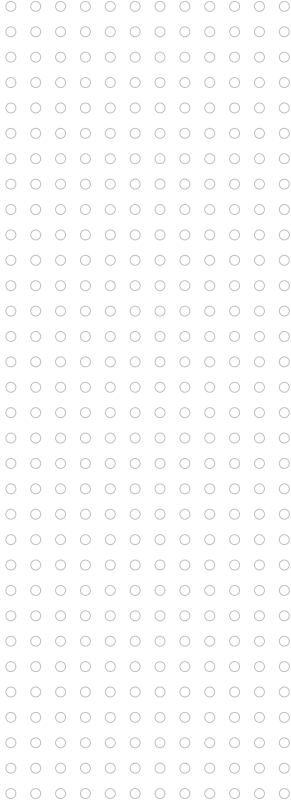


Wealthy families have always faced complex risk management issues, but the current climate is particularly challenging. Soaring inflation, regulatory uncertainty, rising cybercrime rates and increasingly severe natural disasters are elevating the importance of risk mitigation.

These market stressors impact all sectors of the property/casualty insurance market, making it more expensive and challenging for affluent families to secure property, cyber, auto and specialty coverages. Partnering with experts who understand high net worth exposures and can customize solutions to address those needs can help affluent families mitigate risk and protect their assets, family and legacy.



Disasters, Inflation and Litigation Put Pressure on Insurance Markets

The insurance marketplace experienced momentous changes over the past two years. The COVID-19 pandemic placed significant pressure on the global economy, adding unexpected complexities for insurers and clients. Layered atop the lingering pandemic effects are more frequent and severe weather events and natural disasters, rising cyber and ransomware attacks and increasing litigation. Record-high levels of traffic deaths have sharply driven up auto coverage rates and the tight insurance marketplace has made it more difficult and expensive to secure sufficient excess liability coverage. These factors present challenges for wealthy individuals in an already-strained property and casualty market.



RIISING NATURAL DISASTERS. In the past two years, natural catastrophes in the U.S. cost insurers \$176 billion — the highest two-year total in history. The rising frequency and severity of natural disasters have led insurance carriers in hurricane- and wildfire-prone areas to sharply limit coverage or exit the market altogether. These concerns have been compounded by escalating replacement costs, leaving property insurers reeling from the impact.¹ Construction materials costs jumped nearly 44% in the past two years and extended supply chain delays increased logistic costs for businesses by 22% in 2021.²

The near future looks no brighter. In the western U.S., a 22-year megadrought brings fears of further wildfires, which average an annual \$50 billion in costs. The drought currently impacts 99% of Californians, who in 2021 already experienced the most significant and expensive wildfires in U.S. history.³ Nearly 98% of New Mexico and Arizona and all of Utah and Nevada have also been classified as “in a state of drought” by the National Drought Mitigation Center, with the parched land likely to facilitate the spreading of wildfires. In the first half of 2022, more than 24,000 fires have burned — a 10-year high — and insurers have classified more than 4.5 million U.S. homes at high or extreme risk of wildfire.⁴

In the southern U.S., substantial hurricane losses will continue to challenge the property market. Hurricane Ian, which decimated several cities on Florida’s southwest coast, may cost insurers as much as \$100 billion.⁵ The 2021 landfall of Hurricane Ida cost insurers nearly \$32 billion, and the active 2020 hurricane season forced more than a dozen insurers in Florida and Louisiana into receivership.

