

High Net Worth home insurance guide

August 2012

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Since 1994 we have built the largest, whole of market, financial product database and become one of the leading providers of financial products and funds data in the UK. We now cover over 35,000 products across banking, life, pensions, investments and general insurance. This data underpins our software packages, web services and consultancy.

Our insight supports all layers of the financial services sector including product providers, intermediaries, brokers, web aggregators and the public sector.

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Defaqto's experienced consultants can undertake research and data analysis, saving time and money. From researching new markets to finding the perfect HNW insurance solution, we can provide all the professional support general insurance intermediaries may require, allowing them to focus their efforts on growing their business. For more information call us on freephone 0808 1000 804.

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Defaqto's Star Ratings are an independent verification that help consumers to quickly identify where a product sits in the market. This gives an 'at a glance' view of the level of features and benefits that individual offshore bonds offer. Firms can access Premier Star Ratings for HNW home insurance at <http://star-ratings.defaqto.com>

For further information please contact us on 0808 1000 804

Introduction



Mike Powell

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There is massive potential in the High Net Worth (HNW) home insurance market - in 2011 there were an estimated 675,000 HNW individuals in the United Kingdom¹. This must be music to an intermediary's ears, as the potential earnings from these types of customers can be significant. But this potential has also been recognised by many new providers who want this business.

Traditionally, the HNW home insurance market has been dominated by the intermediary sector. In the last couple of years however, things have changed and there is now a clear challenge to broker dominance from banks and direct providers.

The first direct provider to enter the HNW home insurance space was 'Greenbee' or John Lewis insurance, as it is now known. The product, launched in October 2007, was and still is underwritten by Sterling Insurance Company Limited.

It was not until February 2011 when further developments in the market were seen, with Direct Line launching its 'Select' brand of products. March 2011 saw the launch of the 'Private Home Insurance' products from Coutts, NatWest and Royal Bank of Scotland.

Although intermediaries are still king within the HNW home insurance market, there is now a real challenge from banks and direct providers. Intermediaries are going to have to meet the challenge head on if they are to continue to control and dominate the distribution of this market place.

In order to do this, intermediaries need to use all the tools at their disposal, particularly those that set themselves apart from the banks and direct providers. HNW home insurance is a bespoke product area and this is the key to intermediaries' dominance of this market place.

This guide looks at a snapshot of the HNW home insurance market, including some of the key policy features of HNW home insurance, and provides details of trends in policy cover between 2008 and 2012. It discusses the challenge of the banks and direct providers to the dominance of the intermediary sector and highlights some of the key unique selling points of the intermediary market and how these can be used to offset this challenge.

A handwritten signature in black ink, appearing to read 'Mike Powell' in a stylized, cursive script.

Mike Powell

Insight Analyst, General insurance

¹ United Kingdom - The Future of HNWI's to 2015: Capital of Wealth and Finance Published by WealthInsight

Market Snapshot

The landscape in the distribution of HNW home insurance has changed significantly since 2008. Whilst providers in the market still predominately receive business from intermediaries, there has been a steady increase in the number of banks and direct providers that have entered the market.

Major growth in providers and product numbers

During the period 2008 - 2012 there has been a major proportional increase in the number of providers and products in the HNW home insurance market. This clearly signifies that the market has great potential and opportunities for providers and intermediaries alike.

Size of HNW Home Insurance Market

HNW Home Insurance	2008	2012	Increase (%)
Number of Providers	17	24	41
Number of Products	25	32	28

■ Source: Defaqto Matrix



Products by underwriter

The market share of products by underwriter has remained fairly consistent over the period analysed, although Sterling, Lloyds of London and UKI currently underwrite over 50% of products available. These figures do not take into account premium income received and are purely based on underwriting market share by products only.

Products share by underwriter 2008 - 2012

Underwriters	Number of Products		% by product share	
	2008	2012	2008	2012
Aviva Insurance Limited	2	2	8%	6%
AXA Art Insurance Ltd	1	1	4%	3%
Axa Insurance UK plc	2	N/A	8%	N/A
Brit Insurance Limited	1	1	4%	N/A
Chartis Insurance Europe Limited	1	1	4%	3%
Chubb Insurance Company	2	3	8%	10%
Hiscox Insurance Company Limited	2	1	8%	3%
HSBC Insurance (UK) Limited	1	N/A	4%	N/A
Lloyd's Underwriters	1	7	4%	19%
NFU Mutual Insurance Society Ltd	1	1	4%	3%
Oak Underwriting Plc.	1	1	4%	3%
Panel	2	2	8%	6%
Royal & Sun Alliance Insurance plc.	1	1	4%	3%
Sterling Insurance Company Limited	4	7	17%	22%
UK Insurance Limited	N/A	4	N/A	13%
Zurich Insurance plc	2	2	8%	6%
TOTALS	24	33	100%	100%

■ Source: Defaqto Matrix

Although the figures show that the market is relatively small in product number terms when compared to the standard home insurance market, the HNW sector has historically been seen as a major growth area for providers. This has proved to be the case, as the HNW market has been a hot bed of activity over the previous year. In February 2011, Direct Line entered the HNW market for the first time with the launch of its 'Select' range, while, in April, RSA announced that it had bought Oak Underwriting plc and in November, new products were launched through Aqueduct Underwriting.

Although there is potential in HNW home insurance, any new provider considering entering this market must be prepared to compete with major players who already have an established presence and have created long-standing relationships with the intermediary sector. Intermediaries are still the main source of business for providers and it is therefore essential that any new provider puts in place unique facilities for this sector, if it is to become an established player in this market place.



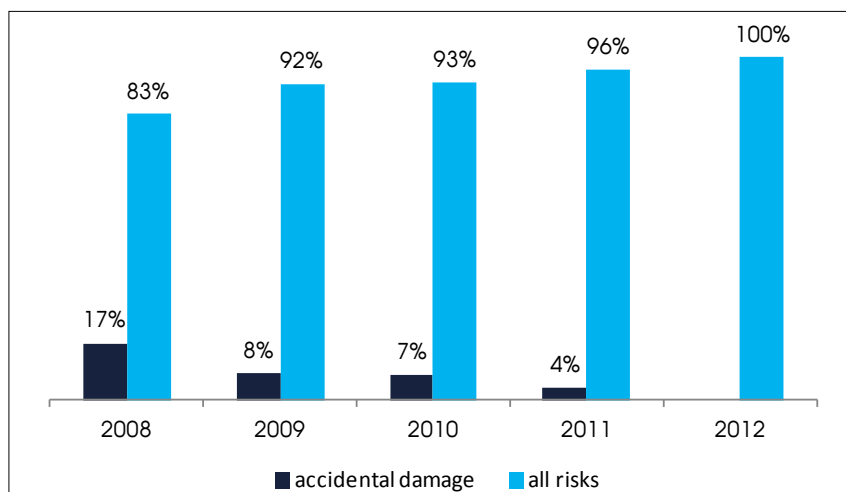
Product Trends 2008 - 2012

The risks involved for a HNW client can vary and there is no typical risk on which providers can base their underwriting decisions. HNW home insurance is a truly bespoke product area and therefore needs professional advice. Differentiation in product cover is essential in determining which insurance product is purchased. In this section we highlight some of the trends within key product cover areas of HNW home insurance.

Basis of cover for buildings and contents

The standard basis of cover for both buildings and contents has shown dramatic improvements in what is offered over the period analysed. The basis of cover for buildings for all policies in 2012 is on an 'all risks' basis, compared to almost two in every 10 policies in 2008 offering cover on an 'accidental damage' basis.

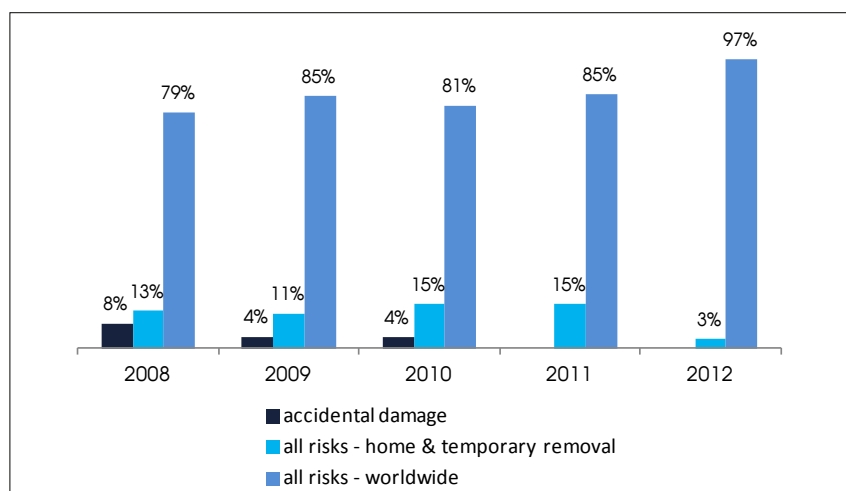
Standard basis of cover for buildings 2008 - 2012



Source: Defaqto Matrix

For contents, a similar picture is apparent, with all policies in 2012 offering cover on an 'all risks' basis, although there is a small difference between policies providing cover on either a 'home and temporary removal' or 'worldwide' basis.

Standard basis of cover for buildings 2008 - 2012

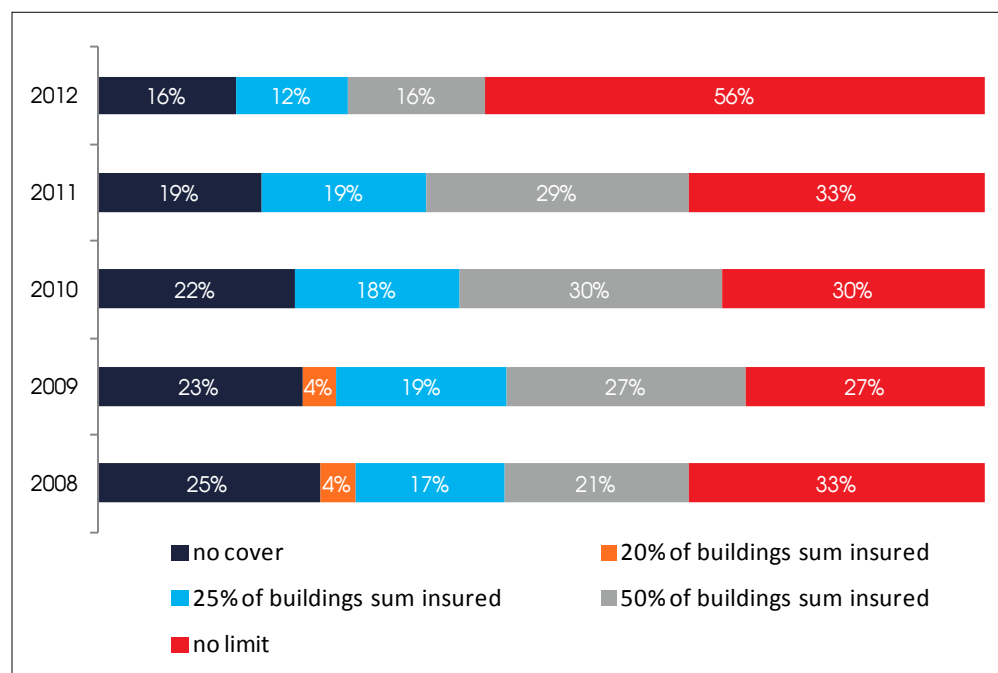


Source: Defaqto Matrix

Extended replacement costs for buildings and contents

In 2012, just over half of all policies do not apply a limit on extended replacement costs for buildings, compared to a third of all policies in 2008:

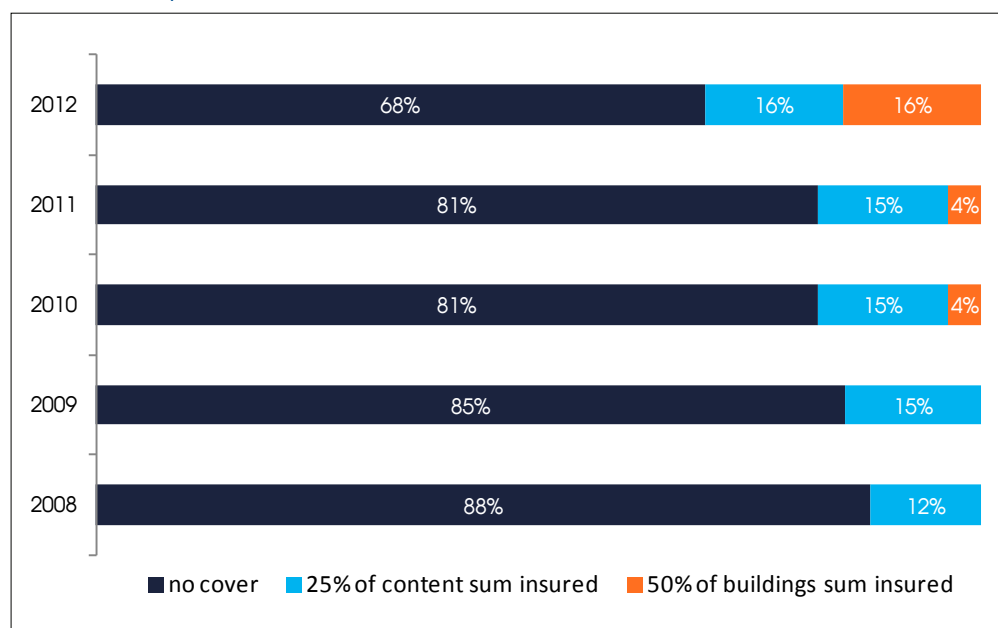
Extended replacement cost - buildings 2008 - 2012



Source: Defaqto Matrix

For contents, the picture is completely different, with over two-thirds of policies in 2012 not providing any increase in the sum insured:

Extended replacement cost - contents 2008 - 2012

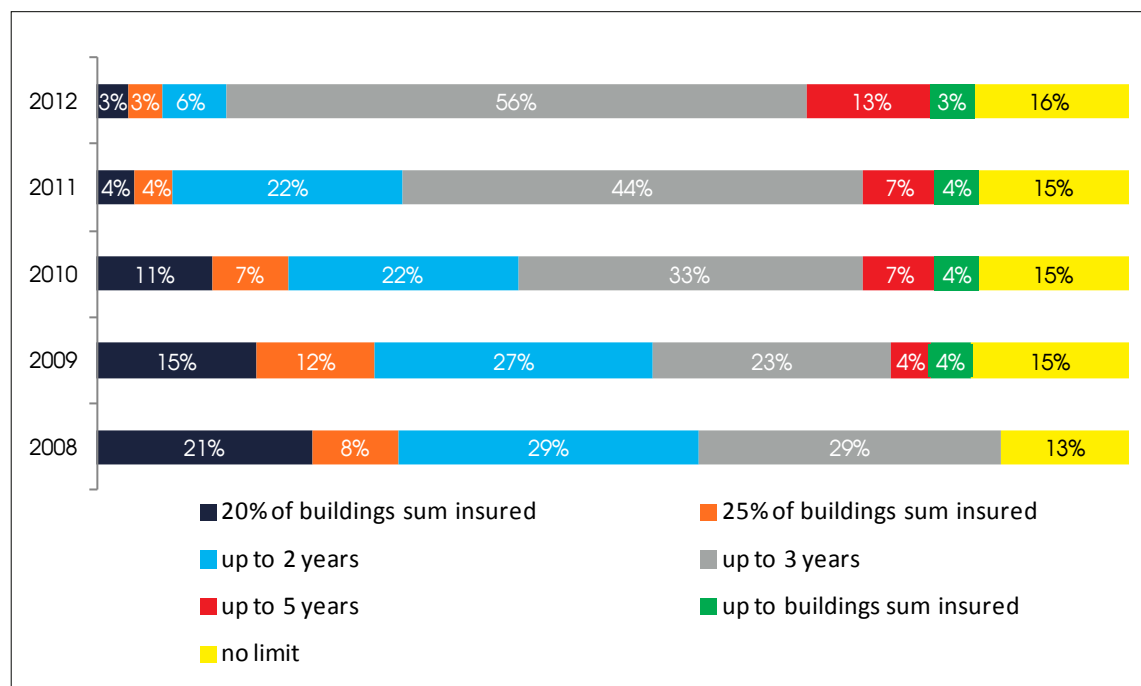


Source: Defaqto Matrix

Alternative accommodation

The table below shows that three-quarters of all policies provide cover based on a specific time limit ranging from two to five years in 2012, compared to almost two-thirds of products in 2008.

