MarshMcLennan Agency

Private Client Services

Family Office Benchmarking Study 2021

We are here to help you make extraordinary possible.

Contents

Introduction

Dear Reader,

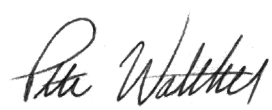
Perhaps more than any year in recent memory, 2020 was hard on families and challenged society on a number of levels. Risks and uncertainty that emerged from a global pandemic, another record year for natural disasters and widespread social unrest forced lifestyle changes upon many, including both families and businesses.

Helping family offices and wealthy families confidently manage risk and uncertainty has been a mission for Marsh McLennan Agency Private Client Services (PCS) for more than 40 years. We recognize our clients have diverse challenges, and we are committed to being a strong partner in helping them identify and value risk, define their tolerance for risk and establish strategies to efficiently, and effectively manage their risk. As the Family Office Benchmarking Study 2021 demonstrates, families are aware that their risks are changing and, for a majority of them, growing and becoming more complex.

Our survey also shows family offices and affluent families are concerned about highly unpredictable threats – including natural disasters, cyber risks, and personal liability. In an era when uncertainty seems to be everywhere, our clients need assurance to protect their families, reach their goals, pursue their passions and safeguard their legacies.

2020 proved more than ever the importance of thinking ahead with thoughtful crisis and emergency plans. Combining these with appropriate risk mitigation and insurance protection strategies, MMA PCS clients can actively manage their risk and move confidently into the future.

It is our privilege to stand with our clients as a trusted risk advisor, utilizing global expertise, knowledge, and data to provide insights that help family offices and the families they serve to cope with whatever challenges may lie ahead.



Pete Walther
President
Marsh McLennan Agency Private Client Services

Executive summary

2020 was a year of diverse risks for family offices and families. The year was marked by a global pandemic, a record number of named storms, catastrophic wildfires, and ongoing threats to people and property from other perils, including cyber risks. When "unprecedented" is the new norm, a key takeaway is a heightened need for thoughtful risk management as families adapt to the changing risk landscape and adjust their way of life accordingly.

About the report

This report is the third Benchmarking Study of Marsh McLennan Agency Private Client Services (PCS) family office clients' risk management and insurance practices. We first published a Benchmarking Study based on family office insurance programs in early 2016, which received great interest from clients. In 2018, we expanded the scope of the second report with additional data and an extensive survey of clients to gain a first-person perspective. The 2021 Family Office Benchmarking Study includes a broader sample of family offices and high-net-worth families.

Client sample

For this year's Study, MMA PCS conducted an in-depth analysis of the insurance programs, practices, and claims experience of nearly 100 clients who:

- Have insurance programs with an average of more than $500,000 in annual premium, and
- Are a multi-generational family with an established family office structure dedicated to supporting the family members and their activities (67%); or
- Are a single family with large or complex insurance programs who do not have a formal family office (33%).

Clients received an in-depth survey to assess their risk concerns and future priorities, which highlight the expanding nature of their exposures and underscore the need for continued education, advice, and consultation from trusted advisors.

When "unprecedented" is the new norm, there is a heightened need for thoughtful risk management.

Overarching themes

Families surveyed for the 2021 Benchmarking Study generally expressed a growing awareness of risk. MMA PCS gathered the data from April through August 2020, a time when the global COVID-19 pandemic was surging, prompting significant changes in work routines and lifestyles.

69% of families reported their personal risks had increased in the past three to five years.

58% believe their risks will be greater or much greater in the next three to five years.

Specific risk concerns for families surveyed include:

- Property risks, cited by 93% as an area of concern
- Personal liability, 91%
- Natural disaster, 89%
- Cyber risks, 87%
- Financial fraud and identity theft, 84%.

The Study data also suggested families have a good understanding of basic risk management, with:

100% of families carrying personal excess liability coverage, a critical component of any risk or wealth management plan.

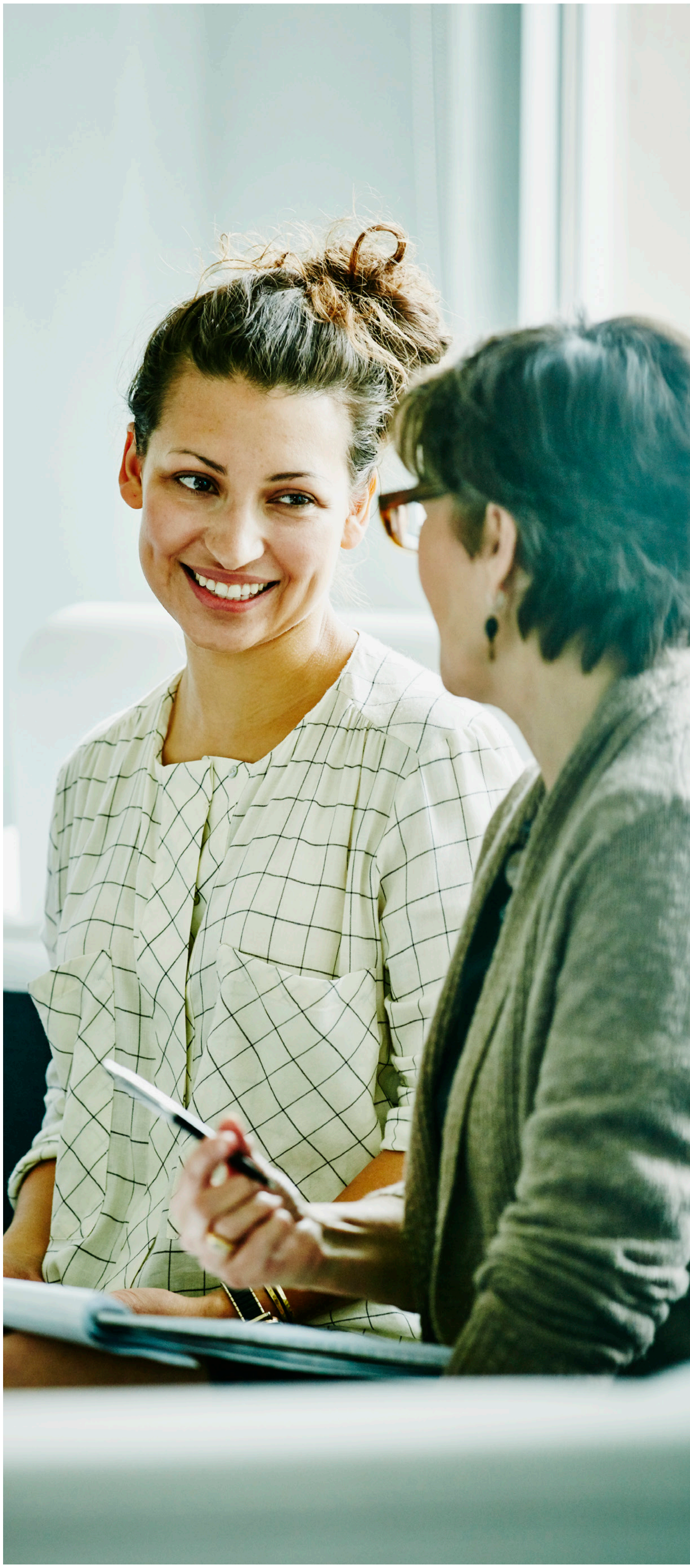
80% carrying primary flood coverage, representing an understanding of the vast risk of both coastal and inland flood losses.

57% carrying excess flood insurance, which provides beneficial additional protection beyond foundational primary flood coverage.

52% carrying equipment breakdown coverage, which is becoming increasingly relevant as more homes are incorporating the latest technology.

In other exposure areas, however, families can improve their utilization of insurance protection. For example, nearly three-quarters of families surveyed have domestic employees, yet only 77% of these purchase workers' compensation, which is generally a state-mandated coverage, and only 59% purchase employment practices liability insurance.

Data in our 2021 Family Office Benchmarking Study shows an ongoing need for clients to have sound advice from specialized risk advisors with experience in the complexity, administration, and needs of family offices and wealthy families.



