coverage is critical. As we discussed above, most successful families are inadequately protected from at least one type of risk, sometimes more. Financial advisors can support their clients, by proactively identifying when there is a risk of underprotection, connecting their clients with the right P&C partners and following up as their financial picture evolves. Below, we illustrate what can happen when successful families lack that support, by demonstrating the impact that poor coverage can have on Ramona and Tom, Rick and Sue, and Sonja under specific losses they experience.

2. FAs stand to directly benefit by providing advice regarding personal P&C insurance to their clients

Ramona and Tom are a couple in their early 60s, living in a suburb near Chicago. They hope to retire in just a few years. They plan to liquidate their house, that has nearly doubled in value since they bought it, downsize to a condo in Florida, and live off of their retirement savings. However, a pipe bursts in their home...

Pipe burst and resulting water damage to home delay retirement by 5 years

A pipe burst in Ramona and Tom's home while they were on vacation. The water runs for 5 days and severely damages the home. The great room and kitchen need to be gutted due to damage to walls, flooring, custom cabinetry and appliances. The water also damages the finished basement including the heating and cooling equipment, laundry room, electrical include the Creston Home Automation System. The standing water and humidity in home cause condensation throughout the home. The total damage including additional living expenses for having to move out of the home for several months was $700,000.



Assumptions: 0% equity growth
Current Coverage: $1,000,000 dwelling value and actual cash value on personal property
Optimized Coverage: $2,000,000 dwelling value with extended replacement cost and replacement cost on contents.

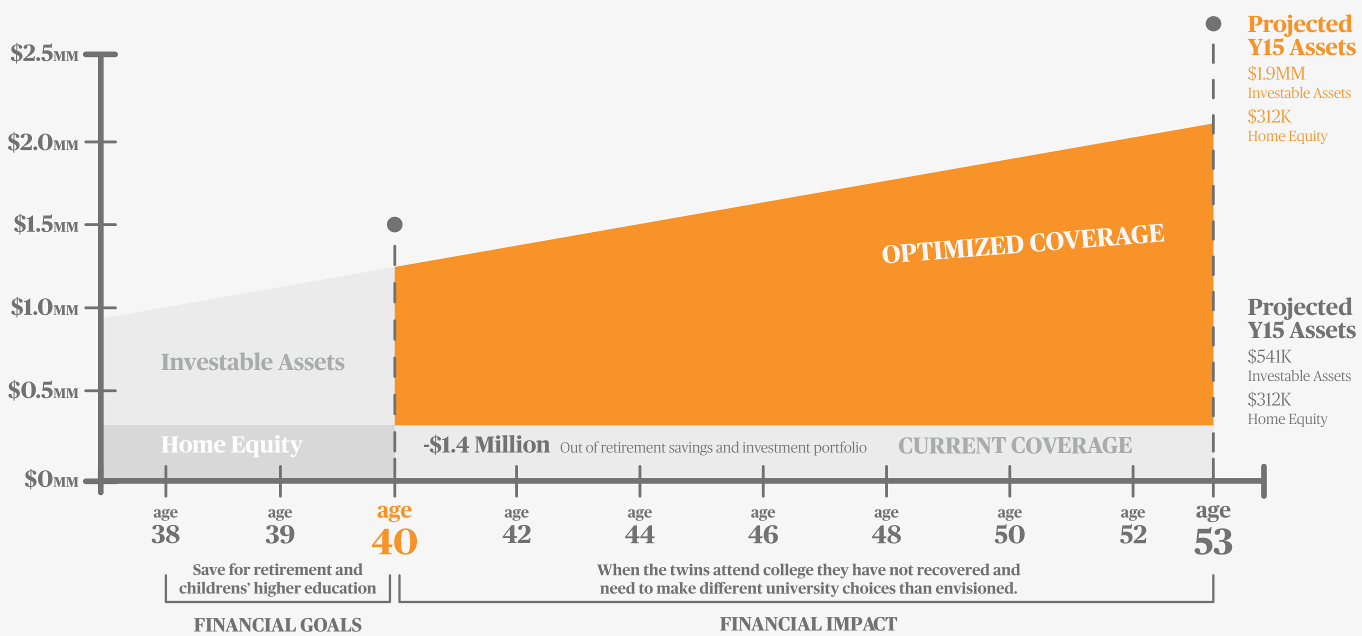
As you can see, optimized coverage helped Ramona and Tom avoid having to delay their retirement by five years and enabled them to fully recover their $400,000 loss, all for an additional annual cost $3,800 more than their existing premium. In addition, the entire repair process was less of a hassle for them because instead of having to front the money and get reimbursed, they received their claim check 48 hours following claim approval.