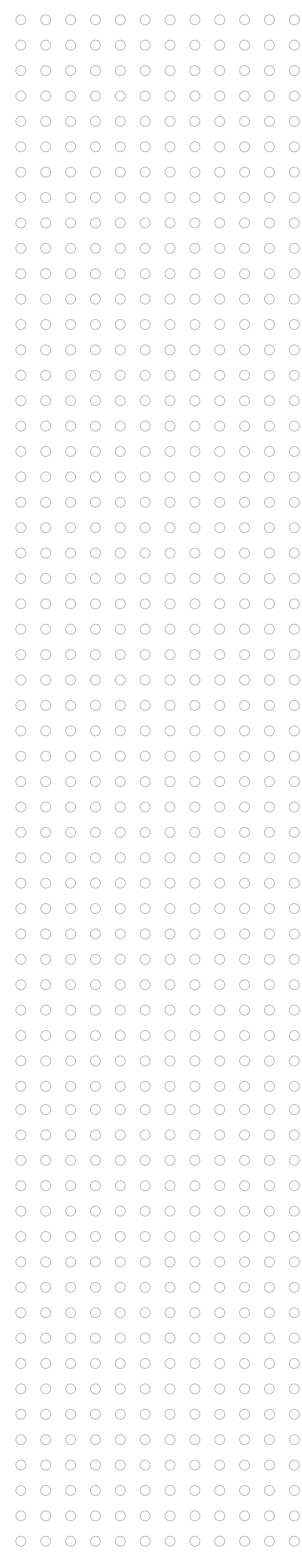
¹ Insurance Journal, “[Most Homeowners Underinsured for Trends in Inflation, Building Costs.](#)” May 6, 2022.

² The Wall Street Journal, “[Companies Face Rising Supply-Chain Costs Amid Inventory Challenges.](#)” June 21, 2022.

³ San Francisco Chronicle, “[Last year’s fire season in California set record for cost, Dixie Fire most expensive in U.S. history.](#)” March 18, 2022.

⁴ Insurance Journal, “[How Climate Change is Fueling More Intense Global Wildfires.](#)” May 16, 2022.

⁵ Risk & Insurance, “[Hurricane Ian’s Aftermath and the Insurance Implications.](#)” October 6, 2022.



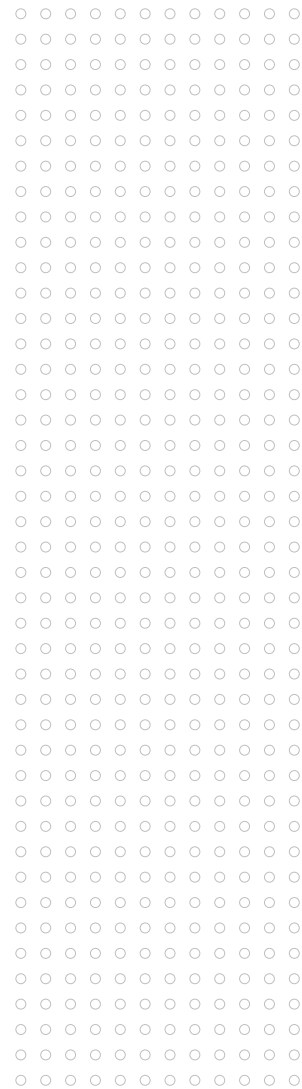


SOARING INFLATION. Inflation has become a top concern for many American families, growing at the highest rate since 1980.⁶ In 2021, inflation jumped 7%, and its upward trajectory shows no signs of slowing.⁷ In the first quarter of 2022, lumber prices rose 17%. Overall construction material costs increased nearly 27% in that same period,⁸ and persistent labor shortages have driven up construction wages by more than 5%.



INCREASED MOTOR VEHICLE ACCIDENT FREQUENCY AND SEVERITY. Auto insurance rates have been in tumult in recent years. The number of traffic fatalities reached a 16-year high in 2021, with more than 42,000 people dying in motor vehicle crashes — the highest number since 1975.⁹ The general increase in auto claim frequency and severity drove up vehicle insurance costs by 12% between 2021 and 2020. The cost of medical care has also surged, with hospital expenses for a victim of a serious vehicle accident up more than 20% in 2021 compared with 2019.¹⁰

The cost to repair vehicles involved in a wreck also rose in 2021. Auto parts prices increased 5% in the first quarter of 2022 alone, while overall average repair costs jumped 7.4% since 2020.¹¹



⁶ Axios, “[America’s inflation problem gets worse.](#)” July 13, 2022.

⁷ Conning, “[Inflation for P&C Insurers: Managing Risks to Both Sides of the Balance Sheet.](#)” March 14, 2022.