The changing face of risk

Trends

2020 was a record year for risks, marked by a global pandemic, social unrest, a tense US election season, the most active Atlantic hurricane season ever , and a further escalation of devastating wildfires. In fact, while COVID-19 and the presidential election season dominated the news, the US also had another record-breaking year for natural disasters with 22 separate billion-dollar weather and climate events.[1]

In 2020, there were 22 separate *billion-dollar* weather and climate related disasters in the United States.

The increase in frequency and severity of natural catastrophes (CAT) have lead carriers to rethink capital deployment and pull back from geographies that are expected to provide returns below their cost of capital. This translates into pronounced rate increases and less coverage availability for families trying to secure insurance for properties in high-risk areas.

All of these events occurred as families and their family offices also faced continuous threats of cyber, personal liability, and non-catastrophe property risks. More than two-thirds of families surveyed (69%) reported their personal risk exposure over the past three to five years was greater or much greater. While more than half, 58%, expect their exposure to be greater or much greater in the next three to five years. Only 3% indicated they expect to have less risk exposure in that timeframe.

While just over half of families (51%) consider their family office structures to be generally stable, 13% anticipate changes in the family office, and 21% see new risks emerging that they need to address.

More than two-thirds of families surveyed, 67%, were multi-generational and relied on an established family office structure that is dedicated to supporting family members, while 33% were individual families that do not have a formal family office. Among both types of families, an increasing number employ financial staff to manage their financial activities. In the 2021 survey, 91% reported employing financial staff, compared with 80% in 2018.

While respondents felt generally prepared for the majority of their potential exposures, they identified a few potential challenges in delivering risk management solutions to meet their family members' needs. These challenges included:

- Anticipating areas of emerging exposure (30%)
- Family dynamics (21%)
- Information and data management (18%)
- Changing personal risk profiles (18%)
- Their extent of business risk exposures (12%)

Amid the overarching trend of increasing risks, an overwhelming percentage of families, 95%, expect they will require at least the same or a greater level of support from their family office and/or management.

Pandemic

The coronavirus pandemic has had a major impact on individuals and businesses worldwide, forcing millions of people to alter their lifestyles and work from home to limit infection. As noted in the Global Risks Report 2021, published by the World Economic Forum with support from Marsh McLennan, on a broad scale, the human and economic costs of COVID-19 threaten years of progress, and are worsening political fragmentation, social unrest, and geopolitical tensions.[2] For families and their businesses, COVID-19 introduced new challenges, including heightened exposures to health, financial, and security risks.

As of January 25, 2021 there were nearly 99 million cases of COVID-19 and more than 2.1 million deaths around the world.[3] In the United States, the Centers for Disease Control and Prevention reported nearly 25 million cases and more than 415,000 deaths due to the coronavirus.[4]

As COVID-19 cases continue to rise, and state and local governments impose or re-impose restrictions, families are faced with many seemingly endless – and constantly shifting – questions to consider. From concerns regarding children safely returning to school, to physical and cyber security measures while working from home, to interactions with domestic employees, to the potential for travel and quarantine, all questions require careful deliberation and a clear view of the potential risks to families.

Among MMA PCS clients, pandemic risks have been a frequent topic of conversation. Some common questions from family offices include how to carry out day-to-day administrative functions for families, such as notarizing documents, manage staff working from home, cope with cyber risks, and plan their return to work.

The 2021 Benchmarking Study found that the percentage of families with domestic employees working inside and outside their homes fell slightly, perhaps as a result of the pandemic. For example, of the families who employ domestic staff, 97% reported having inside domestic employees, down from 99% in 2018. And the percentage with employees in outdoor responsibilities fell to 62% from 69%. Another domestic employee trend was a significant shift to part-time hours from full-time status.

Lessons from the pandemic include the need for families to be intentional about crisis planning and personal risk management to ensure health, safety, and security. Further, as families are making changes to their lifestyle and living situations, sometimes even seemingly small shifts can undermine the otherwise sound risk strategies in place. A holistic approach to family risk management can identify unseen exposures and develop effective solutions.

Crisis and emergency planning

While families can purchase insurance to protect from financial loss in the event of many risks, some events are so ambiguous and complex, additional measures of preparedness are necessary.

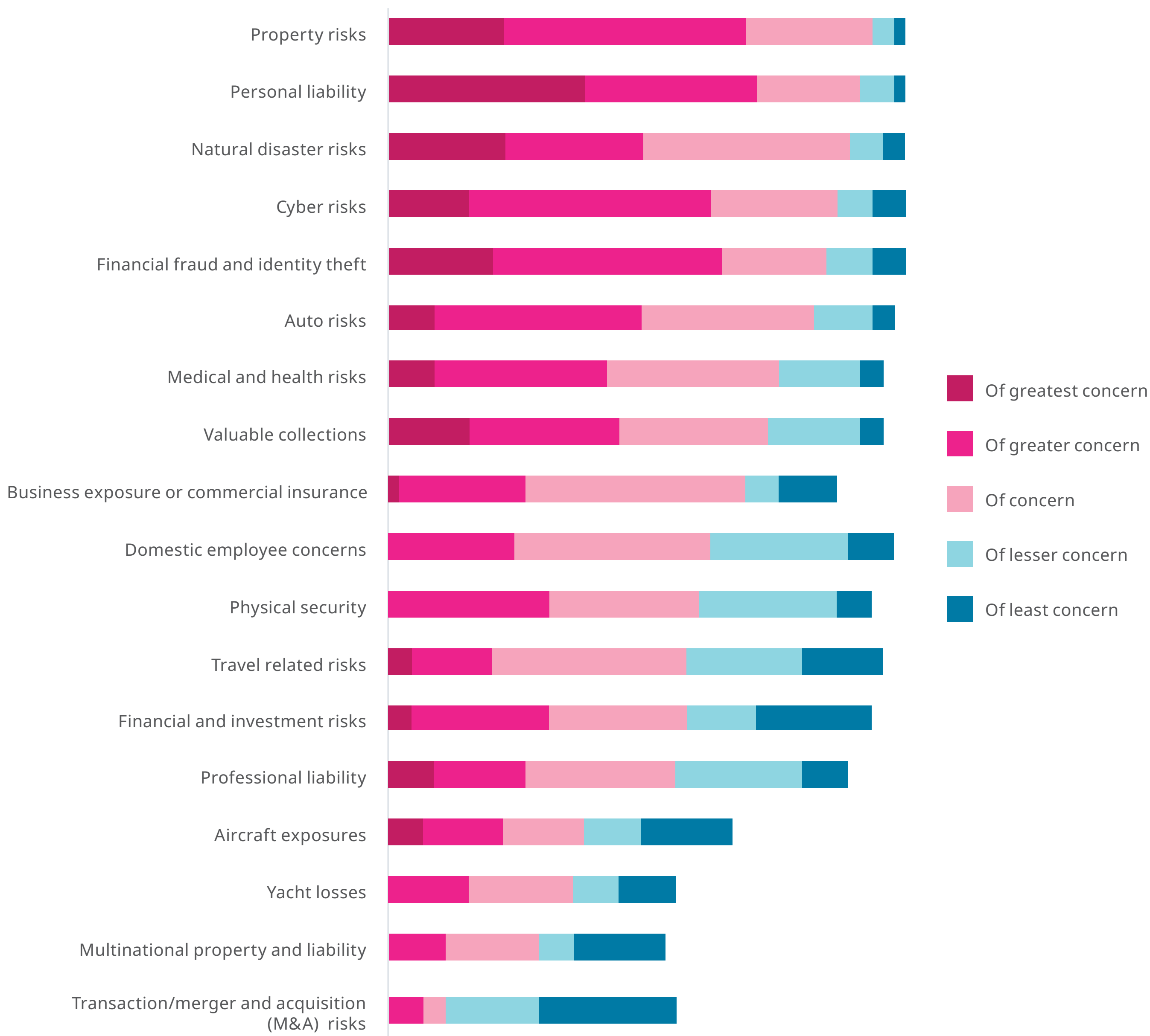
This was especially true in 2020 when the COVID-19 pandemic emphasized the critical importance of crisis management and emergency planning. When countries across the globe started closing their borders due to the virus, many family members who were traveling at the time were faced with new challenges. Families who had evacuation and travel communications protocols in place were able to return home and confirm the safety of loved ones with greater efficiency. Others who lacked a plan were separated from their loved ones for extended periods of time without their traditional support networks.

