

# Interview

## Inside Private Client Insurance

An Interview with Charles Williamson, President, AIG Private Client Group, New York, and Paul Funk, Executive Managing Director, Frank Crystal & Company, New York



Charles Williamson



Paul Funk

**EDITORS' NOTES** A 20-year veteran of American International Group (AIG), Charles Williamson was appointed to his current position in January 2006. He previously served as President of AIG WorldSource and has held various executive positions throughout his tenure.

Prior to joining Frank Crystal & Company, Paul Funk was a Senior Vice President at PLI Brokerage, Inc., where he ran 26 field offices, managed the firm's mergers and acquisitions practice, and led its entrance into providing solutions to family offices. He has more than 25 years of experience in the insurance industry.

**COMPANY BRIEFS** American International Group, Inc. (AIG: [www.aig.com](http://www.aig.com)), is a world-leading insurance and financial services firm with operations in more than 130 countries and jurisdictions. AIG Private Client Group ([www.aigpcg.com](http://www.aigpcg.com)), a division of the AIG personal lines property and casualty insurance subsidiaries, manages risk for high-net-worth individuals and families.

Frank Crystal & Company ([www.fcrystal.com](http://www.fcrystal.com)) provides industry-leading insurance services, solutions, and counsel to corporations and individuals. Its Private Client Services unit specializes in providing insurance solutions to affluent individuals and families, family offices, entrepreneurs, estates and trusts, executives, private collectors, and professional athletes and entertainers.

**Looking first at AIG Private Client Group, how happy are you with the current level of brand awareness in your target market?**

*Williamson:* Our business has been extremely successful, so we're very pleased with the awareness that we've created to date. However, when you consider how many wealthy people there are in the United States and throughout the world, we're not even close to where we would like to be. A lot of customers haven't found a high-net-worth insurance specialist yet, and those are the people we're after.

**Who is your ideal client?**

*Williamson:* Someone with a net worth of \$5 million and above. Typically, people with that level of assets are in a good position to take advantage of some of the things we do.

**This is a very competitive market, with a lot of companies going after that type of client. Is it difficult to differentiate in this space?**

*Williamson:* Yes, but not because all programs are alike. A lot of wealthy people are busy running their businesses and becoming affluent, so they don't spend a lot of time on insurance. Our challenge is educating them on the product and service distinctions we bring to the marketplace.

*Funk:* Charles makes a very good point. From a carrier standpoint, differentiation is difficult. It's up to the insurance brokerage firms, which represent the client, to assess the needs of the individual customer, and to determine the appropriate resource. There are three main carriers that specialize in the affluent market: AIG, Chubb, and Fireman's Fund. Each of these carriers is developing new products that are very compelling. You have to spend a lot of time with your clients in order to understand their unique requirements and then match the insurance company to their particular needs. For instance, one client might have an extensive fine art collection that needs terrorism coverage, while another might have multiple employees and needs employment practices liability protection. While I mentioned that differentiation is difficult from a carrier perspective, I think AIG Private Client Group is taking an innovative approach by building risk management services aimed at preventing losses. As an example, their Wildfire Protection Unit® sprays fire retardant material on homes and surrounding areas protecting them against encroaching brush fires. Clients value these proactive solutions that limit losses.

**How broad is AIG Private Client Group's service offering for high-net-worth individuals? Do you offer coverage in all the areas just mentioned?**

*Williamson:* Yes, we look at the preponderance of needs for a high-net-worth individual and we try to cover them all.

*Funk:* For the most part, these insurance companies can take care of most of our clients' needs. However, there are some specialized areas that might require a different solution, such as antique cars, ranch and equine exposures, and boat racing. Brokers need to have the capability and knowledge to access these specialty insurers.

**In a broad sense, is it not better if one carrier can meet all of the client's needs?**

*Funk:* Absolutely, particularly when there are gray areas. For instance, there can be issues regarding whether something is an antique or just regular personal property. If you use different carriers to insure these exposures, a question also might arise about who is responsible at the time of the loss. There may be a situation when it makes sense to use a specialty carrier, but I would prefer to utilize the same carriers for property and art so there isn't any confusion at claim time.

