Aon Private Risk Management
Family Office

Family Office Benchmarking Report

Aon Private Risk Management

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Executive Summary

The rapid growth of family assets and the drive to preserve wealth for future generations has led to a proliferation of family offices across the country.[1] The number of family offices has more than doubled over the last 15 years,[1] yet despite their growing popularity there is a scarcity of insurance data detailing the unique risk trends impacting multigenerational families.

The risks affluent families face are rapidly evolving, heightening the possibility of loss to financial assets and challenging their privacy and physical security. This benchmarking study serves to offer insight into family office risk management strategies, trends impacting this client segment, and Aon's capabilities and proactive approach to family office program management..

Family Office Structure and Benchmarking

Each family office is unique in structure and the level of services it offers. Offices serving families with multiple generations must also address different needs, which adds to the complexity of wealth preservation and risk strategy planning. Aon Private Risk Management (Aon) collaborates with each family office to develop sound risk management practices and insurance standards that can be customized to meet the family's unique objectives.

The information in this study is gathered from 130 family offices we serve. To accurately illustrate the trends impacting Aon's family offices, we've included families that are diverse in both number of members and generations. Sixty-three percent of the family offices included in this study are single family offices, but all families included have significant assets under management with wealth origins tied to a variety of industries.

FAMILIES REPRESENTED IN THIS STUDY

63% Single Family Office

37% Multi-Family Office

General Trends

Upon examination of the data we observed several positive trends across family offices:

Art & Collections: Eighty-one percent of all family members elect to carry specialized Art & Collections coverage.

Wind: Ninety-five percent of all properties located in hurricane-prone areas are insured for damaging hurricane winds.

Excess Liability: One hundred percent of family members carry excess liability coverage with 93% also electing excess uninsured and underinsured motorist coverage.

Persisting Challenges

With the heightening risk of prominent families being targeted for liability lawsuits, these coverage options continue to be overlooked by families:

Cyber: Only 2% of family offices carry comprehensive Cyber Liability coverage and very few individual households elect cyber coverage.

Non-Profit Directors & Officers Liability: Although numerous family members serve on non-profit boards, only 15% carry individual Directors & Officers coverage.

Employment Practices Liability: Nearly 50% of all families carrying domestic workers compensation coverage decline to carry Employment Practices Liability coverage.

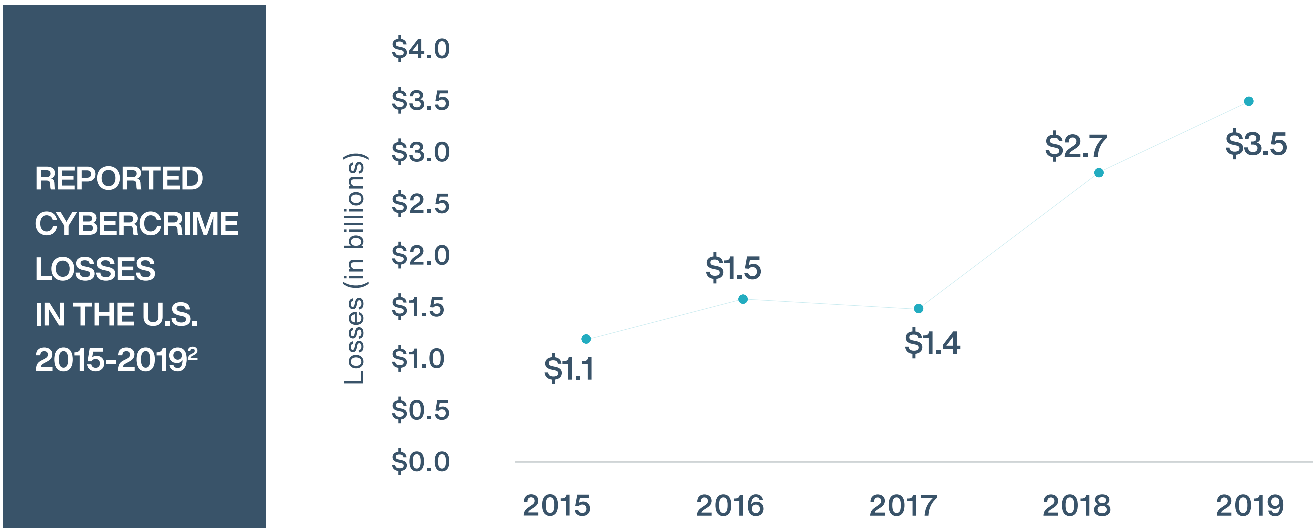
Industry Trends and Emerging Risks

Aon is focused on staying current on industry changes and anticipating risk trends. Our firm is committed to providing our clients with unique insights into market conditions, rates, and emerging risks across all industries, regions and geographies around the world.

Cyber

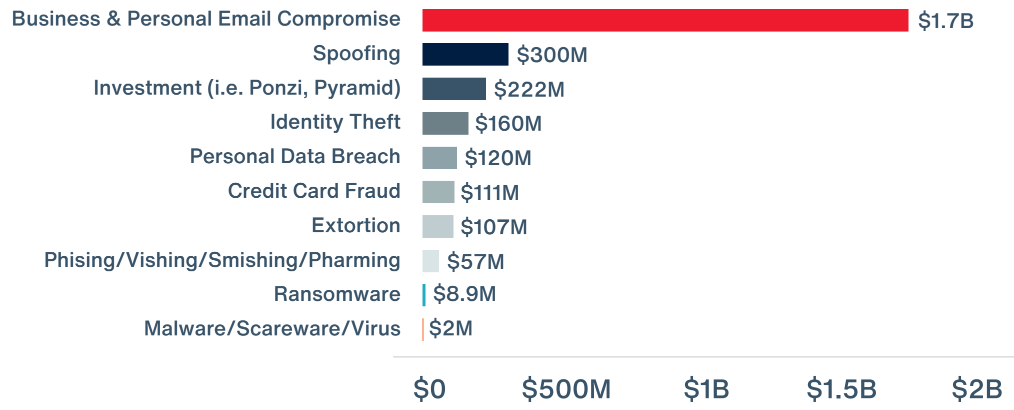
Cybercrime is a mounting threat as the techniques of cybercriminals grow more sophisticated each year. In 2019, there were 467,361 reported cybercrime complaints and $3.5 billion in victim losses in the United States, exposing over 164 million sensitive records.[2] Data breaches and malware attacks against large organizations are frequent; however, attacks against small businesses and individuals are also growing at an alarming rate.

Family offices have a unique exposure as the privacy and financial information of both the family office and family members are in jeopardy. UBS reported that approximately 22% of family offices in North America have knowingly experienced a cyberattack in 2019.[3] The most common forms of attack resulted from phishing, malware, and social engineering.[3] Being proactive against cybercrime is a necessity for family offices and the risks should not be underestimated. Currently, only 2% of family offices carry comprehensive cyber liability coverage and very few individual households elect cyber coverage.



It's crucial for both family offices and their members to proactively implement security control measures. The U.S. Securities and Exchange Commission reported that 88% of broker-dealers and 74% of investment advisors have experienced cyberattacks directly or indirectly through vendors, with a majority of these attacks originating from malware and fraudulent emails.[4] The fragmented approach of many cyber-related programs on the market cannot adequately mitigate the risks of cyberattacks. The most effective strategy includes evaluating existing and potential security weaknesses, implementing a risk mitigation strategy, and engaging a team of professionals should a breach occur. Aon's Cyber Solutions Division notes that affluent individuals and families are frequently targeted for a variety of factors. The more financial assets at stake, the more interested cybercriminals are in their target. Criminals are also aware that the reputational risk resulting from a data breach can give them more leverage with their victim.

TYPES OF CYBERCRIME LOSSES REPORTED IN 2019[2]



James Trainor, senior vice president of Aon Cyber Solutions and former assistant director of the FBI's Cyber Division, has seen cybercrime grow exponentially over the last decade. He noted the data released by the FBI only represents a small fraction of the cyberattacks that occur in the United States. "These numbers only represent the cyberattacks reported to the FBI. The number of attacks and real damages to individuals and businesses are likely much higher. There are many organizations and individuals that choose not to involve law enforcement, which is a mistake." James continues to witness the harmful impact of cyberattacks on both financials and reputation. "Every organization is at risk of being the victim of a ransomware attack and it's the fiduciary responsibility of each family office to protect the assets and privacy of the families they serve." He also acknowledged that there seems to be some degree of conflict between convenience and security. "Some family offices err on the side of convenience. Many do not have a technical staff, and if they haven't been hit with an attack they falsely believe the probability of an attack is low." He noted that key decision makers who have worked for large organizations understand how detrimental cyberattacks can be and are more discerning when it comes to cyber security investment. "They know putting the genie back in the bottle is really difficult. It will start with one attack but will not end there. Sadly, it's a gift that keeps on giving."

"Every organization is at risk of being the victim of a ransomware attack and it's the fiduciary responsibility of each family office to protect the assets and privacy of the families they serve."

JAMES TRAINOR
Senior Vice President
Aon Cyber Solutions

Global Supply Chain and Labor Shortage

Costs for materials and labor directly impact the costs and speed of property restoration. Insurance premiums are expected to continue to rise as the United States experiences shortages of imported steel, cement, and aluminum. Unexpected events, such as natural disasters and pandemics, also negatively impact the supply chain. According to the U.S. Department of Commerce, numerous businesses are operating on a limited capacity and some have completely ceased operations due to the pandemic.5 Natural disasters produce a similar effect by creating a strain on resources.

Catastrophic events resulting in widespread property damage also create a high demand for skilled labor. As the frequency and severity of these events continue to rise, insurers often pay a premium price for skilled contractors. Premier insurers include extended and guaranteed replacement cost options to help ensure there is sufficient coverage to restore a property quickly and with the same quality materials and finishes. Investing insurance dollars in comprehensive programs provides a net benefit to clients by helping to reduce their total expenditures in the event of a covered loss.

Setting a Standard

Ensuring all family members are adequately protected and in agreement with program limits can be difficult to accomplish without setting minimum insurance standards for all members. Setting baseline requirements for families is becoming much more prevalent. It eliminates inconsistencies and creates mutual understanding between the family and their team of advisors.

Many families with a considerable number of members or properties accomplish this by choosing to consolidate coverage under a blanket program. This is a group program that creates one total limit covering property with additional options for catastrophe coverage. Family offices can also choose to implement minimum property deductibles and primary liability limit requirements for all members. This program can be supplemented with a group excess liability program requiring minimum limits based on each member's net worth or by generation. In addition, we can work with family offices to streamline coverage by maintaining required minimum limits for automobile and collections coverage.