Creating a plan for when an emergency occurs provides families structure and reassurance when it is needed most and positions them to mitigate risk and alleviate the stress associated with such events. MMA PCS offers clients access to resources to help with crisis and disaster planning. These firms can help families design plans that they can implement in the event of an emergency – such as a cyber breach, hurricane or earthquake, security situation, medical event, or even a civil disturbance – and help ensure the family stays in touch, knows where to meet, and what steps to take.

Key areas of concern

In addition to risk issues relating to the pandemic, families cited several other areas of particular concern. Recurring and somewhat overlapping areas of concern include general property risks and personal liability risk, which were the two highest areas of concern, followed closely by natural disasters, cyber risks, and financial fraud and identity theft. Notably, the risks associated with natural disasters and cyber losses, which were the top two most concerning areas in our previous Study, remain in the top five concerns for families in our 2021 Study. Yet, these are the two areas in which families feel least prepared, as indicated by 31% and 23%, respectively, of respondents.

Future risk areas of concern



Property risks

Several factors are influencing families' concerns about property risks. The record breaking hurricane and wildfire seasons over the past several years have produced what is referred to as a 'hard' market in states like Florida and California. Unprofitable loss ratios on homeowners coverage have influenced how carriers are underwriting risks in the most exposed states. Some insurers have announced significant rate increases in order to offset the higher losses. Other insurers are also exercising their option to non-renew or cancel policies on homes if permitted to do so under state regulations. This has led to families facing difficulties securing coverage in high-risk states, and when coverage is secured, it is often at substantially higher premiums and with more limited coverage.

Another concern is the acquisition of new homes and the exposures those represent. According to the National Association of Realtors (NAR), existing-home sales soared in 2020, partly due to a surge in buyers of vacation homes during the coronavirus pandemic. NAR data shows that, in October, sales of homes valued at more than $1 million doubled from the same period in 2019, and homes valued at $500,000 or more accounted for 22% of nationwide existing-home sales. Regionally, most of the home sales occurred in the South and Midwest, which are exposed to severe weather, flooding, and other perils.[5]

Given the dynamic capacity and pricing environment in areas insurers have identified as high-risk, buyers should contact their insurance advisors in advance of executing a purchase and sale agreement to better understand potential insurability risk for the subject property. Many buyers are also including insurance contingencies in their offers to protect them in the event insurance is not available to them at all or at a substantially higher cost as the new owner. Insurance policies cannot be transferred from one owner to another.

Therefore, the home will need to qualify based on current day underwriting guidelines and pricing, which have dramatically increased in some areas due to the hard market. Many carriers are using this transaction as an opportunity to limit their allocation of risk in certain high-risk areas by no longer offering coverage at all after a sale occurs.

Unique to 2020, a final factor that may be contributing to property concerns is the increased amount of time people spent in their homes.

As the pandemic drove everyone indoors, homeowners dedicated more time and dollars to improvements, maintenance, and repair projects, spending nearly 45% more on home projects than the prior year.[6]

Personal liability

In the United States, social inflation is making multimillion-dollar lawsuits, including judgments in the tens of millions, more common than ever before. A trend in “nuclear verdicts” shows that attitudes by plaintiffs and jurors are changing, increasing liability risks for many individuals, including affluent families and family offices.

Data compiled by MMA PCS show that sudden and accidental events can lead to liability, such as: an $11.3 million settlement of a lawsuit alleging internet defamation, a $5.9 million settlement from an accident involving a horse at a stable, and a $20 million settlement of a wrongful death lawsuit after an all-terrain vehicle accident.[7]

Natural disasters

For the first time since 2005, the National Oceanic and Atmospheric Administration surpassed its initial list of English alphabet names for Atlantic tropical storms and had to move into Greek-letter names.

A record 30 named storms formed in 2020 as of November 30, the traditional end of hurricane season. Of those storms, 13 became hurricanes, 12 made landfall in the continental United States,[8] and 7 caused more than $1 billion in damage.[1] Other significant natural disaster activity in 2020 included a record-breaking wildfire season burning more than 10.2 million acres.

California had five of its six largest wildfires fires in nearly 90 years and lost a total of 4.2 million acres, the most in a single year since the state began keeping records, and more than the last three years combined.[1] Additionally, Colorado's three largest wildfires occurred in 2020 and burned in excess of 600,000 acres.[9] These events will continue to affect insurance markets into 2021 and beyond.

Cyber

A disturbing development in cyberattacks is the increasing frequency and severity of ransomware attacks, in which cyber criminals encrypt data and deny victims access to it unless a ransom is paid. As cyber criminals recognize the fundamental value of data access to corporate entities and individuals, their ransom demands are rising. With more than 90% of ransomware attacks the result of someone inside an organization clicking a fraudulent link,[10] family offices, which handle sensitive family information daily, must take precautions to safeguard both the data itself and their access to it.

Financial fraud and identity theft

As global wealth grows and families expand, family offices must remain wary of the risk of financial fraud and identity theft. In 2019, the Federal Bureau of Investigation's Internet Crime Complaint Center (IC3) received a total of 467,361 complaints, with reported losses of more than $3.5 billion. That represented a 33% increase in complaints and a 30% rise in losses from 2018. IC3 data by complaint type showed many involve financial fraud, including non-payment, extortion, business and executive email compromise, credit card fraud, as well as identity theft.[11]

Key areas of concern

93%

cited property risks as a concern

91%

cited personal liability risks as a concern

89%

cited natural disasters as a concern

87%

cited cyber risks as a concern

84%

cited financial fraud and identity theft as a concern

Insurance benchmarking data

Family insurance standards

Among families surveyed, 42% use family insurance standards in their risk management programs. Standards are helpful in preventing coverage gaps and managing the expectations of family members. Whether formal – that is, in writing – or informal, family insurance standards provide the opportunity for family members to participate in choosing minimum coverage requirements and for new households to acquire knowledge of the insurance program.

Establishing minimum standards is an effective way to structure the family insurance program. For example, common standards include:

- All family members must carry a specific minimum amount of liability coverage.
- All homes must have primary flood coverage.
- All homes above a specific value must carry a certain deductible.
- All family members have a minimum level of coverage for fine arts, jewelry, and other collectibles.
- All family members need to obtain loss estimates before submitting property insurance claims.
- Defined age that younger generation (G3 and G4) family members must transition to their own insurance program.

In the 2021 Benchmarking Study, among families utilizing insurance standards:

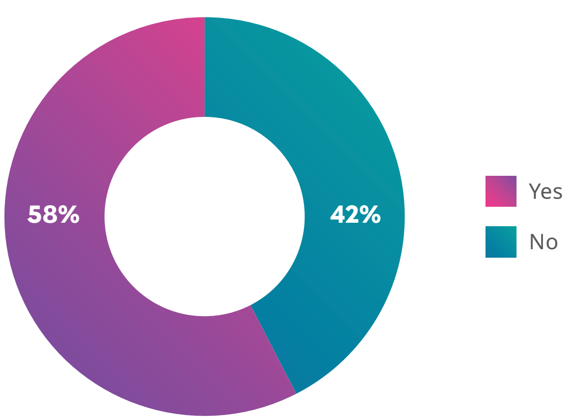
93% have standards specific to coverage limits.

62% have standards specific to each generation of their family.

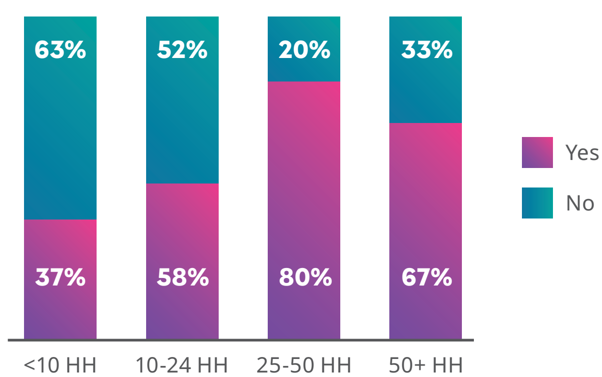
21% are formal standards in writing.