*Williamson:* From an insurance company point of view, scale of customer matters. It matters in terms of price – there are discounts for more business – and it matters in terms of what you might call “negotiating clout.” A client with more fragmented business won't necessarily have that leverage.

On a similar note, Paul mentioned the benefit of minimizing confusion at claim time. There are also clear advantages that come with claim service itself. We know that satisfying our customers' needs, and exceeding expectations in the event of a loss, is really what it's all about. In every instance, we seek to understand what matters to our clients and then frame the claim solution around that – as opposed to just writing a check, or doing what we thought would be right. This approach has served us very well. Anecdotally, our claims reputation is the best in the business, and our own customer surveys confirm that.

**Do all high-net-worth individuals know the worth of dealing with a specialized insurer, or is there a certain amount of education that still needs to be done?**

*Williamson:* Education is one of several

challenges. People who've always bought insurance from mass-market providers may not know that more meaningful coverage solutions are out there. They purchase from an agent who represents that one company, so there's no opportunity to discuss alternatives. This is why it's crucial for these consumers to find an independent broker who can help evaluate their choices.

We've also found that a lot of wealthy people don't think of themselves as high-net-worth individuals. But when you have \$5 million in net worth and your existing insurance program caps its liability protection at \$1 million, you're underinsured – and you're subjecting your fortune to liability issues that could take away years and years of hard work.

*Funk:* I also believe that there is a lot of education that needs to be done. Often, people will start with their “corner store” insurance agent and then outgrow him. We thoroughly analyze an individual's program and often find he or she does not have adequate coverage. For example, an individual might have \$1 million of liability coverage and a net worth of \$25 million. Also, we meet people who have given no thought to the things they've collected over the years – the art, the jewelry – or they assume that their insurance covers those things when, in fact, it doesn't.

People generally look at insurance from the point of view of cost, when they should really be looking at their coverage needs; price should not be a final decision point. We also frequently come across people who just don't pay attention to the details of their coverage. They pay their premiums, and just keep renewing and renewing.

#### **How important is finding the right broker?**

*Funk:* It's critical. Basically, there are two types of brokers – one who represents only one carrier, such as a State Farm or Allstate, and the other who is an independent broker adviser representing multiple carriers.

For high-net-worth individuals and family offices, it is important to have a broker who understands the complexity of their insurance needs. The brokerage firm must have deep expertise not only in personal insurance, but also in commercial, aviation, directors and officers, professional liability, and employee benefits insurance. Additionally, having a robust claims department that is experienced in claims advocacy is a must. Another component is service. This is a unique market, and clients expect excellence combined with integrity and honesty. Having the right brokerage firm can make all the difference.

#### **Such clients are probably not inclined to sit down and read the small print of a policy. How involved do you get in explaining the nitty-gritty of policies to clients?**

*Funk:* We are very consultative and solutions-oriented. It's true that people tend not to read their policies, so we need to ask the right questions to find out their coverage needs and whether an exclusion might apply. An area of concern today is flood insurance. Typically, policies do not provide flood coverage unless a separate flood policy is purchased. Now there are a few carriers, such as AIG, that automatically include it as part of their overall contract in cer-

tain states. We make sure our clients understand what they've chosen to self-insure so they are not surprised when an uncovered loss occurs.

#### **Is exposure from business pursuits an area that clients fully understand?**

*Funk:* We try to make it clear that personal insurance does not cover losses related to business activity, whether it takes place in the home or otherwise. We give a very black and white explanation. There are some nuances on coverage; but rather than trying to explain subtle aspects, it's easier to make the point that there is no coverage for business pursuits. For clients who have these exposures, we can structure separate commercial coverage.

*Williamson:* A lot of wealthy people are entrepreneurs, and they'd do well to work with one adviser on both their personal and professional pursuits, to minimize those gray areas. A good broker will develop a solution that covers both sides of that potential loss scenario.