Both single and multi-family offices can create best practices and standards to ensure each family is adequately protected while meeting their risk management objectives.

Catastrophic Events

Catastrophic climate events cause an average of $15 billion in damage each year and are responsible for 90% of all federally declared disasters.[6] Natural disasters are becoming more difficult to anticipate as deviations from typical weather patterns and more extreme events are emerging. Once considered low-probability, high cost events, they are now increasing in both frequency and intensity.

The insurance industry has encountered major disruptions in recent years due to the large number of losses sustained from both extreme weather events and increases in general property claims. Insurers have responded by tightening eligibility requirements, which is driving a higher volume of business to the non-admitted market resulting in significant premium increases. In addition, some insurers are also increasing deductibles around catastrophic risks.

Further complicating matters, Kroll Bond Rating Agency believes that the COVID-19 pandemic and civil unrest have moved the needle on what is considered catastrophe loss, which will only add challenges to enterprise risk management.[7] The continuous insurance market changes make it more important than ever for family offices to partner with knowledgeable, experienced brokers who understand the complexity of this new market.

Hurricane Flooding

Three of the 10 most damaging U.S. flood events occurred within just the last decade. In 2012, the National Flood Insurance Program (NFIP) paid $8.8 billion in flood claims caused by Superstorm Sandy, which is ranked as the third costliest flood event in U.S. history.[8] 2017 was marked with the second and tenth costliest hurricanes – Hurricane Harvey and Hurricane Irma – with NFIP flood payouts of $8.9 billion and $1.1 billion respectively.[8]

Increases in property damage can be attributed to a combination of factors, including an increase in the number of properties built near coasts and floodplains, changes in weather patterns that are increasing in frequency and severity, and properties built in areas where the building codes are inadequate for reducing extreme weather damage.[9] The data analytics firm CoreLogic has identified more than 7.3 million single-family homes situated along the Gulf of Mexico and Eastern shoreline potentially at risk of storm surge damage.[10]

MORE THAN

7.3M

single-family homes situated along the Gulf of Mexico and Eastern shoreline are potentially at risk of storm surge damage.[10]

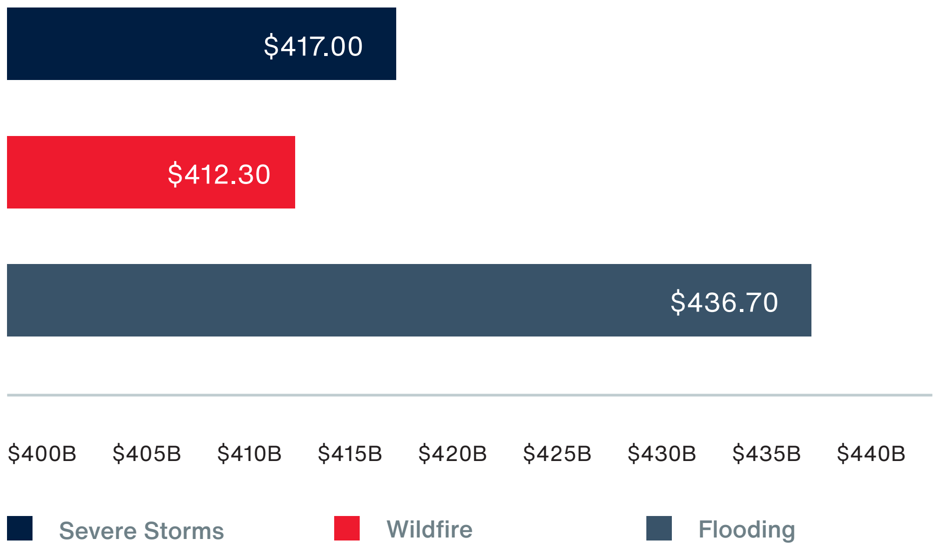
Wildfire

Wildfire is a threat to multiple states in the Western United States, but California has been the most severely impacted by these destructive events. The actuarial firm Milliman estimated that “the 2017 wildfire season alone wiped out just over 10 years of underwriting profits for California insurers, and that the combined 2017 and 2018 wildfire seasons wiped out about twice the combined underwriting profits for the past 26 years, leaving the insurance industry with an aggregate underwriting loss of over $10 billion.”[11]

Insurers are investing in catastrophe modeling technology to better understand potential risks. As evidenced by the growing number and intensity of these disasters, it’s important for family members living in catastrophe prone areas to be aware of the increased threat and the availability of coverage options in the market.

The emotional impact and trauma of these disasters can persist long after the event is over. Coordinating professional services to rebuild can be extremely difficult with labor and material shortages adding more stress and anxiety. Insuring property for catastrophic events also provides the benefit of claims management by the insurer. This alleviates many of the burdens involved with property restoration, allowing individuals to shift their focus to the well-being of their family members.

U.S. DISASTER LOSSES IN BILLIONS (2017-2019)[12]



Reinsurance

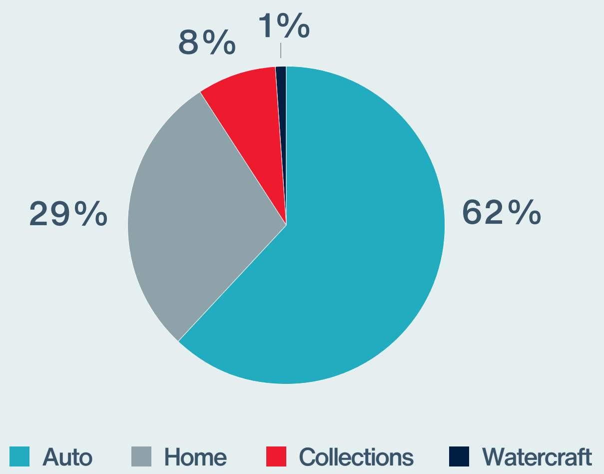
The losses experienced by insurers in both the admitted and non-admitted markets over the past few years have had a resounding impact on insurance premiums. According to PricewaterhouseCoopers, companies that have had few or no recent claims still face higher deductibles and premium rates — increases of 25% or more in some cases.[13] What makes this market so unusual is that there is no correction in sight. In previous years, tightening markets were interrupted by new competition that had capacity to take on more risk and could offer lower rates to undercut competition; however, insurers entering the marketplace are generally holding premiums steady.[13] These rate increases are linked to the costs the insurer pays for its own insurance.

Insurance companies purchase reinsurance to transfer the risk from their policies to other parties. This strengthens the financial reserves of the insurer by reducing the probability of massive claim payouts and insolvency. According to Fitch Ratings, “the reinsurance market dynamics including increased pricing, years of accumulating catastrophic losses, investment market losses and the significant losses expected from the fallout of the coronavirus pandemic have led to reinsurers’ push for further price increases.”[14] Reinsurance rates have a direct impact on insurance company premiums. Insurers must now pay more for reinsurance, which translates to higher premiums for insureds across the industry and the globe. Market investment continues; however, the reinsurance rates will remain high until insurers experience a steady reduction in catastrophic losses.

Claims

On average, each family office household experiences two claims over a five-year period. Auto losses are the most frequent type of claim accounting for 62% of all claims made during that time frame. Although auto losses are more common, residential property claims are substantially more severe. Property claims account for 29% of all claims made but result in 73% of all claim payments.

AVERAGE NUMBER OF CLAIMS BY TYPE OVER A 5-YEAR PERIOD



Water damage is the principal cause of loss to residential properties accounting for 46% of all property losses. Leaking and bursting pipes, freezing, and backup of sewers and drains are just a few causes of water damage claims. Risk mitigation efforts can reduce the likelihood of water damage occurring and extent of the damage. Many insurers offer premium reductions to clients who install water shut-off valves. For example, plumbing in older homes should be updated as the property ages. Properties in colder climates can be winterized to minimize the probability of loss.

Wind and hail damage represent the second most frequent cause of loss at 15% of all claims. States and counties have their own wind mitigation building codes. It is strongly recommended that clients living in hurricane-prone areas update their properties to current building codes and install newer structural protections to limit damage.

Wildfire is the third largest cause of loss accounting for 8% of all property claims. As the threat of wildfire continues to grow, this statistic is expected to increase. High net worth insurers offer wildfire defense services in some states, but there are additional mitigation efforts that property owners can implement. Some mitigation efforts require a sizable investment but can be successful in reducing the likelihood of a total property loss.

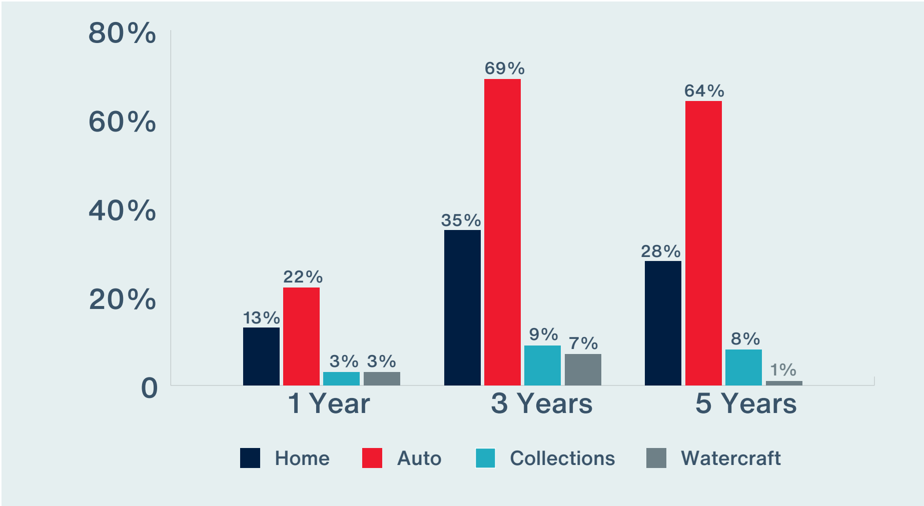
Principal causes of damage to residential properties:

1. **Water Damage 46%**
2. **Wind and Hail 15%**
3. **Wildfire 8%**
4. **Equipment Breakdown 4%**
5. **Flood 3%**

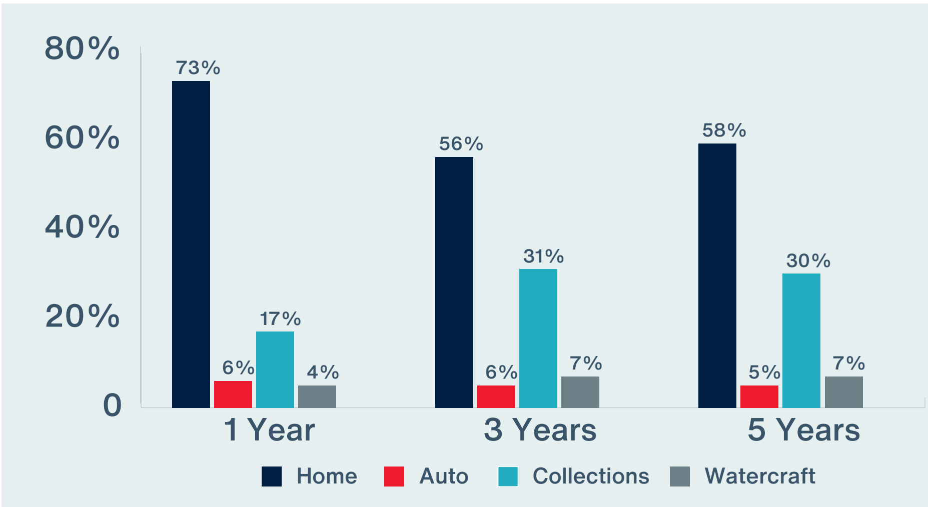
Claims Frequency and Severity

These graphs outline the frequency and severity of claims experienced by Aon's family office households over a 5-year period.