Family insurance standards offer numerous advantages, including maximizing coverage savings, customizing protection for the differing needs of family members, greater engagement in the family's insurance and risk management program and more active dialogue specific to risk behaviors.

Does the family use insurance standards?



Insurance standards by household



Management liability and professional liability

Many MMA PCS family office clients choose to protect themselves and their executives through specialized management liability policies, incorporating directors and officers (D&O) and professional liability or errors and omissions (E&O) liability coverage, among others. One reason for this is the increasing sophistication in their capabilities or evolution in the services they deliver to families.

The type and amount of management liability protection selected vary widely between family offices based on volume and composition of assets, the types of services provided, the diversity of family member clients, as well as the level of desired risk retention, or deductible. Data from this year's Study shows that family offices have chosen limits ranging from $1 million to$60 million, with averages ranging from $3.7 million to $7.6 million. Most families chose to maintain a deductible, or self-insured retention, of 2% to 4% of policy limits. D&O and E&O coverage, limits, and retentions can be customized to meet the specific needs of each family office.

One factor behind the growing interest in these coverages is generational succession after a family's matriarch or patriarch passes away and family offices' focus on fiduciary responsibilities to surviving family members. Two emerging trends are increasing liability risks for family offices:

- **Involvement by younger generations.** Rising generations in many families have a growing desire to be directly involved in the family's affairs, and they tend to want family office staff to be readily accessible.
- **Direct investments by families.** Asset managers tend to see lawsuits during economic downturns, regardless of negligence or fault. Despite initial volatility during the early phase of the pandemic, market returns have been relatively stable. That could change, of course, and increase asset managers' liability exposures.

Even before the COVID-19 outbreak, the insurance marketplace for D&O and professional liability was hardening, with rates rising and underwriters becoming more selective. However, family offices and asset managers remain attractive classes of business for many insurers, compared with other types of businesses. As a result, insurance capacity for management liability and professional liability coverage for family offices will remain adequate to meet rising demand, although at higher premium rates.

Property

Insuring multiple properties

Many families have multiple properties and locations where they have tangible assets, such as valuable collections, art, jewelry, exotic or antique automobiles, yachts and watercraft, and more. Property insurance can protect these assets from losses such as theft, damage, vandalism, and natural disasters, including but not limited to fire, flood, and windstorms.

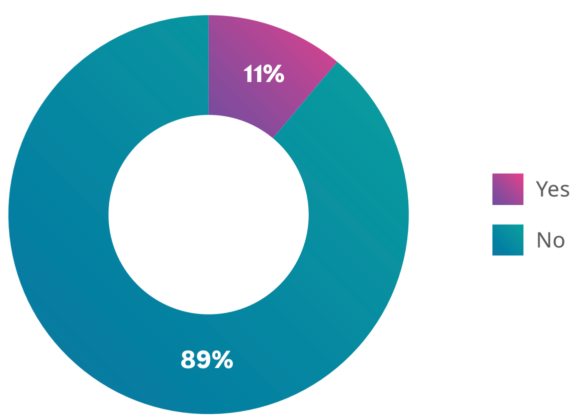
Whether a family has few households or many, it's common for them to own multiple homes in various states or countries. Complying with local regulations and insuring each property individually can be quite complex and lead to coverage gaps, not to mention greater expense. One way to ease the administration of an insurance program and allow more flexible protection of different property locations is through a blanket property policy.

A blanket property policy can be structured to protect international as well as domestic properties, but underwriters generally seek a geographic spread of risk. For example, a family with properties concentrated in one region or state might not present enough geographic diversity to meet underwriting requirements or obtain favorable coverage terms and conditions. Families who are facing challenges in insuring properties in high-risk or catastrophe-prone areas may also benefit from a blanket property policy if they have other homes to balance out the risk.

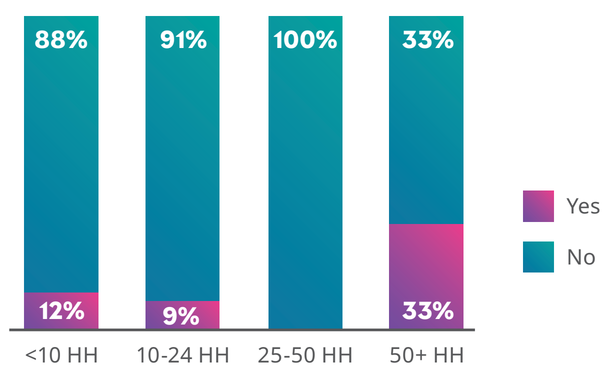
Because this type of policy has trade-offs between advantages and other considerations, it is unsurprising that only 11% of families surveyed utilize a blanket property policy. However, interest in this form of combined coverage is high among MMA PCS clients as we continue to explore the benefits to clients during renewal conversations where applicable.

Working with a risk advisor that has experience placing coverage in hard markets as well as managing differing regulatory requirements can help facilitate the structuring of appropriate blanket coverage and help clients weigh their options.

Does the family use a blanket property policy?



Blanket property policy by household



Is a blanket policy right for your family?

Advantages	Considerations
• Provides broad coverage for perils – such as fire, wind, hail and equipment breakdown – across multiple properties	• Requires geographic spread of risk – properties must be located in several different states unlikely to be subject to the same loss even
• Can generate premium savings	• Requires family coordination and agreement on premium allocation
• Ability to customize coverages that would not normally be on a homeowners policy, such as flood and earthquake	• Valuable articles, auto, and watercraft exposures may still require separate policies
• Increased efficiency with the ability to consolidate numerous policies under a single master policy with one bill	• Often takes longer to sctructure and quote
• Prevents coverage gaps by combining all property coverages on one policy	

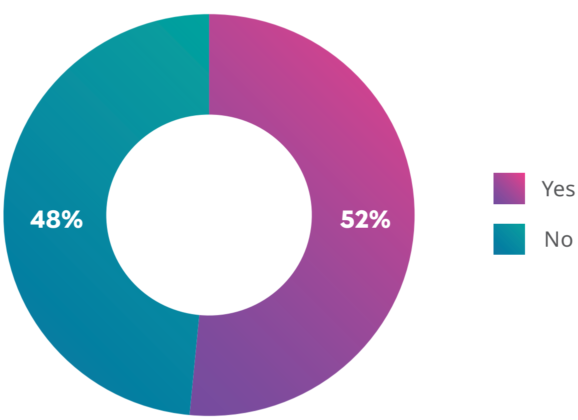
Equipment breakdown

Many homeowners are finding themselves with a growing list of equipment that is susceptible to breakdown. From heating, air conditioning and ventilation systems, to plumbing, electric generators, and "smart" mechanical systems, homes today possess a variety of complicated equipment designed to improve efficiency, comfort, and convenience, and to mitigate risk. Specialized equipment breakdown insurance to protect these assets is available. This coverage also can be structured on a blanket basis in order to protect equipment and systems at multiple properties.

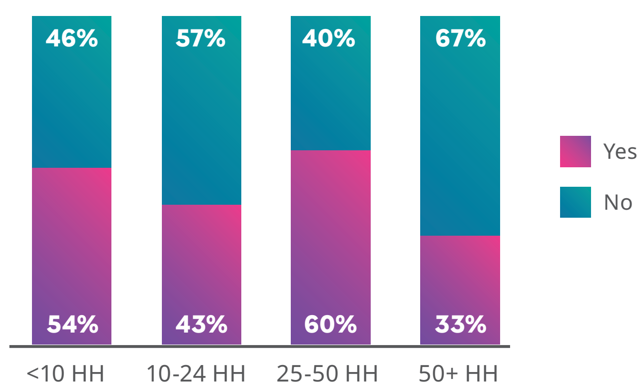
With more equipment to protect, it follows that an increasing number of families in the Study would purchase this coverage – 52% now carry equipment breakdown coverage, a notable increase from 39% in our last Study. With the costs to replace premium appliances increasing in some cases 101% over the past 10 years, many families view this coverage as a convenient way to protect those investments.[12] Part of the appeal of this coverage is the reasonable premiums and lower deductible that is separate from those on the general property policy.