⁸ Insurance Journal, “[Home, Commercial Rate Hikes Not Enough to Offset Construction Costs: Moody’s.](#)” May 19, 2022.

⁹ National Highway Traffic Safety Administration, “[Newly Released Estimates Show Traffic Fatalities Reached a 16-Year High in 2021.](#)” May 17, 2022.

¹⁰ American Hospital Association, “[Massive Growth in Expenses and Rising Inflation Fuel Continued Financial Challenges for America’s Hospitals and Health Systems.](#)” accessed July 18, 2022.

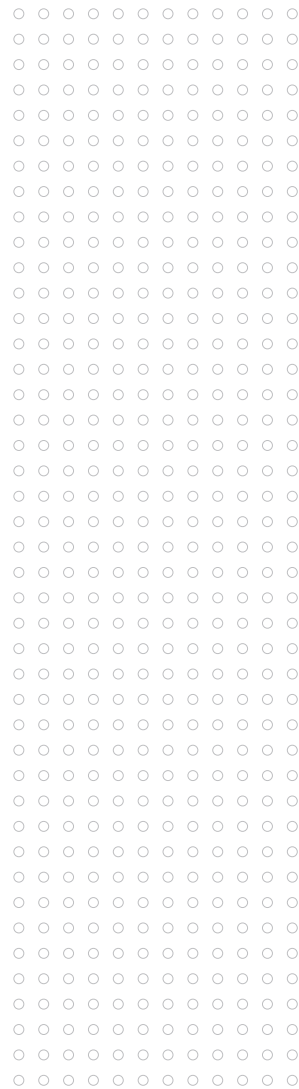
¹¹ Repairer Driven News, “[CCC Crash Course update looks at repair costs, claims trends, supply chain issues.](#)” June 9, 2022.



EXPANDING LITIGATION. Nearly all sectors of the property/casualty industry have experienced increases in litigation, forcing up average insurance rates by 15% to 25%.¹²

Every year, more than 40 million lawsuits are filed in the U.S. — more than in any other country — and those numbers continue to increase in most jurisdictions.¹³ Litigation award amounts have also skyrocketed. Total awards increased nearly 1,000% between 2010 and 2018, with the average payout jumping to \$22.3 million in 2019. Nearly a third more cases resulted in verdicts of \$100 million or greater in 2019 as compared with 2015.¹⁴

Insurers aren't the only target of lawsuits. Wealthy families are more likely to be sued than others.¹⁵ When members of affluent families are involved in an event, such as a drunk driving accident, or a slip-and-fall injury on their property, plaintiffs' attorneys will seek to maximize jury awards or settlements. These payouts may be well above the insured limits covering such exposures, with interest added to the settlement from the date of loss.



¹² Insurance Business America, "[Rates will continue to rise in casualty market](#)," September 17, 2021.

¹³ Safe At Last, "[Lawsuit Statistics to Intrigue You in 2022](#)," November 13, 2021.

¹⁴ Travelers, "[What's Driving Huge Jury Awards?](#)" accessed July 18, 2022.

¹⁵ Forbes, "[4 Ways Wealthy Families Protect Their Assets From Lawsuits](#)," February 14, 2020.



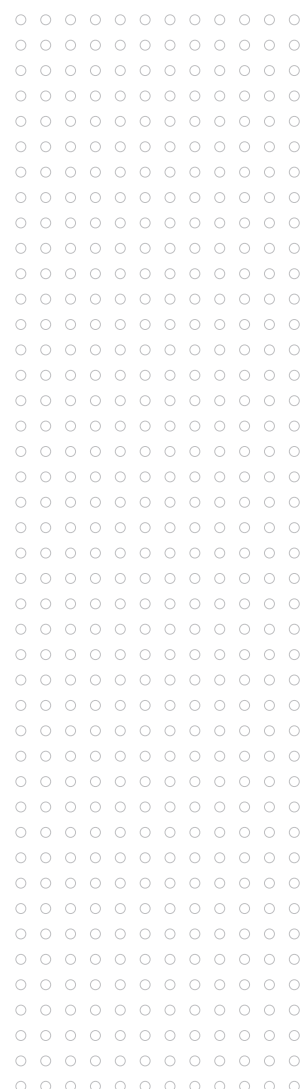
BALLOONING CYBERATTACKS. The number of data breaches and cyberattacks in 2021 increased more than 15% in the U.S. compared with 2020.¹⁶ Ransomware attacks against corporate and individual victims were particularly widespread, increasing 93% in the past year. More than half of all attacks on corporate targets were successful, with 58% of companies reporting that they paid the ransom.¹⁷