CLAIMS FREQUENCY



CLAIMS SEVERITY*



*Severity represents the total amount of losses ($) divided by the total number of claims.

Property

Fifty-five percent of Aon family office households own more than one property with 10% of all households amassing large and diverse real estate portfolios. These include properties classified as homes, condominiums, townhomes, and co-ops located both in the United States and internationally. Every geography brings its unique set of risks, but whether a family member owns a single home or multiple homes, it's important to take the following into consideration:

1

Safety Measures

Property claims are the second most frequent type of loss and accounted for 73% of all family office claim expenses in the past year. Much of the damage that occurs can be minimized or prevented with the installation of safety devices. These devices are generally affordable, have proven to prevent costly damages, and most result in a premium credit to the insurance policy.

2

Property Use

Secondary and vacation properties that are frequently unoccupied should be cared for in the owner's absence. Hiring a caretaker or property management company to oversee maintenance is advisable. Families traveling away from their primary residence should also have their property looked after in their absence. If unexpected problems, such as pipe breaks, are caught early, it can help prevent further damage. Annual inspections of critical home equipment can reduce the likelihood of failure.

3

Ownership

Fifty-four percent of all properties owned by family members are titled to trusts and limited liability companies (LLCs). To help ensure available coverage responds to all owners in property and liability claims, individuals as well as titled entities should be named to the property policy. As changes are made to the trust or LLC, it's important to alert the risk advisor to ensure there are no gaps in coverage. All individuals who share ownership should be named.

4

Natural Disaster

Catastrophic events, such as flood, earthquake and hurricane, are generally excluded from property coverage. Options should be reviewed annually to discuss changes in exposure and market alternatives. Some family members may still choose not to insure their properties against natural disasters. Declining catastrophic coverage involves more than risk retention. It also requires the family member to manage and coordinate the restoration of their property in the event of a loss. This can be an immense amount of responsibility, which only becomes even more difficult during mass catastrophic events.

5

Renovation

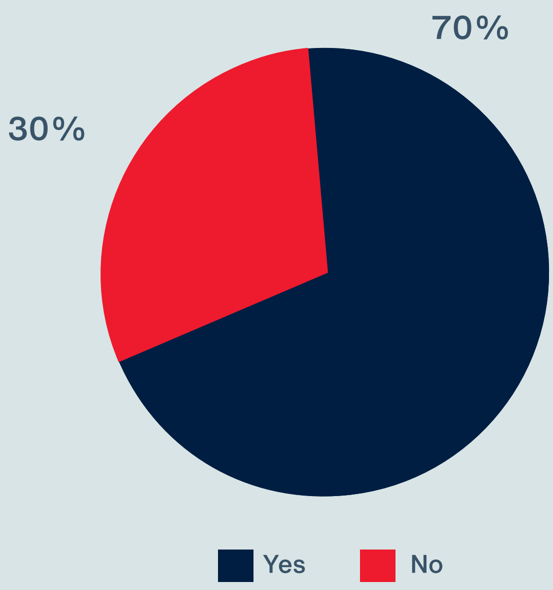
Prior to beginning a renovation, the risk advisor should be notified. Beginning a renovation prior to alerting an insurer may result in negative ramifications. Insurance contracts may define penalties for not notifying the insurance company in advance of renovations and construction projects, which can increase out-of-pocket costs for the insured if a loss occurs.

Equipment Breakdown

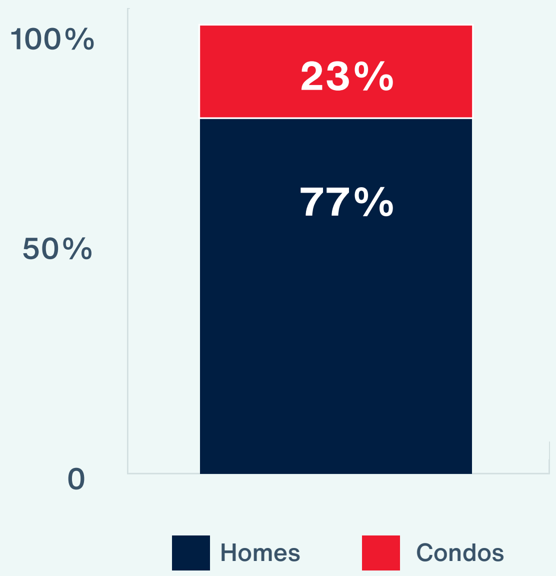
Equipment and mechanical breakdown coverage was historically available only to commercial businesses to protect machinery essential to their operations. High net worth personal insurers recognized the benefit that this custom option could bring to their own programs. Equipment Breakdown coverage is quickly becoming more attractive to affluent individuals due to increased investment in more sophisticated and costly home systems and equipment.

Thirty percent of all properties insured by Aon's family office clientele are insured for equipment breakdown coverage. This program enhancement differs from general warranty protections available in the marketplace that are intended to cover wear and tear. Equipment Breakdown offers protection against sudden and accidental mechanical and electrical breakdown of expensive home systems and equipment. The coverage can also provide additional benefits such as additional living expenses for homes that become uninhabitable and upgrades for environmental, safety and efficiency improvements.

PROPERTIES COVERED FOR EQUIPMENT BREAKDOWN



PROPERTIES COVERED FOR EQUIPMENT BREAKDOWN

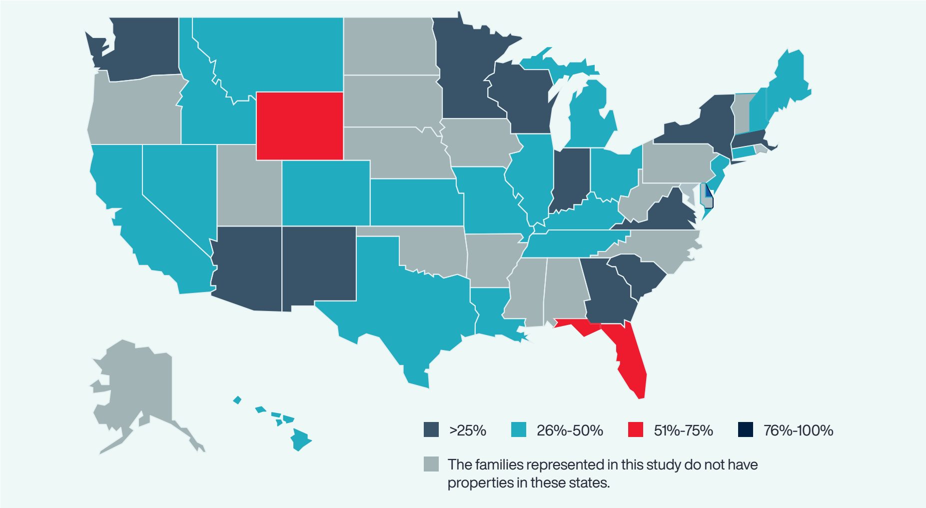


Flood and Excess Flood

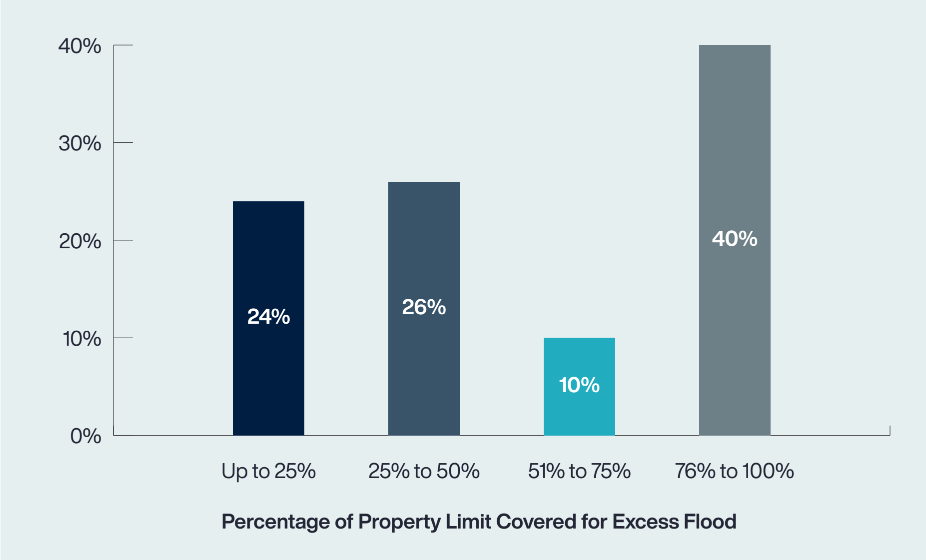
Flooding is not a phenomenon limited to storm surges. Flood damage can occur from heavy rains, dam failures, municipal pipe breaks, and rapid snow melt. Flood is excluded from property contracts and it is recommended to carry, at minimum, primary flood coverage. Standard flood insurance policies offer protection limits of $250,000 for structures and $100,000 for personal property. Additional coverage beyond the primary limits can be secured with excess flood coverage. Excess flood is offered in incremental percentages of the property limit. Other factors, such as the size and configuration of the property, location, and overall risk tolerance, determine the amount of excess flood coverage recommended.