"Smart" home items that may qualify for equipment breakdown coverage include: home automation and security equipment, entertainment systems, HVAC equipment, connected appliances, power generators, and pool automation equipment. It is important to review the specific policies, as what is covered can vary by carrier.

Does the family carry equipment breakdown coverage?



Equipment breakdown coverage by household



Primary and excess flood

Floods are the most common natural disasters in the United States, according to the Federal Emergency Management Administration (FEMA). And they are among the most expensive, costing billions of dollars every year.

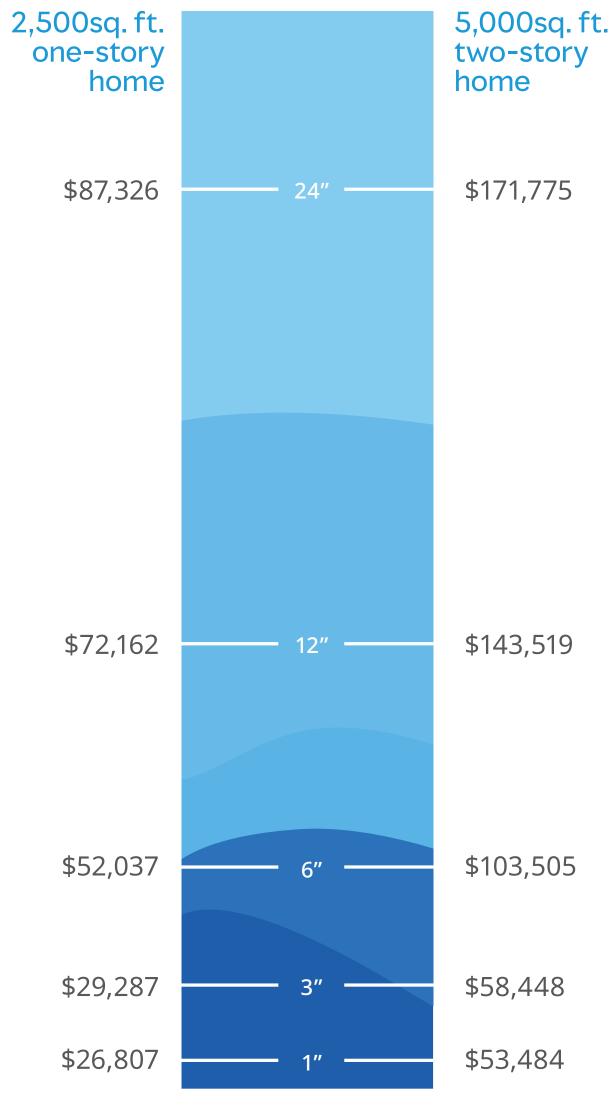
FEMA administers the National Flood Insurance Program (NFIP), which provides limited primary coverage for residential and commercial properties. The NFIP pays up to $250,000 for residential flood damage, and up to $500,000 for commercial damage. FEMA estimates that as little as one inch of water can cause $25,000 of damage to a home, while a foot of water in a 5,000-square-foot, two-story home can cost more than $143,000.[13]

Among families surveyed:

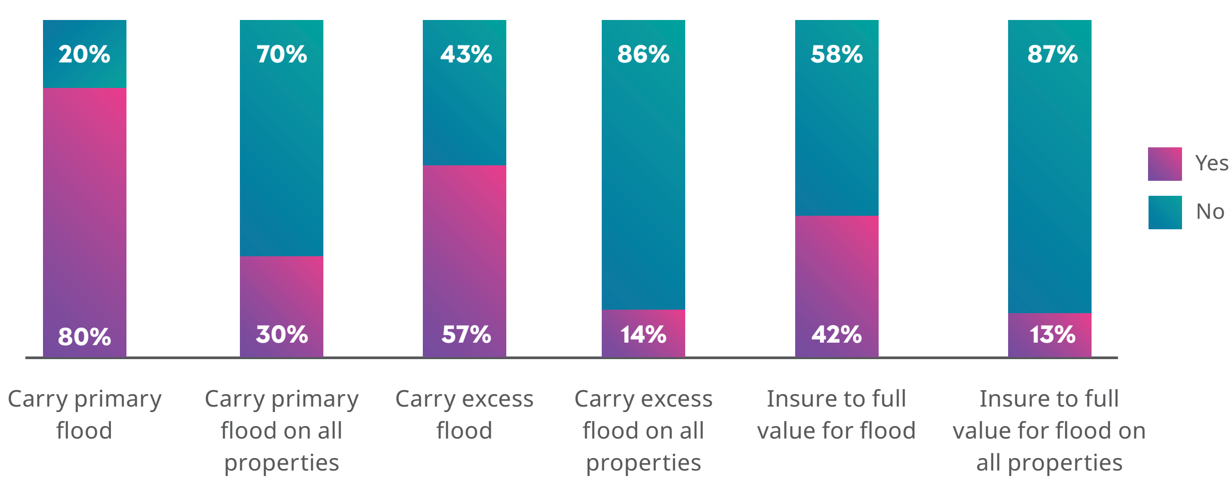
- 80% carry primary flood coverage.
- 30% have primary flood coverage on all properties.
- 42% insure their primary residence to the full property value for flood.
- 13% insure all their properties to the full value for flood.

Recognizing that flood damage can be severe, 57% of families carry excess flood coverage, up slightly from 54% in 2018.

The cost of flooding[13]



Flood and excess flood coverage



An unfortunate consequence for those areas where wildfires and other natural disasters remove vegetation is an increased risk of floods and mudslides. With so many wildfires burning in the western United States, seasonal rains in 2021 are more likely to result in flooding in affected areas.

The primary market for flood insurance continues to be the NFIP. However, the NFIP has seen significant premium increases over the last several years, and there is a current initiative in place by FEMA to re-rate all NFIP insured properties based on risk exposure, which may lead to additional increases as soon as this year – a potential "game changer."

These increases and the limited coverage available with the NFIP policy have led to an increased demand for private flood insurance capacity. Both admitted and non-admitted private primary flood markets generally offer higher property limits at a lower premium for at-risk properties. Excess flood coverage is also available on a non-admitted basis with premiums that vary by carrier and risk.

Family offices and families should consult with an experienced risk advisor to objectively assess their risk and consider strategies to mitigate their exposure to potential uninsured and very disruptive losses.

Flood facts[14]

99%

Floods occur everywhere. From 1996 to 2000, 99% of US counties had a flood event.

40%

Exposure is not limited to high-risk zones.Between 2014 and 2018, more than 40% of flood insurance claims occurred outside high-risk flood zones.

$13.5 T

Value at risk is enormous. The estimated insured value of coastal properties with flood exposure in 18 US states was $13.5 trillion, compared with $1.3 trillion of flood insurance in force nationwide.

127 M

Millions are in harms way. An estimated 40% of the US population, or 127 million people, live in coastline counties exposed to flood and storm surge.

Valuable articles and collections

Successful families often acquire and hold valuable possessions, from individual pieces of jewelry and watches to collections of fine art, antique or exotic automobiles, and sports memorabilia. Valuable collections are afforded only limited financial protection under homeowners insurance, even when covered through a premier insurance provider.

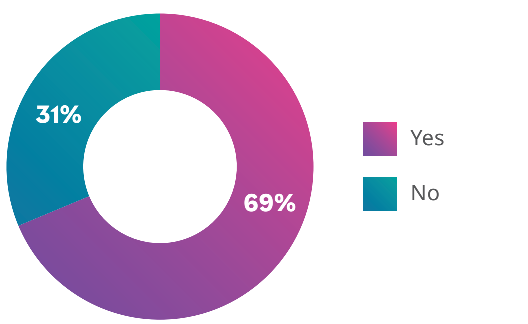
In the Benchmarking Study, 69% of families surveyed own a significant collection of valuables, and all of these have separate valuable articles coverage in place. Of this group, 91% own fine art collections, a large increase from 50% in 2018. Jewelry is the second most common type of collectible, followed by antiques, automobiles, coins, and wine or spirits. 16% collect other items, such as guns, furs, musical instruments, silverware, and classic boats.

