

Family Office Bulletin: Personal Excess Liability Insurance

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Personal Excess Liability Insurance

With all insurance, one wants to make sure that the essential levels and coverages are in place, not necessarily excessive levels and coverages. Excess liability insurance, commonly known as “umbrella” insurance, is somewhat of a misnomer and could easily be renamed “sleep at night coverage”. This coverage is a safeguard from which all individuals, whether considered high net worth or not, can benefit from and we have recommended adding an umbrella arrangement to many clients’ current insurance profiles. Most individuals consider themselves careful investors when it comes to considering risk. These same individuals typically have general property and liability policies, but not everyone has an umbrella policy. Umbrellas are reasonably priced and should be worth a second look. Umbrella policies can be offered and acquired through professional organizations (such as trade or business affiliations), your current place of employment and your current insurance carrier/broker.

Umbrella coverage takes effect after your primary insurance is either (a) fully utilized (vertical coverage), or (b) if your primary insurance does not have a specific coverage (horizontal coverage). Umbrella coverage typically starts at \$1 million, and coverage goes up in million dollar increments to multi-million dollar levels. Usually when we start focusing on those levels, there will be multiple carriers underwriting one policy so that the risk is spread out amongst carriers. Umbrella insurance shields not just the policyholder, but also other members of the family or household.

Most families believe this coverage is only for the ultra-wealthy, which is a misconception. The questions below highlight a few examples of who would benefit from an excess liability insurance policy:

- Do you own a rental home that is actively rented?
- Do you own a Co-Op or condo?
- Do you have children who are driving?
- Do you drive to work daily?
- Do you own a boat, or have a pool or trampoline on your property?
- Do you have many years to work before you are of retirement age?
- Do you serve on any boards?
- Do you frequently entertain at home?
- Do you own animals, specifically a dog?

Our rule of thumb: If you answered ‘yes’ to any of the questions above, you probably should have an umbrella policy!

Umbrella plans typically allow for some general coverages in their provisions such as rental auto coverage (limited to a number of days), identity theft expense & identity theft resolution, reputational injury expense, loss of earnings (usually \$50k or less) and kidnap expenses. Additionally, umbrella plans can offer uninsured/underinsured motorist coverage that covers the gap in typical auto owners plans. If a car accident occurs and others have not been as diligent as you in purchasing appropriate limits, what is in force to protect you? The umbrella will afford up to a stated dollar amount (dependent upon the size of purchased umbrella) for others' negligence if they do not have the insurance to cover you.

Finally, it is important to note that legal expenses are either included inside or outside the policy limits of a general property and liability policy. This can be a HUGE erosion on what is available to pay on a claim should something happen. It is always wise to know how legal costs will be covered under your policy. For many, though, there is peace of mind knowing an umbrella is available with this additional indemnification.

As with our June insurance briefing, we find a few good examples are usually quite helpful in demonstrating the case in point:

Scenario #1: A client held a summer pool party for his children's friends (and parents) and served food which made a few of the partygoers sick. Also, one parent slipped and fell down the stairs to the pool. Five families end up suing; four for the poisoned food and one for the trip and fall hazard at your client's house. All claims total \$3 million!

- The homeowner's property and general liability insurance can/will cover claims up to \$1 million;
- The homeowner's \$5 million umbrella insurance plan covers the balance, \$2 million. There are no out-of-pocket costs for the homeowner except for the deductibles. If the homeowner did not have an umbrella, he would be personally liable for another \$2 million.

Scenario #2: A client retires to Florida who was previously a New York State resident. Her condo complex has a Homeowners Association ("HOA") which maintains the complex and she becomes a board member on behalf of the Association. She is sued for damages on behalf of the Board.

- Most individuals would have a standard homeowner's policy. These policies typically do not cover HOA activities. Additionally, one should not assume the Association has *Directors and Officers liability insurance*, or even if it does, said policy provides enough coverage. An umbrella plan could step in at this point and cover the claim.

The cost of insurance is not just the annual premium. It is also the cost of a "What If" scenario occurring and you, as the insured, not possessing enough insurance coverage (or ultimately assets) to compensate the claim(s) that may arise. Umbrella insurance, beyond providing peace of mind, can add layers of coverage both vertically and horizontally to your primary property and liability insurance scope. It should be a part of every individual's overall insurance strategy, as it can protect you from devastating loss.

If you have any questions concerning excess liability insurance, or if you would like us to review your current insurance, please do not hesitate to contact Chilton Trust's Family Office Services for an informal insurance review.

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