Sixty-three percent of families carry at least one primary flood policy and 12% also elect one excess flood policy. Considering all properties insured by Aon's family office households, 33% of residences are insured for primary flood and 25% of these properties carry additional excess flood protection.

PERCENTAGE OF PROPERTIES INSURED FOR PRIMARY FLOOD



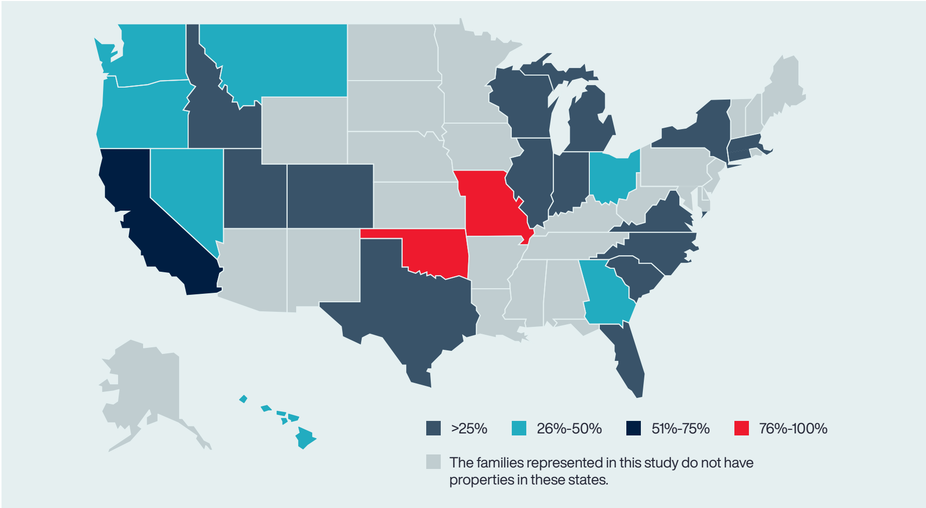
EXCESS FLOOD COVERAGE



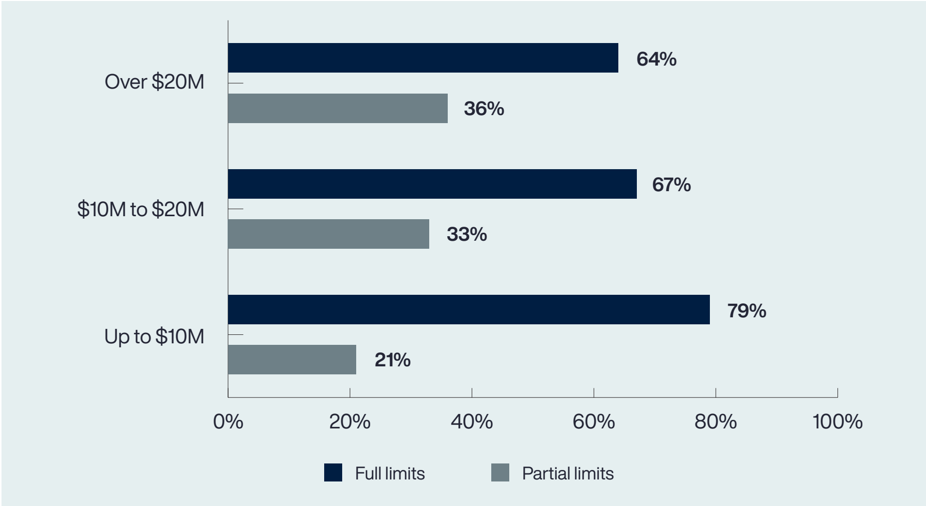
Earthquake

Earthquakes are typically associated with western states; however, there are active fault lines across the United States that can create a substantial risk to property. Earthquake coverage can be customized to insure each structure and personal contents or a limited portion of the property. Forty-three percent of Aon's family office families elect earthquake coverage for some or all properties they own. Family members may decline coverage due to pricing; however, it is an important reminder that higher premiums indicate a higher probability of loss and coverage should be further considered.

PROPERTIES COVERED FOR EARTHQUAKE BY STATE



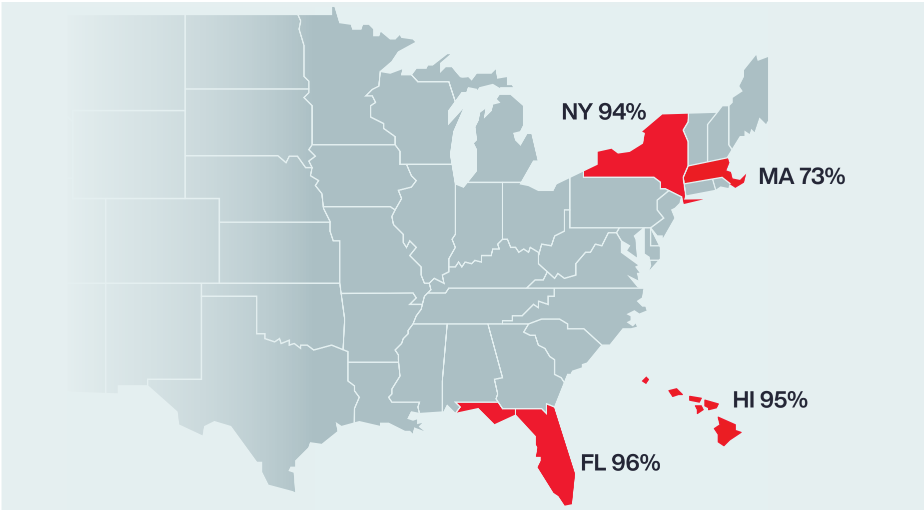
EARTHQUAKE COVERAGE BY PROPERTY LIMIT



Windstorm

As hurricanes become more prevalent along the Gulf and Atlantic coasts, the households in this study are proactively insuring their property against wind damage. Ninety-five percent of all properties in hurricane-prone areas are insured for wind damage. The percentage of properties insured in Florida, Hawaii, Massachusetts, and New York are covered at 96%, 95%, 73%, and 94% respectively. Considering wind and hail is the second highest cause of property loss, windstorm coverage is a prudent investment.

PERCENTAGE OF PROPERTIES COVERED FOR WIND DAMAGE IN KEY WIND-PRONE STATES



#2

Wind and hail are the second highest cause of property damage.

95%

of all properties in hurricane-prone areas are insured for wind damage.

Blanket Property Coverage

Blanket coverage is a creative, and at times cost effective, solution for families with a significant number of properties and varied geographic risk. This unique policy structure consolidates coverage for the residences and personal property of all family members on a single policy under one aggregate policy limit.

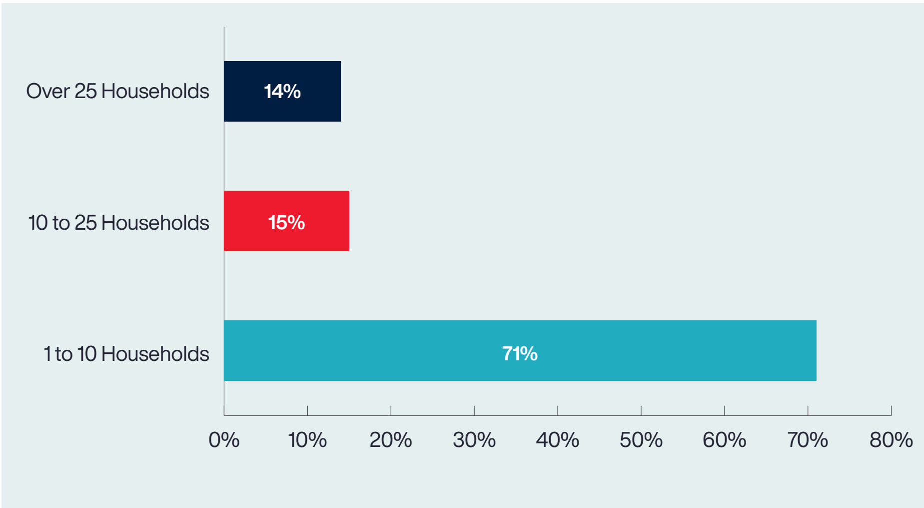
This structure simplifies program administration and assists in establishing uniform insurance standards for all members under one contract. Premiums accounting for multiple owners and entities can also be customized creating ease of payment allocation for the family office.

The majority of families electing blanket coverage have 10 or fewer household members.

6%

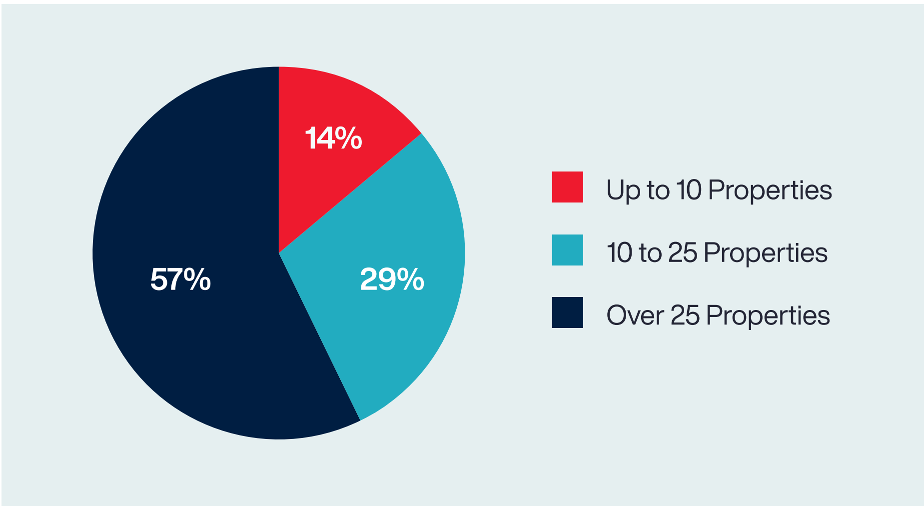
of Family Offices elect blanket property coverage.

FAMILY OFFICES ELECTING BLANKET COVERAGE BY HOUSEHOLD SIZE



The majority of families electing blanket coverage own between 10 and 25 properties between all members.

FAMILIES ELECTING BLANKET COVERAGE BY NUMBER OF PROPERTIES



Blanket policies also offer the advantage of being able to add coverage against catastrophic perils typically only offered through companion policies. Coverage options are flexible, allowing for some or all properties to have protection against flood, earthquake, and hurricane winds.

