Managing risk for the family office

Protecting the future for Multi-generational families

Personal Risk Services

Contents

MANAGING RISK FOR THE FAMILY OFFICE

PROTECTING THE FUTURE FOR MULTI-GENERATIONAL FAMILIES

Kate Norris

AVP Family Office Practice Leader

Personal Risk Services

Executive Summary

Imagine trying to protect a multi-generational family with 15 households and 25 properties in multiple states – not to mention all their vehicles, collections and personal property.

Then there's liability exposure for dozens of individuals, each with their own unique set of risks. Providing insurance protection for this level of exposure is challenging and requires specialized expertise on many levels.

This paper highlights the complex risks faced by multi-generational families and how proper risk management can successfully protect their wealth for future generations.

Multi-Generational Wealth on the Rise

Despite the volatility of the world markets and the political challenges around the globe, the High Net Worth (HNW) segment is growing. According to the Capgemini Financial Services Analysis 2016; High Net Worth Individuals (HNW) [1] wealth growth was a modest 4% in 2015, HNW wealth continued to hit new record highs, aided especially by Asia-Pacific overtaking North America as the number one wealth market. Faltering growth in the Americas constrained global HNWI wealth expansion.

Ultra-HNW wealth, long a driver of overall HNW wealth, did not provide its usual boost in 2015. Dampened by Latin America, the global ultra-HNW population expanded by just 4.2% and wealth by only 2.5%. Excluding Latin America, however, ultra-HNW wealth grew more than the other wealth segments, both in 2015 and over the past four years.

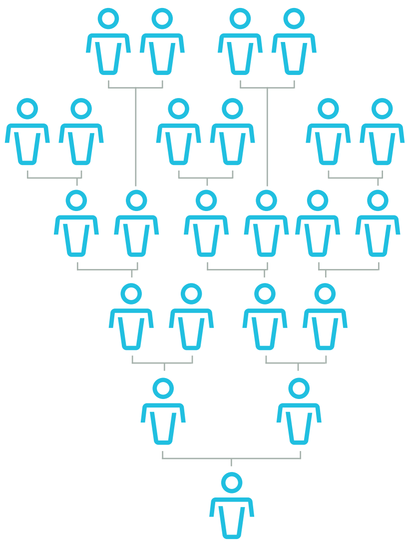
Global HNW wealth is projected to **nearly triple** in size from 2006-2025 to surpass US$100 trillion by 2025, propelled by strong Asia-Pacific growth. If past growth rates hold, Asia-Pacific is likely to continue to be a dominant force over the next decade, representing two-fifths of the world's HNW wealth, more than that of Europe, Latin America, and the Middle East and Africa combined.

As families continue to grow over the next decade, their risk will continue to grow.

Source: Capgemini Financial Services Analysis, 2016; World Wealth Report 2016, Capgemini

[1] HNWIs are defined as those having investable assets of US$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

[2] For the purpose of our analysis, we separate HNWIs into three distinct wealth bands: Those with US$1 million to US$5 million in investable wealth (millionaires next door); those with US$5 million to US$30 million (mid-tier millionaires); and those with US$30 million or more (ultra-HNWIs)



Did You Know?

The Rockefellers founded their own family office in 1882, which is still in existence and provides services to other families.[1]

Living the Dream
Understanding multi-generational wealth is an intriguing quandary. Not only who they are, but how they manage to build and sustain their fortune?

Highly successful families often gain their wealth through a founding entrepreneur who built a successful business, or businesses, which the family decedents continue to run as owner-operators. Conversely, many multi-generational families sold their business for a large capital gain, which they continue to pass down through the generations.

Following the current trend, many families have become newly wealthy due to a significant liquidity event. As these families achieve financial independence, they must focus on preserving and building their wealth through a variety of capital management strategies.

Regardless of how the family earned their fortune, they all share similar concerns over how to protect their wealth from the many perils that come with success. From property and liability to family safety, the complexity of exposures for these families is so great; they must often create a family office to manage their risk

Family Office Risk Management
A *family office* is an organization established to manage the financial and personal needs of one family, which can mean multiple generations and households served.

A *multi-family office* is typically an independent, private-sector organization that supports multiple families – both related and unrelated – by managing their wealth, risk and household operations. A family office may become a multi-family office by leveraging economies of scale from their already successful program.

While family office services range from office to office, a sample set of services includes:

- **Wealth transfer** over generations without excessive taxation
- **Investment management** to maintain and grow family wealth
- **Tax services** provide accurate accounting and wealth preservation
- **Philanthropy** is fulfilling to family members, binds them together and creates a meaningful family legacy
- **Family governance** ensures that the family's history, values and wealth are preserved for future generations
- **Administrative services** manage family operations

Administrative Services is where risk management often fits in. Consideration for human capital, financial capital, physical assets and liabilities is what makes family office risk management unique from an insurance perspective. Top risks include estate planning, cyber and social media, third party lawsuit, and liability resulting from dependent children or an outside board position.

