



## INSURANCE & RISK REVIEW AND ANALYSIS

Presented to:

**David Client**  
**Mary Client**

Month, 2007

Presented by:

Mechelsen, Inc.



## Personal Risk Management – What Is It?

A risk management plan is a strategy for reducing the cost of loss.

### Cost of Loss

Cost of loss is more than just what you pay in insurance premiums and it is more than just the dollar amount of a sudden loss. Cost of loss is actually the summed total of all costs and expenses related to how you transfer your risks, how you retain your risks, and how you administer your risk management plan. Specifically, your cost of loss is the sum of:

- Risk Transfer: Insurance premium expenses
- Risk Retention: Deductibles and the amount uninsured or underinsured (*intentional* and *unintentional* retention)
- Risk Administration: Expenses paid and investments made in managing your risk program

### Risk Management Process

Reducing your cost of loss exposure is a discipline with ongoing processes that usually follow five incremental steps:

- Risk Identification: *What* is exposed to loss
- Risk Analysis: *How much* is exposed to loss
- Risk Control: *Mitigating* losses
- Risk Financing: *Financing* risk transfer and acceptance
- Risk Administration: *Implementing* and monitoring the plan

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### Risk Management Review and Analysis

Thank you for the opportunity to review your personal insurance. Based on the information provided to us, we suggest the following points be considered in the construction and maintenance of your insurance and risk management portfolio:

#### Property Location: 100 Main St., Seattle, WA

- We recommend you move your insurance from XYZ to the underwriters at ABC. We believe that ABC combines a more robust set of custom coverages with a competitive premium unfound elsewhere in the insurance marketplace.
- We believe that the most important determinant of whether you have a good property insurance plan isn't based as much on a product as it is on a process. Your new home is not typical, it's custom-built and prestigious and the only way to assess the full scope of coverage necessary to indemnify you for a property loss is to spend time inspecting your home with an expert at post-claim reconstruction and then using that professional analysis to construct the necessary policy. We can bring such an expert to your home and use their analysis to help us engineer a limit of coverage that is best for your situation.
- Until then we'll use experience and some assumptions to illustrate the details of our recommended property insurance policy with ABC. These are just some of the unique elements of the ABC Prestige Home Premier policy which we think are valuable elements of coverage:
  - The ABC policy has a full-cost replacement guarantee. Unlike most policies, the ABC policy will rebuild your home to pre-loss like kind and quality without regard to any limit. Your current policy limits your recovery to just 25% more than the Dwelling limit.
  - The ABC policy offers as an alternative to rebuilding your home after a total loss the option of being paid for its replacement cost in a cash settlement. Your current policy requires reconstruction in order to benefit from any provisions of the policy. We believe that having settlement-option flexibility is an important financial management element.
  - Costs that would be required to update your home to current building codes and ordinances after a loss are fully covered by the ABC policy. Your current policy limits your recovery for costs required to bring your home up to current standards and codes to just a small percentage of a total loss.
  - The ABC policy provides full coverage for damages caused by a backup of sewers or drains. Damages caused by this common occurrence are covered by your current policy only up to \$5,000. We are concerned that you are exposed to a much greater loss potential than \$5,000 and we believe you are underinsured in this area.
  - The ABC policy provides up to \$25,000 worth of coverage to offset expenses associated with resolving identify fraud events, including attorney fees. In addition, you will have access to one-on-one experts and advocates that specialize in helping clients recover from identify theft. This loss-control and recovery service is arguably as important as the coverage for expense-indemnity, in our opinion.

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- For property losses that exceed \$50,000, ABC will waive your entire deductible (for deductibles up to \$10,000).
- The ABC policy automatically reduces the deductible for commonly-stolen items like golf clubs, skis, fishing rods, and bicycles to just \$250 regardless of your selected deductible for other losses. You have no deductible reduction with your current policy.
- ABC Insurance Company makes available special post-loss concierge service on getting your scheduled valuables replaced, repaired, restored, or conserved. This special consulting service is not provided by your current insurance company.