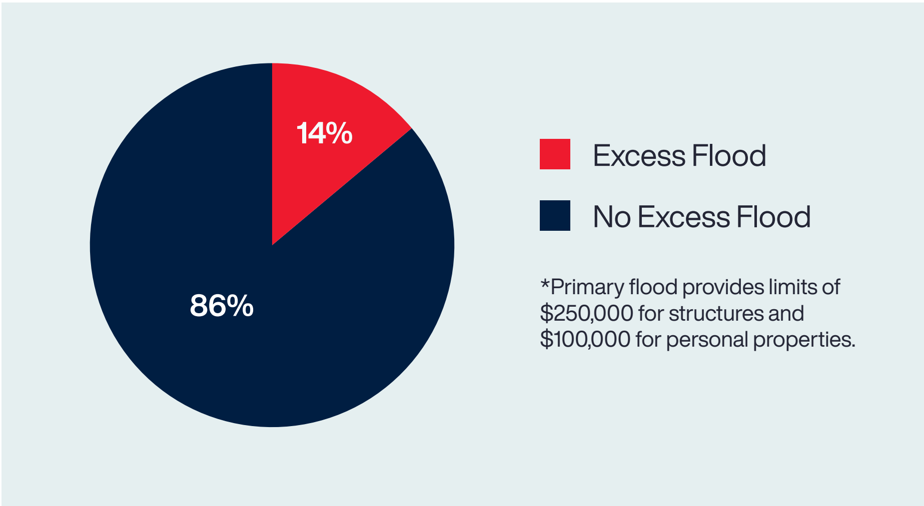
Earthquake

Families with blanket coverage insure 66% of all California properties and 35% of their properties in all other states for earthquake.

Flood

One hundred percent of families with blanket programs elected to include primary flood coverage. Eighty-six percent of these families also carry blanket excess flood, insuring on average 25% of their total properties' limit.

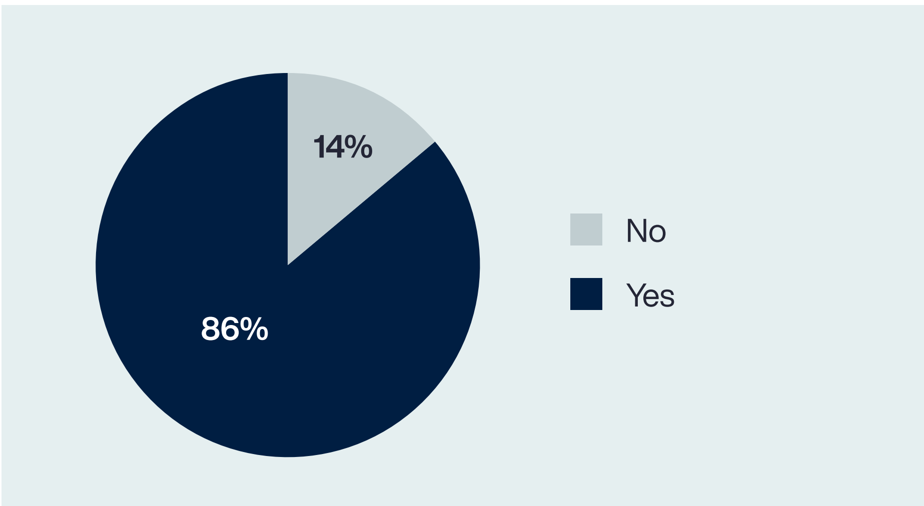
FAMILIES WITH BLANKET PRIMARY FLOOD* COVERAGE ALSO ELECTING EXCESS FLOOD COVERAGE



Windstorm

Eighty-six percent of families with blanket properties in hurricane-prone areas add windstorm protection coverage to their policy.

BLANKET PROPERTIES COVERED FOR WINDSTORM



Liability

Liability protection is a crucial aspect of a family's wealth preservation strategy. With 100% of family members we serve electing to carry excess liability, it is evident that affluent individuals and families recognize the value and protection it offers.

Liability Contributors

Many common activities can also serve as liability contributors. Inviting guests to the home, allowing delivery persons onto the property, and even animal ownership can result in litigation if something goes wrong. Accidents involving automobiles and watercraft are also frequent causes for liability claims.

Excess Uninsured and Underinsured Motorist Coverage

Family members are proactively insuring against incidents involving their own liability; however, 7% of family members choose not to carry excess uninsured and underinsured motorist coverage. On average, one in eight drivers on the road is uninsured.[15] To reduce their costs, many drivers on the road elect to carry only the minimum limits required by their state, which leaves them underinsured. Excess uninsured and underinsured motorist coverage pays for medical care and treatment, even lost wages, of an insured and their passengers involved in an automobile accident in the event another driver has little to no insurance coverage. This coverage is an important supplement as victims can suffer long-term injuries requiring lifetime care and will not be able to recover damages from an at-fault uninsured or underinsured driver.

1:8

drivers are uninsured.[15]

Social Media

In 2005, only 5% of the U.S. population engaged in social media.[16] That number has risen to 72% today.[16] It is no surprise that defamation lawsuits related to social media are rising rapidly. Excess liability can offer protection and defense against lawsuits alleging libel and slander, most of which are the result of social media.

High Visibility

Many wealthy families are often engaged in their communities. They host events in their homes, serve on nonprofit boards, and generously donate time and money. Their good intentions can lead to unintended results. There are specialized policies available for family members who host events and individual nonprofit directors and officers (D&O) coverage for those serving on boards. Taking these extra measures will help to safeguard a family's assets.

Personal Excess Liability

Personal Excess Liability offers protection for the damages and settlements stemming from lawsuits associated with bodily injury, personal injury, and property damage. These policies can also cover the defense costs accompanying these lawsuits outside the policy coverage limit.

High net worth insurers offer limits up to $100 million to protect ultra-high net worth family members. On rare occasions, insurers may offer limits above $100 million. Eleven percent of Aon's family office family members elect limits of $50 million and higher with 1% of family members electing limits of $100 million.

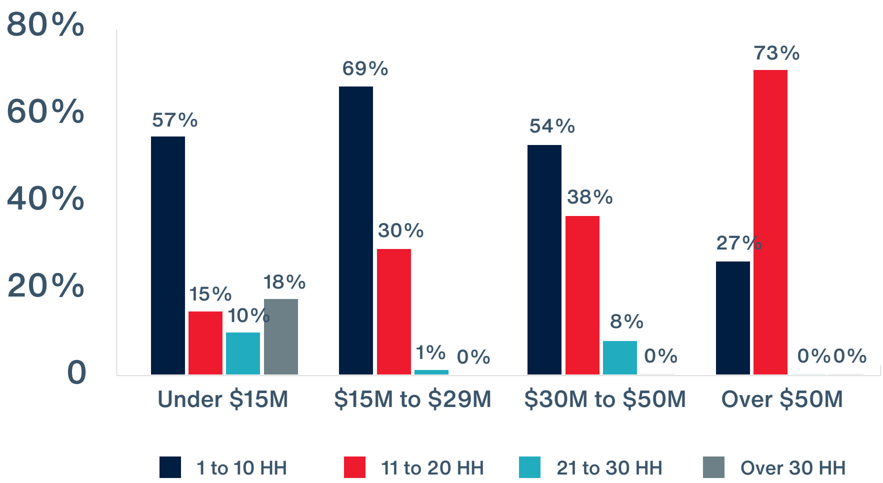
11%

of members elect personal liability limits of $50+ million.

1%

elect $100 million.

EXCESS LIABILITY LIMITS BY HOUSEHOLD (HH)



Individual and Group Excess Liability Options

Ninety-four percent of all family offices choose to purchase excess liability in its traditional form with each family member carrying an individual policy; however, 6% of families choose to create a group excess liability program. These group policies can cover all family members under one policy while allowing each member to choose their own limit. This maximizes the buying power of the family and simplifies policy administration for the family office.

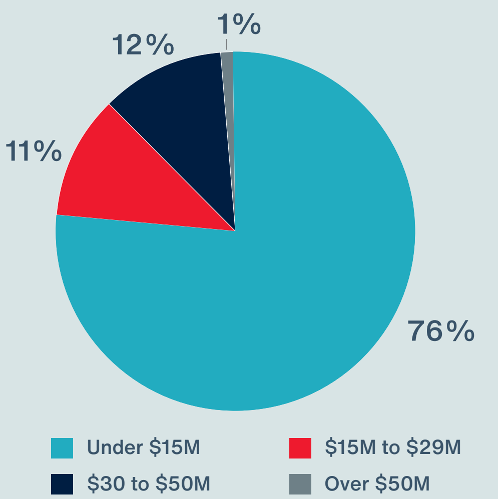
Additional options available on traditional policies, such as employment practices liability and directors and officers coverage, are also available on a group basis. Fiftysix percent of families carrying a blanket property program also choose to carry a group excess program.

Directors & Officers

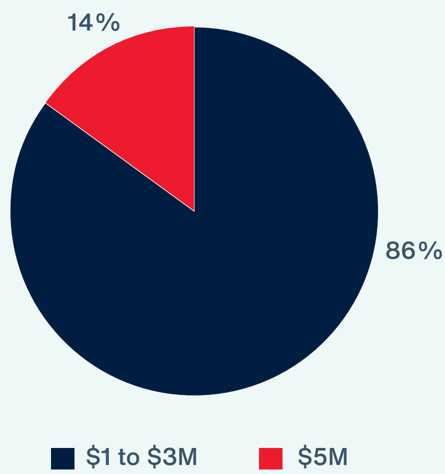
Serving on nonprofit boards is a frequent activity for family members, but only 15% of families carry directors & officers (D&O) coverage. Lack of coverage leaves family members solely dependent on a board's policy for damages and defense, which may require them to pay expenses out of pocket if the coverage is insufficient.

On average, 4% of nonprofits will have a D&O claim brought against them in any given year.[17] Nonprofits are sued for a variety of reasons, including wrongful acts of board members and breach of fiduciary duties. It is important for family members serving on these boards to understand the risks involved and the opportunity to help protect their personal assets by purchasing their own coverage.