While the family office is the key risk manager, its wide range of responsibilities focus on financial areas such as investments, tax planning, and family legacy. The concentration on asset management often overshadows the personal insurance risk management component and can diminish the family's protection. And because financially independent families operate much like a business – and in many cases ARE a family business – family members are often both relatives AND business partners.

In most family offices, a CEO is responsible for providing personal insurance risk management service to the families. The CEO has many other operational concerns, such as managing the family wealth, so

[1]www.rockefellerfinancial.com

Consideration for human capital, financial capital, physical assets and liabilities is what makes family office risk management unique from an insurance perspective.

it's difficult to also be an insurance expert. Instead, the CEO collaborates with an external advisor – typically an insurance broker – to determine and execute the family's overall risk management and risk mitigation strategy. The family office views the broker not as a vendor, but as an advisor who is an integral part of its team of experts.

How To Manage Risk For The Family Office

Proper risk management for financially successful families requires an integrated approach following these steps:

Integrated Risk Management Approach

Identify the Risks
Identifying the family's risks forms the foundation for establishing a risk management and mitigation program. But with so many individuals of varying exposures, the task can be challenging. The first step in managing the risks is to determine the family's priorities and needs.

By taking a holistic view of the family, risk managers can better understand how each component affects the family as a whole. To evaluate this view, a risk manager can break down

Risk Complexities

Family offices come in many sizes with various number of households served. It is often said that if you have met one family office, you have met one family office. Meaning no two families are the same. The family office can serve just a husband and wife, or up to multiple generations – which means serving the needs of multiple households with different risks profiles. The sheer number of insureds complicates the equation, but when broken down into insurable risks, the complexity escalates dramatically. Common family office exposures include:

Common family office exposures include:

- Complex ownership structures
- Property portfolios
- Multiple and high performance vehicles
- Institutional size collections (art,wine, cars, etc.)
- Yachts
- Aircraft
- Equine
- Personal Liablity
- Personal Safety and Security
- Domestic staff
- Family foundations and philanthropic activities
- Business of the family office

the family's risk profile into four quadrants of risk:

Risk tolerance	Personal and cyber security
Assets	Liabilities

Assess Those Risks
Clearly outlining all the exposures will help the family determine what risk mitigation strategies they need to employ and what they wish to insure against. It is the broker's task to find the right coverage, identify and minimize insurance gaps, and make recommendations on how to mitigate against the uninsurable risks.

Aside from covering the family's personal risk exposures, it is also vital to protect the family office itself. The family office is a business, so it requires commercial coverages such as Professional Liability, Director's & Officers, Errors & Omissions, Employment Practices Liability and Workers' Compensation.

Create a Risk Management Strategy
Family office risk managers will tell you that each household within the family is very different. They cannot all be treated the same and require individualized solutions for each household. Risk managers need to be creative and think outside the box to tailor a solution that covers the unique family risks.

As an example, consider a family with multi-location exposures and multiple households that could include:

- Primary home = $15 million
- Primary condo in city = $5 million
- Summer compound = $10 million
- Winter ski place = $5 million

This property scenario raises the question of whether to insure on an admitted or non-admitted basis if available in the family office's situs state. If admitted, each property would have to be written on its own policy, per state regulations. Also, the admitted approach would require much more work to coordinate with multiple agencies, managing multiple proposals for each property.

That's one reason why non-admitted solutions, often called "blanket" solutions, are so desirable. These allow the customization of terms, conditions and deductibles to meet specific family needs – all on a single policy. And when the family office combines the family's insurable risks, they can manage

Family Office Insurance Assessment

1. Does the family have a structured and recurring process for identifying family risk exposures that includes multiple perspectives (family members, office executive and advisor)?
2. Are group purchasing strategies an option?
3. Are non-admitted policies, group excess and/or manuscript terms available?
4. Does the program meet the unique needs of all family members?
5. Are the right resources at the table?
   - Broker
   - Carrier
   - Risk Services
6. Is the broker's level of experience and expertise sufficient for the complexity of the risk?

Essential Coverages

- Home
- Condominium, Cooperative and Renter
- Automobile
- Personal Excess Liability
- Valuables and Collections
- Fine Art
- Yacht
- Private Aviation
- Farm and Ranch
- Collector Car
- Builder's Risk
- Worker's Compensation
- Employment Practices Liability
- Group Personal Excess
- Travel Insurance

exposures more efficiently.

