Get Out the Umbrella

If it's raining outside, what is the first thing you do? If you are like most people, you check to see if you have prepared by having an umbrella handy. The same could be said about an umbrella policy anytime a loss occurs.

First, it is important to remember that there is a difference between umbrella and excess insurance. Umbrella coverage is always excess, but excess coverage is not always umbrella coverage. Excess coverage is triggered only when all primary policy limits are exhausted, but umbrella coverage may fill gaps in an underlying policy. Additionally, excess insurance is excess over a specific policy whereas an umbrella policy can increase the limits on each of multiple primary policies.

Umbrella coverage sits over the top of policies as an umbrella that coordinates with and adds another layer of asset protection over all the primary policies beneath it. Umbrella coverage becomes important when a policyholder is liable for an amount above the available liability limits on their primary policies. In a typical case, a family may have an umbrella policy over their home and auto policy. If there is an auto accident where the policyholder is at fault and sued by the injured party, the umbrella would extend the auto liability coverage. Without an umbrella policy, the family's personal assets may be exposed in order to satisfy the damages above the auto policy limits. Umbrella coverage is a useful product not only for clients who have personal assets to protect, but also to protect against personal judgments which would otherwise have to be satisfied through future earnings.

The most common use of umbrella coverage is to provide additional liability limits, but it may also provide coverage for claims that are not covered in the primary policy such as the intentional acts of libel or slander. This is how umbrella coverage differs from excess coverage. Umbrella coverage may provide first-dollar protection for claims that are not covered under any primary liability policy.

A few carriers offer umbrella policies that also include coverage for UM/UIM coverage on an auto policy. This is unique in that an insured can directly benefit from this coverage if they are injured in an accident by an uninsured or under-insured driver. If the carrier offers this coverage, it can increase the cost of the umbrella policy. A best practice is to get a signed waiver of this coverage if it is rejected.

Umbrella policies typically have a self-insured retention or require a primary policy with certain liability limits that must be met before the policy will be triggered. The self-insured retention is usually met through the liability limits on the primary coverage of the underlying policy. Some carriers only provide umbrella coverage over primary policies they have written. While umbrella policies are typically not difficult to understand, they have potential pitfalls that cause errors and omissions claims to be made by agents.

A typical errors and omissions claim arises when an agent procures an umbrella policy from a different carrier than the primary coverage. During the application process, the agent verifies that the primary auto policy contains the required liability coverage. While the agent continues to renew the umbrella, the underlying auto policy limits may be subsequently reduced and now fall below the amount required by the umbrella. If a claim is made on the umbrella, the claim may be denied leading to a claim against the agent who placed the umbrella for failing to adequately advise the insured about the requirements of the umbrella policy.

Another potential E&O claim regarding umbrella and excess policies occurs when there has been late or no reporting of a claim to the excess or umbrella carrier which otherwise would have provided coverage. Even a minor claim could potentially trigger coverage on an umbrella policy. Agencies should have specific standard operating procedures on how to evaluate when a claim should be reported to the excess or umbrella carriers and what communication with the policy holder is necessary when making that decision.

Umbrella policies offer agents an opportunity to better protect their customers' assets. Failing to advise the customer about the opportunity or failing to document their declination of coverage could lead to an E&O claim. Help customers have an umbrella handy when it starts raining claims but make sure that you are protecting your agency. IA

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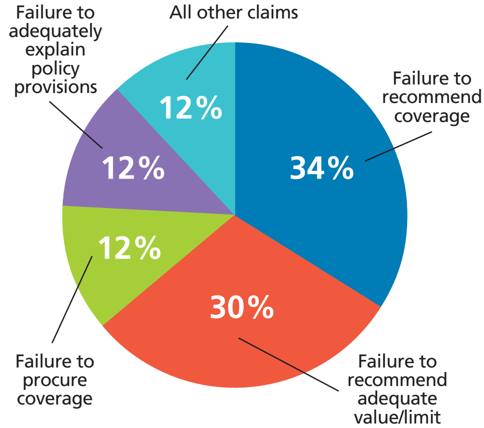
Types of E&O Claims Involving Personal Lines



SOURCE: SWISS RE AND BIG "I" PROFESSIONAL LIABILITY PROGRAM

Can Umbrellas Reduce E&O?

When you look at the types of claims that agents have involving personal lines, offering a personal umbrella and documenting its acceptance or rejection can reduce your E&O exposure. Almost nine out of 10 personal lines E&O claims involve failure to offer, procure or explain coverage or provide an adequate limit. Offering an umbrella also increases revenue and gives customers better coverage. It's a best practice to make sure all personal lines customers receive information on the availability of a personal umbrella.