INDIVIDUAL LIMITS SELECTED



LIMIT OF D&O CARRIED BY FAMILIES



Workers Compensation and Employment Practices Liability

Workers Compensation

Workers compensation laws vary by state. With respect to employers with domestic employees, it may only be deemed mandatory if a domestic employee meets a minimum number of hours or compensation outlined by the applicable state law. Fifty-five percent of families carry workers compensation coverage for their domestic employees.*

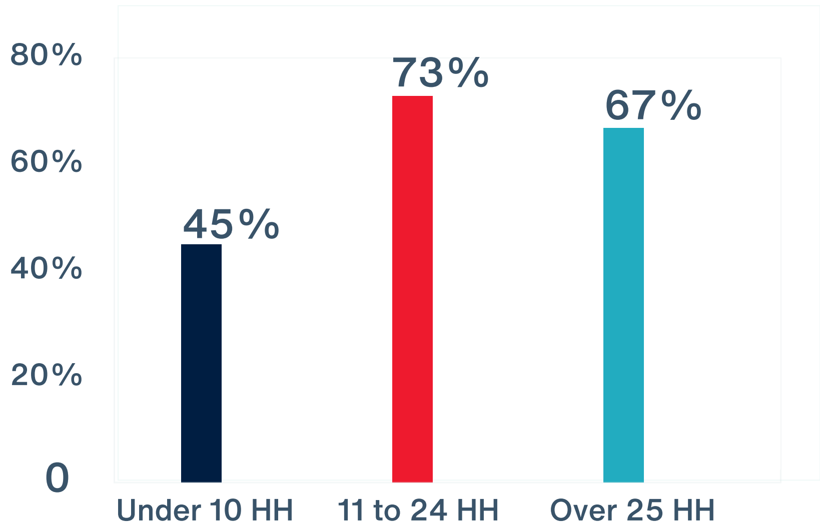
Whether workers compensation is mandatory or voluntary in a state, it is recommended to carry coverage. The absence of a legal obligation to carry coverage does not remove an employer's liability for medical care due to injuries or illness an employee suffers from a work-related cause. Death benefits for an employee's spouse, children or other dependents, as well as disability payments for lost wages are also included in these policies.

Managing Domestic Employees

Many families view their domestic employees as extended family members; however, families should not underestimate the actions of even long-time employees. Workers have access to a family's private information and tangible assets. They can easily abuse this access if they become resentful, are experiencing a financial hardship, or as a precursor to anticipated termination.

Employers can take additional steps to set boundaries and expectations. Some families provide employees with a manual to define job responsibilities, pay and benefits, working hours with timekeeping requirements, areas that the employees should not access, and outline dismissible offenses. Annual background checks are recommended to help ensure any adverse activity is discovered throughout the course of their employment. Family members can take additional steps to address privacy concerns, such as utilizing nondisclosure agreements and implementing a code of conduct and social media policy for employees to follow when they are working in a family's home.

HOUSEHOLDS WITH WORKERS COMPENSATION FOR DOMESTIC STAFF

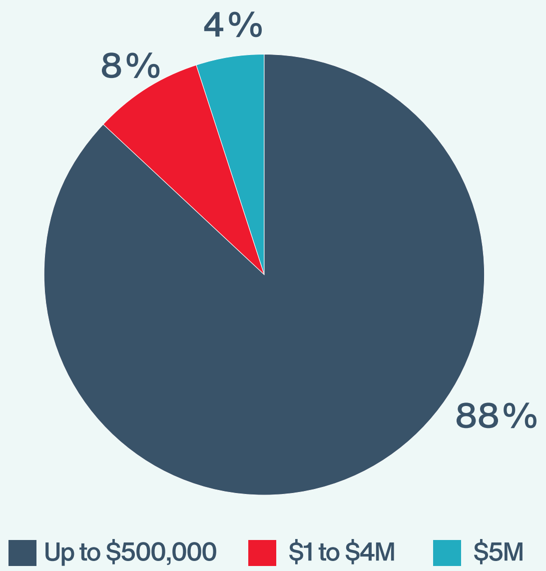


* This does not include part-time employees in California who are automatically provided coverage on the property policy.

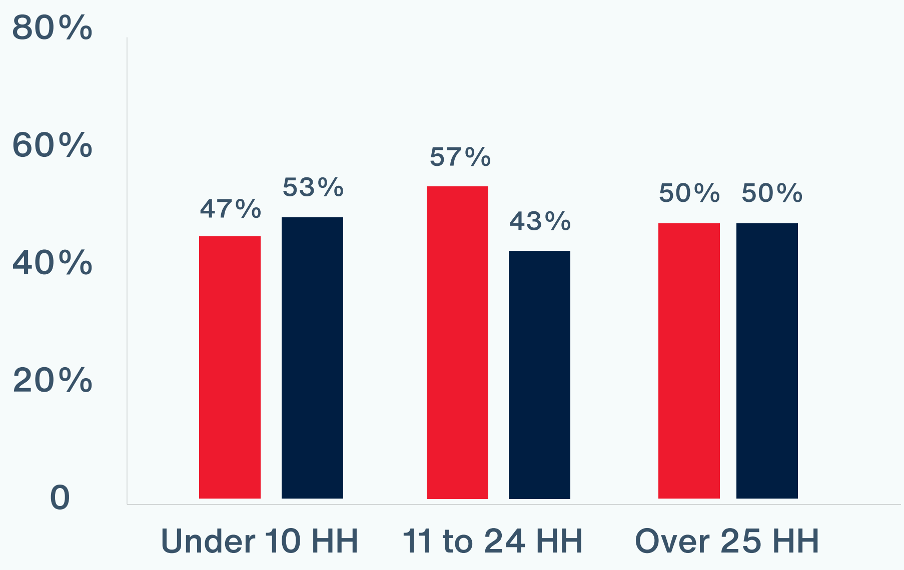
Employment Practices Liability

Many people are familiar with "nanny lawsuits," but complaints have been filed by domestic employees performing a variety of roles. Families need to take precautionary measures when both hiring employees and throughout the course of employment. Employing domestic staff has an added exposure of lawsuits arising from accusations of wrongful termination, defamation, sexual harassment, and discrimination. Employment Practices Liability policies offer coverage for defense costs and damages that arise from employee lawsuits. Only 48% of Aon's family office households carrying workers compensation purchase employment practices liability coverage. Sixty-seven percent of families covered by a group excess liability policy endorse employment practices liability to their policy.

LIMIT OF EMPLOYMENT PRACTICES LIABILITY SELECTED



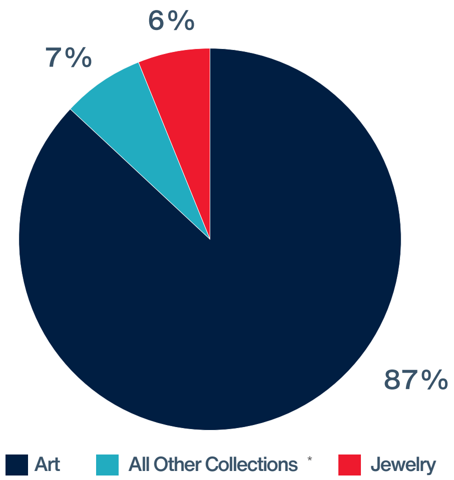
HOUSEHOLDS WITH WORKERS COMPENSATION ALSO CARRYING EMPLOYMENT PRACTICES



Art and Collections

Whether an individual acquires a few valuables or a large collection, it's important to provide guidance on how to properly insure and project their investment. This includes having proactive discussions about valuation and appraisals, collections on loan, catastrophic event preparation, and estate planning and gifting. Aon Private Risk Management's Art & Collections Practice (ACP) provides advice on these matters as well as assistance with project coordination. ACP maintains a network of highly-qualified trusted professionals and service providers in the industry, including appraisers, auction houses, conservators, shipping specialists and storage professionals.

TOTAL COLLECTIONS BY CATEGORY



As expected, art and jewelry account for the majority of the collections insured by families. **Ninety-three percent of all collections insured by family members fall under the art and jewelry categories.** The additional 7% of collections are comprised of a variety of collections, including items such as automobiles, cameras and electronics, coins, rare firearms, furs, musical instruments, and silverware.

Scheduled and Blanket Collections Options

Most insurers offer scheduled and blanket options for collections coverage. Sixty-three percent of all collections are insured on a scheduled (i.e. itemized) basis. Although itemization requires more administration, it sets the agreed upon value up front, eliminating the burden of confirming the item's value at the time of a loss. Moreover, it may enhance the management of a collection by tracking values as well as concentrations by location.

Blanket coverage provides coverage for a class of items under one aggregate limit subject to a per item limit. To help ensure coverage is adequate, the per item limit should be reviewed periodically to ensure it adequately covers the highest valued item owned. For example, a family member carrying blanket coverage with a $100,000 per item limit should confirm that no items owned are valued above $100,000. This will help ensure that they will receive full reimbursement if a loss occurs. Documentation of value and ownership is required for blanket items at the time of loss.

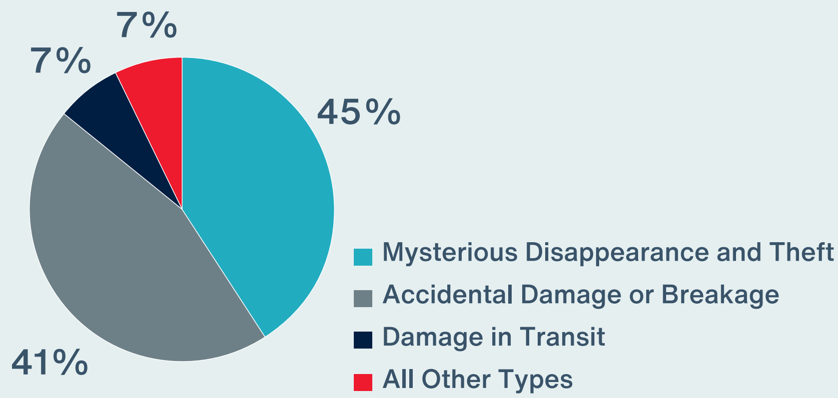
FAMILIES WITH SIGNIFICAN COLLECTIONS

- **11% insure over $50 million in collections.**
- **7% insure over $100 million in collectibles.**
- **5% insure over $300 million in collectibles with some collections exceeding $1 billion.**

Some family members choose to supplement their fine art and jewelry schedules with additional blanket coverage to insure items of less significant value. Forty percent of Aon Private Risk Management's family office households carrying scheduled fine art coverage also carry blanket fine art coverage. Thirty percent of households carrying scheduled jewelry coverage also carry blanket jewelry coverage.

Family members should consider protecting art and collections with a collections policy rather than insuring these items as general contents under a Homeowners or Property program. While each insurer's terms may vary, most Valuable Articles contracts offer enhanced coverage, such as breakage of fragile items, no deductible, broadened valuation settlement clause, and extended coverage for newly acquired items.