### Excess Liability

- We recommend that you move your excess liability coverage from XYZ to ABC. One distinct advantage of the ABC Excess Liability policy is the opportunity to add an excess limit of insurance for uninsured motorist bodily injury losses. The risk of having to deplete assets to address serious injuries sustained because of an at-fault uninsured driver is nearly the same as having to deplete assets to address a serious injury you might cause someone else. Either way, your net worth is at risk if you don't have enough insurance to cover the total loss exposure. Having the ability to add excess uninsured motorist liability coverage is extremely important.
- We have illustrated for you below an excess liability policy with ABC using the same \$5,000,000 limit as what you have currently with XYZ. In addition, we have illustrated for you a \$5,000,000 limit for excess uninsured motorist coverage. You do have the option to select a lower excess uninsured motorist limit (also shown with the relative premium charged), but we recommend you insure yourself and family for the same amounts as you insure others and stay with a \$5,000,000 excess uninsured motorist limit.

### Property Location - 296 Skimark Dr, Park City, UT

- We recommend you move the insurance for your secondary residence to the underwriters at ABC. Given the similarity of coverage provided by both XYZ and ABC, there is a substantial premium savings by moving the insurance for this residence to ABC. So even for no marked improvement in coverage, your total premium expense will be reduced.
- We agree with your earlier comments to us that the XYZ policy, which provides \$852,600 worth of coverage for structures on the premises that are not attached to the dwelling, is not a flexible enough alternative for you since you do not need that much insurance for this element of coverage. Instead, we designed the recommended ABC policy with the minimum amount of coverage for detached structures which is \$243,600.

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### Auto

- Unlike our earlier recommendations concerning your home insurance where we advocated pursuing ABC for the particular advantages of the ABC coverage contract, we feel that there are fewer differences between contracts among competing auto insurance companies. Because of this, we recommend that you move your auto insurance to LMN which we feel does a better job of combining your selected coverages with more competitive premiums.
- We don't have any specific recommendations on making any changes to your current limits of insurance for your autos. We believe that the limits of coverage you've settled on are good and we would suggest you keep those same limits of coverage as you move your policy to LMN.
- We anticipate that your auto insurance premium will fall with LMN after six months because your driving citation will be falling off of your driving record. We project that within six months you can expect to see a 30% reduction in your auto premium expense.

### Watercraft

- Although we understand that you don't own a boat, we think that your sharing in the use of a boat might expose you to some risk just the same as if you owned it yourself. If while using the boat you cause an accident, to what extent could you be held liable for the resulting damages or injuries to others? Because you are a regular operator of the boat in question, we are concerned that it's possible that you could be held personally responsible for your negligence. We do believe that you can address the risk of that possible liability by making sure that the boat that you use is insured properly and that your excess liability policy will add to your level of protection for boat-related losses or allegations.
- If you do not have any ownership interest in the boat that you use it might be hard for you to secure a watercraft policy that includes you as a named insured. But if the owner of the boat that you use does already have insurance we strongly recommend that you have the owner confirm with their boat insurance company their knowledge that you sometimes use the boat and that their policy intends to cover you as an operator of the boat. We think your overall risk management position is greatly improved if you can confirm that you have coverage for the use of the boat under the policy already in existence.
- Most all excess liability policies (including your current XYZ policy and the ABC policy we recommend) require that an underlying boat insurance policy carry a \$500,000 liability limit in order for the excess liability coverages to apply to a serious loss. So we strongly recommend that you confirm that boat you operate carries at least \$500,000 worth of liability insurance.
- We strongly recommend that whether or not you allow us the opportunity to service your excess liability with ABC that you confirm any excess liability policy you do maintain adds specific consideration and premium for the use of the boat.
- We would be happy to help you investigate a) whether there is insurance on the boat that you operate, b) whether you are likely to be covered by the insurance on the boat, and c) whether or not the insurance on the boat satisfies the underlying insurance requirement of your excess liability policy.

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### Homeowners

Property Location: 100 Main St., Seattle, WA

Coverages		<u>Current Program</u>		<u>Recommended Program</u>	
		XYZ		ABC	
Dwelling	\$	2,765,447	\$	4,200,000*	
Other Structures	\$	276,544	\$	840,000	
Personal Property	\$	683,573	\$	1,680,000	
Loss of Use		12 months		Unlimited	
Liability	\$	500,000	\$	1,000,000	
Property Deductible	\$	2,500	\$	10,000	
Scheduled Personal Property - Jewelry	\$	47,556	\$	50,000	
Annual Premium	\$	8,638	\$	7,435	

\* Estimation used for illustrative purposes prior to in-home custom inspection and analysis.