Highly affluent families also make for particularly attractive targets. More than a quarter of high net worth families have experienced a cyberattack, and 20% of family offices reported being hit by hackers prior to the COVID-19 pandemic.¹⁸ Incidents of spear phishing — a personalized hacker attack that typically targets wealthy individuals — have increased 250%. Affluent individuals are also 43% more likely to experience identity fraud than others.¹⁹

Most carriers require all policyholders to have a minimum level of preventative security in place, including multifactor identification and cybersecurity training, before they will consider writing a policy.²⁰ Many premium insurers are now offering coverage to their private clients which includes reimbursement for loss of funds, not simply monitoring.



LIMITED EXCESS COVERAGE. While many policyholders enjoyed high excess liability coverage limits prior to the pandemic, underwriters have since reduced their appetite for writing these risks, tightened their policy language and expanded exclusions.²¹ Standard market insurers no longer underwrite more than \$5 million of liability risk. Families requiring higher levels of excess liability coverage, in the range of \$25 million or more, now need to juggle multiple insurers to find a premium-efficient solution.



¹⁶ Forbes, “Alarming Cyber Statistics for Mid-Year 2022 That You Need to Know,” June 3, 2022.

¹⁷ Insurance Journal, “Cyber Attacks on the Rise for Businesses, Pushing Many to the Brink,” April 19, 2021.

¹⁸ UBS, *Global Family Office Report 2019*, accessed July 15, 2022.

¹⁹ Silicon Valley Bank, “High profile? High net worth? You’re at Special Risk for Fraud,” May 5, 2020.

²⁰ Benefits Pro, “Cyber insurance premiums increased over 80% in Q1 2022,” June 29, 2022.

²¹ Business Insurance, “Liability rate hikes ease as competition increases,” January 11, 2022.

Client Story

USING UMBRELLA COVERAGE TO PLUG THE GAPS



CHALLENGE

The son of a prominent family received a considerable inheritance that included a large property maintained by domestic staff and a substantial collection of vintage musical instruments, rare memorabilia and other items of value. The challenges of managing wealth on this scale were new to him.



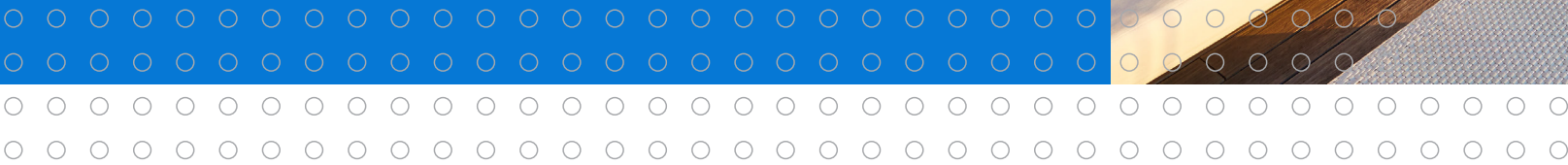
SOLUTION

HUB advisors conducted an onsite household inspection and made a detailed inventory of the inheritance. They also undertook a thorough review of coverages and identified multiple exposures, including an insufficient umbrella policy and a lack of employers practice liability (EPL) insurance for domestic staff.

