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This article features Gary Pasternack, Director of insurance advisory at Bessemer Trust

SOMEONE'S MISSING FROM MOST FAMILY OFFICES

If you're not managing the insurance needs of your high-net-worth clients, you're missing a critical role that the family office should play

Family offices serve a vital purpose, centrally managing a high-net-worth family's investments, tax and estate planning, and legal and philanthropic matters, thereby effectively assuming the administration of the family's affairs. Unfortunately, few family offices also provide insurance and risk management consulting in those wealth planning and investment services. Perhaps many family offices assume that the risks will be adequately transferred through insurance. However, that may not be the case.

A high-net-worth family's investments could be threatened if there is deficient insurance coverages and financial limits of protection. It would seem remiss to assist clients in accumulating wealth without accounting for the downsides — the property, liability and other complex risks confronting high-net-worth families and individuals.

Thinking about this recently, I contacted Gary Pasternack, a principal and director of insurance advisory at Bessemer Trust. I've met with Pasternack before and found the work he does to be illuminating, thorough and important. It is also pretty unique.

Bessemer Trust is a large, multifamily office with 19 global offices that has served individuals and families of substantial wealth for more than 100 years. The firm has more than 2,200 clients and over $100 billion under supervision. Unlike other family offices, Bessemer Trust has an insurance and risk management professional as part of its staff — Pasternack. "I'm a pretty rare professional breed. You don't find many wealth management firms and family offices with someone internal who is an expert in property and casualty risks and insurance," he said.

Family offices that don't focus on HNW clients' insurance needs neglect significant risks. *(Illustration: Brian Stauffer/Theispot.com)*

Pasternack began his career as an underwriter with Chubb, before joining JPMorgan in the financial services firm's corporate risk management group. He later worked at U.S. Trust handling the insurance for the firm's wealthy clients and their trusts and estates. Thirteen years ago, he brought his multilayered experience to Bessemer Trust to help launch its insurance and risk management advisory group.

"It's a big benefit to our clients to have someone take an unbiased look at their insurance programs," he said. "Often, the programs are spread out between different insurance companies and insurance agents. Having an objective individual review and provide feedback on these programs is vital to understanding their scope and interplay."

In this assessment, it is common to find duplicative or inadequate insurance coverages, not surprising given the range of different agents and insurers. The pricing also may be higher than it needs to be. Much worse is the discernment of insurance gaps — evidence that the agents and insurance carriers failed to fully grasp the breadth of complex exposures confronting the HNW client.

Bessemer Trust takes a rigorous risk management approach to these insurance reviews. “We begin by inventorying the assets and activities of the family as well as assessing their tolerance for risk, and then analyze their existing insurance policies to understand their exposure to loss,” Pasternack said. “From this comparison, we will tailor customized programs to optimize the protection of their assets.”

Asked what keeps his clients up at night, Pasternack did not hesitate. “It’s the lurking unknown — the risks that have not been addressed through mitigation, prevention and transfer,” he replied. “We just completed a comprehensive review of a family’s insurance program. At the end of the review, the head of the family told me it had been on his to-do list for many years. He said he was grateful, finally, for the peace of mind.”

FALLING THROUGH THE CRACKS

In his risk management approach to reviewing client insurance programs, Pasternack often sees similar fissures in coverage. On the property side, the policies may not fully address the unique nature or high values of the client’s real estate and personal property. On the casualty side, the challenges can be even more complex, due to the complicated and often-changing liabilities stemming from what affluent people own and do.

These challenges run the gamut from lawsuits alleging wrongful acts as a director or officer of a public or not-for-profit company, to employment practice liabilities such as legal actions brought by a member of the household staff for wrongful termination, discrimination or sexual harassment.

Wealthy families also may own (or partly own) or charter watercraft and aircraft, which demands specialized treatment. Another atypical risk is when a client serves as a trustee of a family trust. “They may need specific liability insurance protecting them against their acts or omissions as fiduciaries,” Pasternack explained.

To ferret out these financial dangers, Pasternack and his team of two other risk professionals, both former underwriters, undertake a five-step process. It begins with collecting the client’s current insurance policies, followed by a thorough assessment of the family’s property and casualty risks, and the development of relevant risk mitigation, loss prevention and insurance solutions. The fourth and fifth steps involve the issuance of the risk report and its recommendations to the client, followed by its implementation.

FIRST GATHER DATA, THEN MANAGE SPECIFIC RISKS

During the first phase of the process, Pasternack and his colleagues accumulate an enormous volume of data, from personal balance sheets to current insurance policies, home inspections, property appraisals, elevation certificates to ascertain potential flood risks and similar wind mitigation inspection reports. “We utilize a risk mapping tool to determine if a house is located near an earthquake fault line and what the degree of probable loss might be,” he said. “The same tool helps us conduct fire zone mapping, hurricane storm surge determinations and even sinkhole mapping. We also advise on a range of home, personal safety and cybersecurity assessments, evaluating the risks to the family wherever they are.”

The team also manages wide-ranging risks like fine art, vintage cars and other valuable collections.

From this in-depth analysis, the team has what it needs to advise on the necessary insurance policies and appropriate coverage terms, conditions and financial limits of protection. “The report serves as a framework for making decisions — how to think about these risks and how they fit one’s overall financial objectives from a cost standpoint,” Pasternack said. “After we sit down and confer with the client and they make decisions, we work with specialized insurance agents and carriers to bind the insurance.”

What Pasternack has described is what high-net-worth families should expect from a risk and insurance advisor. While not all affluent individuals can avail the services of a family office, they can nonetheless seek out similar expertise. “My recommendation to anyone with significant or a growing expanse of assets is to find an independent insurance agent or broker who specializes in serving high-net-worth people, someone who is aligned with your values and is an expert at their craft,” Pasternack said.

It’s advice that should be heeded. **IA**