2. FAs stand to directly benefit by providing advice regarding personal P&C insurance to their clients

Rick and Sue are new parents in their early 40s, living in Dallas. They have five-year-old twins, and hope to save for college, grow their own retirement savings and pay off their home. However, one of their kid's friends is injured on their trampoline...

Trampoline Accident wipes out college savings, children not able to select their first choice private universities

While playing on the trampoline, one of their children's friends is severely injured. The child's parents sue Rick and Sue for $2 million in medical damages and negligence (because Rick and Sue weren't watching the kids). The lawsuit was lengthy with hefty legal fees ($500k).



Assumptions: 0% equity growth
Current Coverage: $100k on home and $1MM umbrella coverage
Optimized Coverage: $100k on home and $5MM umbrella with defense costs outside of policy limit

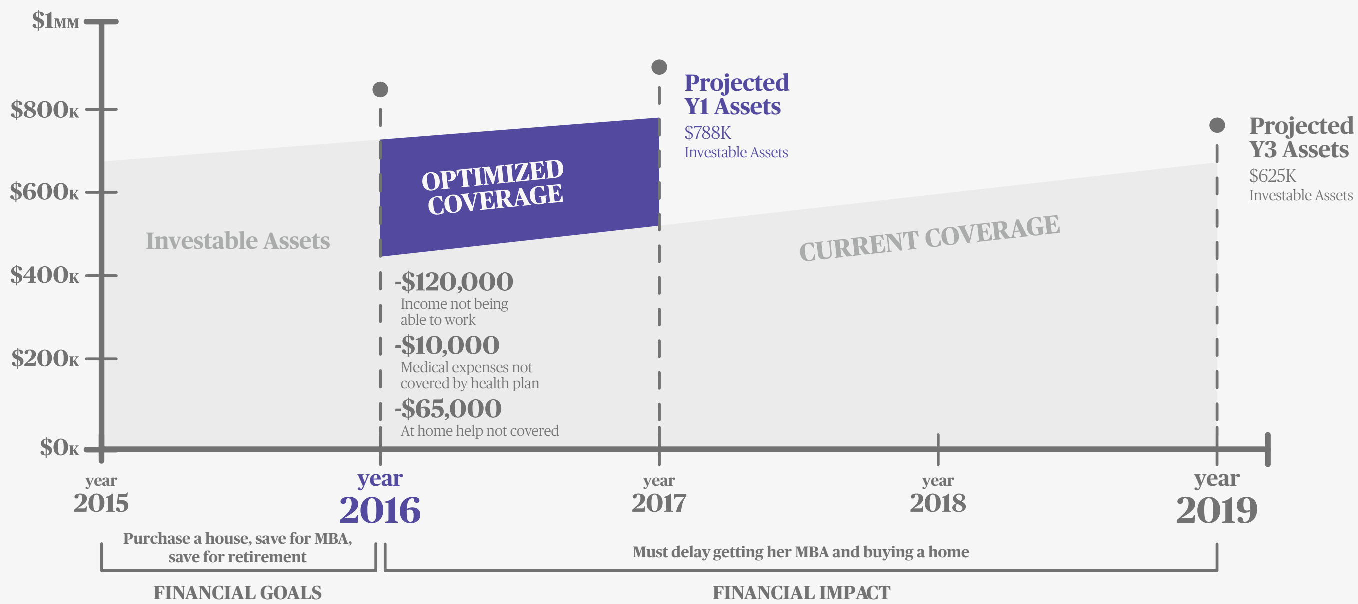
As you can see, optimized coverage helped Rick and Sue avoid near bankruptcy and maintain their college and retirement funds, all for an additional annual cost of $460. Without it, it takes them 12 years to recover the college savings for their twins that they had to liquidate.

2. FAs stand to directly benefit by providing advice regarding personal P&C insurance to their clients

Sonja is single and in her early 30s, living in a rental apartment in downtown Seattle. She loves to drive her new car to nearby national parks to escape the city. She hopes to grow her retirement savings, buy a house, and save enough to go back to school for an MBA. However, she gets in an accident with a driver who has no insurance...