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### Homeowners

Property Location: 296 Skimark Drive, Park City, UT

		<u>Current Program</u>		<u>Recommended Program</u>	
Coverages		XYZ		ABC	
Dwelling	\$	1,218,000	\$	1,218,000	
Other Structures	\$	852,600	\$	243,600	
Personal Property	\$	700,000	\$	700,000	
Loss of Use		Unlimited		Unlimited	
Liability	\$	500,000	\$	500,000	
Property Deductible	\$	2,500	\$	2,500	
Annual Premium	\$	4,215	\$	3,447	
Effect of Increasing Deductibles					
\$5,000 deductible			\$	2,927	
\$10,000 deductible			\$	2,495	

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### Automobile

2006 Toyota Sienna\*\*  
 2006 Lexus GX 470  
 2001 Acura MDX

		<u>Current Program</u>		<u>Recommended Program</u>	
Coverages		XYZ		LMN	
Bodily Injury Liability	\$	500,000	\$	500,000	
Property Damage Liability		Included in above		Included in above	
Uninsured Motorist Bodily Injury	\$	500,000	\$	500,000	
Uninsured Motorist Property Damage	\$	10,000	\$	10,000	
Personal Injury Protection	\$	10,000	\$	10,000	
Comprehensive deductible	\$	1,000	\$	1,000	
Collision deductible	\$	1,000	\$	1,000	
Annual Premium	\$	3,925**	\$	3,592	

\*\* XYZ incomplete as schedule of insured vehicles is incorrect



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### Excess Liability

Coverages		<u>Current Program</u>		<u>Recommended Program</u>
		XYZ		ABC
Personal & Residence Excess Liability	\$	5,000,000	\$	5,000,000
Automobile Excess Liability	\$	5,000,000	\$	5,000,000
Watercraft Excess Liability		None	\$	5,000,000
Excess Uninsured Motorist Liability		None	\$	5,000,000
<b>Exposures Covered</b>				
Worldwide Personal Liability		Yes		Yes
100 Main St, Seattle, WA		Yes		Yes
296 Skimark Dr, Park City, UT		Yes		Yes
2006 Toyota Sienna		Yes		Yes
2001 Acura MDX		Yes		Yes
2006 Lexus GX 470		Yes		Yes
Watercraft		No		Yes
<b>Features</b>				
Defense Coverage		Unknown		Yes
Libel / Slander		Unknown		Yes
Annual Premium	\$	960	\$	1,235
<b>Reducing Excess Uninsured Motorist</b>				
\$3,000,000 Excess UM Limit			\$	1,060
\$1,000,000 Excess UM Limit			\$	808

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### Action Items

✓ <u>Issue</u>	<u>Responsibility</u>	<u>Timeline</u>
<input type="checkbox"/> Decide on effective dates of coverage	Mr. & Mrs. Client	ASAP
<input type="checkbox"/> Begin home policy with ABC	Mechelsen, Inc.	1 week
<input type="checkbox"/> Begin Utah home with ABC	Mechelsen, Inc.	1 week
<input type="checkbox"/> Begin Auto with LMN	Mechelsen, Inc.	1 week
<input type="checkbox"/> Begin Excess with ABC	Mechelsen, Inc.	1 week
<input type="checkbox"/> Schedule home inspection	Mechelsen, Inc.	2 weeks
<input type="checkbox"/> Assist with jewelry inventory list	Mechelsen, Inc.	2 weeks
<input type="checkbox"/> Research boat insurance questions	Shared	1 month
<input type="checkbox"/> Review and deliver new policies	Mechelsen, Inc.	1 month
<input type="checkbox"/> Assist with old-policy cancellation	Shared	As appropriate
<input type="checkbox"/> Assist with establishing new billing	Shared	As appropriate
<input type="checkbox"/> Annual review	Mechelsen, Inc.	November, 2007



## Mechelsen Risk and Insurance Advisory Team

### Risk Administration and Insurance Management

Insurance is designed to help manage risk and should be considered fluid. As changes occur to your risks and exposures, so should your insurance portfolio change to address your new needs. Whether you purchase a new vehicle, buy a new home, or inherit a family heirloom, we will have solutions and will take action to address such events in the management of your insurance plan.

When you have any questions regarding the construction of your policy, the administration of all the paperwork, or need someone to talk to regarding a claim or potential claim, the team at Mechelsen, Inc. is specially prepared to address your questions and service your needs.

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