What is Covered Under YOUR "Umbrella"?

WHICH OF YOUR CLIENTS needs an Umbrella? In today's climate of multimillion dollar lawsuits and jury awards, having adequate liability coverage is important for businesses and individuals alike. Umbrella or excess liability policies are designed to pay for losses that exceed the insured's underlying policy limits, or self-insured retention for those losses not covered in the underlying policies. The term "umbrella" can be misleading, since there are many forms of coverage that are called umbrellas but that do not cover all possible liability exposures.

There are several different types of policies that offer increased liability limits. An "Excess" policy provides higher limits of coverage over one or more specific underlying policies. "Follow form" is similar to Excess Liability, as it provides higher limits of coverage but follows terms and conditions of the underlying. The "True Umbrella" is becoming more and more rare. Like other excess liability policies, a true umbrella provides higher limits of coverage for occurrences covered by the underlying policies. Where the "umbrella" comes into play is that the true umbrella will also provide coverage for losses that are not included in the underlying policy. Examples include personal injury or claims that originate outside of the United States and Canada.

Umbrella or excess liability policies are designed to pay for losses that exceed the insured's underlying policy limits...

Self-Insured Retention (SIR)/ Retained limit is another important feature of umbrella policies. The self-insured retention or retained limit is similar to a deductible. It applies to exposures that are not covered under the underlying. Your insured is responsible for first paying for the damages up to that retained limit. The umbrella policy responds for limits in excess of the retained limit, which is commonly $10,000 to $25,000 for commercial policies, but may be as little as $250 for personal lines policies.

In addition to providing higher limits of liability, some umbrellas will also drop down to pay claims from the first dollar once the underlying limit of liability is used up. However, if the underlying policy is cancelled, or renewed with different terms and conditions, the insured may be faced with making up the gap of what the underlying coverage should have been before the umbrella will step in. Concurrency of policy dates is important. Failure to maintain the proper underlying limits can leave your insured personally financially responsible for the required underlying limits. Required underlying limits typically range from $300,000 to $1,000,000.

The Umbrella carrier must be informed when your insured's underlying limits are compromised.

It is important to notify the Umbrella carrier whenever there is a liability loss, even though it may initially seem that the loss is within the underlying limits. The Umbrella carrier has the right to defend and investigate any claim that may be covered under their policy. Late notice to the Umbrella carrier can prejudice their involvement in the case, and leave your insured without the necessary coverage.

Another fact to remember is that the umbrella may provide "insured" status to others who your insured has agreed to indemnify under a written contract. This means that your insured's limits may actually be used up in payment of claims for other "insureds".

Who needs an Umbrella? Everyone. How much coverage should you recommend? As much as the insured will buy. There is no way to tell who may be the target of a multimillion dollar lawsuit. Failure to offer the most coverage can jeopardize your E&O.

An excess liability/umbrella policy is something you hope your insureds never need to use. However, having such coverage is vital to protecting your clients' peace of mind. Understanding and providing the proper coverage for your clients is the sign of the true insurance professional.

Previously published in the Insurance Advocate®

MSO®, Inc. 139 Harristown Road, Suite 100; Glen Rock, NJ 07452
Web: www.msonet.com; Email: info@msonet.com; Phone (800) 935-6900 / (201) 447-6900; Fax (201) 447-9468