Alternative accommodation cover within buildings 2008 - 2012

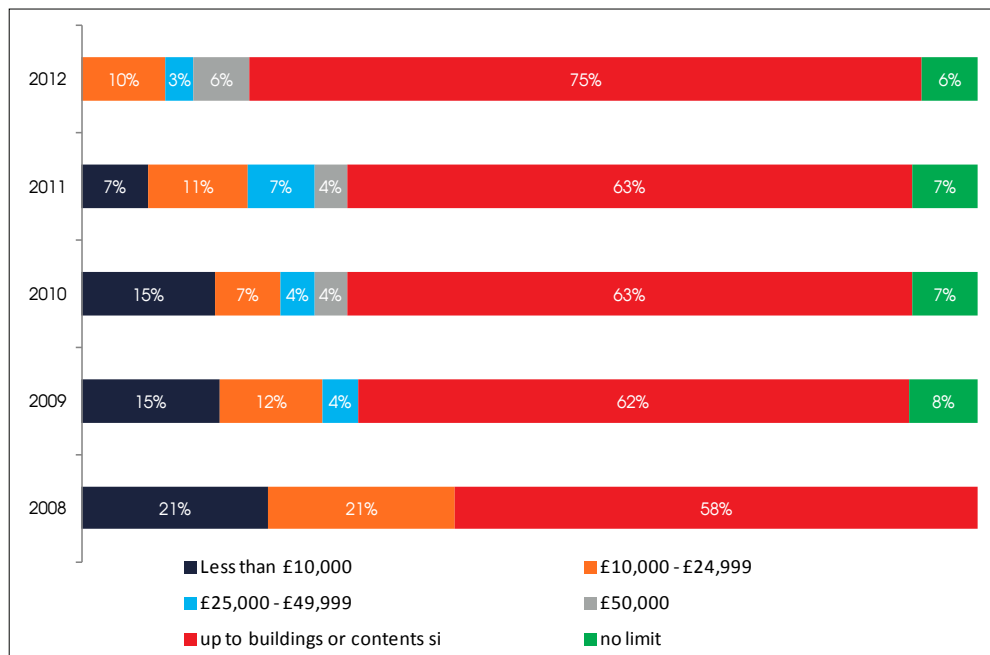


Source: Defaqto Matrix

Cover for 'trace and access'

In terms of trace and access cover within the home, three-quarters of policies in 2012 provide cover up to the overall buildings or contents sum insured. One in 10 policies still provide cover of between £10,000 and £24,999, a reduction of over 10% when compared with 2008.

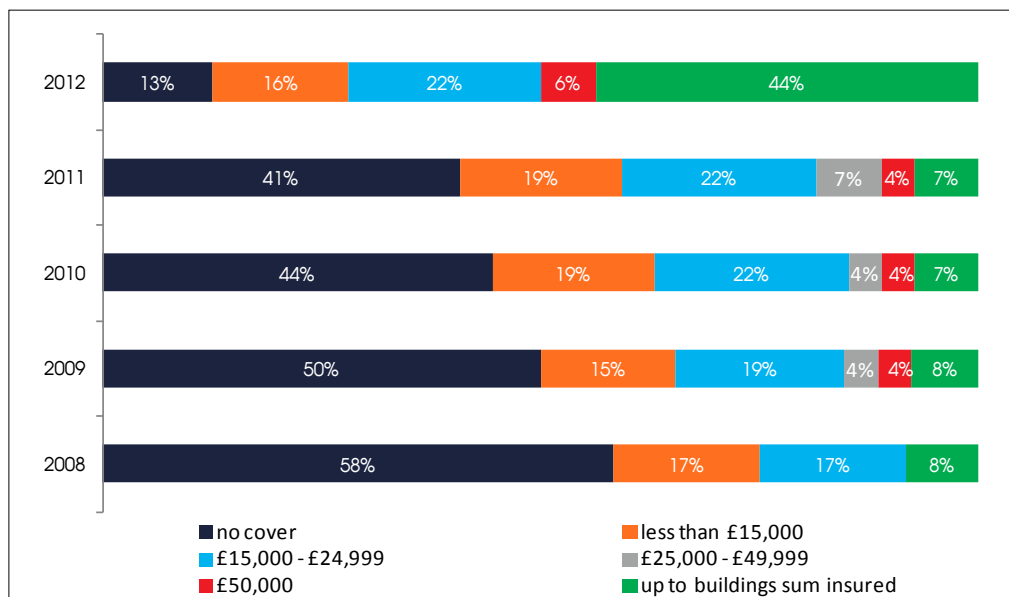
Trace and access within the home 2008 - 2012



Source: Defaqto Matrix

Cover for trace and access outside of the boundaries of the home also show that just over four in every 10 policies provide cover up to the overall buildings sum insured.

Traces and access outside of the home 2008 - 2012

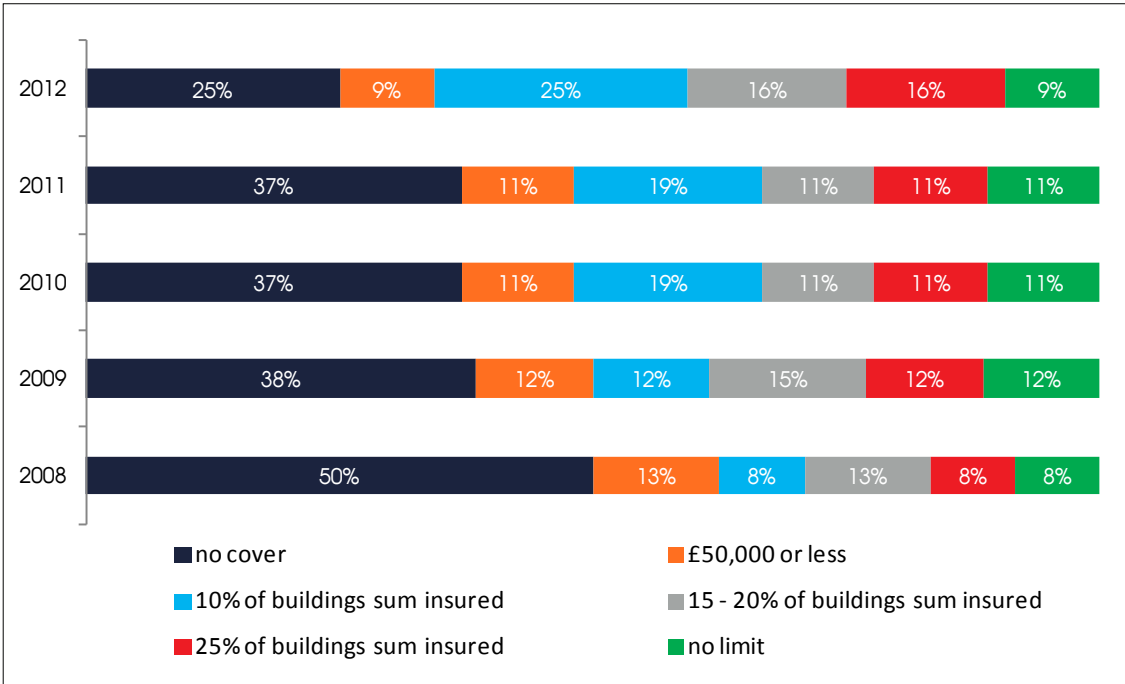


Source: Defaqto Matrix

Cover for new fixtures

The cover provided for new fixtures and fittings varies between policies, with a quarter of policies providing cover up to 10% of the overall building sum insured in 2012. What has been noticeable over the period analysed is a reduction in the number of policies that do not provide cover, which is good news for policyholders.

Cover for new fixtures 2008 - 2012



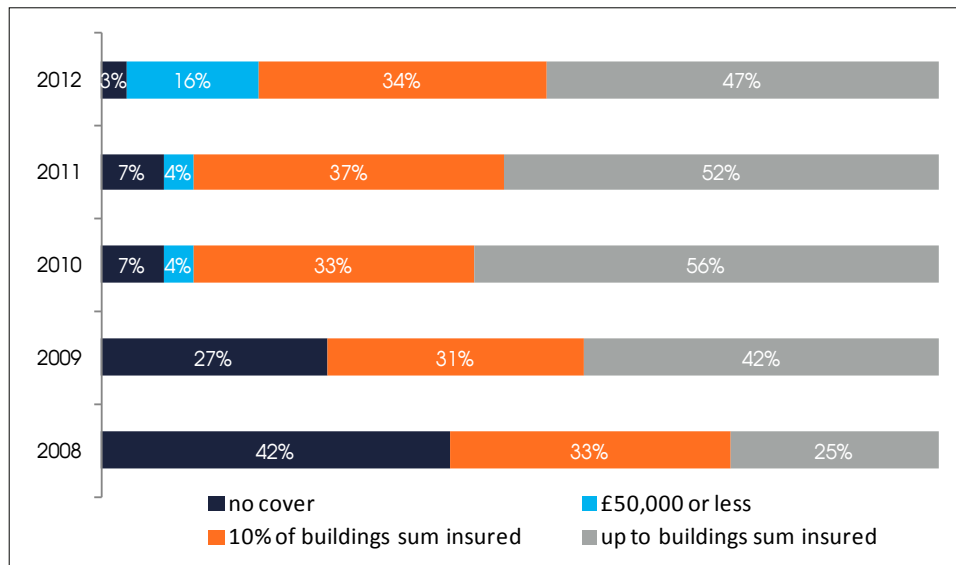
Source: Defaqto Matrix



Temporary removal of fixtures

Almost half of all policies in 2012 provide cover for fixtures and fittings that are temporarily removed from the premises up to the overall buildings sum insured - compared to a quarter in 2008.

Fixtures and fittings temporarily removed 2008 - 2012

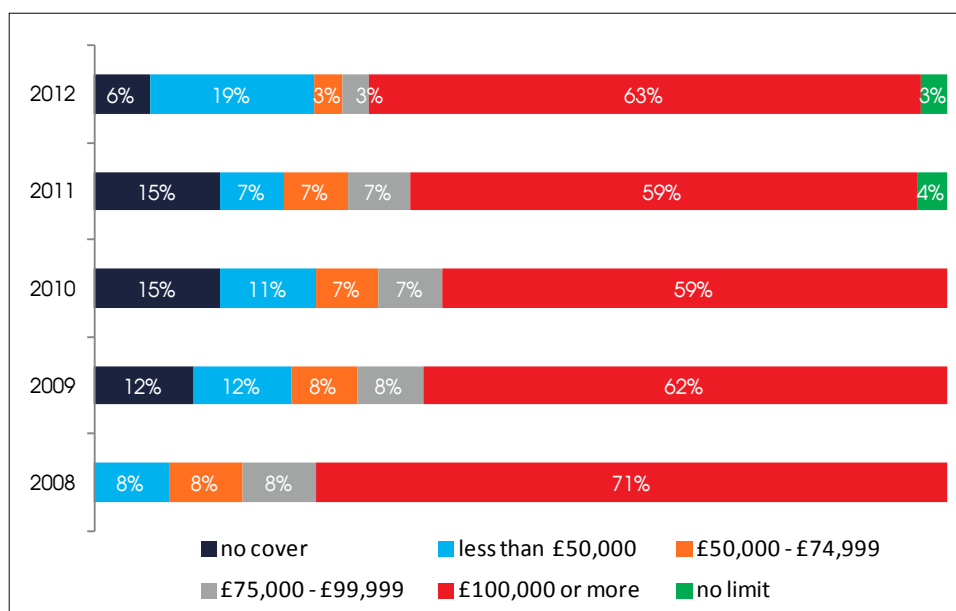


Source: Defaqto Matrix

Cover provided for the removal of squatters

For cover provided towards legal fees incurred to repossess a home that is occupied by squatters, over two-thirds of policies in 2012 provide £75,000 or more. This is a reduction in policy number when compared with 2008, where almost 8 out of 10 policies provided these limits.

