

Umbrella liability insurance

How umbrella coverage can extend your protection

INTERVIEWED BY ROGER VOZAR

With juries awarding multi-million dollar verdicts, primary liability insurance policies don't always cover the entire cost. That's when umbrella liability, also known as excess liability, can help.

"Experienced business professionals understand that the litigious nature of our society combined with monumental liability judgments can be financially devastating to their organization," says Peter Bern, CEO of Leverity Insurance Group.

"You can find several examples of those types of verdicts, and many companies don't have liability limits that cover the entire loss. It's not unusual for individuals or companies to be sued for more than \$1 million. To assist with the financial burden of a claim, many business owners purchase umbrella insurance in addition to their primary liability insurance policies," he says.

Smart Business spoke with Bern about how umbrella insurance works and why companies and individuals might want to consider coverage.

Why not increase existing coverage rather than purchase umbrella liability?

Primary liability contracts typically have limits of \$1 million per occurrence, and \$2 million total for a policy year. Some policies are available with double those limits, but that's usually as high as they will go. Most liability policies have an aggregate limit that, once exhausted, will not cover any other damages or legal expenses.

How do umbrella policies work?

They sit on top of primary liability

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policies and apply to claims where the aggregate limit of the underlying policy has been met, so there are not enough funds available in the policy to cover the entire claim. For instance, if your liability policy has a \$1 million limit and a loss incurred for \$1.5 million, the primary liability policy will cover the first \$1 million and the umbrella policy will cover the remaining \$500,000.

Are there particular exposures in which companies and individuals should consider an umbrella policy?

For the most part, umbrellas cover large, severe events that can cause exponential damages. Without coverage, these events — as few and far between as they may seem — would be financially devastating to many companies.

The umbrella extends the limits of a company's commercial liability, business auto, employer's liability, professional liability, environmental liability and management liability policies, to name a few. If your product, service or operating environment is particularly hazardous or the limits of your underlying policies won't cover the worst of your possible losses, an umbrella policy is a must.

With respect to personal insurance, an umbrella policy will sit over your personal auto and home liability exposures. For example, if you have teenage children driving, what if someone gets hurt and you don't have enough insurance? Chances are your limits are \$100,000 per person and \$300,000 per accident. If you get sued for \$2 million and are found negligent, the insurance company will pay up to your \$300,000 limit at the most. The balance is due from you. Do you have an extra \$1.7 million lying around? Without an umbrella, your personal assets and future earnings are at risk and, in the worst-case scenario, can push you into personal bankruptcy. Can you afford this exposure?

Is there a way to figure out how much coverage you need?

There are a number of factors to consider, including how much risk tolerance you have, the severity of your exposure, the amount of assets you stand to lose and how much you are willing to pay in premiums. The umbrella market is often erratic and requires the guidance of a trusted insurance adviser to find competitive premiums that address your specific risk categories. ●