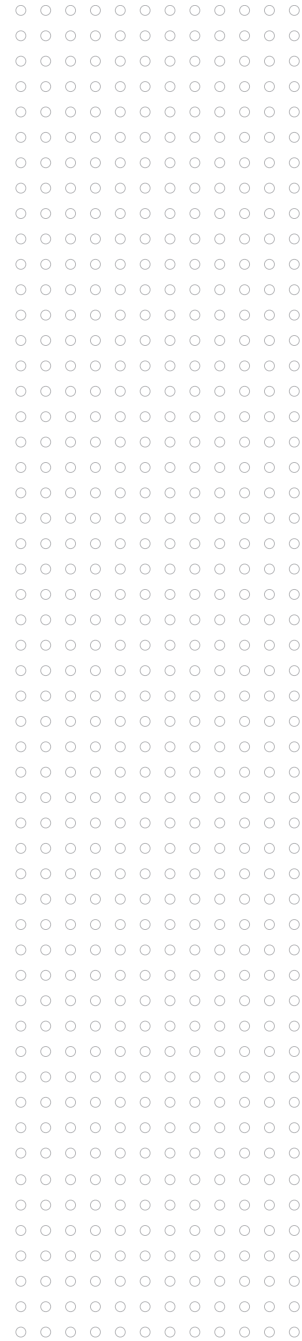


RESULTS

HUB increased the family's homeowners' policy limits and added a blanket policy for valuables, procured a \$10 million umbrella as well as EPL insurance, and ensured the family carried the minimum workers' compensation insurance required by New York law for its housekeeper.



Rising Rates and Shrinking Capacity Present Challenges for Affluent Homeowners



The unique confluence of stressors on the insurance marketplace is not only driving up insurance premiums but is also hindering the ability to obtain adequate coverage for high-value homes and other elements of the affluent lifestyle.

Homeowners are increasingly finding themselves underinsured, and reduced carrier appetite for insuring properties in coastal or wildfire-prone locations raised homeowners' insurance rates 7% in 2022, double the typical annual increase of between 3% and 5%.²²

In just the past year, several of the carriers who cover multi-million-dollar properties have declined to renew tens of thousands of homeowners' policies. Those continuing to underwrite policies are reducing limits, raising premiums and adding exclusions, forcing many policyholders to the excess and surplus markets for adequate coverage.²³

In Colorado, homeowners saw premiums rise 21% between 2017 and 2020. Texas reported an 18% increase, while Virginia increased by nearly 15% during the same time frame.²⁴ In California, reduced capacity in the primary insurance market has led to a surge in surplus coverage, with homeowners direct written premiums nearly tripling in the Golden State between 2018 and 2021.²⁵

²² Insurance Journal, "[Home, Commercial Rate Hikes Not Enough to Offset Construction Costs](#)," May 19, 2022.

²³ The Wall Street Journal, "[Wildfire Risk in California Drives Insurers to Pull Policies for Pricey Homes](#)," January 19, 2022.

²⁴ Washington Post, "[Many home insurance premiums are rising faster than inflation](#)," January 4, 2022.

²⁵ S&P Global, "[Use of surplus lines for homeowners coverage surging in California](#)," April 4, 2022.

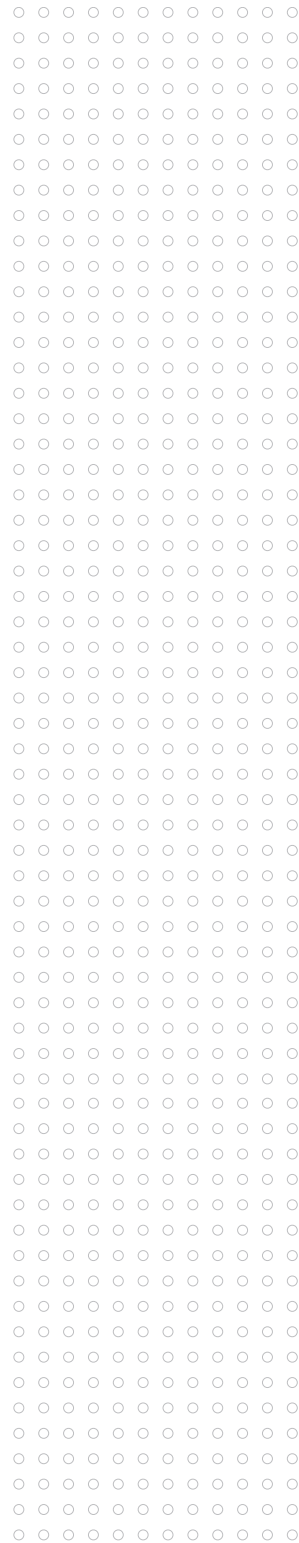
Sophisticated Approaches Are Needed to Address Complex Challenges