ART AND COLLECTIONS LEADING CAUSES OF LOSS



Collections on Loan

Loaning artwork to museums, galleries, and other institutions is a common practice by many of our private clients. Many collectors feel a sense of duty to share these special collections with the public. Loaning works of art to significant exhibitions can enhance the provenance, which may positively affect the value as well as play a strategic role in estate planning. That being said, 41% of collections claims over the last five years were the result of damage or breakage with 4% of these claims occurring in transit.

Thus, it is essential for private collectors to create a risk management plan prior to agreeing to any loan to minimize exposure to loss. Items to consider:

1	Review of loan agreement by an attorney to ensure the terms and scope of the loan are acceptable
2	Review insurance contract to ensure the party responsible for coverage maintains worldwide, nail-to-nail open peril coverage.
3	Review security, display, and environmental risks to confirm physical and electronic security measures and emergency action plans and procedures that can be implemented to reduce the probability of loss.
4	Review and agree upon transit procedures, including completing condition reportsprior to transit, shipment handling and logistics, and oversight of delivery and unpacking.

Strategic Planning for Catastrophic Events

Protecting collections during natural disasters requires strategic planning and preparation. Our Art & Collections Practice (ACP) jointly prepares a customized pre-disaster and postdisaster plan with clients to help safeguard their collections.

This plan addresses:

- Assessment of state and regional risks.
- Record keeping best practices.
- Establishing emergency contacts with reliable and reputable art transportation and storage businesses.
- Recommendations for safeguarding the properties that house collections.
- Training and preparing the staff with action plans.
- Installation of dependable generators and humidifiers to ensure temperature and humidity control.
- Identifying essential emergency provisions for art protection during natural disasters.
- Seasonal storage recommendations for works that are challenging to move at the onset of storm warnings.

Avoiding Gaps in Estate Planning

The ACP recommends collectors follow these best practices to help minimize gaps in estate planning.

1. Regularly review inventory to ensure all items are accounted for and update the insurance schedule accordingly.
2. Review insurance contract provisions to confirm beneficiaries have automatic coverage in the event of an insured's passing.
3. Appraise collections every three to five years to confirm both the current Retail Replacement values as well as the Fair Market values. The Retail Replacement value represents the price a collector would need to pay to replace the item with a similar piece in a very short period of time and is used for insurance purposes. The Fair Market value is typically lower than Retail and is commonly used for estate planning purposes.

Yacht

The yacht market is expected to see substantial growth in the coming years. In 2020, the yacht market had an estimated value of $8.15 billion.[18] The market is expected to grow at a compound annual growth rate of 5.2% reaching a value of $12.16 billion by 2028.[18] A few key factors are driving the increase, including a rising preference for exclusive, luxury tourism; a rise in disposable income; and improved accessibility to various types of yachts.[18,19] Maritime recreation is also growing in popularity among families with 44% owning watercraft. Of these families, 11% are yacht owners.

A yacht is not an asset that typically brings a financial return. These vessels are costly to maintain and depreciate in value over time, making yachts more of an emotional than financial investment.[20] The satisfaction this lifestyle brings to owners transcends the cost but managing the ownership of a yacht and its crew is complex. Insuring a yacht is also complicated and requires a deep understanding of yacht coverage and maritime law. There's no one size fits all solution as each yacht has a unique risk profile and coverage must be designed for a vessel's specific requirements and use.

$27
BILLION
The charter market's expected value by 2027.[21]

Chartering is also expected to grow considerably. In 2018, the charter market had an estimated value of $15 billion.[21] The expected compound annual growth rate of 15% projects the value to reach $27.7 billion by 2027.[21] Although chartering removes the costs involved with ownership, rental costs can be expensive, and chartering comes with its own unique set of risks. Chartering requires experienced oversight to ensure the liability of the charterer is covered while they have care, custody, and control of the vessel. Coverage must be adjusted based on requirements in the written agreement between the parties.

Whether insuring a yacht as an owner or charterer, it's important to be aware of the changing markets. The disruptive, hardening insurance and reinsurance markets are also impacting marine insurers. Yacht markets have become more turbulent in recent years due to these market changes and rising claims. Losses stemming from shipyard incidents, tropical storm and hurricane events, and missing or damaged tow tenders have all contributed to increased premiums and reduced capacity in the marketplace.

The hardening market is likely to stay with us for the foreseeable future. Aon's Global Yacht Leader, Emma Carpenter, has prepared her team to meet the challenges impacting the marine insurance markets worldwide. "The disturbance in the insurance market has presented us with an opportunity to think more critically and creatively. We've leveraged our relationships and developed new options to ensure our clients have access to the most comprehensive programs and competitive pricing. Our in-house consultants, market-leading negotiators, experienced brokers, and adjusters deliver a broad array of services to support our clients throughout the year and help them recover in the event of a claim."

Emma firmly believes transparency with clients is key for a successful partnership. "Partnering with our clients to develop a timely renewal strategy plan allows us to negotiate the most beneficial terms and ensures each client's program aligns with their unique risks and objectives." Aon's Yacht Division has expanded its footprint to ensure that its hubs operate in regions that can provide direct access and insight into international markets. This offers our firm an opportunity to stay ahead of industry changes and provides our clients with an advantage.

"Partnering with our clients to develop a timely renewal strategy plan allows us to negotiate the most beneficial terms and ensures each client's program aligns with their unique risks and objectives."

EMMA CARPENTER
Aon Global Yacht Leader

Aviation

Sixty-four percent of all private jet aircrafts are owned by a small segment of ultra-high net worth individuals and families across North America[22]; however, considering the average net worth of a jet owner is $1.5 billion,[23] it's not surprising that only 2% of families own a private aircraft. The price of a private jet and the ancillary costs for crew, aircraft maintenance, and the purchase or rental of an airplane hangar require a significant amount of initial capital and continuous investment.

Individuals and families who own aircraft need to ensure their insurance program is comprehensive and, at minimum, provides coverage for public and passenger liability, inflight coverage, the aircraft's hull, and their crew. There are many factors that can influence program pricing, but it's important for jet owners to work with a broker who has extensive experience in aviation insurance to ensure that risk exposures are minimized.

The cost barrier to owning a jet is high, but there are other options in the private aviation world that provide access to luxury flights. A growing number of affluent individuals and families are choosing to charter flights. The U.S. charter market grew by $2.8 billion from 2017 to 2020.[24] Chartering offers the luxury experience while avoiding the extreme costs that accompany traditional jet ownership. Infrequent fliers typically access on-demand charters, which provide jets to travelers on a per-trip basis. Other options, such as jet cards, charge for the use of the plane on an hourly basis along with a membership fee.

Frequent travelers may choose fractional ownership, which allows an individual to purchase a share of an aircraft. It is a more expensive option than other charter types but guarantees members access to jets and offers more flexibility. It's important for fractional jet owners to discuss insurance options with their risk advisor. Charter companies typically secure insurance coverage, but the insurance secured provides coverage for the management company and all fractional owners. Even if the limit seems adequate it can easily be depleted in the event of a lawsuit and owners may still be liable even when they are not inflight.

Aon's aviation team offers a broad range of services and collaborates with each client to design a comprehensive program unique to their risk profile and aircraft. Regardless of the type of ownership, jet owners should consult with their risk advisor to ensure they are protected.

The U.S. charter market experienced growth of

$2.8

BILLION

from 2017-2020.[24]

International Exposures

Nine percent of our family offices own international property. Of these families, 55% own more than one international property. Aon's extensive footprint of over 500 offices in 120 countries has made us a worldwide leader in risk advice and insurance broking. We understand the value in a single point of contact and accountability for our family office clients. Our network connects a global team to effectively manage and provide solutions for even the most complex risk portfolios.

The combination of network capabilities overseen by international specialists allows us to efficiently:

- Deliver a consistent, high level of quality service to our clients throughout the world.
- Exchange ideas and share innovation.
- Capitalize on market strengths.
- Work together to serve clients on all levels.

AON

500+
offices in
120
countries has made Aon a worldwide leader.

Travel and Accident Insurance

A Cornell study found that planning a vacation can do as much to boost someone's mood as the trip itself.[25] Many individuals and families focus on planning activities at their destination but give little attention to planning for the unexpected. This can mean much more than a flight delay or lost luggage.

ONLY

8% of families carry travel and accident insurance.

Serious illness and hospitalizations can occur just as easily abroad as they can at home. With a variety of travel policies in the marketplace it's difficult to evaluate which policies provide broad benefits that are truly meaningful. Many policies may include medical evacuation services, but only to the closest facility deemed adequate. In these moments, individuals and families want the highest level of care. That may mean transferring a patient home or to a country that can provide the critical care needed.

Most health insurance policies don't provide medical evacuation coverage, and emergency medical evacuation costs often can be much greater than costs for the care itself.[26] Aon partners with insurers that offer travel policies with comprehensive benefits, including options for evacuation to the facility most capable of providing the highest level of care. Some policies offer coverage for individuals and others can provide coverage to all household members.

Eight percent of families carry travel and accident insurance. This number is quite low considering the coverage benefits and the inexpensive premiums. In addition to medical evacuation, coverage may include security evacuation, coverage for accidental death or dismemberment, and trip cancellation and interruption. Policies can provide coverage on an annual basis eliminating the need to purchase per trip and are in effect for both business and personal travel anywhere in the world.

Kidnap, Ransom, and Extortion

Kidnap, Ransom, and Extortion (KRE) is a multi-billion-dollar industry.[27] As a growing number of individuals and families are living and traveling abroad, the risk of encountering the criminal groups carrying out these threats grows. Affluent individuals and families are a prime target as they are viewed to be more lucrative victims for kidnappers.[28] Currently only 2% of families carry KRE coverage. It's important for families to recognize the benefits of KRE coverage and the value it can add as a part of their security crisis management plan.

According to the U.S. State Department's Bureau of Consular Affairs, about 60% to 70% of overseas kidnappings of U.S. citizens go unreported.[27] This is primarily attributed to a fear of reprisal and police corruption.[29] The U.S. State Department is working to alert citizens of the increasing danger. They've introduced a new risk indicator alerting citizens of the kidnapping risks associated with traveling to countries across the world. There are currently 35 countries considered high risk, including popular destinations in Central and South America.[30]

MORE THAN

97% of kidnappings handled by professional negotiators are successfully resolved.[31]

Kidnap, ransom, and extortion should not be managed by the family alone. Insurers can provide KRE coverage for ransom payments, hijacking, extortion, death or dismemberment benefits, fees for independent psychiatric and medical care, and more. One of the biggest benefits of coverage is crisis consultation and response. Families have access to expert negotiators who are experienced in operating in these high-risk environments. More than 97% of kidnappings handled by professional negotiators are successfully resolved.[31]

The U.S. State Department reminds citizens that it cannot provide assistance. If a crisis occurs in a high-risk area, the United States may have to rely on local resources to resolve matters and may not to be able to provide any services in areas where diplomatic relations are absent.[32] Debbie Schaffel, managing director of Aon's Financial Services Group Private and Nonprofit Practice, explained the benefits of KRE policies and the role of the crisis consultant. "In addition to having the ransom payment covered by the policy, crisis consultants are expert negotiators and will quickly develop a plan to stabilize the situation. They can typically negotiate a lower payment and will pay the ransom. The FBI rarely pays ransoms and usually attempts to steer negotiations away from payment believing it will encourage this type of criminal behavior." The professional intervention of the crisis consultant is even more important than the financial compensation because the wellbeing of the victim is dependent on their expertise.