Car accident and injury puts her life on hold for 3 years

Sonja gets into an accident with a driver who had no insurance. Her new $50k car was totaled, and Sonja is seriously injured and cannot work for a year, losing $120k income. Her medical expenses of $600k were mostly covered by her health plan, but she was still left with a $10k bill.



Assumptions: 0% equity growth
Current Coverage: limited auto insurance with no uninsurance/underinsurance and no umbrella insurance.
Optimized Coverage: Auto insurance with Agreed Value and a $1MM umbrella that includes coverage for uninsured/underinsured motorist.

As you can see, optimized coverage helped Sonja recover with minimal disruption to her financial health, allowing her to avoid delaying her MBA by three years. She can hold onto her rapidly appreciating shares, afford to go back to school and get her MBA, and buy a home. This optimized protection costs her an additional $570 annually.

As these situations illustrate, optimized P&C coverage can have a dramatically protective effect on a client's net worth, helping financially successful individuals and families better manage their risks and stay on track with their financial goals.

Given the fact that individual financial advisors are only managing around two thirds of their clients' total wealth, there is a clear opportunity for advisors to deepen their relationships

2.2 Other Benefits for Financial Advisors to discuss P&C insurance with their clients

Obviously, the most important thing is that clients are able to realize their financial planning objectives. However, there are additional benefits for financial advisors.

We suggest that financial advisors regularly dedicate some of their time to P&C insurance. That's because, by protecting their clients' P&C risks, they can significantly grow and win more business by:

- **Deepening their client relationships and increasing client and asset retention** by providing them a more holistic service, which can drive a larger share of wallet and greater longevity in investments.
- **Accessing new networks of clients** through productive relationships with personal P&C agents and brokers.
- **Better differentiating** their value proposition in the marketplace.

Deepening their relationships with their financially successful clients

Clients are expressing a profound desire for their financial advisors to manage their entire financial picture comprehensively[xix]; FAs that provide more holistic support could significantly deepen their client relationships.

Many successful families seek out more than one wealth manager, with about 40% of them working with more than one firm [xx]. This may be because their needs are not being met by any one advisor. This is particularly pronounced with wealthier families, where approximately 60% work with more than one advisor [xxi]. As a result, only around 60% of a successful family's financial assets are managed by their primary wealth manager [xxii]. **Given the fact that individual financial advisors are only managing around two-thirds of their clients' total wealth, there is a clear opportunity for advisors to deepen their relationships with their clients**. Based on the analysis that we conducted, we suggest that financial advisors take advantage of this opportunity by providing support for their clients' P&C risks.

We measured the impact that providing P&C support would have on the depth of a financial advisor's client relationships:

- **Enhanced Satisfaction:** Clients would be more satisfied with their financial advisor.
- **Greater Share of Wallet:** Clients would increase the amount of money they invest with that advisor.
- **Improved Longevity:** They would lengthen the period of time they kept their investments with that advisor.
- **Increased Likelihood to Recommend:** They would be more inclined to recommend that advisor to their friends and family, thus increasing stickiness.

2. FAs stand to directly benefit by providing advice regarding personal P&C insurance to their clients

Large proportions of successful families report increases in the depth of their relationships with their advisors across all four dimensions, ranging from 30-50% of those surveyed.

Figure 7. *Impact of providing P&C support to the depth of the relationship between financial advisors and their successful clients*

46%	27%	41%	49%
Enhanced satisfaction	Greater share of wallet	Improved longevity	Increased likelihood to recommend

In addition, by spending time fully understanding their clients' financial picture, FAs have an opportunity to provide broader value to their clients' families. For example, they can help their clients' children, who may benefit from a proactive understanding of their own risks and exposures.

Accessing new networks of clients by building productive relationships with personal P&C insurance brokers

Financial advisors have an opportunity to develop a productive and reciprocal relationship with P&C personal insurance brokers.

Referrals represent one of the most important ways for financial advisors to grow new business, with some studies indicating that clients who come to advisors through referrals are more loyal (less likely to switch) and more likely to recommend their advisor to others [xxiv].

Conventionally, financial advisors have relationships with typical centers of influence (COIs), including CPAs and trust and estate attorneys who can be reliable sources of professional referrals. Some have relationships with life insurers or life insurance brokers, especially those advisors that are licensed to sell fixed or variable annuities to support retirement goals.

