

Proactive Coverage Wins the Game

As an advisor who talks with clients about sensitive matters that will outlive them, you're in a space of trust in your clients' minds. It's no surprise, then, that you are being asked to answer questions outside trust and estate planning—such as levels of property and casualty insurance coverage. You need to have enough information to ask the right questions.

What they want is an advisor that understands their game plan—and they want a quarterback to help keep their plan a winning one. Let's look at three common gaps that you can learn to help your clients.

Gap 1: Valuation = Valuable

Even a seemingly good policy can leave someone underinsured if the item being insured isn't properly valued. Many homeowner insurers leave it up to the individual to determine their amount of coverage. Unfortunately, many homeowners confuse market value (how much the home would sell for) with replacement value (how much it would cost to replace the home), leaving them underinsured. And if an insurer relies on assessments like a formula, the full value of the home won't be considered in the policy.

Gap 2: Replacement Costs

It's not enough for an insurer to say they'll cover a client—you need to know how that coverage happens. Replacement cost coverage can close one gap in home policies. Most homeowners fail to update their insurance coverage amounts to reflect home improvements.

For personal property, clients should know an insurer's settlement basis. Is it replacement cost or actual cash value? Replacement cost coverage means that the insurer would pay for the policyholder to obtain an asset at today's prices. Actual cash value means that the insurer would calculate depreciation and only reimburse the policyholder for the depreciated asset value. Which one sounds like a better deal?

Gap 3: Personal Liability

Financially successful people are sometimes seen as "deep pockets," making them targets for lawsuits. The person being sued needs to be covered by a policy, and that policy needs to cover what they're actually being sued for. "Up to the policy limit" is a very important phrase. It points to the need to have the right amount of coverage. There's also the question of defense costs and access to counsel.

To Keep Their Legacies Protected, Have an Annual Review

A client's personal property and casualty insurance program should be reviewed annually, just like a financial plan. The annual insurance assessment should include:

1. Evaluation of risk profile/potential for loss
2. Analysis of current coverage (Does the policy provide the protection the client needs?)
3. Analysis of current insurer (Is the client with the right insurance company?)
4. Recommendations for limits and specialty coverage
5. Recommendations of loss control measures to control potential property or liability exposures

A deeper understanding of some details of today's protection plans will minimize your client's future exposure.

Financially successful clients expect their advisors to provide advice beyond their specific expertise. According to a 2017 CFA Institute study¹, clients want proactive, transparent help from their advisors. Here are some key numbers from the study to keep top of mind:

53% expect clear communication

51% expect financial acumen

45% expect transparency

31% expect proactivity

¹ The Value of Premium Wealth Management™ CFA Institute, 2017

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