Aon can customize coverage to meet the needs of each family.

Debbie expanded on the importance of KRE coverage for wealthy families noting that it is not just for international travelers. "There is a misconception that Kidnap, Ransom, and Extortion coverage is only a risk for those traveling internationally. This policy responds to family members kidnapped anywhere in the United States, whether they are taken from their own home or traveling for pleasure or business." The policy offers a host of benefits, including coverage for virtual kidnapping. Debbie explained that virtual kidnapping is an extortion scheme where families are deceived into believing a family member has been kidnapped, but no such event has taken place. The criminals put pressure on the family to pay a ransom before it's discovered to be a lie.

Aon offers a broad range of comprehensive KRE programs and can customize coverage to meet the needs of each family. Our firm also understands the importance of confidentiality. All programs are managed with the utmost discretion. If it is known the family has coverage it could provoke an incident. The existence of the family's KRE coverage should only be discussed and reviewed with key decision makers.

Commercial Enterprise

In recent years, families have seen disappointing returns across most asset classes; however, illiquid assets, such as real estate and direct private equity, continue to perform well.[3] Twenty-six percent of families invest in small to medium sized business ventures. Their endeavors involve a wide range of products, services, and sports. Although these businesses are generally smaller in scale, they can create a considerable amount of risk.

Establishing a vineyard is a growing trend among affluent families. Eight percent of families own and operate hobby farms and ranches. Vineyards and wineries can be complex operations even if the family is not bottling their own wine. Insuring a vineyard requires a full assessment of operations both on and off the grove to ensure the family's liability, business property, and income are protected.

26% of families invest in small to medium sized business ventures.

Two percent of families are also involved in private horse ownership and professional equestrian activities. Participation in the equestrian world is a longstanding tradition of many affluent families. Prized horses can cost hundreds of thousands of dollars and require a monthly investment of thousands of dollars to maintain.[33] There are a multitude of risks involved in owning, riding, and training horses. A variety of factors determine the type and limits of coverage needed to ensure the family and their horses are protected.

Families invest in a variety of businesses and it's important that these commercial endeavors are disclosed to a risk advisor. There may be a small amount of coverage included in a personal insurance policy for business activity, but this is intended to cover incidental business exposures. Business owners frequently require commercial coverages, such as commercial general liability and property, excess liability, and named and non-owned automobile coverage, to ensure their business is protected.

Aon's commercial advisors have experience in a wide range of small business investments, including specialty areas such as entertainment, sports, and farm and ranch. Our advisors collaborate with clients to customize coverage based on each individual's business exposure to make certain a family's assets are protected.

Solutions for the Family Office Firm

For over two decades, Aon has been designing solutions for complex commercial exposures that are as diverse as the clients we serve. There are a multitude of risks impacting private wealth management firms. Implementing strict internal procedures can help the family office minimize some of these exposures but cannot eliminate them. Aon works with family offices to identify and mitigate existing and potential exposures. It's critical for wealth management firms to evaluate these exposures and construct a program to maximize protection against risks that can arise from both personnel and third-party vendors.

Many of the coverage options reviewed throughout this study are beneficial for family members and the family office. Constructing a robust cyber program is critical for firms managing assets. Cybercrime will continue to grow with estimates that damages could reach $6 trillion by 2021.[34] With almost 50% of ultra-high net worth family wealth being managed through family offices, adequate measures must be taken to defend against increasingly sophisticated cyber-attacks.[34] The absence of preparation puts both the family's assets and the firm's reputation at risk.

Workers compensation and employment practices liability are also essential coverages.Workers compensation will respond to staff members' bodily injury claims while on the job. Employment practices liability will provide protection for damages and defense should the firm be sued by personnel for discrimination, wrongful termination, or sexual harassment.

The structure of each family office's insurance program will be unique in coverage type and policy limits. We have outlined some commercial insurance options that a family office should consider and discuss with their risk advisor.

Management and Professional Liability

In addition to employment practices liability, asset management firms face a host of professional and management liability exposures. Each family office offers a variety of professional services that put it at risk for lawsuits. The firm's insurance portfolio should include comprehensive coverage to respond to claims of mismanagement related to their services. Family offices should discuss their exposures and review coverage options with their risk management team.

Directors and Officers and Errors and Omissions Liability Coverage

Directors and Officers (D&O) coverage and Errors and Omissions (E&O) are essential coverages for the family office. D&O provides protection to the board members for both damages and defense arising from mismanagement or alleged wrongful acts. E&O provides coverage for the family office staff against claims of poor professional advice or negligent actions. Insurers have experienced a surge in claims within recent years. Settlement amounts increased by 71% in just one year.[35] The average sum for legal fees and settlements increased to an average of $4.5 million.[35]

$4.5 MILLION

The average sum for legal fees and settlements.[35]

The rising cost of coverage should not be viewed as a deterrent but should serve as a warning. Family office firms that have declined D&O and/or E&O or that have elected to carry low policy limits should rethink their strategy.

Debbie Schaffel, Managing Director of Aon's Financial Services Group Private and Nonprofit Practice, explained that it's prudent for families to secure both D&O and E&O coverage. "Some families are reluctant to purchase coverage since the intent of the policy is to cover Solutions for the Family Office Firm claims made against the family office and its staff; however, most of these companies have an indemnification agreement in place, which requires the family to reimburse the individuals at the fund for their defense costs. The cost of the insurance comes out of the same fund, which means the overall expense to the family is much lower if they purchase coverage against such claims than if they were to pay damages and defense costs out of pocket." It's important for families to realize that a lawsuit can arise from many sources, including third parties. Even if a lawsuit is frivolous, the defense costs associated with defending it can be high.

Debbie also touched on the importance of the family office's transparency with their broker and the insurers in the D&O and E&O markets. "Some family offices are uncomfortable disclosing the scope of assets under management and all of the entities within their organization. We recognize the privacy concerns of our clients and are committed to upholding our nondisclosure agreements; however, it is necessary to disclose this information to insurers to secure coverage."

D&O coverage protects the entire board, but there is an option available to individual board members if they are concerned that the board's limit may be insufficient. Side A D&O provides coverage for individual board members who seek additional protection for nonindemnifiable claims should the board's primary coverage be inaccessible or exhausted. The family office should examine their board's risk exposure with their Aon advisor to determine which D&O and E&O program offers adequate protection.

Trustees Liability

Many family offices act in a trustee capacity for the families they serve. Acting as a trustee comes with many responsibilities and inadvertent errors can come at a high cost. The cost to litigate basic trustee disputes can easily exceed $100,000.[36] Trustee liability coverage protects against allegations of asset mismanagement, errors in accounting and taxes, failure to comply with trust terms and laws, and conflicts of interest. Without a comprehensive policy the trustee is required to pay for their own defense and damages. There are a variety of factors that determine the appropriate limit. An Aon risk advisor can assess the risk of each trustee and offer recommendations to address their unique exposures.

Acting as a trustee comes with many responsibilities and inadvertent errors can come at a high cost.

Crime Coverage

Many family offices attract top talent and have excellent hiring practices, but even the best vetting process cannot remove the possibility of hiring an employee who could commit fraud in the course of their employment. Eighty-six percent of occupational fraud cases involve employees stealing or misusing a firm's resources.[37] Crime coverage offers coverage against losses arising from dishonest acts of employees, such as embezzlement, forgery, theft of assets, unauthorized transfer of funds, and fraud. Crime policies also offer third party coverage should another business claim losses were incurred due to criminal acts of the family office firm. Crime claims are costly and wealth management firms should review coverage options. Acting as a trustee

Aon Private Risk Management

Throughout this study we have touched on the growing risks and trends impacting family offices. Accomplished individuals and families face increasing threats to both their assets and physical security. The same technological advancements that offer a lifestyle of comfort and convenience have also created more complex and dynamic risks. Risk barriers must be proactively built as the entry of these risks can come from a variety of exposures. Family offices must build a solid framework to strategically manage these risks.

It's critical for firms to select a risk management firm that can thoroughly assess risk and provide optimal solutions. Jason Ott, president of Aon Private Risk Management, has been working closely with family office clients for two decades, building a practice that encourages forward thinking and innovation. "Our firm partners with some of the most complex, inspiring and philanthropic families in the world. It's imperative that our risk advisors accurately anticipate market disruptions and challenges that impact our clients and are prepared to provide new, executable strategies. Agility is an absolute necessity in today's risk climate and we are committed to creating an environment that fosters creativity to deliver on our client promise."

With over 25 years of specializing in risk management for successful families, Aon Private Risk Management has developed extensive experience in program design that encompasses the most complex of risks. Our risk consultants serve more than 200 family offices across the United States and work closely with our colleagues to deliver comprehensive solutions to our clients.

Our team of consultants stays informed of the evolving risks and rends impacting families in several ways:

- Maintaining open dialogue with the family office advisory team to discuss the developing needs of family members to identify potential, emerging exposures.
- Analyzing the true value add of new programs and endorsements available in the marketplace.
- Developing innovative, beneficial products and services with other Aon divisions and our insurance carrier
- partners to provide new, valuable options to our family office clients.
- Participating in advisory groups within the family office space.

Mission Statement

Aon Private Risk Management strives to be the world leader in providing custom risk management and insurance solutions for the protection of accomplished individuals and successful families. Our promise to deliver innovative strategies springs from our commitment to our clients. We empower our team to help clients make smart decisions, which creates a world where people are safe, secure, resilient and focused on the people and things they love.

As the risk management landscape continues to evolve our practice has responded with the development and expansion of specialty practices and a growing global footprint. Our advisors provide clients with comprehensive solutions and creative strategies to meet their risk management objectives. We are honored to serve our clients and are prepared to offer support and objective advice to help them meet the challenges they face.

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