Cover for the removal of squatters 2008 - 2012

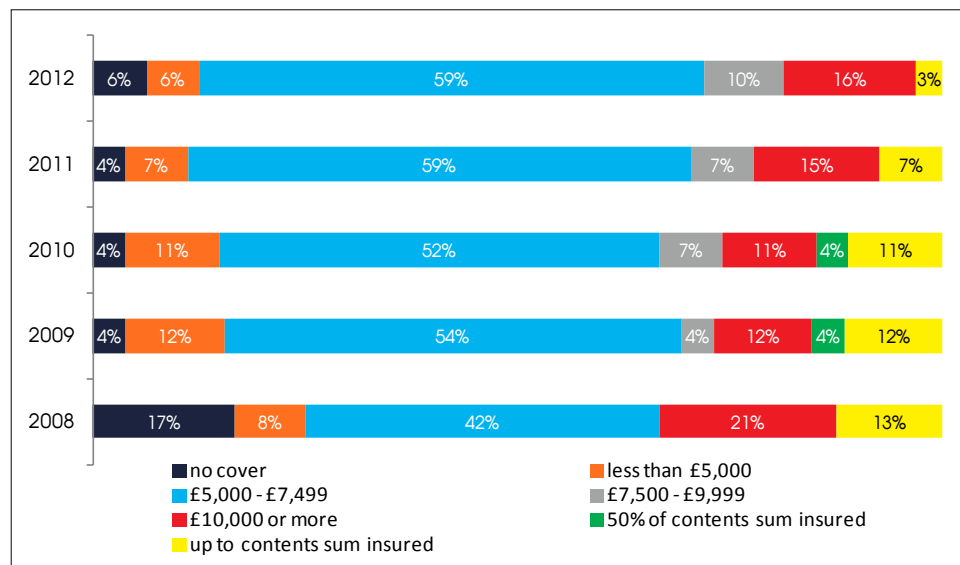


Source: Defaqto Matrix

Valuables inner limits within standard contents cover

This feature shows the inner limits of 'valuables' within the general contents cover. The majority of policies in 2012 (69%) apply an inner limit of between £5,000 and £9,999 compared to almost half of all policies in 2008.

Valuables inner limit within contents 2008 - 2012

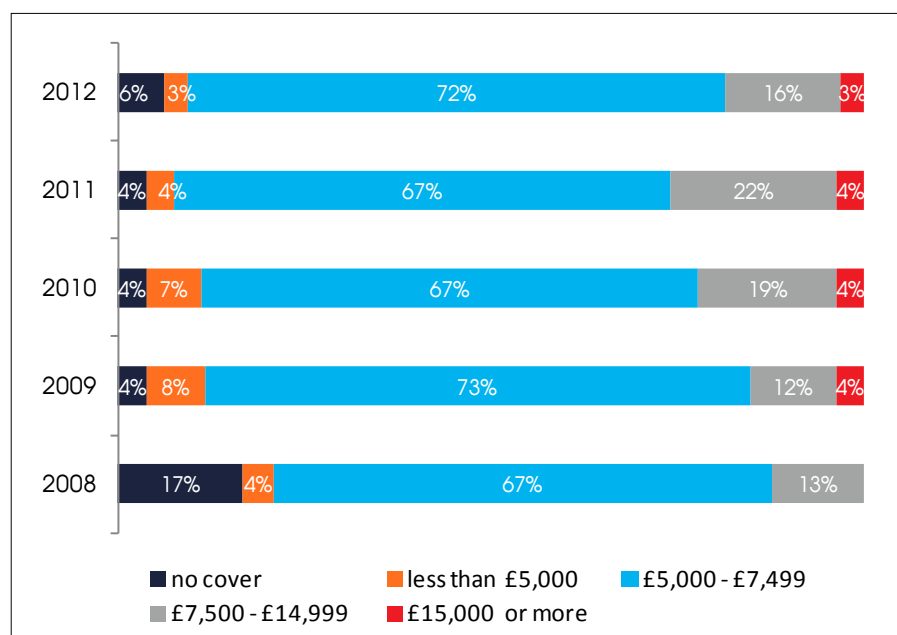


Source: Defaqto Matrix

Valuables single article limit within contents

Almost three-quarters of all policies in 2012 apply a single article limit to valuables covered within contents of between £5,000 and £7,499, compared with just over two-thirds of policies in 2008.

Valuables single article limit within contents 2008 - 2012

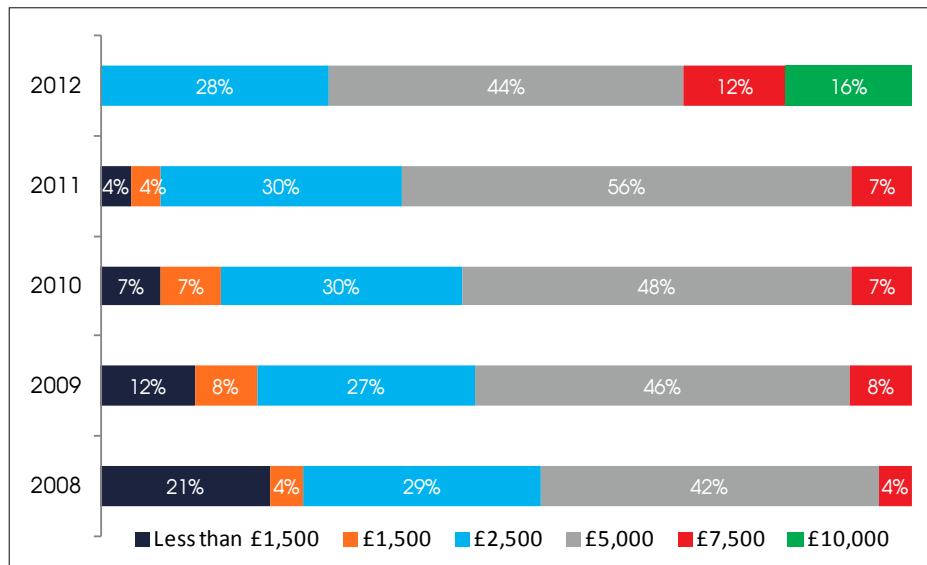


Source: Defaqto Matrix

Cover for money within the home

The cover provided for money kept in the home shows that just over a quarter of policies in 2012 provide between £7,500 and £10,000, compared to only four per cent of policies in 2008.

Cover for money kept in the home 2008 - 2012

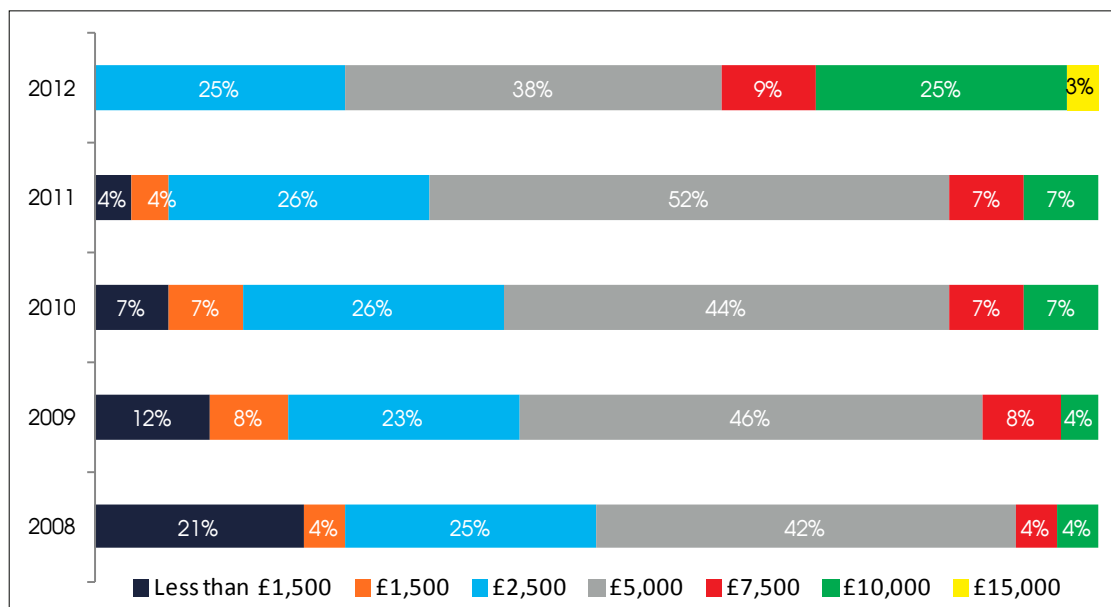


Source: Defaqto Matrix

Cover for money kept within a safe

In terms of cover for money kept in a safe, just over a third of all policies in 2012 provide between £7,500 and £10,000 compared with just less than one in every 10 policies in 2008.

Cover for money kept within a safe 2008 - 2012

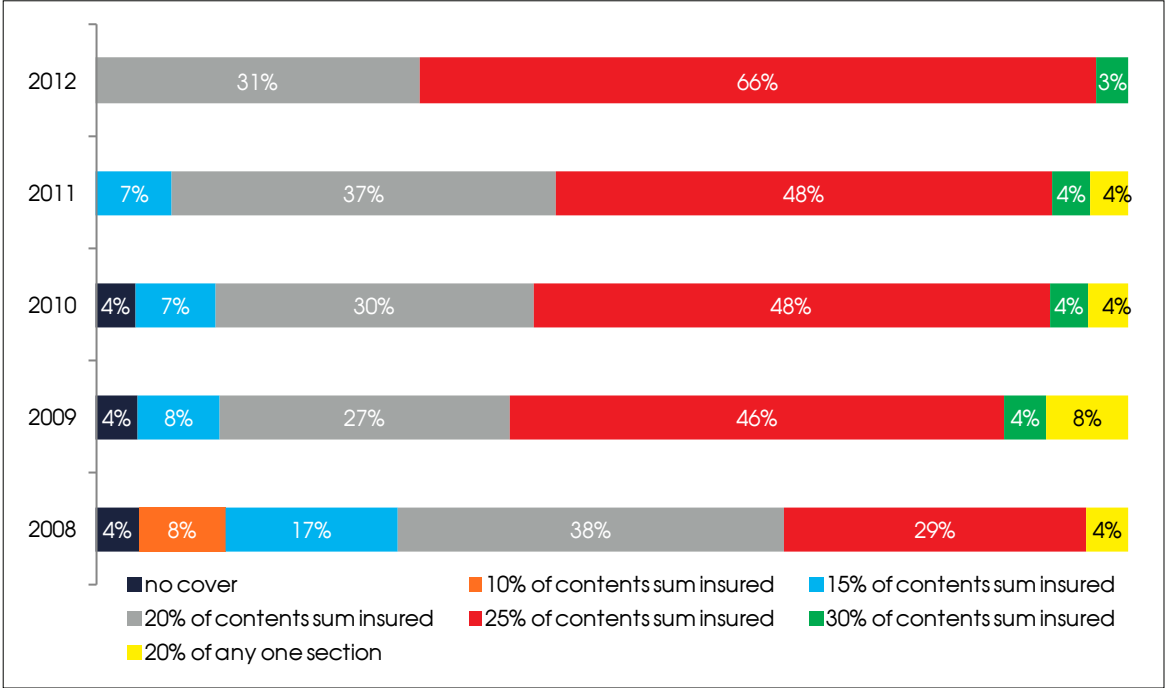


Source: Defaqto Matrix

New acquisitions cover

New acquisitions cover is an important benefit of any HNW home insurance policy. Two-thirds of policies in 2012 include cover for 25% of the overall contents sum insured, compared to just under a third in 2008.

New acquisitions cover 2008 - 2012



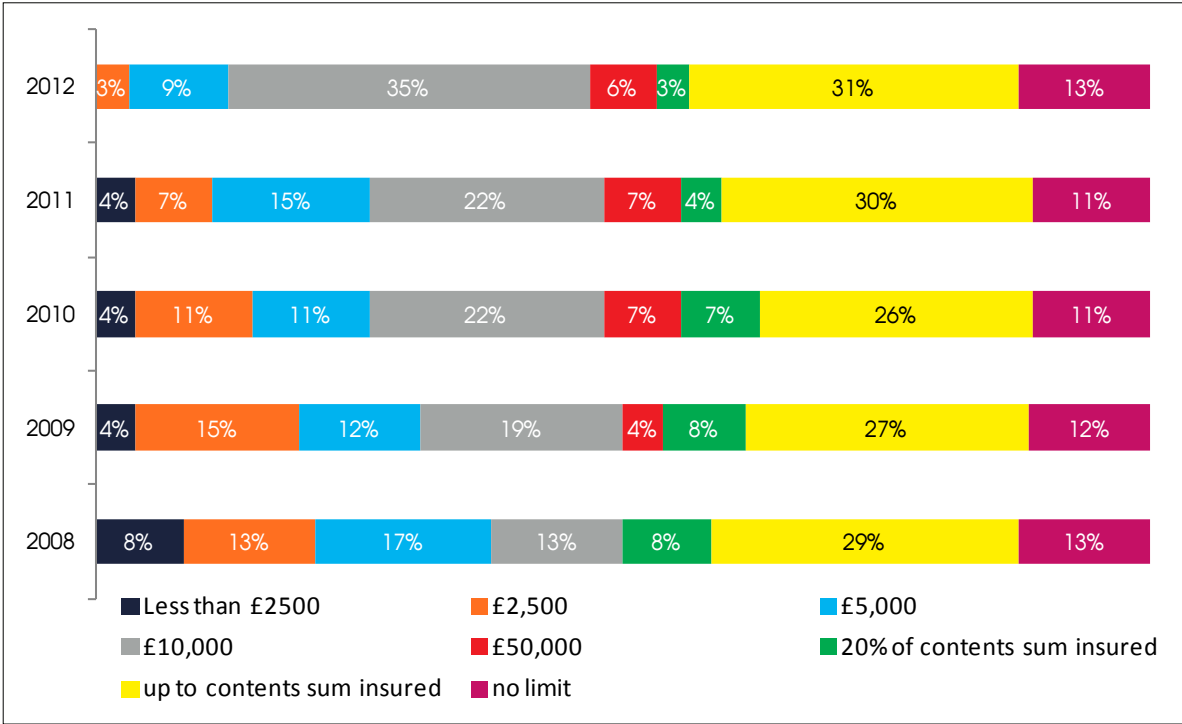
Source: Defaqto Matrix



Loss of oil

Over a third of all policies in 2012 apply a benefit level of £10,000 for loss of oil, compared to just over one in every 10 policies in 2008.

