

Lloyd's of London Is Not Just for Celebrity Body Parts

Unique insurance solutions for your exceptional clientele



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By Sean McNiff

When people hear Lloyd's of London, they often think of insuring fabulously well-known celebrity body parts, whether it's JLo's well-photographed derriere, Dolly Parton's trademark DD's, or soccer star David Beckham's legs — once insured for a \$100 million.

Caught up in all the glitz and glamour, it's easy for advisors to overlook how the powerful resources of Lloyd's can protect their best clients — from executives managing billions of dollars of assets, to partners executing powerful buy-sell agreements, to highly-compensated individuals whose livelihoods require unique income protection resources.

Case in point: We recently worked with an advisor tasked to provide succession planning directives for a Southern California-based asset management and investment firm managing a portfolio of \$17 billion. The chief investment officer was critical to the success of the firm, wearing multiple hats—CIO, president, chief investment officer, market strategist—as well as overseeing all the firm's U.S. equity and hedge fund strategies. Under his control, the firm's assets under management had risen from \$3 billion to \$17 billion within 10 years, thus underscoring the overall importance of his responsibilities.

In this scenario, the firm's investment agreement included an "accelerated divestiture clause," which would allow investors to accelerate the rate at which money can be drawn from their funds if the fund manager dies or becomes disabled. To protect the firm, the board of directors requested \$50 million of key-person life insurance and \$50 million of key-person disability insurance.

While obtaining a \$50 million key-person life insurance policy is a reasonable request and a relatively straightforward process in U.S. markets, a request for \$50 million of key-person disability is not such a simple task. In fact, key-person disability for successful businesses and



corporations is a significantly underserved market. Most U.S. disability carriers do not offer these policies, and those that do oftentimes have limitations on availability in certain states (i.e. California, Florida, New York, Vermont). In the event a domestic solution is offered, benefits are "capped" to provide less than \$1 million, a figure that proves to be insufficient when protecting a business' highly successful human capital.

Thanks to the Lloyd's market, key person disability products are available with extraordinary benefit limits to U.S. businesses and individuals through certified Lloyd's of London coverholders. In this case, a product was designed to deploy the requested \$50 million key-person disability insurance policy, payable to the company in a lump sum after 12 months, should the CIO be unable to perform his duties. Traditional insurance would have capped this coverage at around \$750,000, hardly enough to throw a blanket of protection over a \$17 billion investment firm.

In U.S. markets, key-person disability coverage is just one of the shortcomings of traditional insurance. Buy-sell



disability insurance has its limitations as well. Traditional disability carriers generally cap coverage at \$2.5 million of benefit, and when partners have an age gap considered to be too far apart, it's common that no coverage is made available at all. This is often an issue in family-owned businesses. By way of Lloyd's buy-sell disability coverage, clients can obtain more than \$100 million of benefit per person. Furthermore, these policies can be tailored to fit the company's buy-sell agreement and solve the dilemmas presented in traditional markets.

In another example, let's say you're working with a successful privately held business with four equal shareholders who are looking to fund a recently executed buy-sell agreement. They're now required to repurchase each other's shares in the event of a death or disability, a frightening consideration for a highly valued business. If their business is valued at \$30 million, U.S. life insurance markets can easily accommodate the request for buy-sell life insurance. However, U.S. disability carriers do not have the capacity to fund the value of their agreement's disability obligations. The company should have in place at the very minimum a \$7.5 million buy-out policy that would pay a benefit in the event of permanent disability to one of the four principal owners.

Individual disability income is another area where new opportunities can be created when advisors understand the capabilities of Lloyd's. In traditional disability markets, we often hear people say "Your client's ability to earn a sizeable income is his/her biggest asset, yet it is often taken for granted." That phrase doesn't do justice to the size of that asset when your client is earning in excess of seven figures;

which is when those assets become exponentially larger. Consider this, the unearned future income of a 45-year-old earning \$1 million annually, who plans to work another 20 years, is valued at \$20 million. Take a moment and think about that. What asset worth \$20 million does your clients own in which they do not fully insure? When you're advising high-income clients, you're protecting those who have maintained the wherewithal to achieve the American Dream. Make no mistake, elite advisors understand the value of what's at risk, and without incorporating the proper income protection strategy, they are leaving their high-income earners, their families and their lifestyle in jeopardy.

The primary problem in all of the cases above is underinsurance. We recently worked with a New York law firm partner who earned \$1.3 million annually. The attorney's existing disability portfolio consisted of two traditional disability income policies with a combined value of \$15,250 per month in income protection benefits, and group long-term disability of \$15,000 per month. Although this may sound like a robust program to your average earner, this represents less than 30% of the attorney's income. Using Lloyd's of London, we designed an excess disability policy delivering an additional \$35,000 per month of income protection, bringing the attorney's total income replacement to \$65,250 per month.

The good news is that there are now plans available that can supplement what is being offered by traditional carriers with plans designed to meet client needs and objectives. For employers, these programs can be offered at the institutional level, allowing individuals to obtain high-limit income protection using leveraged buying power to negotiate discounted rates, more attractive policy provisions and, perhaps most importantly, eliminate cumbersome medical underwriting. But no matter how you look at it, it is an exciting opportunity for advisors to have at their fingertips unique insurance solutions for their most valuable high-end clients.

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