TIP SHEET

Risk Management Ideas From
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Tips On Umbrella/Excess Coverage

A true commercial umbrella policy has three purposes:

1. Provide higher limits than the underlying liability coverages (GL, Auto Liability, Employers Liability, etc.)
2. Drop down when the underlying policy's aggregate limit is used up.
3. Fill gaps in coverage on underlying policies (many times subject to a self-insured retention).

An excess policy is designed to do only #1 and #2. Some umbrella/excess policies are misnamed, however. Many "umbrella" policies contain endorsements that make them, in effect, excess policies. Some "excess" policies do, in fact, fill some minor gaps in underlying coverage. Probably every "umbrella" and "excess" policy is in some ways NARROWER than the underlying coverage – intentionally or unintentionally. How do you sort it all out? Here are the key points:

A. If the umbrella/excess policy has its own coverage wording, you can be almost certain that wording doesn't exactly match the wording in the underlying policies. Therefore, there are potential areas where the umbrella/excess is broader than or narrower than the underlying policies. If you have all policies with the same company, you should ask your underwriter what those differences are. If you don't have all policies with the same company, it's very difficult to tell.

B. The simplest policy to understand is an *excess* policy that specifically says it covers *exactly* what the underlying policies cover – no less (with exceptions noted in C below) and no more. These are commonly known as "following form" policies. (There are also "following form" *endorsements* that apply only to a particular exposure, as opposed to the entire array of underlying liability coverages?.

C. Nearly every umbrella/excess policy specifically excludes *some* coverages that are on the underlying; e.g. uninsured motorists, fire legal, employment practices, E&O, etc., either because the insurer doesn't want that exposure or because the underlying limits aren't high enough. Be sure you know what these specifically excluded coverages are.

D. For any umbrella/excess policy that is broader than the underlying policies in any way, the self-insured retention becomes an important matter, from both the insured and insurer standpoint. If the umbrella/excess policy is *not* broader than the underlying, the self-insured retention is irrelevant.

Regardless of what the policy is called, here are some other important things to remember:

E. Be sure you keep the underlying policies and limits in force. Most umbrella/excess policies are going to pay claims as if the scheduled underlying coverage and limits *are* in force. The exception is a used-up aggregate limit.

F. Keep the dates of the underlying policies (especially those with aggregate limits) concurrent with the umbrella/excess policy. This avoids confusion on used-up aggregate limits – for both insured and insurer.

Check out the pricing for higher umbrella/excess limits. Higher limit layers are surprisingly inexpensive in many cases.

Source: Central Insurance Company #011003