Cover for loss of oil 2008 - 2012

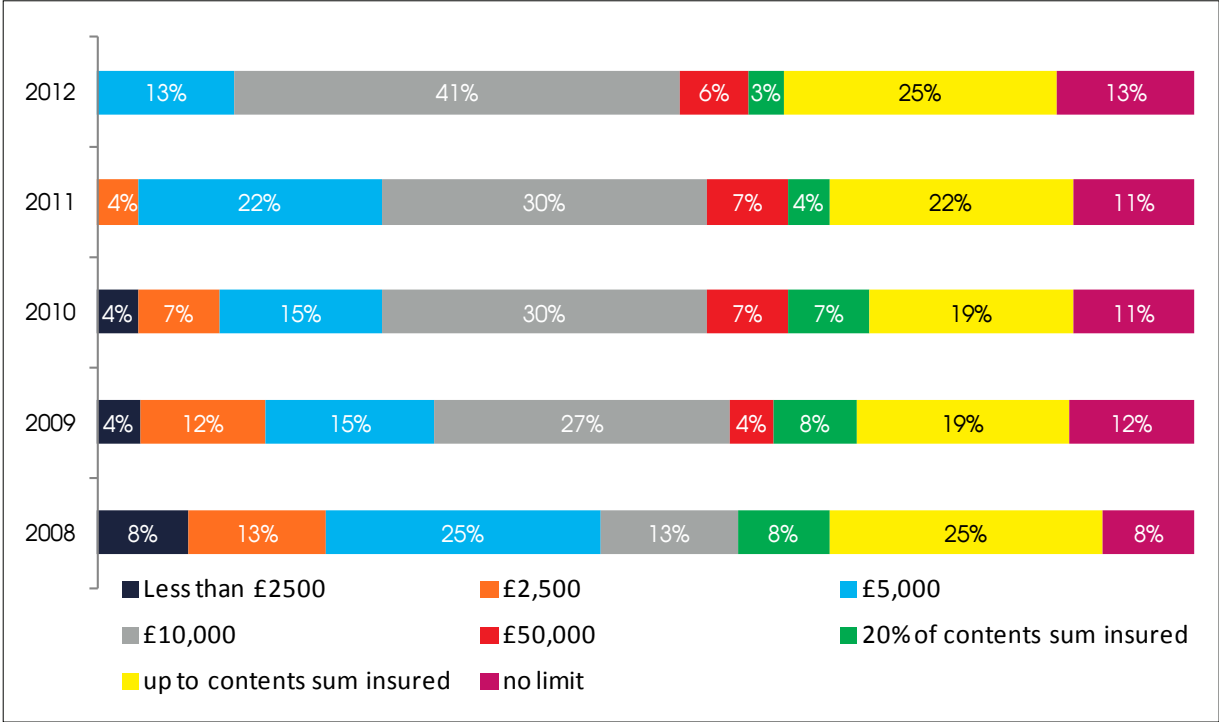


Source: Defaqto Matrix

Loss of water

In terms of cover provided for loss of metered water, four of every 10 policies in 2012 provide £10,000 of cover, compared to just one in every 10 policies in 2008.

Cover for loss of metered water 2008 - 2012

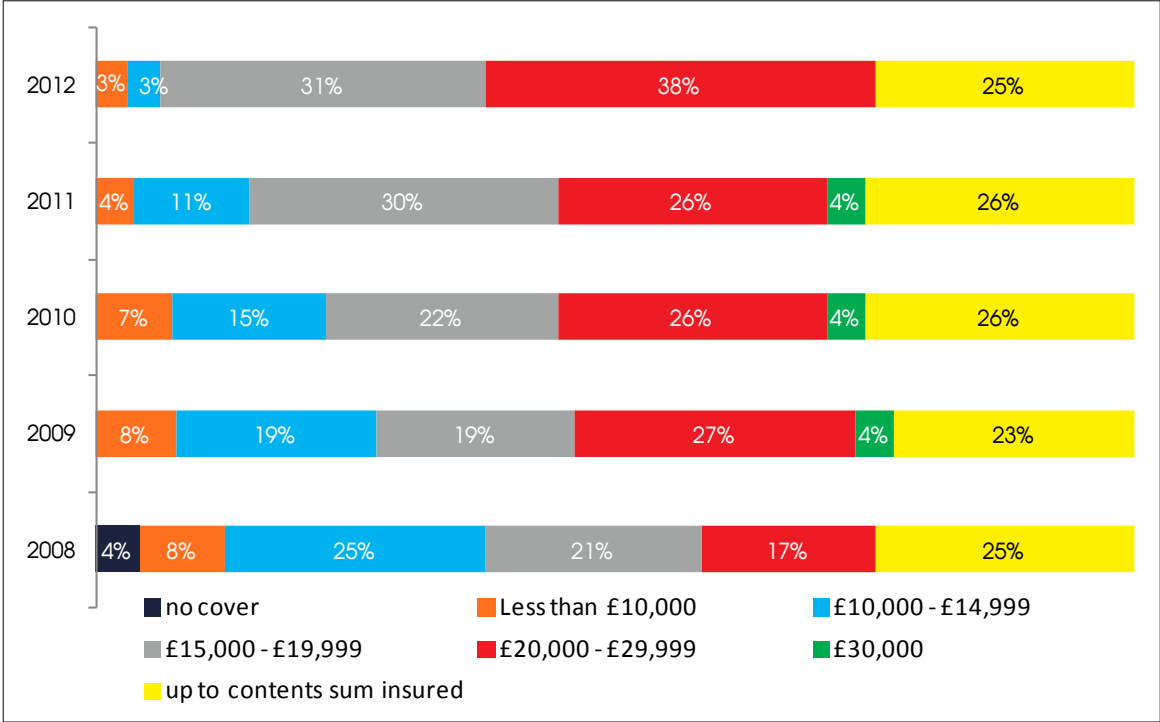


Source: Defaqto Matrix

Cover for business equipment

The table below shows that in 2012, almost two-fifths of all policies include cover between £20,000 and £29,999 for business equipment, compared to one-fifth of all policies in 2008.

Cover for business equipment 2008 - 2012



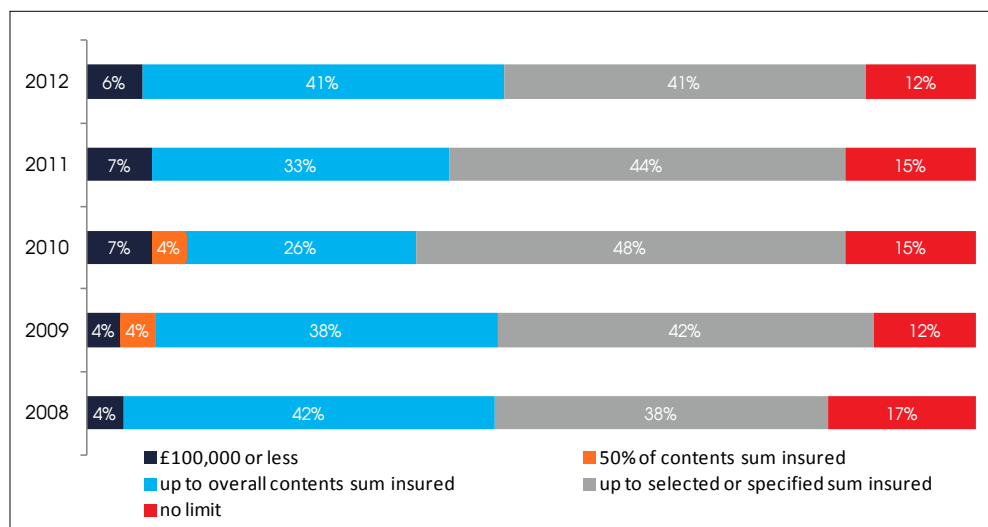
Source: Defaqto Matrix



Fine art standard policy limits

Standard policy limits for fine art can vary between providers, with the majority of policies providing cover up to the overall contents sum insured or up to a selected amount required by the policyholder. The most notable trend is the reduction in the number of policies that do not apply a standard policy limit for fine art, although just over one in every 10 policies still offer cover in this way.

Fine art standard policy limits 2008 - 2012

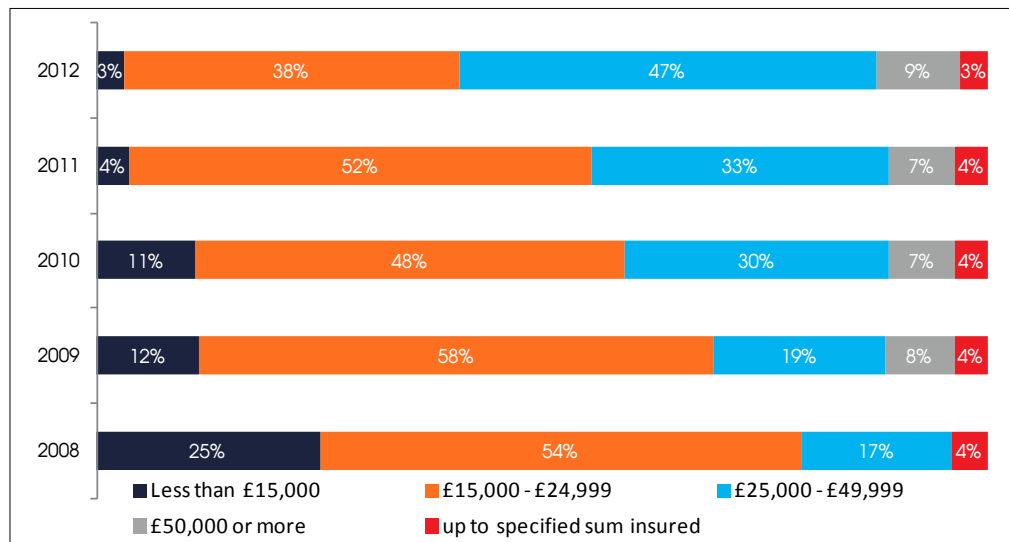


Source: Defaqto Matrix

Fine art standard single item limits

The standard single item limit applied for fine art shows that the majority of policies apply a single item limit of between £15,000 and £49,999, with just under one in every 10 policies applying a £50,000 limit. The most notable trend in the period analysed has seen a reduction of just over a fifth in policies that apply a single item limit of less than £15,000 when compared with 2008.

Fine art standard policy limits 2008 - 2012

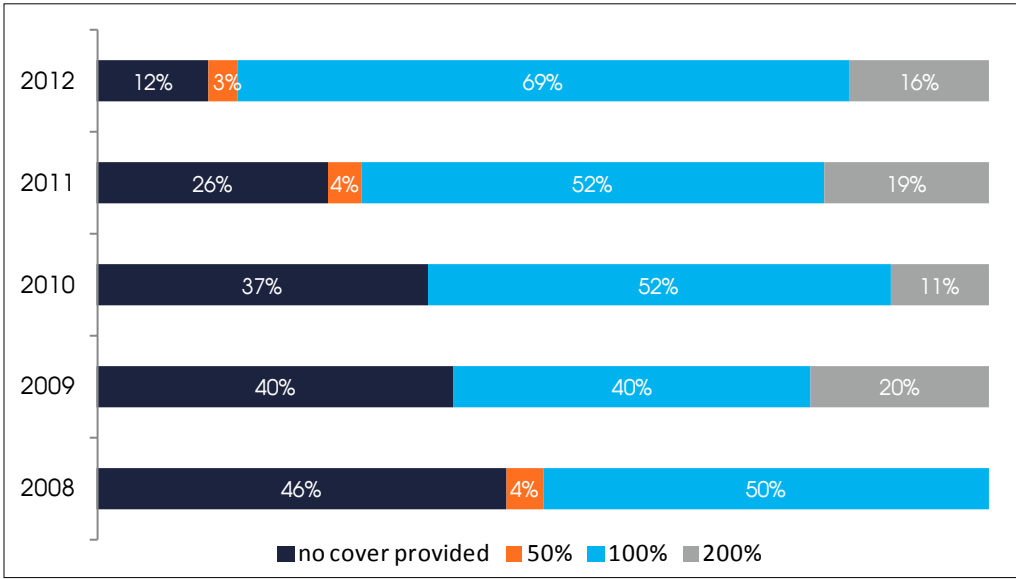


Source: Defaqto Matrix

Death of artist

The number of policies that no longer offer an automatic increase in the sum insured for fine art following the death of an artist has reduced, from almost half of all policies in 2008 to just over one in every 10 policies in 2012.

Increase in sum insured for fine art following death of an artist 2008 - 2012

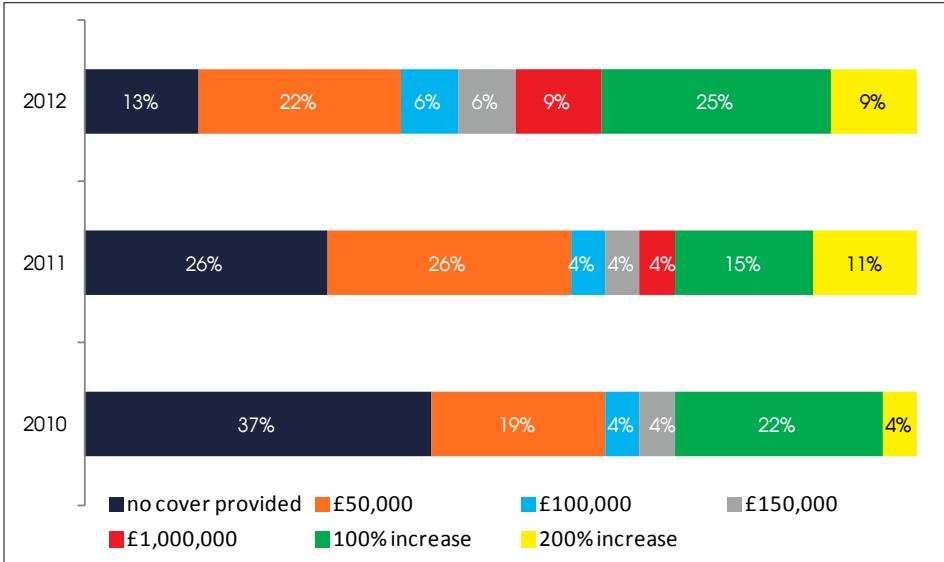


Source: Defaqto Matrix

Maximum amounts payable for death of artist cover

The maximum amounts payable for fine art in the event of an artist's death shows that in 2012 one-fifth of all policies apply a maximum limit of £50,000. A quarter of all policies apply a maximum increase of 100% of the sum insured with just under one in every 10 policies increasing cover by 200%.