As it becomes more difficult to secure adequate insurance across a broad spectrum of risks, it's increasingly important to work with partners who understand your unique exposures and have the expertise to customize solutions that protect your assets and preserve your wealth. Here are some best practices:

Participate in the due diligence process. As with any advisory relationship, it's essential to be transparent with your Private Client advisor. Do not be afraid to disclose any past incidents that may impact insurability. Your advisor can supplement that information with public records and other data repositories to identify information that may affect a carrier's perception of your risks.

Be prepared for a discussion around the full breadth of risks that are associated with your lifestyle, business and philanthropic activities. In addition to home, auto and excess liability policies, you may require specialized coverages for equine farm and ranch, aviation, yachts, sports and entertainment, directors and officers insurance for both for-profit and nonprofit boards, domestic employment liability for household staff and professional liability policies for consulting services.

Keep a current and accurate list of valuable assets. Maintain an up-to-date inventory of all personal property and valuable articles, including jewelry, fine art, antiques and collectible wine and note how and where these assets are stored. Investing in safes bolted to the ground, utilizing other types of security systems or safeguarding items in bank vaults can result in lower premiums. For sophisticated collections, an inventory management system can help track locations, values, provenance and loan agreements.



Explore insurance alternatives outside the primary market.

The complexity of your situation may require a creative solution, as the options available in the primary market are rapidly disappearing. Your Private Client advisor can identify carriers willing to craft a multi-layered insurance policy or find capacity in the excess and surplus markets. Unconventional approaches may be of particular importance if you live in high-risk areas. For example, policies for California properties in the non-admitted market are not subject to Golden State insurance regulations.

Take measures to make your property a better risk. In the turbulent property insurance marketplace, there may only be a handful of carriers willing to offer you a homeowners' policy. Your advisor can help bring in experts to recommend specific measures to improve the resiliency, and therefore the insurability, of your property. For example, investing in a water flow detector with an automatic shut-off can boost your home's attractiveness to an insurance company. Carriers will also typically give you credit for installing central station burglar and fire alarms, temperature and gas leak sensors, backup generators, security cameras, lightning protection and interior sprinkler systems.

Integrate risk management into your real estate investment decisions. As coverage for high-value properties becomes more expensive and complex, it's important to speak with your Private Client advisor about issues you might be facing before you purchase a new property. For example, a beautiful vintage home may have subgrade architecture that underwriters will refuse to insure. A Miami mansion with 50 yards of prime Atlantic frontage may be considered uninsurable by private flood insurers. Ask about any potential updating, retrofitting or grading in order to be considered an insurable property. If you are considering buying a home that would require a major remodel, be sure to have counsel review any waivers of subrogation presented by contractors and check their certificates of insurance for adequate liability coverage.

Improving Resiliency in High-Risk Areas

If you own property in a coastal region or flood zone, earthquake-prone area or wildfire risk location, here are some practical measures you can take to not only improve the insurability of your property, but also to protect the safety of your family:

WILDFIRE RISK AREAS

Fire suppression systems, ember-resistant venting, gutter guards, exterior sprinkler systems and bark, mulch, tree and bush removal near the home.



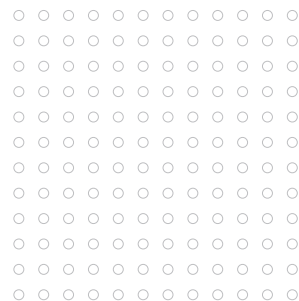
HURRICANE PRONE AND COASTAL REGIONS

Whole home generators, Class A hurricane glass, roofs no older than 15 years connected with wraps or clips and flood vents. Note that all openings must be fortified for hurricane impact, including windows, transom and skylights, entry doors and garage doors.



