

# Wealth Manager

— PRESERVING WEALTH ■ MANAGING THE RISK

## WARNING: CLIENTS AT RISK

To truly manage clients' wealth, first assess, then manage, their risks.

■ ANDREW McELWEE

Imagine a wealthy client, a corporate executive who owns a vacation home with a considerable wine collection—until the house burns, and the home and collection are lost. Later, what looked like a tragic accident is deemed a criminal act as it becomes clear that the house was torched by a grounds employee. Moreover, it turns out that grounds-keeper set the fire to cover up the fact that he had been pilfering expensive wine and other possessions from the home over many years.

To a wealth manager, this may sound like a shocking and unthinkable situation, but it's the type of scenario a risk manager ponders every day. Independent insurance agents and brokers and other risk managers who work with affluent clients occupy a role not unlike that of a wealth manager, except that they deal in hazards instead of hedge funds.

Cultivating and managing assets might be the core of a wealth manager's business, and though closely related, wealth management and risk management are two entirely different, although complementary, disciplines. As risks evolve, threats to personal safety, property and reputation are

developing quickly, and wealthy individuals are becoming more concerned about how to protect their families. When it comes to protecting and preserving what you've built together, clients want to know that the same depth of knowledge and attention to detail is at their disposal: This is the essence of a risk manager's business.

### **Risk Assessment Step No. 1: What's Top of Mind**

First, let's consider some of the risks that are keeping high-net-worth clients awake at night. If they're sleeping soundly, they may be either fully protected or dangerously oblivious.

**No Longer Under the Radar.** In the past, some affluent families took their level of personal privacy for granted. While they might be well known within their respective communities, it was still easy to be "quietly wealthy." Today, that's no longer the case, and affluent individuals are increasingly uneasy about their lack of privacy and the need to aggressively protect their identities.

As sensitive personal data like Social Security numbers

and bank account information move online, the potential for theft or other security breaches magnifies accordingly. Additionally, the Internet's scope makes it easy for an identity thief or burglar to stake out a potential target from hundreds or thousands of miles away with the click of a mouse. In a sense, someone in China can virtually occupy a home located in North Carolina. Affluent families whose children spend time online need to be especially cognizant of these issues: Photos taken on the family

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yacht posted to a teen's MySpace profile create a very public display of wealth, which can easily catch the attention of someone who poses a threat. If the same teen uses the Internet to post disparaging comments about a classmate or teacher, the family is exposed to potential libel suits.

**Trusts and LLCs Clients Can Trust.** To most wealth managers, trusts and limited liability corporations are familiar territory. Managing assets within these categories is crucial on several levels, particularly for liability and tax reasons. Risk managers are well-versed in the language of estate planning as well, but from a different perspective: A well-engineered trust or LLC can't fulfill its purpose unless its assets are fully protected. For instance, a residence held in an LLC may contain furnishings and personal effects owned by the client. The client's possessions aren't covered under the LLC's homeowners policy, nor is the client insured for judgments and defense costs arising from a suit that names both the LLC and the client as defendants. When items like these fall through the cracks, clients will face significant vulnerabilities.

**Collections: Beyond the Material.** Collecting is a common way the affluent can indulge (and invest) in their passions, and collectors derive great inspiration and joy from these special possessions. Whether it's fine art or folk art, antique jewelry or classic cars, wealthy collectors are devoted to their treasures emotionally and financially.

In many cases, these people feel a deep sense of stewardship with regard to their collections, especially those items that would be difficult to replace or repair. Serious collectors understand the societal significance of their pieces, and feel an obligation to handle them appropriately. Understanding this mindset and taking a vested interest in protecting a client's valued possessions demonstrates a commitment to the belongings they cherish for more than just their monetary worth.

**When Travels Become Tribulations.** As overseas travel becomes increasingly common, the affluent continue to seek out the most exotic, luxurious and exclusive destinations. For some,

this means sending a child to study in Paris; for others, it could be an African safari or an indulgent trip to the resorts of Dubai, or over the longer term, spending retirement years on foreign shores. Big-ticket adventures like these often lead to priceless experiences and memories, but carry with them a bevy of potential security and safety threats.

To ensure that trips overseas go smoothly, it's important to make safe travel arrangements and to be aware of cultural differences and dangers. Preparing for medical emergencies and other unpleasant surprises may not be top-of-mind when planning a dream vacation, but the difference between safe and sorry is often critical. Especially in undeveloped countries, which tend to include the exotic destinations to which affluent travelers are so attracted, the quality of medical care lags far behind the standards we're accustomed to in the Western world. Gaining access to adequate health care overseas can be extremely difficult, and securing that access for clients often requires extra help.

### Risk Assessment Step No. 2: What's Often Overlooked

Let's address now some of the risks affluent individuals consistently overlook. How can wealth managers help their clients keep a major threat from slipping through the cracks?

**Minding the Gap.** In today's litigious society, the need for personal liability coverage among the high-net-worth community is recognized by wealth managers and risk managers alike—however, recognizing the need and handling it properly require two different skill sets. Too often, an individual with a \$20 million balance sheet is underserved by a \$1 million or even a \$3 million umbrella policy. Securing a high enough limit on a liability insurance policy only addresses half the equation. Wealthy individuals often experience gaps in coverage which may not appear until after a loss has occurred. The key to providing exceptional service is to address these hidden exposures before they become losses.

