

UM/UIM: It's Not Just Alphabet Soup

Roughly one in seven drivers across the United States is uninsured according to a 2011 Insurance Research Council estimate. An individual making the decision to drive without insurance is not only taking a risk for himself, but is also placing others in jeopardy. Agents who are not careful when dealing with the placement of UM/UIM coverage may be taking a risk as well.

The first requirement to effectively handle this coverage is to understand it. Uninsured motorist (UM) coverage responds to losses caused by a driver who is uninsured; and underinsured motorist (UIM) coverage applies when the at-fault driver has limits lower than the covered driver's underinsured limits. Some states treat the two coverages similarly while others do not. It is important for agents to be aware of a state's rules regarding these coverages.

In some states UM (and sometimes UIM) coverage is mandatory. In other states, it is optional. Even if the coverage is optional, there is generally a requirement that it must be offered (and explained) and that an effective waiver is signed by the customer if he declines the coverage. Most states require a written declination, and some even require a specific waiver form to be completed. An appropriate declination should be obtained and maintained in the file and forwarded to the carrier if required.


Whether the customer has the coverage or not is only the first hurdle. The next potential pitfall for the agent is offering the appropriate limit. In some states coverage may be considered mandatory or automatic up to the bodily injury limits selected on the auto policy. Other states allow customers to choose UM or UIM limits that are less than the bodily injury liability limits on the policy (often as low as the minimum state required liability limit). Agents may need to discuss, explain and offer UM/UIM motorist coverage to protect the client in the event of an accident with an uninsured or underinsured driver. A best practice would be to have standard procedures in place in which a written offer of available UM/UIM coverage is presented to the customer and any waiver or rejection is documented.

Another issue is stacking, which involves essentially combining the UM or UIM limits of several different vehicles on a policy or policies in order to increase the amount of UM or UIM coverage. Whether a state mandates or allows stacking is determined on a state-by-state basis. Agents should be familiar with the stacking laws of the states they write in. Issues on stacking can also arise when vehicles are placed on different policies or between auto and motorcycle policies.

Umbrella or excess policies may apply differently when dealing with UM/UIM coverage. If you are placing umbrella or excess coverage, be very aware of whether those policies will provide UM/UIM coverage and, if so, what underlying UM/UIM limits are required.

UM/UIM coverage has become more important as more drivers are going uninsured or carrying minimum limits. This results in more claims against UM/UIM coverage which may involve waiver issues as well as arguments that there is not enough UM/UIM coverage offered. In defending an E&O claim, the agent must be able to produce evidence of the offer of UM/UIM coverage. Even better (and sometimes required) evidence is a properly executed and maintained rejection form signed by the customer.

In the current economic climate, customers seeking cheaper alternatives may want to purchase only minimum UM/UIM coverage. As the agent, you cannot force a customer to purchase coverage, but it is important to be able to show all coverage (including UM/UIM) that was discussed, offered and rejected. Never alter a rejection form (or any document) after the customer has signed the same. Upon receipt of the signed waiver, review it for discrepancies. If an error or inconsistency is found, contact the customer.

Agents who fail to understand the state laws relating to UM/UIM coverage may find himself the target of an E&O claim. Don't just go through the motions when placing auto policies. 

Nicole Yarbrough, J.D., is an assistant vice president, claims and liabilities, with Swiss Re Corporate Solutions and handles claims against insurance professionals.



Could This Happen to You?

In a recent claim submitted to an agency E&O carrier, the agent properly offered UM/UIM coverage that was declined by the customer. A waiver form was pre-populated by the carrier based on the request to bind coverage with no UM/UIM coverage. The agent faxed the prepared document to its client for signature. The multi-purpose form would have also been used had the customer elected to take UM/UIM coverage. Therefore, the lower portion of the page dealt with the option to purchase stacked UM/UIM coverage (available in certain jurisdictions). In this particular case, that portion of the form was unnecessary as the customer had rejected UM/UIM coverage. However, the customer "checked the box" indicating he was requesting stacked UM/UIM coverage and then signed the form. The form was returned to the agent and placed in the file. Six months later, the insured was fatally injured in a car accident with an uninsured driver. The estate made a UM/UIM claim which the carrier denied.

This example shows the importance of offering this coverage with high limits and the importance of the rejection form being properly executed, as this will likely lead to a litigated issue against the agency and the carrier involving whether UM/UIM coverage was declined and the UM/UIM claim properly denied. The company and the agency could have potentially avoided this situation by reviewing documents received from the customer one final time.

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