EARTHQUAKE ZONES

Seismic shut-off valves, structural retrofits for properties more than 40 years old.

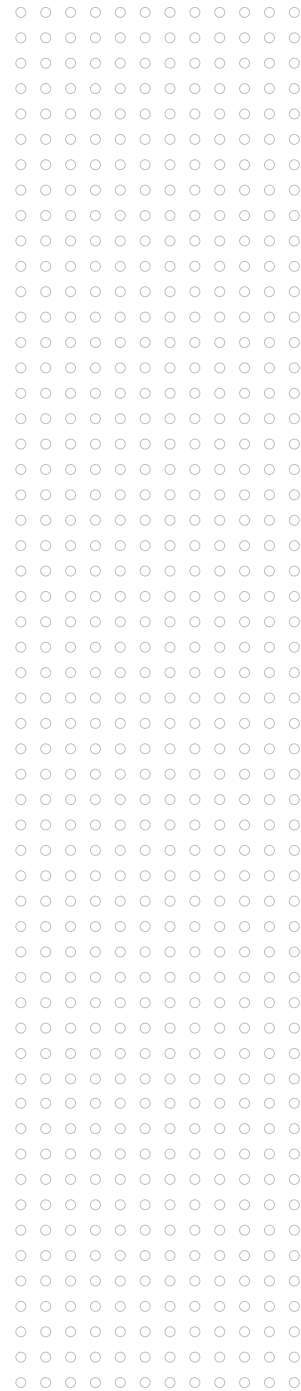


Protect income-producing personal assets. Be sure to notify your advisor if you ever rent out your vacation home, or perhaps have a son or daughter who uses a family car to earn some money as a ride share driver. Traditional homeowners and auto policies generally exclude coverage for bodily injury or property damage that occurs when a property or vehicle is being used for a business activity. Although many of these home- and vehicle-sharing websites offer owners some insurance coverage, limits tend to be low. Explore commercial policies for such investment properties or shared vehicles, and make sure exposures for properties held in trust by family members who use these online services are re-evaluated.

Address cyber risks. As affluent families are a prime target for hackers and other cybercriminals, a comprehensive cybersecurity policy is absolutely essential to protect your assets, your privacy and your reputation. If you have not had a cybersecurity professional assess and correct cybersecurity vulnerabilities in your home and family office, your Private Client advisor can arrange for a consultation with a qualified expert.

Pay attention to personal security. Unfortunately, affluent families and individuals may face threats to personal safety as well as their property, particularly if they have a high public profile and/or travel extensively. Review potential strategies to cover personal security risks through kidnapping and ransom policies, as well as political and medical evacuation policies during leisure and/or business travel.

Involve your family. As the wealth you are building and the assets you have accumulated may eventually be passed to future generations, it's often a good idea to establish as appropriate multigenerational relationship with your Private Client advisor. Consider involving your adult children or other family stakeholders in risk management discussions to make sure they understand how your assets are being protected for future generations.



Client Story

KNOW YOUR LIMITS



CHALLENGE

A successful entrepreneur amassed an extensive portfolio of properties through various business ventures. These properties were managed by a large staff of employees who struggled with the administrative burden of renewing dozens of insurance policies throughout the year. Having never conducted a comprehensive review of coverages, the entrepreneur was unaware of risk exposures that posed a significant threat to his enterprises.



SOLUTION

HUB advisors conducted a deep dive into the client's affairs, identifying uninsured properties, gaps in workers' compensation coverage and numerous inefficiencies. HUB renegotiated the client's personal and commercial insurance programs, procured coverage for exposed properties and consolidated insurance for each holding company to minimize the burden on staff.



RESULTS

Through streamlining procedures and renegotiating coverage, the client now saves more than \$50,000 annually in premiums and has proper insurance limits for all properties and business entities.



Experts in Private Client Personal Insurance.

We understand that personal wealth often comes with a complex mix of business, professional and personal interests that can be jeopardized at any moment without proper risk management.

Our insurance and risk management experts specialize in developing tailored solutions to protect your clients today while anticipating their needs and guiding them through tomorrow.

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