Maximum amount payable in the event of death of artist 2010 - 2012

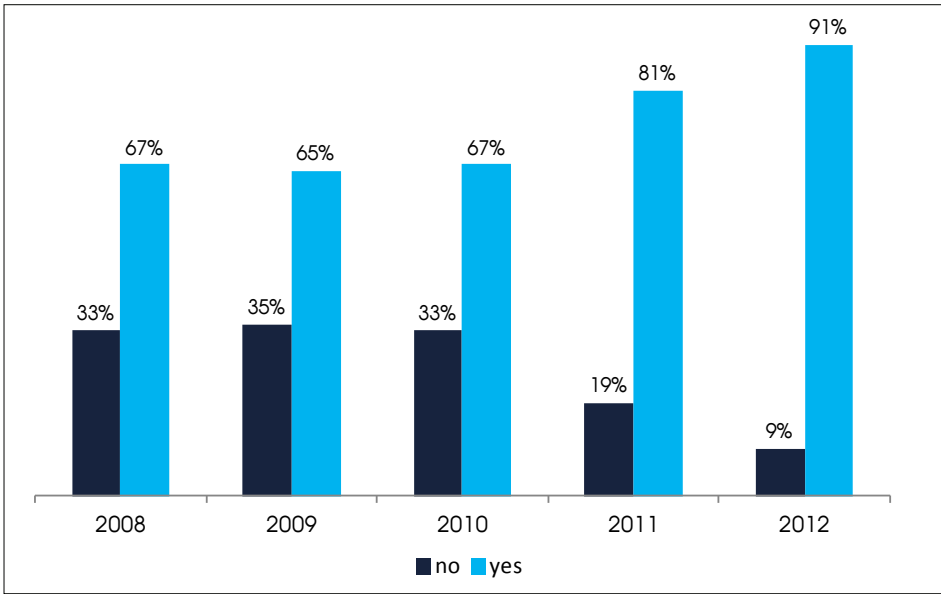


Source: Defaqto Matrix

Cover provided for 'defective title'

There is a dramatic trend in the number of policies now including cover for 'defective title'. A third of all policies in 2008 did not offer cover, compared to just under one in every 10 policies in 2012.

Cover provided for 'defective title' 2008 - 2012

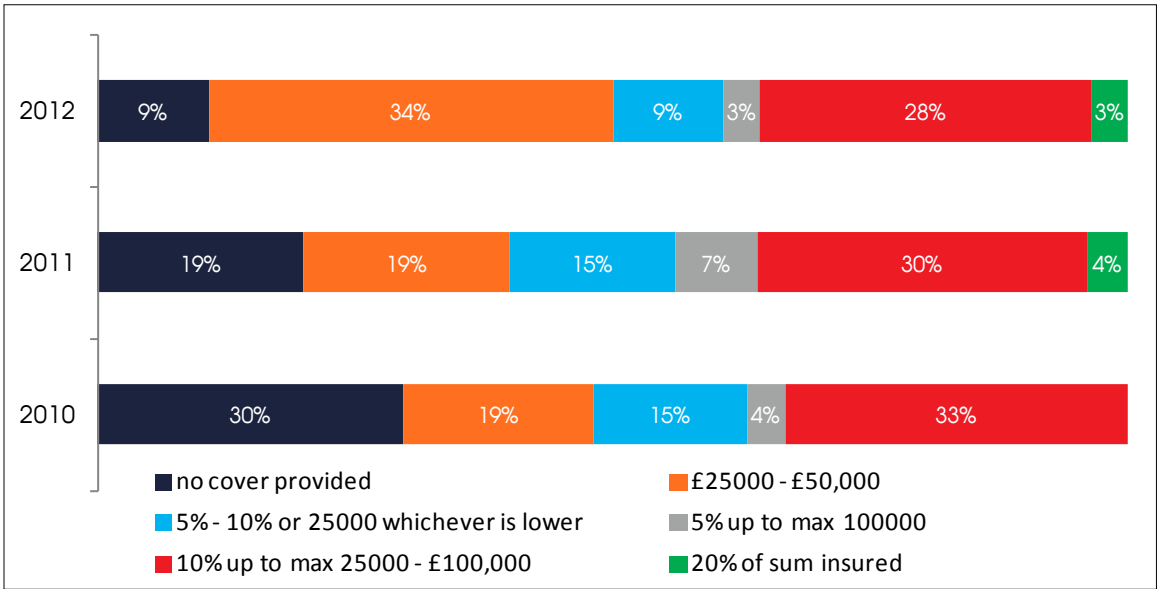


Source: Defaqto Matrix

Maximum amounts payable for 'defective title'

The table below shows the varying degrees of cover provided in respect of 'defective title'. The most common way that providers limit the cover provided is either through a specific monetary limit or a percentage of the sum insured for fine art, subject to a maximum monetary limit of between £25,000 and £100,000.

Maximum amount payable for 'defective title' 2010 - 2012

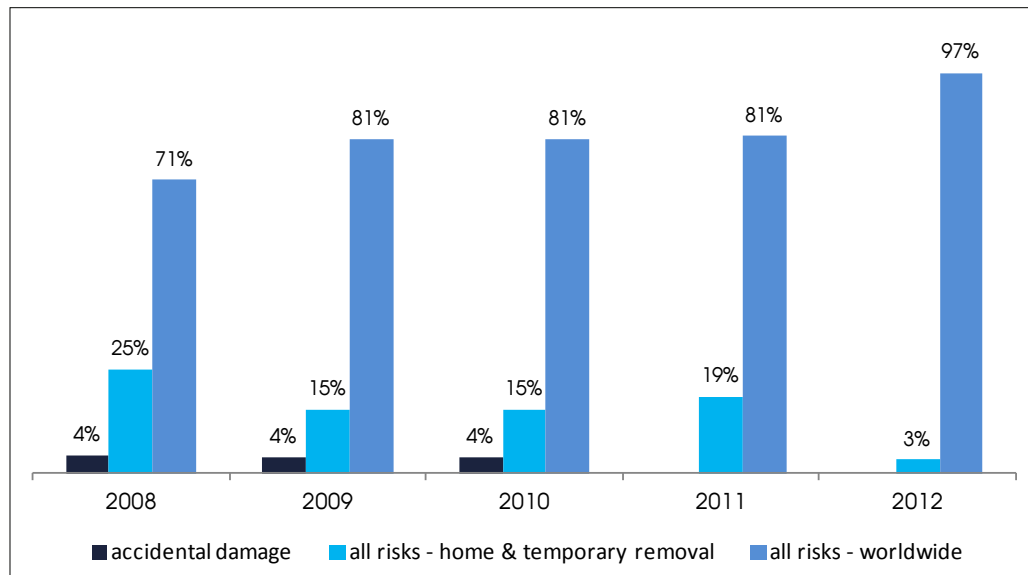


Source: Defaqto Matrix

Standard basis of cover for valuables

The standard basis of cover for valuables has seen a major shift towards an 'all risks' basis, with over 9 out of every 10 policies in 2012 offering cover in this way.

Standard basis of cover for valuables 2008 - 2012

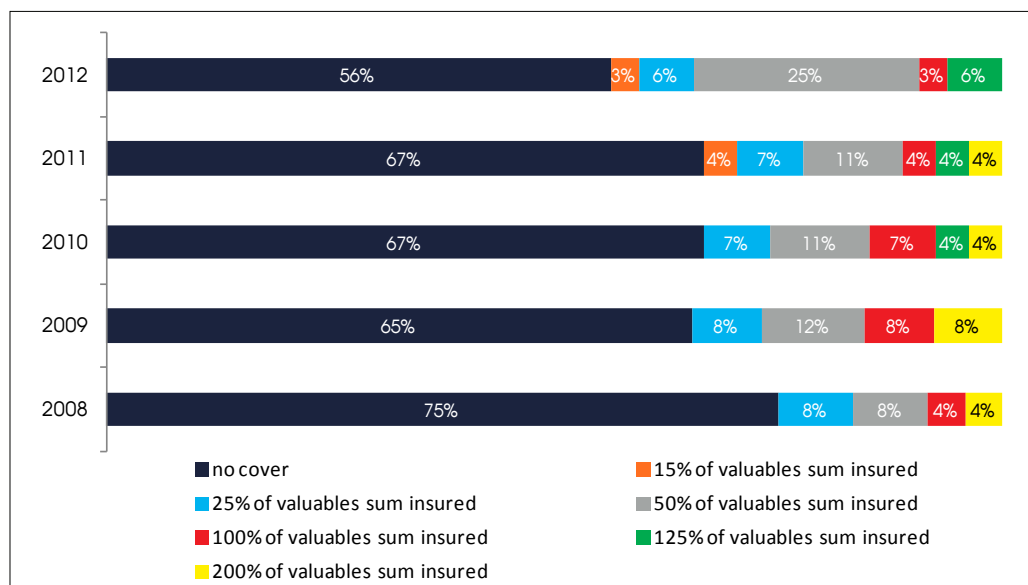


Source: Defaqto Matrix

Extended replacement costs for valuables

In 2012 a quarter of all policies provide an increase of 50% of the valuables sum insured. The number of policies that do not offer cover has reduced from three-quarters of all policies in 2008 to just over half in 2012.

Extended replacement cost - valuables 2008 - 2012

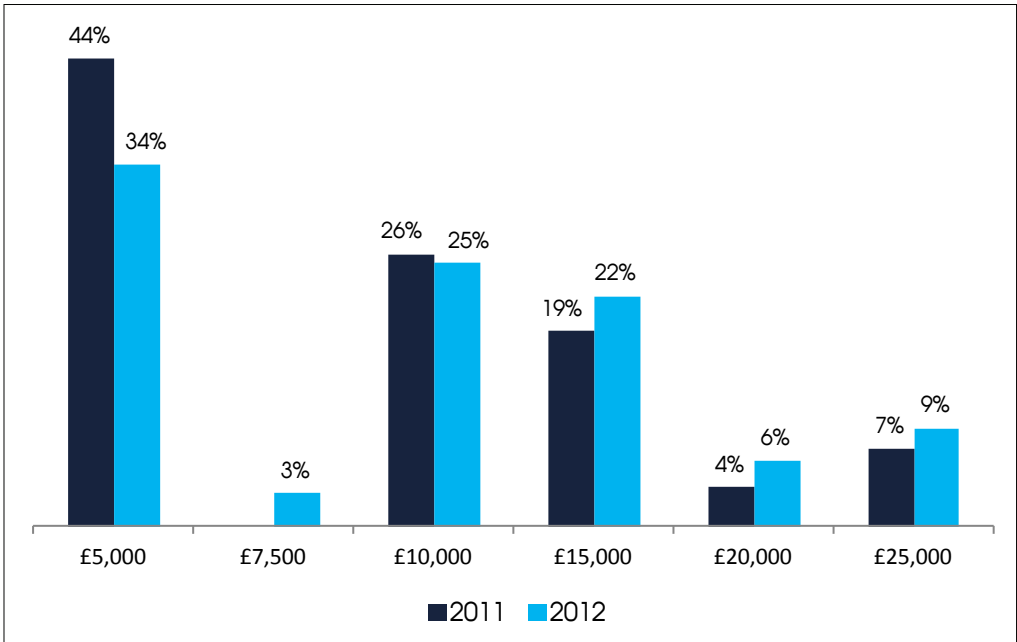


Source: Defaqto Matrix

Valuables single article limits

This feature has recently been added to Defaqto's Matrix database and reviews the standard single article limit for valuables. The standard single article limits provided vary between policies, with the majority of policies applying limits of between £10,000 and £15,000.

Standard valuables single article limit 2011 - 2012



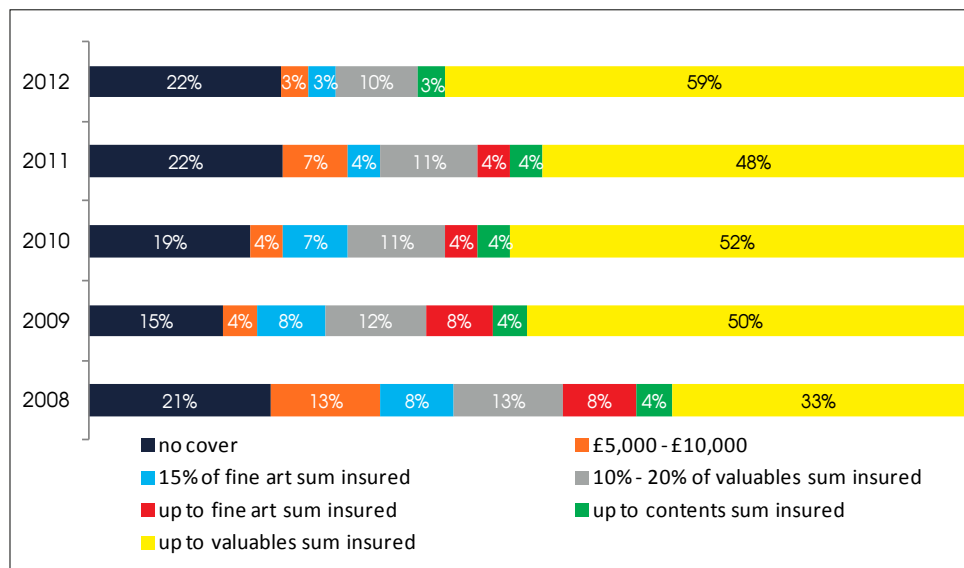
Source: Defaqto Matrix



Cover for valuables in storage

Just under two-thirds of all policies in 2012 provide cover up to the overall valuables sum insured for valuables in storage, compared to a third of policies in 2008.

