

It pays to get personal

Differentiate your agency, build an elite personal-lines practice

By Jerry Hourihan

It's an understatement to say that direct-to-consumer insurance companies have enormous marketing budgets. For years they have blanketed the Internet, television, radio and more with congenial mascots and catchy slogans most of us know by heart.

It's an uphill battle to compete head-to-head with these behemoths in the mainstream marketplace. Profit margins are thin and competition is fierce. However, opportunities abound for those who look outside of their "sweet spot" and consider more under-served segments of the population.

A prime example is the high-net worth segment. Agencies that equip themselves to adopt a high-net worth growth strategy can exploit a significant weakness in the captive and direct agency plant. More importantly, they can bring in new revenue for years to come.

Untapped opportunity

Despite a drop in 2008, the high-net worth segment is again seeing growth. The *2010 World Wealth Report* cites a 16.6 percent increase in the number of high-net worth individuals in North America in 2009. North America also boasts the greatest high-net worth population (3.1 million people) according to the study, accounting for 31 percent of global personal wealth.¹

Generally, there's a vast difference in quality and service between commodity and luxury goods. The same is true for



insurance. If someone has a net worth in excess of \$5 million, most captive agents are not in a position to address his or her complex personal-risk management needs adequately. However, the majority of wealthy consumers still purchase insurance through these channels—and remain unwittingly exposed to a wide range of property and liability threats.

There's a simple explanation for the wide disparity between most affluent consumer's assets and the insurance in

place to protect them. It's a fundamental lack of awareness. Even if one is diligent about renewing policies with a captive agent, there's little opportunity to discover the availability of broader coverage with higher limits—solutions that readily are available through professional independent agents or brokers with access to high net-worth specialist carriers. This is why shrewd advisers who make the effort to reach wealthy prospects proactively reap the benefits.

Chinks in the armor

10 ways captive agents can fail their high-net worth clients

- 1.) Lack of choice; a captive agent can only sell products from one company.
- 2.) Inability to offer high limits of personal excess liability insurance, a critical need for those with substantial personal assets.
- 3.) Claims not handled by those who focus exclusively on serving high-net worth clientele.
- 4.) Limited coastal capacity.
- 5.) Consistently under-insuring high-value homes; guaranteed replacement cost options either capped or not available.
- 6.) Inability to insure significant amounts of art, wine and other high-value collectibles properly.
- 7.) Inability to insure the complex risks that come with a successful lifestyle, such as lawsuits brought by domestic employees, personal security threats, homes in catastrophe-prone areas, etc.
- 8.) No agreed value provisions for automobiles.
- 9.) Inability to offer proactive risk management services that can reduce the likelihood of property damage, theft or other losses.
- 10.) Not permitting clients to use the contractors, interior designers or other related vendors of their choosing at claim time; most are confined to a limited network of service providers.

Take back personal lines

PIA offers its members the tools to help combat direct-writer advertising campaigns. While it may seem impossible to compete with the constant barrage of multi-million dollar ad campaigns launched by direct writers, professional insurance agents have distinct advantages.

Independent agents offer personal service, knowledge, multiple carriers ... yet it sometimes seems that the public is more interested in the quick generic service they can get with one of those 1-800 numbers or websites.

It's time we reinforce to our current and potential clients the importance of the independent insurance agent. PIA gathered several reference materials to help you fight the battle to take back personal lines.

Let PIA help you take back personal lines, logon to the website today:

New York: www.pia.org/COMM/personal/indexny.shtml.

New Jersey: www.pia.org/COMM/personal/indexnj.shtml.

Connecticut: www.pia.org/COMM/personal/indexct.shtml.

New Hampshire: www.pia.org/COMM/personal/indexnh.shtml.



Inherent financial advantages

The timing has never been better to enter the high-net worth market. In contrast to the turbulent commercial insurance marketplace, high-net worth personal lines is inherently stable. The regulatory environment makes it difficult for rates to vary drastically from year to year, even in a soft market.

Agencies also can benefit from the following market characteristics:

- **Higher premiums and better commission.** Personal-lines carriers typically pay 15 percent commission to their producers. Further, affluent families generally purchase more policies with higher coverage limits, which generate higher premiums than even standard personal lines.

- **Account growth.** There are two underlying advantages here: First, high-net worth carriers typically sell their offerings as a package of products and services. Core product lines include homeowners, excess liability, automobile and private collections. Over time, an individual account can grow easily and organically with new acquisitions.

- **Loyal clients.** High-net worth personal-lines clients tend to stay with their advisors. Retention rates generally are in the low- to mid-90s.

Determining your potential

Not every independent agency or brokerage can thrive in high-net worth personal lines. Those who have made the leap successfully share the following traits:

- **Deeply experienced personnel.** This business is about personal risk management, not just selling a new set of policies. High-net worth clients, particularly those coming from captive agents, won't necessarily know what they need. A good agent or broker will conduct a thorough annual risk assessment and work with the carrier to build a custom program around the individual. The assessment will consider the client's full range of insurable assets, as well as lifestyle choices and family circumstances. A few examples: Who has access to their properties? Do they


travel? Are there teenage drivers in the household? Do they own watercraft? This is just a small sampling of the many considerations a solid adviser stays on top of over time.

• **Regular access to prospects.** A profitable high-net worth book has about \$3-5 million in annual premium. That translates to roughly 300-500 clients, but the numbers vary depending on individual account size (at the high end of the spectrum, premiums can run in the six figures or more). Please note: for those who aren't equipped to produce this sort of volume, there are a limited number of excellent wholesalers who can service your high-net worth clients for a modest fee.

It takes consistent effort to build and maintain a profitable client base. For many agencies, a natural place to start is the incumbent commercial book. If you have relationships with companies that employ high concentrations of wealthy executives, consider selling a group excess liability insurance program. Not only will you be able to introduce your firm to a broad range of prospects, but you also open the door to cross-sell additional personal insurance products over time.

Another beneficial tactic is to forge relationships with advisers serving high-net worth clientele in other manners. Most affluent individuals and families employ financial advisers, lawyers, accountants, family office managers and others who can serve as valuable referral sources.

• **Relationships with the key players.** Only a few carriers specialize in the needs of high-net worth clientele. Getting appointed with the leaders in this space can come with a range of additional benefits. For example, the Private Client Group at Chartis offers year-round sales training and continuing-education programs at no cost to its producers.

No matter how direct-to-consumer companies dominate the standard marketplace, there is tremendous room for growth when you adeptly serve a niche market. Our industry may be built entirely around risk, but it's a safe bet to invest in a high-net worth practice. 

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¹ *The 2010 World Wealth Report is published by Capgemini and Merrill Lynch Wealth Management. High-net*

worth individuals are defined as "those with investable assets of \$1 million or more, excluding primary residences, collectibles, consumables and consumer durables."

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