Implement the Risk Management Strategy
Once the plan is created and implemented; it needs ongoing focus and consistent attention. Assets and exposures come and go. You need to work in concert with the insurance carrier to develop a plan for making additions and deletions to the insurance program.

Monitor and Review the Plan
Developing a risk management plan is not just a one-and-done process, it is continual. Because creating the initial plan is so challenging, the review and monitor stage is often overlooked. Large, multi-generational families go through continuous change, so the risk management plan should be re-assessed quarterly, bi-annually or annually as necessary. Does the insurance program still make sense as structured? Is there a better way? These are just two questions that you should ask year over year.

What To Look For In A Family Office Insurance Team

There are many insurance solutions available on the market, but not many offer the coverage and service needs of the wealthiest individuals and families. Financially successful families require a team of service providers who can offer advice, guidance and expert opinion, including:

- Personal insurance risk manager (broker)
- Security team
- Staffing resource
- Fine art and appraisal resources
- Trust and estate attorney

Work with an Experienced Agent or Broker
Despite the varying requirements in these broad fields, it is optimal to work with a single broker as opposed to many. Working with a single broker simplifies communications, helps avoid confusion across multiple parties, and reduces the risk of exposures not being covered.

Because the family legacy depends on wealth and lifestyle protection, it is essential to work with an agent or broker who has a deep understanding of financially successful families and their unique needs. Not all brokers are the same, so it is incumbent on the family office to identify a broker that can help manage and mitigate their risks.

Beyond just expertise, the family office needs a broker with the capabilities and resources to assemble a complex mix of coverages and risk management services. This means having strong underwriting relationships with premier high net worth and specialty carriers. And, the broker needs to have an ability to think creatively to find solutions for the unique family exposures.

Ultimately, the family needs a broker they can trust as a strategic member of their advisory team. One they can build a relationship with over time and who understands them on a personal level.

Choose a Carrier with Specialized Insurance Solutions
Family office risk managers should apply many of the same requirements to selecting an insurance carrier as they would in finding the best broker. Look for a provider with specialized capabilities to cover unique and expensive assets such as institutional-sized fine art collections, collector vehicles, multiple cars, aircraft,

Concierge Risk Management Services

- Residential Risk Consulting
- Fine Art Risk Consulting
- Family Office Risk Consulting
- World Class Claims Service
- Emergency Loss Mitigation and Restoration Services
- Preferred Provider Network
- Identity Management
- Personal Security and Travel Security
- Personal Staff Management
- Hurricane Preparedness
- Wildfire Defense
- Auto Services
- Collector Car Services

Industry Leading Claims:

- More than 2,000 individuals delivering world class claim service
- Broad footprint of offices and personnel to serve agents, brokers and customers locally
- Dedicated Catastrophe Claims team, comprised of an elite group of adjusters
- Personal Risk Services Claim Advocates who coordinate service and resources for UHNW clients

yachts, domestic staff, etc. The ability to cover these exposures requires high limits, flexible terms and innovative underwriting not offered by many standard carriers.

While coverage capabilities provide the essential property and liability protection for the family, only risk management services can help families mitigate the risks where no coverage exists. That's why it is essential to choose a carrier that not only provides ample coverage, but also offers specialized risk management, security and loss prevention services performed by highly-trained specialists.

When it comes to claims service, responsiveness and concierge service is key. Helping protect families demands the attentive service and discretion they are accustomed. A carrier with special understanding of these particular needs will earn the family's trust as well as the endorsement of their insurance broker.

Because claims for families can result in multi-million dollar settlements, the family office needs a carrier with a strong and reliable financial foundation. Look for a carrier with good ratings from the top financial rating firms such as A.M. Best Company, Standard & Poor's and Moody's.

Finally, the preferred carrier needs to have a global presence and be able to support the family office where ever their members may travel. Global capabilities not only include coverage offerings, but also risk management/personal services to protect the family as they travel, live or conduct business.

Team Approach

Insurance brokers and carriers need to work together to form the insurance branch of the family office advisory team. Look for a broker/carrier team with a proven track record of working with family offices. Their cooperative efforts need to synergize with the advisory team to become a trusted and valued component of the family office organization. Be sure to closely review their working relationship, capabilities and service standards to assure a perfect fit.

Summary

Managing risk for family offices is complex work that must be done at the utmost service level. Using an integrated risk management approach, the insurance advisory team can take a holistic view of the family's needs. And by partnering with a highly qualified broker and specialized insurance carrier, the family can better protect themselves today and preserve their legacy for the following generations.

Chubb. Insured.℠