Standard valuables single article limit 2011 - 2012

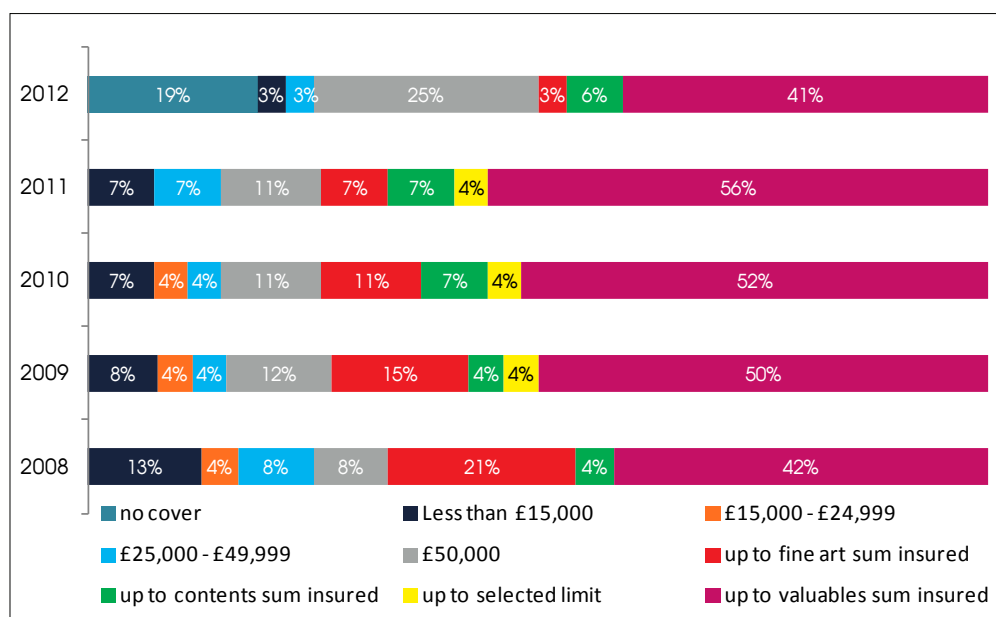


Source: Defaqto Matrix

Cover for valuables out of a bank

The cover provided for valuables that are temporarily removed from a bank vault or safe deposit box shows that two-fifths of all policies in 2012 provide cover up to the overall valuables sum insured.

Cover for valuables out of a bank 2008 - 2012

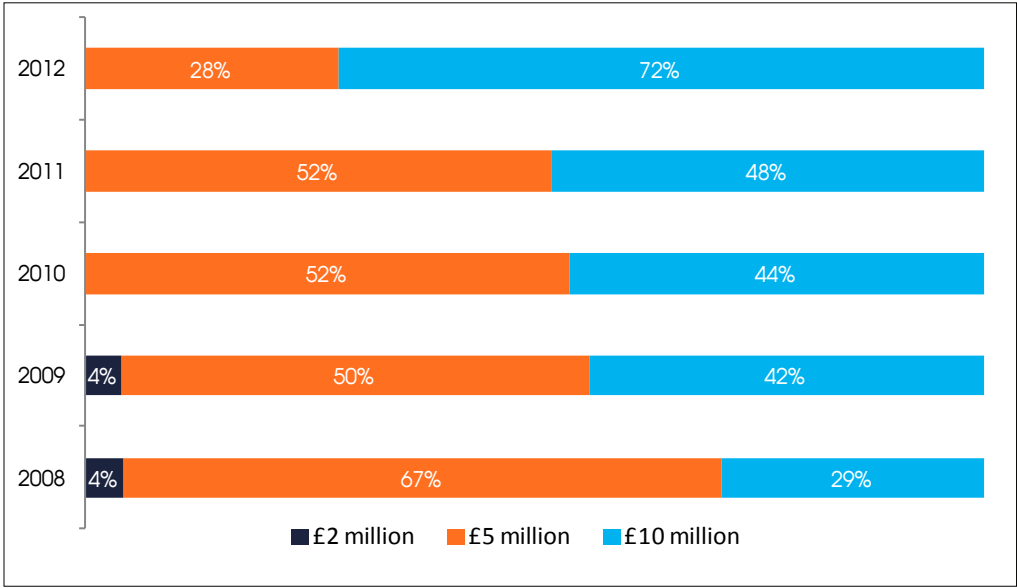


Source: Defaqto Matrix

Property owners' and public liability cover

Cover limits provided for property owners' liability shows that just under three-quarters of all policies in 2012 have an indemnity limit of £10 million, compared with almost a third of policies in 2008.

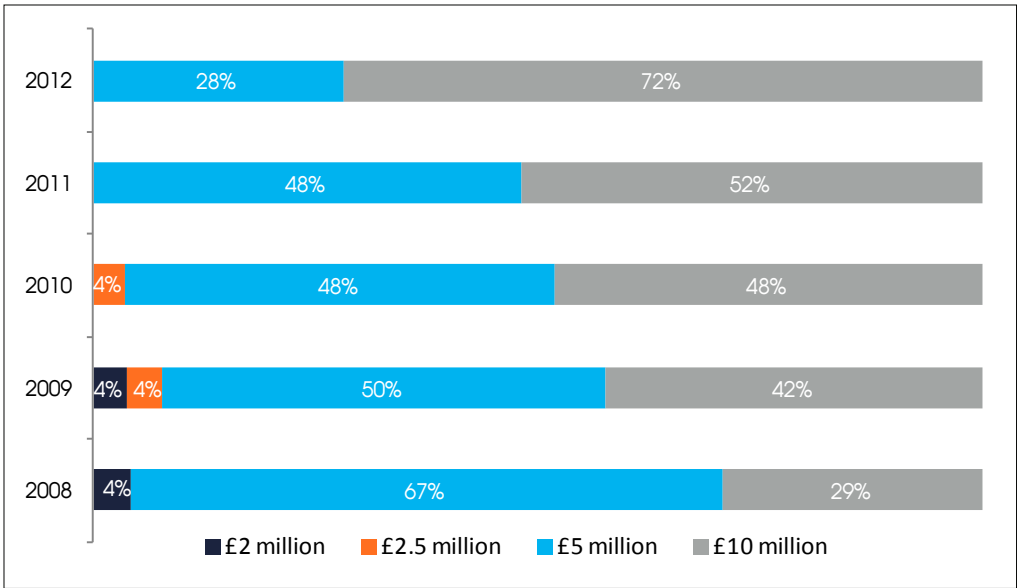
Property owners' liability limits 2008 - 2012



Source: Defaqto Matrix

Similar indemnity limits have been noted for public liability, where almost three quarter of all policies in 2012 have an indemnity limit of £10 million.

Public liability indemnity limits 2008 - 2012

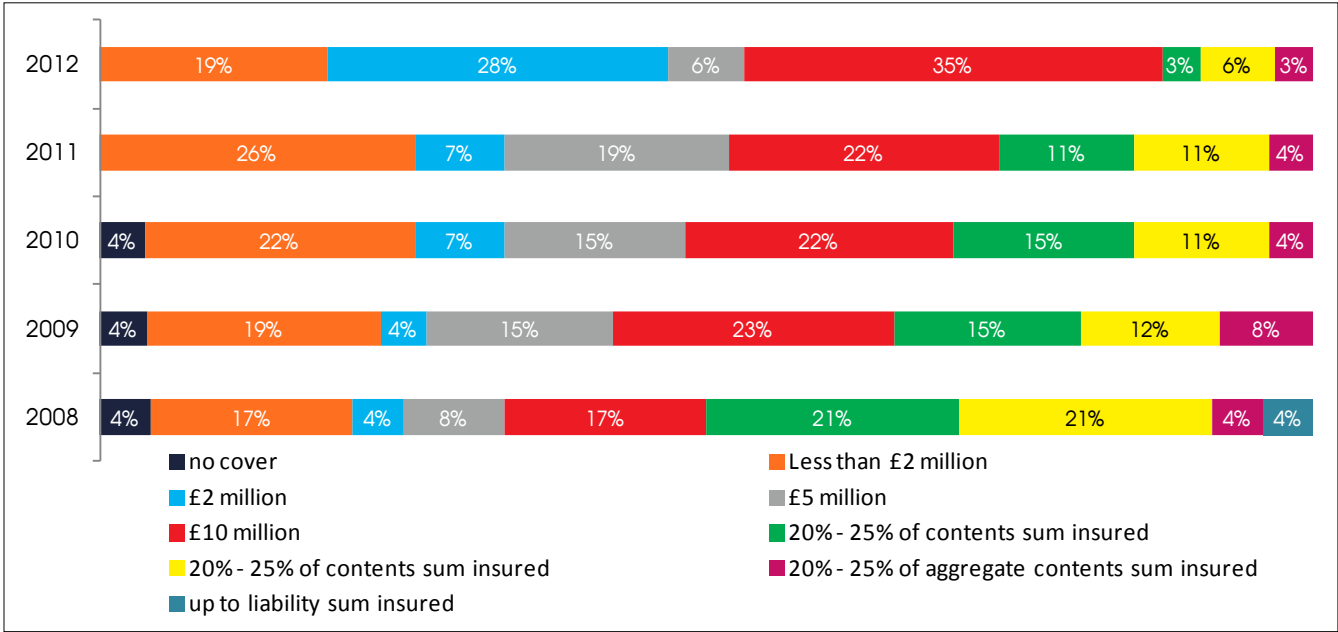


Source: Defaqto Matrix

Tenant's liability cover

Indemnity limits available for tenant's liability vary between policies, with just over a third of all policies in 2012 providing an indemnity limit of £10 million.

Tenant's liability cover 2008 - 2012



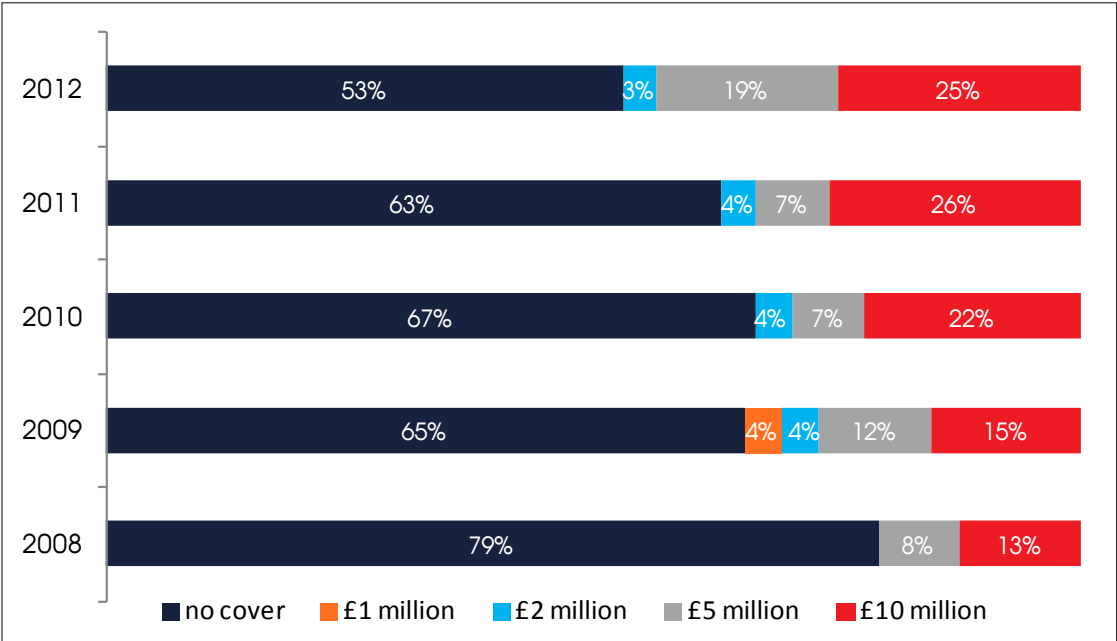
Source: Defaqto Matrix



Directors' and officers' liability

Directors' and officers' liability is becoming more common, with almost half of all policies in 2012 providing cover with indemnity limits ranging from £1 to £10 million.

Directors' and officers' liability 2008 - 2012

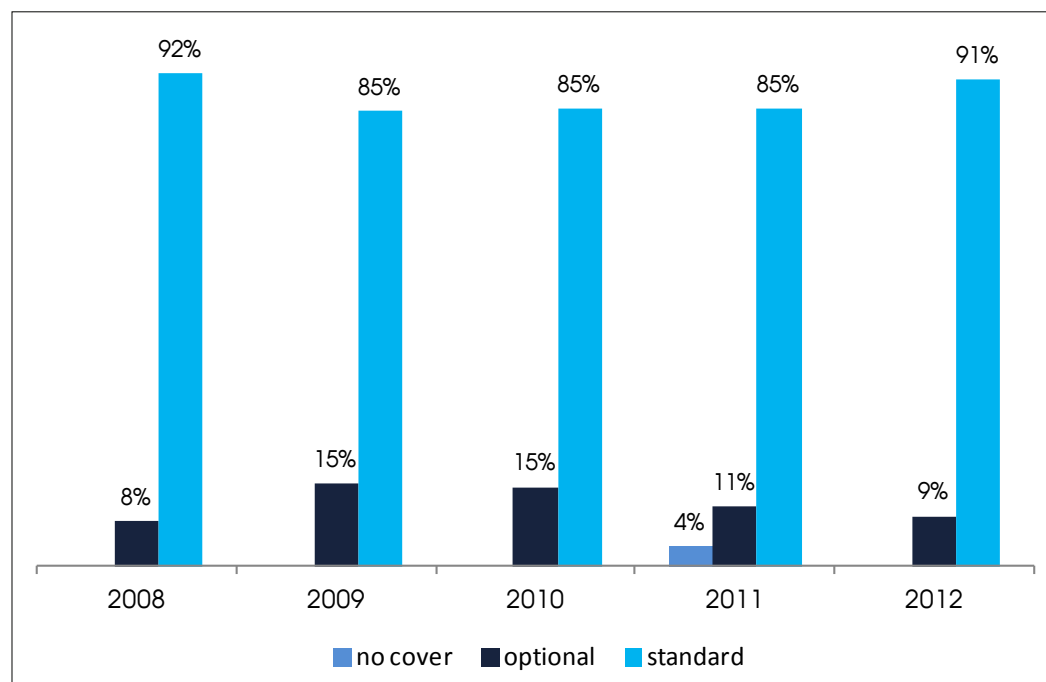


Source: Defaqto Matrix

Legal expenses cover

The availability of cover for legal expenses shows that the majority of policies continue to include cover as a standard benefit.