2. FAs stand to directly benefit by providing advice regarding personal P&C insurance to their clients

Advisors who expand their COI group to include personal P&C insurance agents and brokers may receive access to otherwise untapped networks of clients and more diverse sets of professional COIs, including real estate brokers, art advisors, and other attorneys (e.g. workers compensation). Many financial advisors lack relationships with these more diverse sets of COIs today - while 94% have relationships with trust and estate attorneys, only 42% have relationships with real estate brokers, 16% with art advisors, and 13% with workers compensation attorneys [xxv].

Referral relationships between financial advisors and personal P&C insurance agents and brokers are not very common, with only 37% of the financial advisors we surveyed reporting having them [xxvi]. That said, when those relationships are established, and trust is built, they can be very productive, with 18% of advisors indicating they receive more than five client referrals from these brokers per year [xxvii], as shown below.

94%

of P&C financial advisors have relationships with trust and estate attorneys

42%

of P&C financial advisors have relationships with real estate brokers

16%

of P&C financial advisors have relationships with art advisors

13%

of P&C financial advisors have relationships with workers compensation attorneys

2. FAs stand to directly benefit by providing advice regarding personal P&C insurance to their clients

"I often make connections with wealth managers, especially when my clients are switching wealth managers or they are actively looking for one."

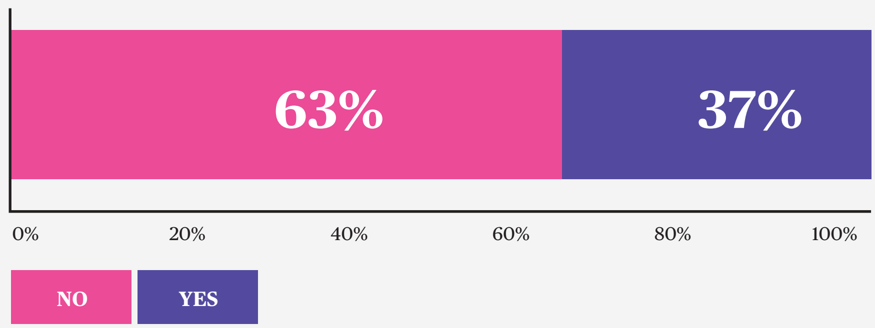
-Independent Personal P&C Broker

Personal P&C insurance brokers are very open to developing these relationships as they view FAs as an important referral channel for their own business.

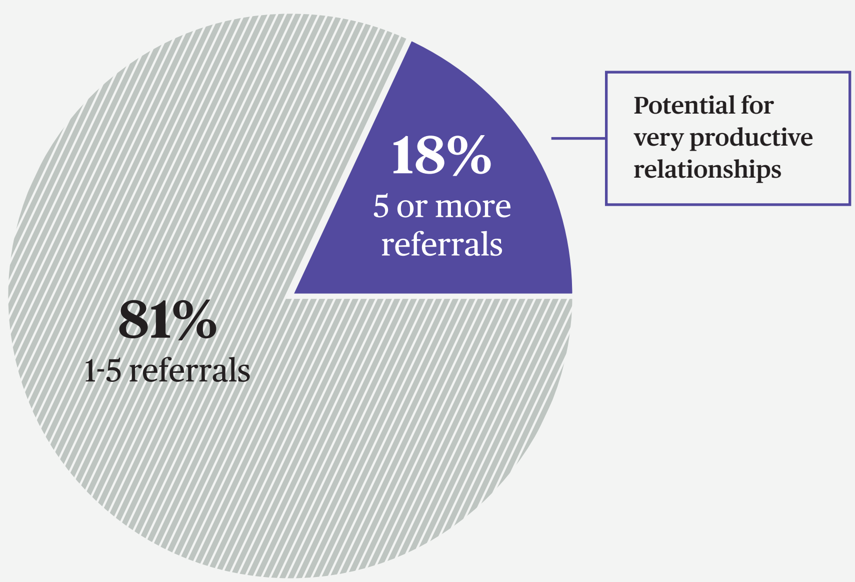
Moreover, they view the relationship as bilateral and refer their clients to financial advisors in order to provide comprehensive value to their clients.