The vast majority of families – 91% – maintain their valuable articles and collections in their primary residences, while 63% keep some items in secondary residences, and 21% hold them elsewhere, such as in storage, their office, or a family-owned commercial building.

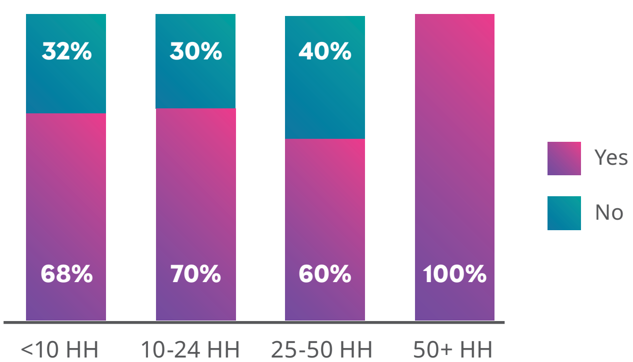
The insurance market for valuable articles and collections has held steady over the past several years, a reflection of the personal attention and loss prevention care that is afforded these items. Generally, families with collections have been able to secure and renew coverage at expiring terms and conditions. The exception being collections maintained in California and Florida residences, which are subject to the same tightening market conditions as detailed with property risks.

It is advantageous to talk with your risk advisor about your collections, where they are kept or displayed, and your plans for them to ensure these treasured investments are adequately protected and insured.

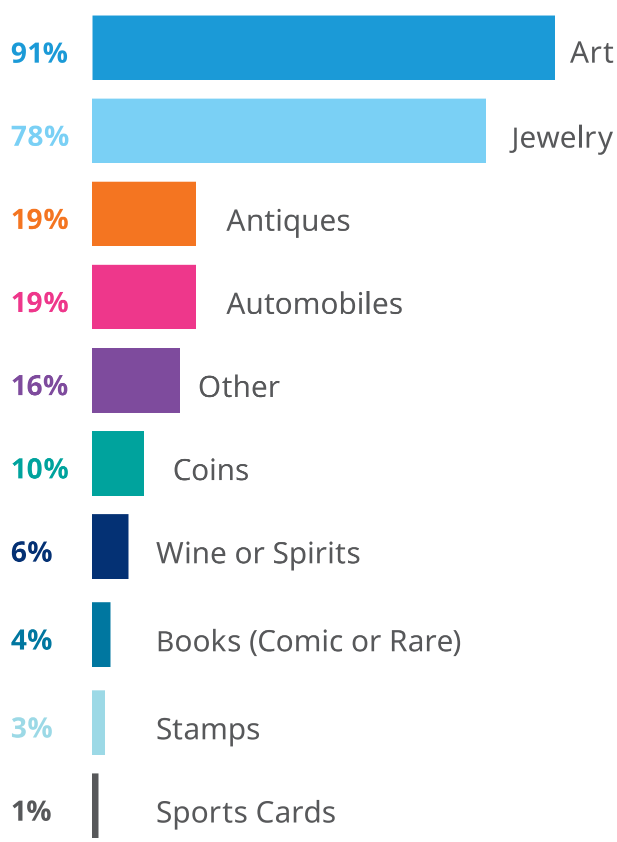
Does the family own a significant collection?



Significant collection by household



Popularity of collection types



Value from valuables: Loans, gifts and collateral

For some families, making loans or gifts of pieces in their collections is a meaningful venture. In the Benchmarking Study, 26% of families surveyed report loaning pieces and 13% report making gifts from their collections. For others, the value in their valuable articles and collections may serve as collateral for temporary financing of business ventures. All of these decisions have insurance and risk management implications.

Lending pieces from a collection to an institution such as an art museum, for example, offers advantages to both owners and the institution. Displaying a piece that is privately owned can bring interest and prestige to the institution, and the exhibit can make the piece more valuable for its owner. Determining which party insures the valuable article on loan is subject to negotiation, and at times it may make sense for each to share that responsibility.

Giving artwork as a gift to an individual or an institution can raise questions as to valuation, taxes, and insurance coverage. Sometimes a physical piece transfers to the recipient upon the owner's death, but the value of the object is transferred earlier. In such cases, it may be unclear whether the owner or the recipient should insure the gift, or what the appropriate valuation should be – is it the price the owner paid to acquire it or its current valuation?

Lenders considering fine art as collateral for financing typically require a current appraisal and that the artwork be insured to its value, even though a loan may be a percentage of the overall worth. While not a new trend, more banks are entertaining loans against art as the value of well-known artists remains stable.

Fine art and collectibles have always attracted passionate collectors, but since 2008 there has been an increase in the number of families and individuals collecting as an investment. Many such collections can double, triple, or even quadruple in value over time, and they may be in storage, not displayed in collectors' homes.

Ensuring appropriate security, climate control, and maintenance – such as conservation and restoration – as well as insurance against theft and damage, are vital to preserving the value of art and other collections.

Asset appreciation since 2005[15]

+246%	+229%	+198%	+101%	+126%
Classic cars	Coins	Fine wine	Jewelry	Classic watches

Liability

Personal excess liability

With multimillion-dollar lawsuits becoming more common than ever, wealthy individuals, families, and family offices may see themselves as targets for expensive litigation. Families surveyed have recognized this trend, and 100% have personal excess liability coverage in place.

MMA PCS clients responding to the survey said they believe their largest liability exposures are:

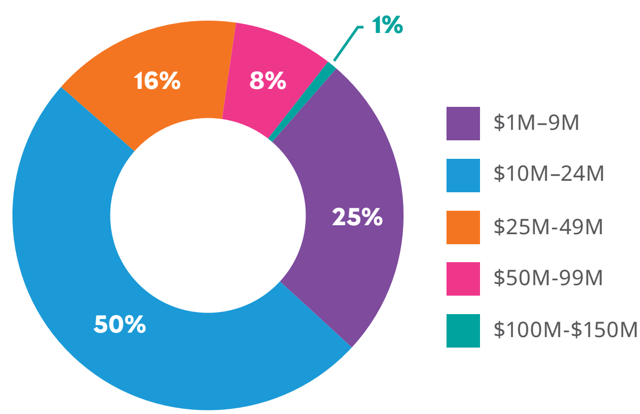
97%	General personal liability related to domestic property
41%	Personal injury risks
27%	Domestic employer liability
15%	Cyber liability including social media
12%	Professional liability
9%	Yacht crew liability
8%	Liability related to international property
6%	Other
3%	Aviation-related liability

Personal liability exposures vary widely, but the overwhelming majority of families and individuals purchase seven figure excess liability insurance limits. For example:

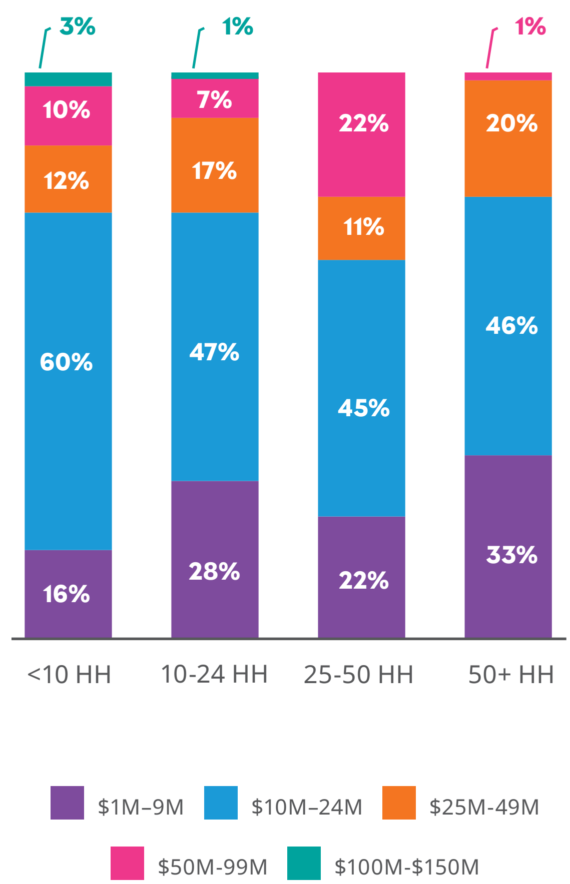
25%	buy personal excess limits between $1 million and $9 million.
50%	buy personal excess limits between $10 million and $24 million.
16%	buy limits between $25 million and $49 million.
8%	buy limits of $50 million to $99 million.
1%	buy limits of $100 million to $150 million.