Availability of legal expenses cover 2008 - 2012 (% of policies)



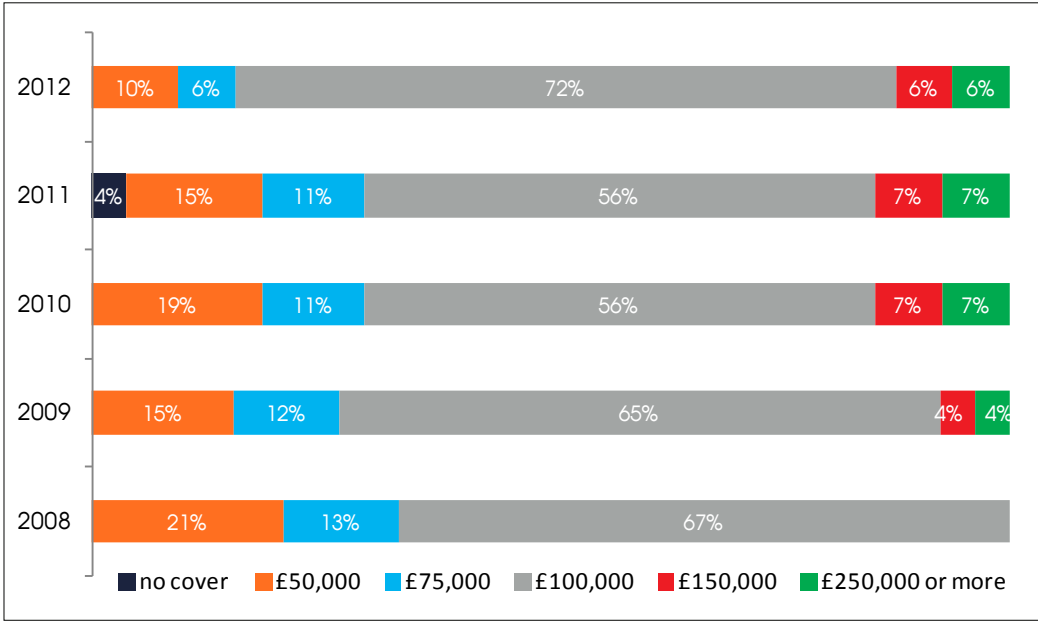
Source: Defaqto Matrix



Legal expenses indemnity limits

The majority of policies in 2012 have a legal expenses indemnity limit of £100,000 or more, compared to 2008 where just over a third of all policies had indemnity limits of between £50,000 and £75,000.

Legal expenses indemnity limits 2008 - 2012

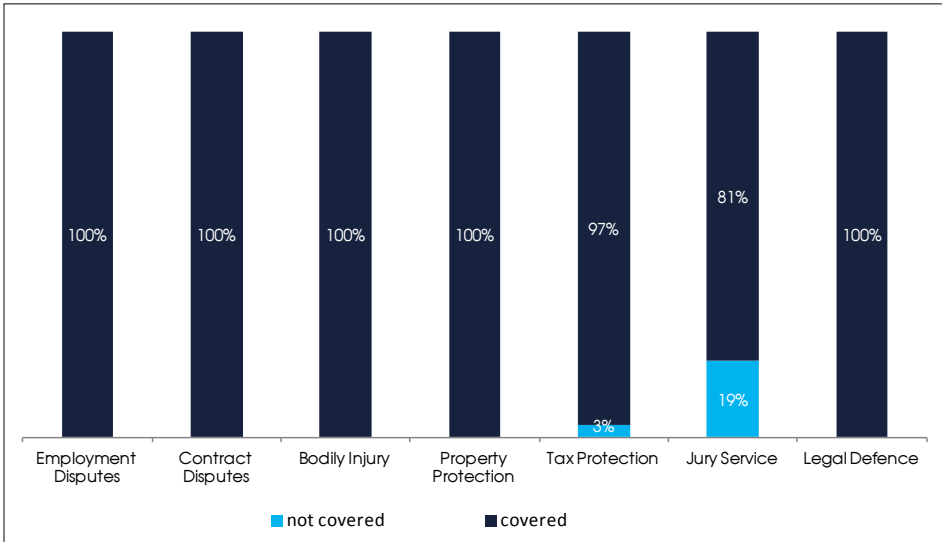


Source: Defaqto Matrix

Legal expenses perils

There is little to no differentiators between policies in terms of the number and type of perils covered, although almost two in every 10 policies offers no cover for jury service.

Legal expenses perils



Source: Defaqto Matrix

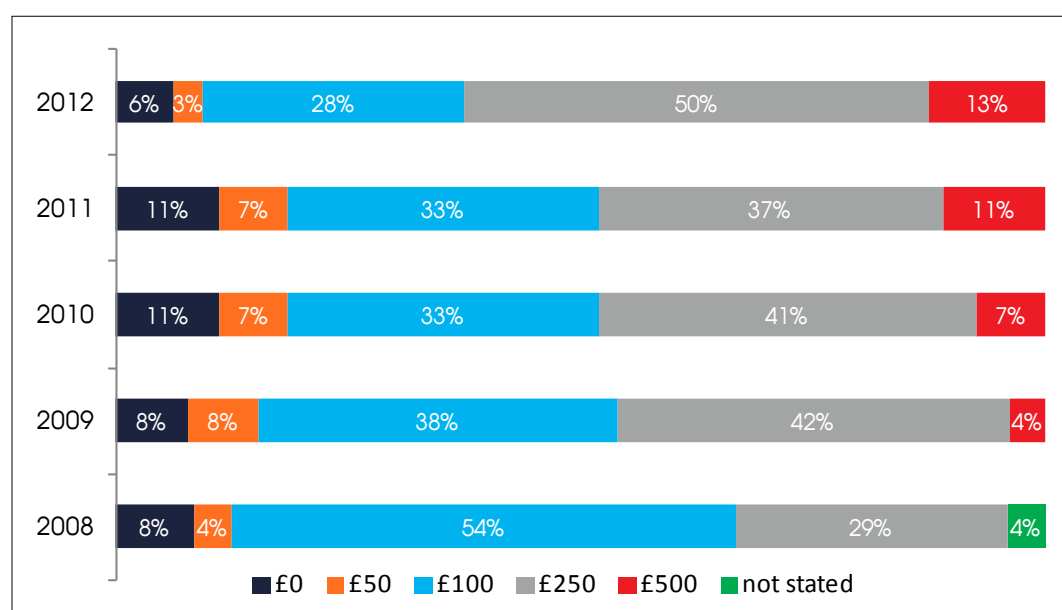
Policy excess levels

The analysis of excess levels has been based on the standard policy excesses applied and does not take into account any underwriting or claims experience excesses.

Standard buildings and contents excesses

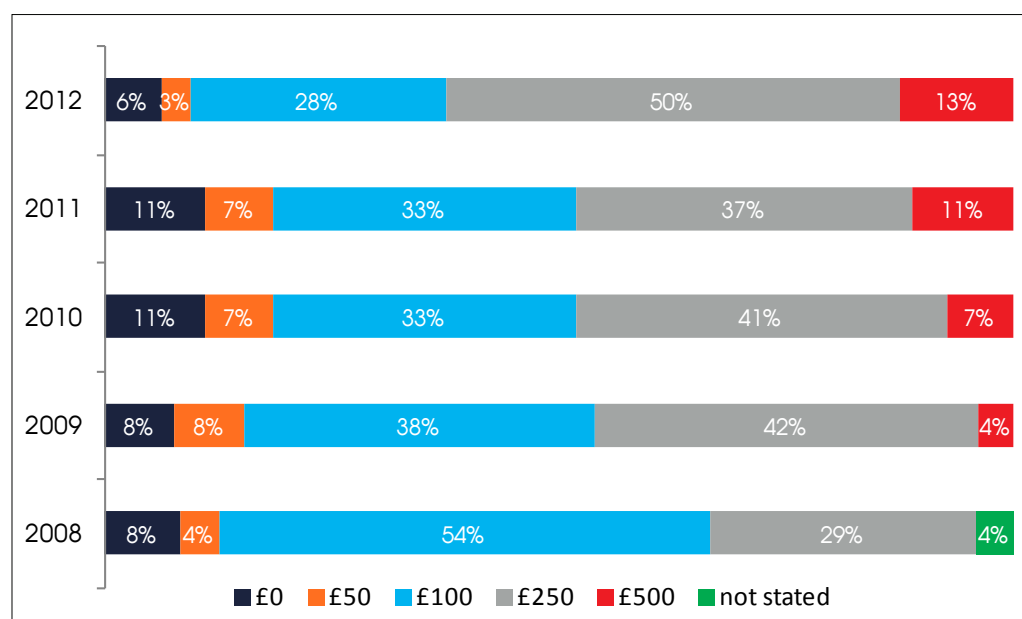
The tables below show that there has been a definite shift towards higher excess levels, with £250 being applied by half of all policies in 2012, compared to just under a third in 2008.

Legal expenses perils



Source: Defaqto Matrix

Standard contents excesses 2008 - 2012

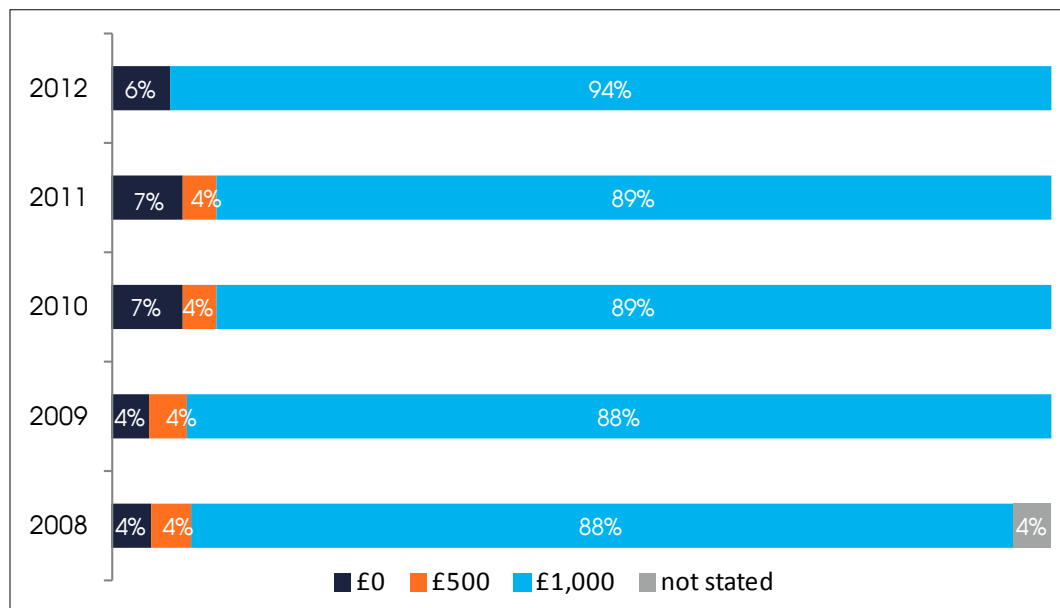


Source: Defaqto Matrix

Subsidence excess levels

Standard subsidence excess levels have remained fairly consistent over the period analysed, with £1,000 being applied by 9 out of every 10 policies in 2012.

Subsidence excess levels 2008 - 2012

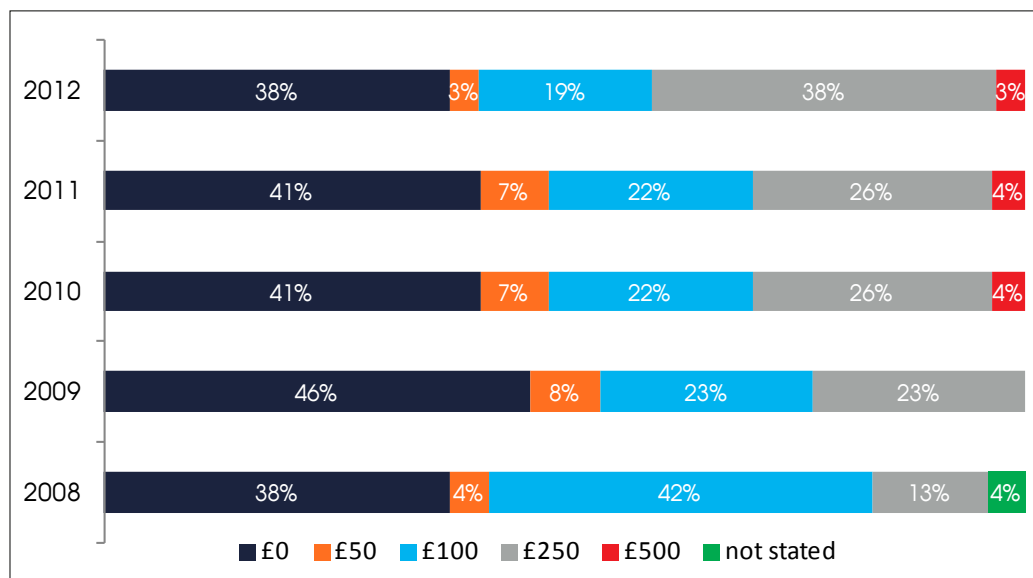


Source: Defaqto Matrix

Fine art excesses

The levels of excesses for fine art show that almost two-fifths of all policies in 2012 apply excesses of £250 or more, compared with one in every ten policies in 2008.

Standard excesses for fine art 2008 - 2012

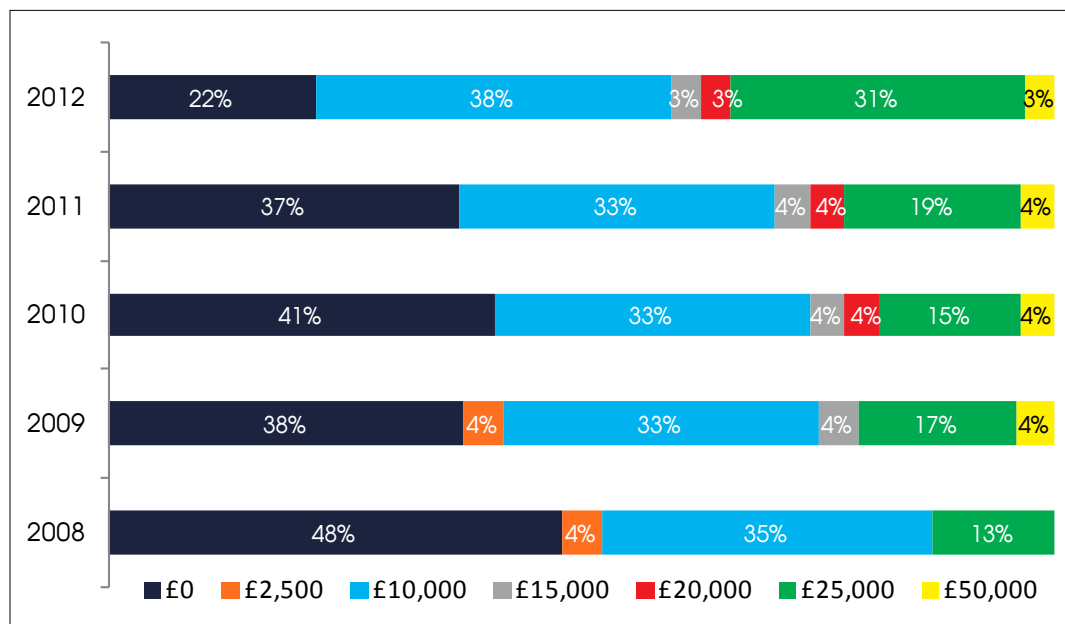


Source: Defaqto Matrix

Buildings and contents franchise limits

Almost a quarter of all policies in 2012 do not have a franchise limit for buildings or contents, compared to almost half in 2008. Where franchise limits are applied, over a third of policies do so based on losses of £10,000 or below, which has remained consistent over the period analysed.