Figure 8. *Frequency and productivity of FA-P&C agent and broker relationships*

Frequency: Do you receive referrals from personal P&C insurance agents and brokers?



Productivity: How many referrals do you receive per year from P&C agents and brokers?



2. FAs stand to directly benefit by providing advice regarding personal P&C insurance to their clients

Nearly
40%
of successful families and individuals surveyed indicated that they would consider switching to an advisor that offered P&C support.

Better competitive positioning and market differentiation

Financial advisors are facing an increasingly competitive landscape, compounded by a demand by clients for additional advice and services.

55% of financial advisors indicate that one of the strongest pressures they face in the wealth management industry today is a demand to provide more advice and services.

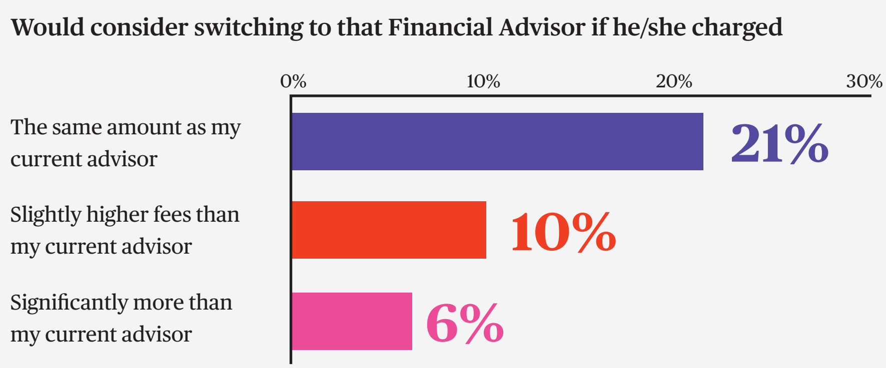
Given this, providing support for P&C insurance offers a powerful differentiation tool, which could be used to deepen relationships with their clients as discussed in Section 2.2, and potentially steal share from their competitors. The propensity for financial advisors to win against their competitors can be measured by understanding the likelihood that successful families will switch to an advisor that offers support for their P&C insurance needs, as shown below.

Nearly 40% of successful families and individuals surveyed indicated they would consider switching to an advisor that offered P&C support. Of those, 16% would switch, even if they charged additional fees. Overall, offering holistic service, including support for P&C insurance, can be a winning strategy for financial advisors.

"A lot of our clients come to us from wealth managers. A lot of our business is driven that way."

-Independent Personal P&C Broker

Figure 9. *Likelihood to switch financial advisors it they offered P&C support*[xxxi]



3.

Playbook: Exactly how financial advisors can help successful individuals with their insurance needs

3. How financial advisors can help clients with their insurance needs

Financial advisors can be most effective in providing this support to their clients through a multistep process:

Understand and educate

- **Research and familiarize** yourself with the common ways insurance may be inadequate for your clients
- **Understand the players** in the personal P&C insurance space, how they are different, and what value they provide to different types of clients
- **Know** that as a trusted advisor for your clients, you are paving the way for a smoother process and increasing the likelihood that your clients will secure proper coverage

Proactively identify

- **Make risk management a focal point** for your annual financial planning meetings or investment discussions
- **Apply what you know** about the ways insurance may be inadequate to your clients' unique situation, determine if there may be any risks or gaps

Broaden your relationships

- **Seek out a broad variety** of P&C insurance partner contacts, including brokers and insurance companies
- **Evaluate** which contacts provide the service you expect for your clients, then select the ones you trust

Select partners and make introductions

- **Depending on the specific areas** your clients may need assistance, select the appropriate partners
- **Make seamless introductions** between your clients and your trusted partners

Follow-up often

- **Ensure that your clients received** the P&C protection they need
- **Incorporate an annual review** of exposures with your clients, to understand what about their P&C risks may have changed
- **As your clients' financial picture changes or evolves,** stay on top of potential risks that emerge and opportunities that present themselves

Summary

As financial advisors in the wealth management industry face extreme competition, fee compression and compliance challenges, they may be wise to embrace a holistic approach to their clients' needs. One way to do this is by including property and casualty discussions and risk management techniques in their client conversations. By understanding their successful clients' P&C risks, FAs can grow their businesses and solidify their client relationships by helping their clients safeguard their assets and achieve their financial objectives. While we don't suggest that FAs become P&C experts, we recommend that they:

- **Educate themselves about P&C coverage** and how their successful clients may be inadequately protected.
- **Connect with a network of P&C agents** who can provide them with referrals and can help their clients with specific P&C insurance needs.
- **Follow-up with their clients** throughout their lives to ensure that as their needs change, they stay fully protected.