While some families choose to purchase liability protection for family members individually, 21% have chosen to take advantage of a group personal excess liability structure. Group programs can provide the benefit of lower premiums, higher limits, and often, simplified underwriting requirements.

Excess liability limits



Excess liability limits by household



The total liability limits comprise individual personal excess policies as well as those provided as part of group personal excess liability programs. In general, personal excess liability limits in this year's Benchmarking Study are somewhat lower compared with the 2018 Study. This reduction could reflect clients' desire to offset cost increases in other areas of their insurance programs. As previously noted, the insurance marketplace has hardened in certain geographies, with significant property rate increases in California and Florida. Clients looking to reduce overall expense may seek to reduce liability coverage, increase deductibles, or reshape their insurance program.

Families with low social media profiles and minimal claim activity, can expect similar renewal terms and conditions to those of their expiring policies. Family members with active social media profiles, who have experienced a significant loss, or who file frequent auto and/or personal liability claims, can expect rate increases and possible adverse underwriting action, including potential notices of non-renewal. This is a consequence of carriers seeking to remove exposures from their portfolios that they feel are too risky and create an increase in potential loss.

Domestic employees

Employing domestic workers is on a slight downward trend among families surveyed: 72% employed domestic staff, down from 78% in our previous Study. Of these, employees inside homes – such as housekeepers, personal chefs, drivers, and nannies – account for 97%, a slight decrease from 99% previously. A similar trend is seen in the percentage of families employing domestic staff outside their homes – for example, gardeners, landscapers, and groundskeepers: 62% in the 2021 Study, vs. 69% in 2018.

Among both types of domestic staff, fewer are full-time, but there was an increase in part-time employees. This trend could be due to the effects of the COVID-19 pandemic, as families and individuals followed public health authority

guidelines to reduce exposure to infection and made efforts to manage household expenses during periods of prolonged uncertainty.

There are two types of insurance coverage that are especially important for all who employ domestic staff – workers' compensation and employment practices liability insurance.

Workers' compensation

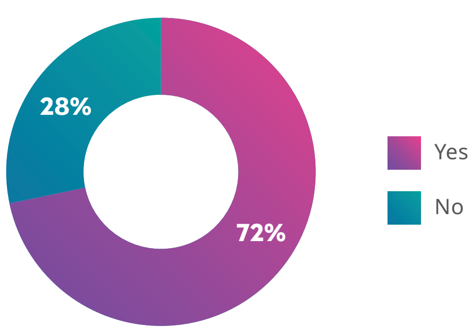
Workers' compensation insurance is required in almost all states for employers with as few as one employee, though specifications vary widely by state. This form of insurance provides statutory coverage for the costs of medical care and rehabilitation of insured workers, as well as lost wages and death benefits for the dependents of insured workers. Despite state mandates and offers to secure coverage, workers' compensation coverage is only carried by 77% of families employing domestic staff.

Employment practices liability

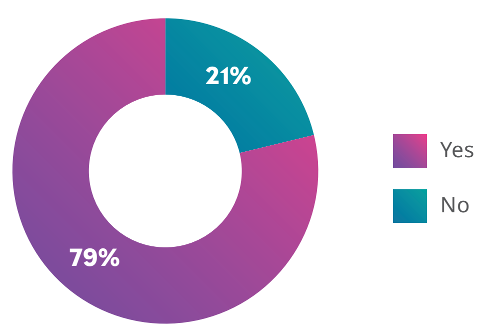
Employment practices liability insurance (EPLI) is designed to respond to claims of wrongful termination, discrimination, harassment, and defamation claims against employers, their directors and officers, and their supervisory employees. A valuable benefit of EPLI is the defense of lawsuits filed by employees as well as funds to pay damages awards, settlements, and costs to manage reputational injury. Though 72% of families report having domestic staff, only 59% purchase EPLI coverage, indicating a potential area for education and research.

Among families surveyed, 21% have had an employee-related claim, 99% of which involved employee injuries. Some ways to mitigate the risk of employee injuries and liability claims include implementing clear guidelines that outline employees' responsibilities and expectations, utilizing a formal employee handbook and

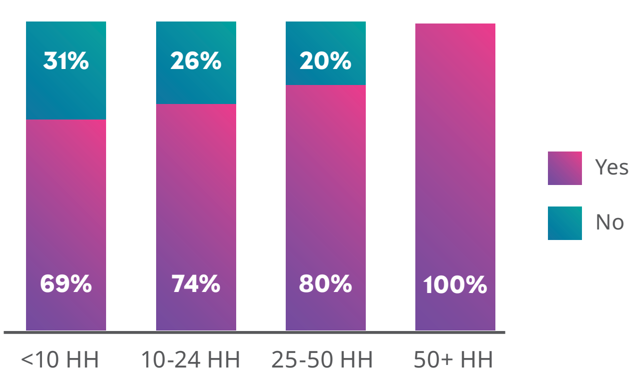
Does the family office employ staff separate from the family office personnel?



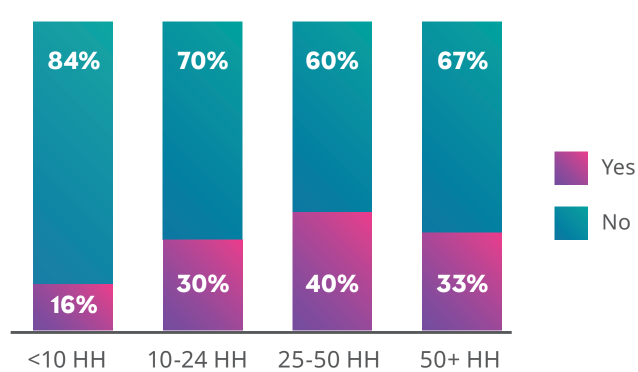
Has the family had and any domestic employee related claims?



Employ staff separate from the family office personnel by household



Domestic employee related claims by household



employing a cadence of timely performance feedback. In this year's Study, only 17% of families surveyed reported using a handbook for their domestic employees.

Individual directors and officers liability

Successful individuals are frequently invited to become independent directors of for-profit and non-profit organizations. The benefits of serving as a director can be numerous, from the opportunity to impact an organization's growth, to expanding a personal and professional network, to enhancing one's experience or pursing a personal passion. In the current litigious environment, however, acting as a director or officer of an organization carries significant potential personal liability exposure as well.

Take time to understand the laws in your state regarding the purchase of workers' compensation coverage.

When agreeing to a board role, family members should conduct due diligence and determine what level of coverage and indemnification the organization will provide. Depending on the type of board and size, individuals can purchase additional coverage for themselves as part of their personal insurance program. There is often some coverage available for not-for-profit board roles included in a personal excess liability policy. In some cases, it may make sense to purchase a personal director's liability (PDL) policy as well. Of the families involved in the study, 11% have D&O coverage in place through both of these means.

PDL policies often provide very broad coverage with minimal exclusions when compared to a corporate D&O policy. Recently, insurers have been working to develop a new version of PDL insurance that provides blanket coverage for families, rather than solely individuals. In the family office community, this structure could provide valuable functionality for high-profile, active families.

Talking to your risk advisor before accepting a board role is a crucial step in safeguarding yourself from this aspect of liability risk.

Kidnap and ransom

A risk that no family wishes to experience is a kidnapping of a loved one or trusted employee. Unfortunately, kidnap and ransom events are a real risk, particularly in certain regions of the world.

Between 2015 and 2019, the Federal Bureau of Investigation's Hostage Recovery Fusion Cell, a special unit created to collaborate with various law enforcement and investigative authorities, recovered more than 200 Americans who had been kidnapped domestically or in foreign countries.