**Being a Director or Officer is a Risky Business.** In the current economic environment, it's evident to both wealth managers and their clients that sitting on the board of any company puts them at risk for mismanagement lawsuits and related liability exposures. They may not realize that shareholders are not the only source of legal disputes and entanglements or that the company's directors' and officers' liability insurance may not offer enough protection. Also surprising to some, these concerns apply in a private company or not-for-profit setting as well. A board member's specific risk profile varies depending on his or her position as well as the organization itself, and for individuals who serve on multiple boards, the exposures add up quickly. Taking a close look at board activities from a risk management perspective and understanding a variety of personal protections

ensures that clients can perform their duties with confidence.

**Birds of a Feather Flock Together.** A big part of being a wealthy individual is associating with other wealthy individuals; whether your client sees this as a perk, an obligation, or even a curse of having money, it is an inescapable truth. As a result, in the event of a claim involving another person, chances are the other person might be just as rich. Therefore, it's that much more important to have adequate insurance protection in place. As an example, consider the real-life claim situation between two members of an upscale health club. An argument at the gym quickly escalated into a physical confrontation that resulted in one of the men fracturing his wrist. The injured party, who happened to be a surgeon at the forefront of his field, then sued his opponent for future lost wages to the tune of \$10 million.

### **Risk Assessment Step No. 3: What's the Latest in Risk?**

Let's consider some of the new issues in the affluent risk landscape. What do wealthy individuals need to look out for in the 21st century?

**Outsourcing Gets Personal.** India isn't the only place experiencing an outsourcing boom; it's happening on a smaller scale in luxury apartments and sprawling estates across the country. Whereas 20 years ago a wealthy family might employ a single butler, nanny or housekeeper, today's affluent households are more likely to bring in all three—plus a groundskeeper, cook and personal assistant. Employees like these can make a wealthy person's busy life easier and more enjoyable; however, when inviting an outsider into one's home, it's important to exercise the proper level of caution.

While domestic employees may feel like "part of the family," the unfortunate truth is that they don't always have their employers' best interests at heart. In recent years, celebrities like Jude Law, Rob Lowe and Elizabeth Taylor have learned this lesson to their regret. It is important for the wealthy to recognize that managing a household workforce is increasingly similar to running a business—risks and all. From conducting thorough background checks before hiring to addressing all of the potential liability exposures that accompany such arrangements, there are several steps in making sure that all risks are covered.

**Fine Art: Finders, Keepers?** A few high-profile incidences of late at major museums illuminate a staggering risk in the art community: Art theft is now a \$6 billion business, and it's growing. For private collectors, the obvious instinct is to protect the pieces they own from burglars, whether by stowing them in a locked vault or installing additional security in display areas. However, the real threat to their treasured masterpiece may not be a thief, but the original owner. Even if it is found that a client has purchased a piece of stolen art unknowingly, the rightful owner may win claim to the property. To prevent these occurrences, it's important that buyers perform due diligence to prove that they made every effort to obtain a clean title. In the event of a title dispute, this can be a crucial defense.

### **Risk Management and Wealth Management**

High-net-worth clients have always demanded the utmost in service from their advisors, and living in the age of information has only sharpened that demand. As clients look for more value from their advisors, many wealth managers will make up the difference through exceptional service.

## **STARTING THE CONVERSATION**

Here are 10 important questions for wealth managers to ask when talking to clients about risk. Each "yes" answer will require follow up to manage the level of risk.

- Do you employ domestic staff such as a housekeeper or nanny?
- Does any third party have access to your personal information (accountants, attorneys, domestic employees, etc.)?
- Do you utilize wireless technology?
- Do you know the appropriate steps to take if you are a victim of identity theft?
- Do you or any family member travel outside the United States?
- Does someone reside at or check daily on your residence while you are traveling?
- Has your home been appraised for its insurance replacement value?
- Do you maintain a thorough inventory of your valuable possessions?
- Do you serve on the board of a public, private or non-profit organization?
- Do you make statements to the press?

This is true for both wealth management and risk management professionals, and in many cases, the most effective approach to meeting and exceeding client expectations is through a team effort. A wealth manager who takes a truly holistic approach can be likened to the quarterback of a football team. The quarterback acts as a leader and calls the shots, but he can't play every position. To continue the analogy, if the wealth manager is the quarterback, then the risk manager is the offensive line, whose primary focus and expertise is to protect the ball (and, incidentally, the quarterback).

The events described here range from misfortunes to tragedies. While no wealth or risk manager has a crystal ball to foresee every kind of event, together they can take action to mitigate losses and reduce the likelihood of such incidents altering the trajectory of the family fortune. By helping their clients address the risks associated with an affluent lifestyle, wealth managers play a crucial role in protecting the financial assets they've worked to build for the families who've entrusted them with so much. In so doing, wealth managers protect not only assets under management, but their own reputations and ultimately, their livelihoods.

**Andrew McElwee** is executive vice president of Chubb & Son, a division of Federal Insurance Co. and chief operating officer of Chubb Personal Insurance. He can be reached at [amelwee@chubb.com](mailto:amelwee@chubb.com)



P.O. Box 1615, Warren, NJ 07061-1615  
[www.chubb.com/personal](http://www.chubb.com/personal)  
Form 02-10-0686