For additional information, materials and background please visit

www.chubb.com/financialadvisor

About Oliver Wyman

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across nearly 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has more than 4,700 professionals around the world who help clients optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC], the world's leading professional services firm in the areas of risk, strategy and people. Marsh is a leader in insurance broking and risk management; Guy Carpenter is a leader in providing risk and reinsurance intermediary services; Mercer is a leader in health, wealth and career consulting; and Oliver Wyman is a leader in management consulting. With annual revenue of more than $13 billion and more than 60,000 colleagues worldwide, Marsh & McLennan Companies provides analysis, advice and transactional capabilities to clients in more than 130 countries. The Company is committed to being a responsible corporate citizen and making a positive impact in the communities in which it operates. Visit www.mmc.com for more information and follow us on LinkedIn and Twitter @MMC_Global.

Survey details

- 200 successful individuals and families were surveyed across the United States with representation across age, geography and value of financial assets.
- 200 financial advisors who serve clients who are financially successful were surveyed, with representation across accreditation type, size of asset books, and type and size of institution.
- These surveys were supplemented with in-depth interviews with a subset of those surveyed.

Appendix

[i] Moody's. Asset Managers -- Global: 2017 Outlook -- Active Managers' Struggles Underpin Negative Outlook. New York, New York: Moody's 2016. Electronic.

[ii] Accenture-Wealth-Management-Rise-of-Robo-Advice.pdf

[iii] Oliver Wyman analysis: 85% of respondents report "4" or "5" on a scale of 1-5 when asked how important it is that their financial advisor be fully aware of their entire financial picture, i.e. be their quarterback for financial matters.

[iv] Capgemini. United States Wealth Report 2015. New York, New York: Capgemini 2016. Electronic

[v] Top bar represents % of successful family respondents who report "a lot" or "somewhat" when asked whether they would want their financial advisor to help them identify if they are underprotected (or overpaying) for insurance and to right-set their insurance. Bottom bar represents % of financial advisor respondents who report they currently spend any time (>0%) providing advice to their high net worth clients regarding their personal P&C insurance

[vi] Oliver Wyman analysis: Score assigned based on responses to following survey questions: "Which of the following insurance products do you own personally?"," What level of coverage do you have for each of the following products?", "Please indicate your estimated total losses over the last ten years in each of the following areas", "Please estimate the percentage of your losses in each of the following areas for which you were entirely uninsured", "Please estimate the percentage of your losses in each of the following areas for which you were entirely uninsured"

[vii] Oliver Wyman analysis: Percent of respondents who indicated ownership of this insurance product when asked "Which of the following insurance products do you own personally?" and options of each of these products, divided by number of respondents 'at risk' measured by the number of respondents who indicated exposure when asked "Please indicate which of the following statements are true" (possible options include: "I own one or more house(s)", "I own one or more cars" or when asked about location of assets e.g., "Please indicate how many of your homes are located in earthquake prone areas"

[viii] Oliver Wyman analysis: When asked if respondents had been sued, and if so what the magnitude of the judgment was over the last ten years

[ix] Oliver Wyman analysis: Respondents reported which insurance companies they currently have insurance with across their areas of risk.

[x] Oliver Wyman analysis: Respondents reported whether they have had (and if they

had, the frequency of) professional assessments to determine the fair market value of their possessions, reporting less than every five years, reporting never but that they do it themselves, and reporting never and they do not know the fair value of their possessions

[xi] Chubb Personal Risk Services. Wealth at Risk: How High Net Worth Families Overpay to be Underinsured. Warren Township, NY: Chubb. 2012. Electronic.

[xii] Oliver Wyman interview. "High Net Worth Marketing Research." 1 Aug. 2017. Confidential personal P&C insurance broker.

[xiii] Oliver Wyman analysis: Respondents indicating that they "often do not file a claim for minor accidents to avoid having it impact their premium" and respondents indicating they "select the plans with the lowest, or relatively low deductibles (e.g. $1000 for [their] homeowners insurance)" when asked which behaviors they demonstrate from of a list of common behaviors.