*Funk:* One area that we're finding great interest in right now is people's exposures from both nonprofit and for-profit boards. One of the things that we do as part of our consultative process is to ask clients which boards they sit on, and then offer to review the directors and officers policies of those organizations to ensure that the coverage provided by the entity is in line with our clients' personal needs.

#### **D&O insurance is just one of a number of new types of insurance. Has the role of broker become more challenging in recent years?**

*Funk:* Very much so. Years ago, it was a pretty simple environment. There were fewer high-end insurance carriers, contracts were fairly standard, and client expectations were less. It was an easier job. Today, it is rapidly changing, with AIG Private Client Group, Chubb, and Fireman's Fund offering a much broader range of products. Brokers need to have a deep consultative process to figure out what exposures their clients have, so they can match them to the right carrier. Education has become very important: both the education of our employees and of our clients. Clients tend to ask many more questions nowadays, and we need to be ahead of the curve.

#### **Are insurance offerings generally regionally based, due to varying regulations in different parts of the U.S. and worldwide?**

*Williamson:* Our clients often own multiple homes in multiple states, and they have multiple cars registered in multiple jurisdictions. So we build our solutions with that in mind. We understand that their art might be in their New York apartment today, but for the winter it might be in their South Florida home. We're able to deal within that regulatory framework because we are national, and international, in scope. So this issue doesn't really present much of a challenge for us. It becomes a challenge, I think, for the mass-market providers.

Internationally, regulations vary by country. We're able, for the most part, to offer solutions in more than 58 countries worldwide. We underwrite risks in most of the places where affluent people own assets. Some of those might be localized solutions; and then we tie it all together with a master program out of the U.S., to make sure they've got adequate coverage for everything.

*Funk:* From an insurance brokerage standpoint, I'd say that the majority of the affluent audience has their exposures primarily located in the U.S., although in multiple states. For those individuals who live in multiple places and abroad, it can present some challenges. How do you cobble policies together to produce one seamless package, so there aren't any gaps in the liability or property? You need to have one broker who's looking at the whole picture, and putting together the right match of insurance companies. We are encountering this situation much more frequently than we ever did in the past. It's because of globalization. It's a very small world right now, and people are setting up residences in many different parts of the globe.

#### **Is it possible for small, niche players to survive in the private client insurance space?**

*Williamson:* You can be a niche player in a couple of segments of the market. For instance, there is an insurance company that only insures high value antique cars. That's not a huge market, so a company like that can exist, albeit in a small way. But, on balance, you need scale in this business. You need geographic scale to cover your clients' needs globally, and you need scale from a capacity point of view. Our most valuable insured home is \$90 million, and the most valuable yacht that we insure is worth more than \$100 million. You need scale to insure those kinds of risks. Lastly, but maybe most importantly, is the fact that affluent people require financial certainty and integrity from their insurance companies. There's a company trying to enter our market now whose net worth is actually less than that of most of the people it would be insuring, which is absolutely preposterous. Financial strength is a critical part of the value proposition, and I think affluent people get that.

*Funk:* There will continue to be niche players for unique exposures such as jet skis, antique cars, airplanes, and farm and ranches. It is important for a broker to have access to these markets so value can be brought to clients.

#### **What are your key priorities or challenges, looking ahead two or three years?**

*Williamson:* Technology and our global footprint are the two biggest priorities for AIG Private Client Group. We have to make sure that we're on the cutting edge of providing solutions for our clients, brokers, and other business partners. Technology and product development play a big role in that. And, again, as the world gets smaller, being able to handle our clients in every part of the globe, 24/7, is a big priority for us.

*Funk:* Looking ahead, our biggest priorities are to continue building on our success in growing the business based on service and results, and developing our staff so that we remain the market leader. We have done a great job expanding our presence in the family office and high-net-worth marketplace, and attracting top talent. We are highly focused on employing individuals who understand the needs of the affluent and can answer questions in a way that clients really understand, with depth and good analysis. Clients are much more sophisticated about insurance, and they need to speak with smart, business-minded insurance advisers who are committed to value-added solutions and results. ●