

## **Umbrella/Excess Liability Insurance**

Umbrella and excess liability policies provide additional protection above that provided in underlying general liability, auto liability and employers liability policies. These policies can also extend over other types of liability policies such as policies providing coverage for employee benefits liability, professional liability, employment practices liability and public officials liability. An insurer will require the insured to have certain types and amounts of primary insurance before an excess liability policy or umbrella policy can be written. Umbrella and excess liability policies pick up where these liability coverages stop, thereby providing extra protection. They act as safety nets that break the fall when a claim exceeds the limits that are provided on an underlying policy. They help protect a business from the devastating consequences of catastrophic losses and they can provide coverage for gaps that may exist in underlying liability policies. Umbrella and excess liability insurance policies protect a business's assets as well as its future.

Umbrella and excess liability insurance policies work in two ways:

1. They provide additional liability coverage when liability limits on an underlying liability policy have been exhausted.
2. They can provide coverage for liability claims that may not be covered by an underlying policy.

Although umbrella policies and excess liability policies are two distinct types of policies and have unique characteristics, their names are often used interchangeably. Both of these policies provide additional limits of protection above those limits that are provided in the underlying policies. An excess liability insurance policy usually applies to one underlying insurance policy. Excess policies are typically "follow form" policies which means they conform exactly to the coverages provided by the underlying policy. The excess liability policy does not provide coverage for losses that are excluded on the underlying policy. It is no broader than the underlying policy. If a loss is excluded on the underlying policy, it will also be excluded on the excess policy. However, it is possible for an excess liability policy to be more restrictive than the underlying policy since the excess policy may contain exclusions that do not exist in the underlying policies. Therefore, it is important to read your policy closely to identify what is covered and what is not covered.

An umbrella liability policy not only provides additional limits of coverage above the underlying policy limits like an excess liability policy, but an umbrella policy may also provide additional coverages that are not included in the underlying policy. Also, an umbrella policy can extend over multiple underlying policies. The umbrella policy may provide coverage that is broader than what is covered under the underlying policy. For example, an insured may sustain a loss that is excluded by the underlying policy, but coverage may apply on the umbrella if an applicable exclusionary endorsement is not attached to the policy. However, this does not mean that an umbrella policy will cover all losses that may occur. This type of policy, like all insurance policies, will contain various exclusions. No insurance policy will cover everything. It is very important for you to read your umbrella policy (as well as all of your insurance policies) so you are familiar with what is covered and what is not covered.

Many umbrella and excess liability insurance policies include a self-insured retention (SIR). The SIR is a specified dollar amount that must be paid by the insured before the insurance company will respond to the claim. After that point, the insurer would make any additional payments covered under the policy.

How much umbrella/excess liability insurance is enough? No precise formula can calculate the amount of umbrella/excess liability insurance that you should purchase. No one can predict the types of claims you will have or the amounts of those claims, so it is impossible to determine how much umbrella/excess insurance is enough. However, the more you have to lose the more coverage you should purchase. The “right” amount depends on the value of assets that must be protected as well as the value of assets that may be acquired in the future.

Unfortunately, litigation against all types of organizations is on the rise. Organizations with significant assets should consider purchasing higher limits. You also want to consider the type of business that you operate and the likelihood of a catastrophic claim when determining how much umbrella/excess liability coverage to purchase. Since lawsuits can be expensive and accidents do happen, you cannot be too careful when selecting a limit of insurance for your umbrella/excess liability insurance. The key is to select a limit of insurance that will keep you and your business operation secure.

The following are situations where an umbrella/excess liability policy can help to safeguard your business:

- Accidental slips or falls on your property
- One of your products causes injury, illness or death
- A fire in your building damages other property
- Employment practices liability violations
- Your business vehicle is involved in an accident
- A carbon monoxide leak in your building

Sometimes a contract with a customer, general contractor, municipality or some other entity may require you to have a specified amount of liability coverage. This may necessitate that you purchase either an excess liability policy or an umbrella policy to meet the required limit of liability.

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