Buildings and contents franchise limits 2008 - 2012

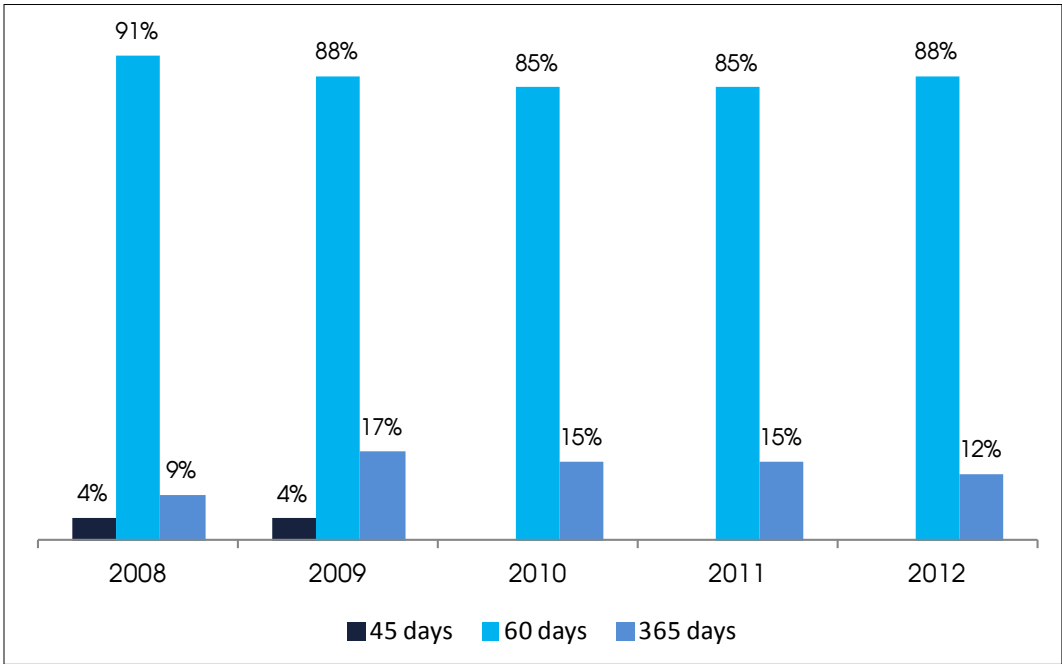


Source: Defaqto Matrix

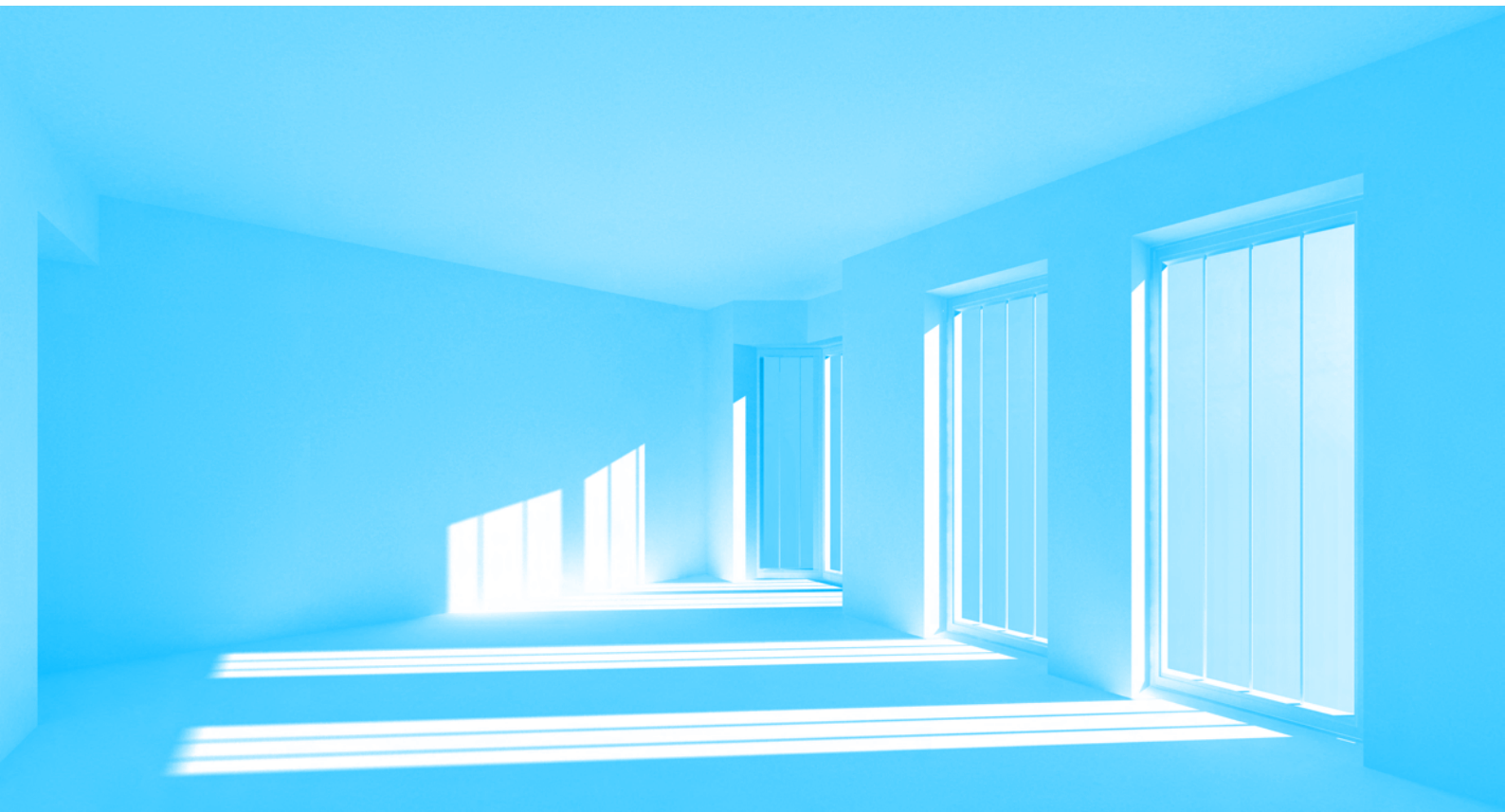
Unoccupancy periods

Unoccupancy periods over the period analysed have been consistent, with the majority of policies applying a 60 day period.

Unoccupancy periods 2008 - 2012



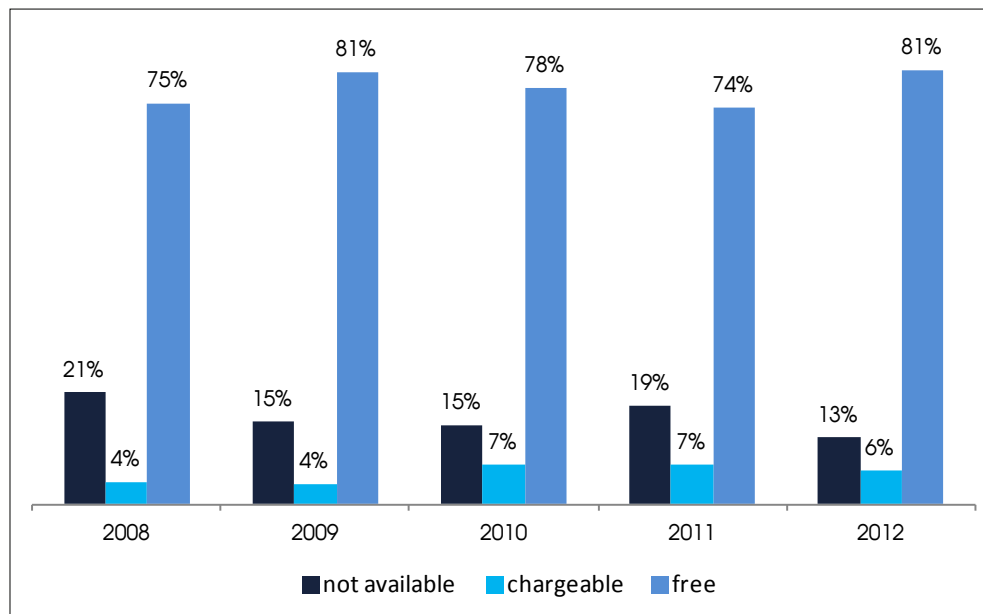
Source: Defaqto Matrix



Survey/appraisal and valuation services

A major part of any HNW provider's service offering is the survey/appraisal facilities that are provided to their policyholders. Eight of every 10 policies in 2012 provide this as a 'free' service, compared to three-quarters of all policies in 2008. Surprisingly, there is still one in every 10 policies that do not offer this facility.

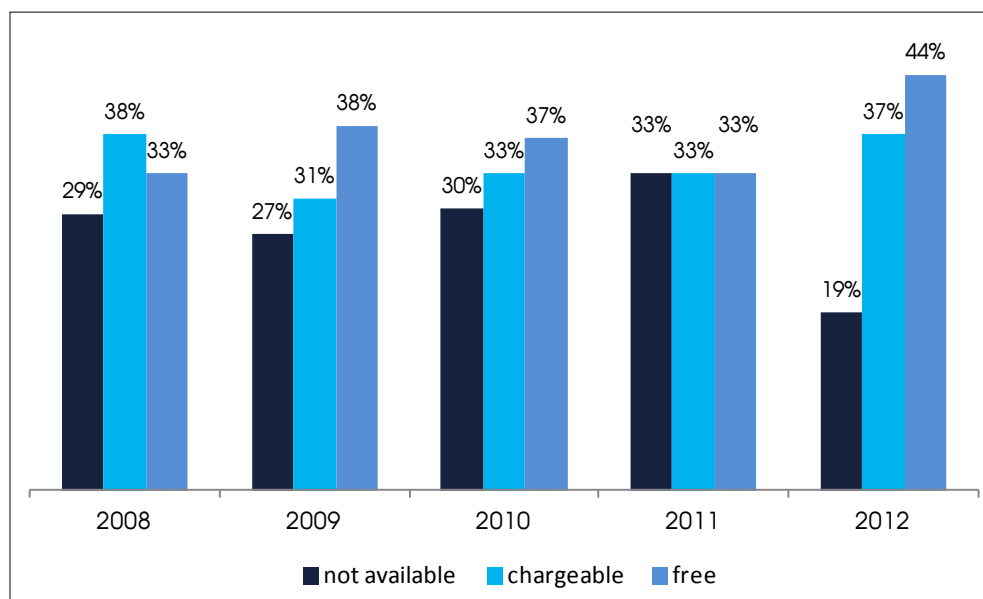
Survey/appraisal facilities 2008 - 2012



Source: Defaqto Matrix

There is a different picture for 'valuation' service, which shows just under half of all policies in 2012 provide this as a 'free' service, up from a third when compared with 2008.

Valuation service facilities 2008 - 2012



Source: Defaqto Matrix

Conclusion

The dominance of intermediaries within the HNW home insurance market is clearly being tested as banks are able to capitalise on their own customer knowledge and target HNW individuals. Direct providers such as Direct Line already have a brand that is well known to consumers and, therefore, there is an argument that this could be bad news for the intermediary sector.

In some respects however, the entrance of the banks and direct providers can be seen as good news for the intermediary sector, as well as consumers. More competition means that intermediaries will need to raise their game to meet the challenge of the banks and direct providers. This provides opportunities for intermediaries to raise their profile and to promote those services and selling points which are clearly unique to this sector. The banks and direct providers have developed products that can compete in cover terms with some of the major players in this market, and therefore it is the unique selling points of the intermediary sector which will provide the differentiation.

HNW home insurance is a bespoke product which needs professional and personal advice, and this is where intermediaries still have a major advantage over the banks and direct providers. Many of the direct providers and banks ask the customer to contact them directly to discuss their insurance needs, whereas an intermediary will usually meet face to face with their customer.

Although both the banks and direct providers can accommodate the needs of a HNW individual, it would appear that they are not necessarily able to provide the service that an intermediary can. One of the unique selling points for intermediaries is that they can provide a true face to face relationship. Unlike the standard mass home insurance market, where a number of products can be accessed through a comparison website, it is not easy to obtain quotations for HNW home insurance. HNW individuals, therefore, do not necessarily have resources to research the insurance market and ensure that they purchase a policy or policies that meet their needs. The service, experience and expertise of an intermediary is therefore essential.

Traditionally, HNW home insurance has been built on personal relationships, which are a major strength of the intermediary market. Many intermediaries will provide a bespoke service to their customers which can include visiting their premises to discuss their insurance requirements, being present for any surveys or appraisal required or dealing with loss adjusters when a claim is made.

A number of direct providers though can offer similar services to their clients. For example, Direct Line provides a free 'Home Appraisal' service where one of its expert advisers visits the policyholder's property to help them understand the value of their home contents, to ensure that they have the right level of cover in place. However, while the service provided may be just as professional and helpful when compared to the intermediary sector, the customer still has to deal directly with the insurer without the help and advice of an independent person when making a claim.

Product differentiation is also essential to meet to meet the challenge of the banks and direct providers. Defaqto's HNW Premier Star Ratings are a valuable tool that can be used in the recommendation process, and are available to the intermediary sector, providers and are publically available for HNW customers to see.



Our independent ratings of HNW home insurance are based purely on the features, benefits, policy excesses and services provided within a HNW home insurance product and do not include any premium related issues. The 2012 'Premier Ratings' are based on 81 separate criteria of a HNW home insurance policy and determine the overall comprehensiveness of a product.

These ratings are publically available from our own website (www.defaqto.com/star-ratings/home-insurance) and can be used by intermediaries or providers to segment the market and as part of the recommendation process.

It is clear that the intermediary sector is going to have to work harder at attracting and keeping HNW customers. There is a definite challenge to its dominance of the market and it is therefore essential that intermediaries use all of the unique selling points and services available to differentiate themselves from the banks and direct providers.

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