Only 4% of families surveyed have a kidnap and ransom (K&R) insurance policy in place as part of their personal insurance program. This may indicate a reliance on potential K&R coverage through their business. If this is the case, families should be sure to determine if the commercial policy provides protection when traveling for pleasure and whether other family members are also covered. It is worthwhile for families and family offices to understand the family members' itineraries and activities and work with a risk advisor to ensure they understand local conditions and associated risks, as well as assess their physical security exposures. These details should subsequently be shared with the family's insurance advisor to secure proper coverage, if warranted.

The claims experience

Loss trends

Over the past 10 years, on average, family office clients experienced approximately five claims per year, and the average individual household in this population had one claim approximately every two years.

In the five-year view, the severity of industry-wide home-related losses was driven upward by 2017 claims. That year, homeowners incurred a record $144 billion in insured property losses from natural disasters, including Hurricanes Harvey, Irma, and Maria, as well as a record $14 billion from wildfires across California, and parts of Canada and Europe.[16] Flooding from Hurricane Harvey alone damaged 200,000 homes and 500,000 vehicles, resulting in insured losses of $30 billion.

Claims trends over the past year have also been influenced by lifestyle changes due tothe pandemic. Clients have been spending more time in their homes, specifically secondary residences. Anecdotally, we have noted an increase in construction claims, such as faulty workmanship, likely due to the fact that clients who are now home more often are noticing previously overlooked damage. Maintenance claims, such as bathroom leaks, also have become more common. Auto claim frequency has remained surprisingly high, even as many people remain at home during COVID-19. And wildfires have been a major loss driver in western states. In some cases, clients have received full policy payouts and invested the proceeds in new property elsewhere.

Regardless of year, the three following themes continue to stand out as part of our research:

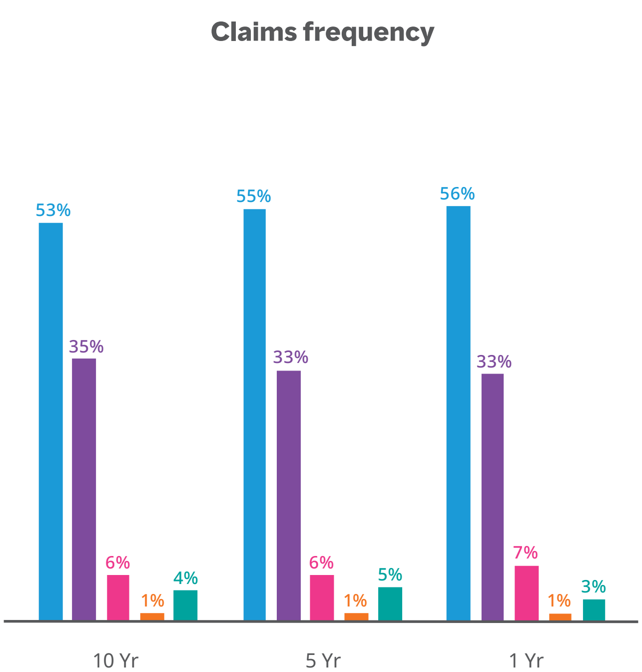
- Auto losses are more frequent, but less severe. Depending on the number of losses and households, as well as the severity of the accident, a family may decide not to file every auto physical damage loss to avoid affecting the entire family's program.
- Home and property losses are more consistently severe, which stands to reason since a home and property are often a family's largest assets, outside of mega-yachts.
- Approximately 40% of all property claims are due to non-weather-related water losses, according to almost all of the carriers in our roster.
- Excess liability claims are the least frequent at 1% per year, but these can be the most severe. We especially see this in the 25% and 10% spikes in the 10-year and 1-year views, respectively. In contrast to auto physical damage claims, it is important to file all liability and personal injury claims because of the potential for increased settlements. Responsibility for such accidents is not always clear initially.

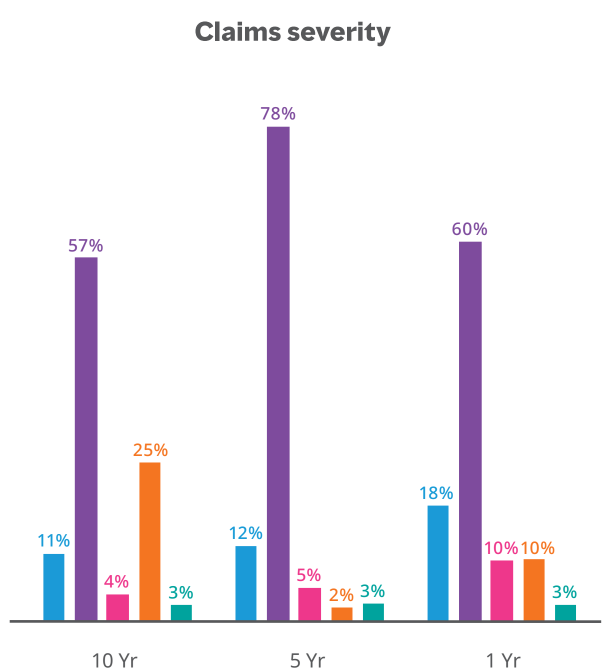
Loss strategy

Managing losses for large families can be a challenge. With proper education and communication around coverage limits, deductibles, and types of events that are covered or excluded, families can avoid unmet claims expectations and unfavorable consequences during policy renewals.

For example, a family that maintains a low deductible on a given policy may submit repeated claims that adversely impact the entire family's risk profile with insurers. A more prudent approach could be to accept a higher deductible for more frequent but less severe claims.

Most families find it advantageous to work with a broker and risk advisor who can provide dedicated personal insurance claims advocacy as well as sophisticated education and loss mitigation strategies. It is also beneficial to have a full-time risk manager on staff to help the family navigate the complexities of protecting their property and assets against loss.





A critical part of the plan

Family offices and the families they serve all have different needs and risk challenges. Therefore, it is crucial to cultivate an understanding of loss trends and engage in risk management planning.

A telling statistic in the 2021 Benchmarking Study is 83% of families say they do not find insurance requirements challenging or confusing, though 17% do – particularly related to gathering risk information, complying with condo or co-op bylaws, and technical coverage details.

The majority of families surveyed have a strong grasp of risk management fundamentals, but they still need assistance in some areas. Increasingly, some members of rising generations have vastly different preferences when it comes to working with family offices and finding solutions for their insurance needs. As risks become more complex, family offices as well as clients who prefer to self-direct their programs can still benefit from advice and counsel. Consulting a trusted, expert personal insurance and risk advisor is a fundamental way to assess a family's risks, determine their tolerance for risk, and build a robust risk management and insurance program to protect family members and safeguard their legacies.

Our Benchmarking Study has shown an ongoing need for clients to have sound advice from specialized risk advisors with experience in the complexity, administration, and needs of family offices and wealthy families.

About our study

Marsh McLennan Agency Private Client Services (MMA PCS) is a pioneer in family office risk management, serving as an industry leader in the high-net-worth personal insurance segment for more than 40 years.

The information used to create this report was gathered from personal lines placements for family offices for which Marsh McLennan Agency Private Client Services (MMA PCS) is the risk advisor and insurance broker. Client confidentiality is of the utmost priority, and MMA PCS maintains strict confidentiality practices to protect our clients' privacy. Manual production of custom reports is handled exclusively by our benchmarking team, so sensitivity of client information always takes precedence.

We are proud to leverage our vast expertise in serving clients to provide advice, education, benchmarking data, and insights to help family offices and wealthy families mitigate risk, make informed decisions, and achieve their goals.

To learn more about family office risk management, contact MMA Private Client Services or visit mmapcs.com.

Appendix

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Marsh resources

Coronavirus Risk Hub | United States

A Proactive Approach to Engaging in a COVID-19 World – Webinar Replay

Domestic Employee and Workers' Compensation Considerations During the COVID-19 Pandemic

COVID-19: Evolving Insurance and Risk Management Implications

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2020 Passion Investment Considerations

Liability Coverage Estimator

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About Marsh McLennan Agency Private Client Services

At Marsh McLennan Agency Private Client Services, we serve clients whose lives are anything but ordinary. That's why we design insurance solutions that are just as unique – with the expertise, personal approach, and in-depth industry knowledge necessary to protect our clients' wealth, safeguard the things and people they love, and keep making extraordinary possible.