[xiv] Oliver Wyman interview. "High Net Worth Marketing Research." 1 Aug. 2017. Confidential personal P&C insurance broker.

[xv] Chubb Personal Risk Services. Wealth at Risk: How High Net Worth Families Overpay to be Underinsured. Warren Township, NY: Chubb. 2012. Electronic.

[xvi] Chubb Personal Risk Services. Wealth at Risk: How High Net Worth Families Overpay to be Underinsured. Warren Township, NY: Chubb. 2012. Electronic.

[xvii] Chubb Personal Risk Services. Wealth at Risk: How High Net Worth Families Overpay to be Underinsured. Warren Township, NY: Chubb. 2012. Electronic.

[xviii] Oliver Wyman interview. "Financial Advisor P&C Insurance Research." Confidential financial advisor.

[xix] Oliver Wyman analysis: 85% of respondents report "4" or "5" on a scale of 1-5 when asked how important it is that their financial advisor be fully aware of their entire financial picture, i.e. be their quarterback for financial matters.

[xx] Capgemini. United States Wealth Report 2015. New York, New York: Capgemini 2016. Electronic

[xxi] Capgemini. United States Wealth Report 2015. New York, New York: Capgemini 2016. Electronic

[xxii] Capgemini. United States Wealth Report 2015. New York, New York: Capgemini 2016. Electronic

[xxiii] Oliver Wyman analysis: Percent of respondents reporting "4" or "5" on a scale of 1-5

when asked how much impact would it have if their financial advisor “began offering you specific advice on how to best use your personal insurance to protect yourself from risk” on “the amount of money [they] invest with that advisor”, “[their] overall satisfaction with that advisor”, “the length of time [they] keep [their] money with that Advisor”, “[their] likelihood to recommend that advisor to [their] friends, family or colleagues”

[xxiv] https://advisors.vanguard.com/VGApp/iip/site/advisor/researchcommentary/article/IWE_InvCommAdvised2

[xxv] Oliver Wyman analysis: Percent of respondents who indicated categories of professional individuals when asked “Which of the following professionals would [they] consider having in [their] current ‘network’ for sourcing leads / referrals for new clients”

[xxvi] Oliver Wyman analysis: Percent of respondents that answered “yes” when asked if “[they] ever receive referrals for client prospects from personal insurance brokers”, immediately after being asked if they refer their clients to brokers to help them secure adequate P&C protection

[xxvii] Oliver Wyman analysis: Percent of respondents that answered “6-10”, “11-20”, “21+” when asked “how many referrals for client prospects do [they] receive from personal insurance brokers per year (on average)”, immediately after being asked if they refer their clients to brokers to help them secure adequate P&C protection

[xxviii] Oliver Wyman analysis: Percent of respondents answering if “[they] ever receive referrals for client prospects from personal insurance brokers” (yes/no), and “how many referrals for client prospects do [they] receive from personal insurance brokers per year (on average)” (multiple choice)

[xxix] Oliver Wyman interview. “High Net Worth Marketing Research.” Confidential personal P&C insurance broker. 1 Aug. 2017.

[xxx] Ibid.

[xxxi] Oliver Wyman analysis: Percent of respondents indicating “I would consider switching to that Financial Advisor if he/she charged the same amount as my current advice”, “I would consider switching to that Financial Advisor even if he/she charged slightly higher fees than my current advisor”, “I would consider switching to that Financial Advisor even if he/she charged significantly more than my current advisor” when asked if their “financial advisor began offering [them] specific advice on how to best use [their] personal insurance to protect [themselves] from risk”

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Chubb commissioned Oliver Wyman to assess how high net worth individuals (HNWIs) may be buying property and casualty (P&C) insurance sub-optimally, and how their financial advisers could potentially help them get the right coverage. Oliver Wyman also analyzed whether doing so is in the interests of financial advisers. Oliver Wyman surveyed a random sample of consumers and financial advisers selected based on characteristics described in the report. The analysis of such survey data and the findings described in the report were developed independently by Oliver Wyman. This study is intended to be directional and is not meant to be a projection or prediction of future results. The primary audience for this report includes financial advisers, insurance brokers, and carriers. This report is not insurance or investment advice and should not be relied on for such advice or as a substitute for consultation with professionals, including accountants, tax, legal, insurance or financial advisors