

Shelter from the Storm

Average Joes and Janes need umbrella coverage, too. Here's why

A lawyer at a major U.S. property-casualty insurer once said, "I won't buy an umbrella policy [for myself]. If I had one and were sued, the plaintiff's lawyer would simply go after more money."

Mention those comments to people at an insurance conference and you are likely to get some perplexed looks. Mention them anywhere else, though, and you'll likely get plenty of nods of agreement.

While it's obvious why plaintiff's lawyers go after defendants with deep pockets, be they wealthy corporations, organizations or individuals, settlements don't always align with the resources available to pay them. "Just because you don't have the money to pay a judgment doesn't mean you won't be sued," observes Bill Gatewood, Director, Personal Lines, at Burns & Wilcox in Farmington Hills, Mich. "They will garnish wages and force asset sell-off. They will find a way to get the money. Who wants to take that chance?"

Even mass-market consumers who believe they have nothing to lose, and thus, nothing to protect, could be just a judgment away from losing their retirement savings, future earnings and home, all of which are subject to lien to fulfill judgment.

Still, when it comes time to secure excess liability protection, the traditional insurance industry mantra, "If you have assets, you need protection," is sometimes overlooked by the affluent — and even more frequently by the less affluent. Having sizable assets isn't a prerequisite to getting under an umbrella. In fact, for the less affluent, having a personal umbrella may mean the difference between relative comfort and what amounts to indentured servitude.

Much at Stake

Even mass-market consumers who believe they have nothing to lose, and thus, nothing to protect, could be just a judgment away from losing their retirement savings, future earnings and home, all of which are subject to lien to fulfill judgment. Indeed, the average person actually may have more to lose than a multimillionaire, given that a home, vehicles and possessions probably represent a proportionately larger part of his wealth, says Jim Fiske, vice president and U.S. marketing manager at Chubb Personal Insurance. "For many people, net worth is entirely in those few items."

The sheer number of companies selling minimum-limit policies and the tally of those buying it underscores consumers' general lack of understanding of umbrella coverage and its minimum underlying limits. Sometimes people find out the hard way.

"One of the biggest increases in homeowner-liability claims comes from

dog bites," says Burns & Wilcox Vice President of Product Development Marla Donovan. With the playful tug on Rover's tail and a clamp of the dog's jaws, a friendly neighbor can become an adversary who hauls a defendant into court seeking compensation for medical costs, future plastic surgery, trauma, pain, etc. The cost to defend and settle dog bite claims can run from a few thousand dollars to hundreds of thousands of dollars, sometimes stretching beyond the liability limits of the dog owner's basic policy.

That's where the umbrella comes in, usually as an attachment to a homeowner's or auto policy that provides a comfortable cushion of additional liability insurance stretched broadly over all basic liability limits. People buy umbrellas because the most ordinary of endeavors can suddenly turn ugly, leaving them in a financial lurch. Auto accidents are a particularly frequent culprit.

In an oft-cited Chicago-area case, a 20-year-old goes to a local BMW dealership to test-drive a car. He gets into the driver's seat of a sedan, with his two friends in the back and the 22-year-old salesperson in the front passenger seat. A few minutes into the ride, the young salesman tells the driver, "Now it's your turn. Open it up." He does, sending the speedometer to 95 mph before side-swiping a turning vehicle and striking a pole on the front passenger side. The driver and his friends are injured but survive; the car salesman dies. The subsequent wrongful death civil lawsuit brought by the salesman's family

Poking Holes in 4 Umbrella Myths

The personal umbrella policy may well be one of the most misunderstood personal lines products, says Bill Gatewood, Director, Personal Lines. Here's a look at some of the most pervasive myths, and the truths they obscure:

- 1 Umbrellas are only for the rich.** Only someone with absolutely nothing to protect can go umbrella-free. Anyone owning a home, car, boat, RV, snowmobile, swimming pool, or having a dog, teen drivers, a retirement account or sizeable assets, is a candidate for an umbrella policy.
- 2 Umbrellas cost a lot.** Actually, the personal umbrella is one of the most inexpensive insurance products one can purchase. Umbrella liability coverage generally costs between \$200 and \$300 annually for a \$1 million limit.
- 3 Home and auto insurance limits are high enough for any eventuality.** Society is litigious and defense is expensive. Often it doesn't take a big claim to exhaust the limits of a policy.
- 4 If another driver causes an accident, that driver will pay for my car and medical bills.** By industry estimates, up to 20 percent of drivers today are uninsured. Many more only purchase state minimum coverage. If a driver is underinsured, or worse, uninsured, who do you think pays? Be sure the umbrella coverage you sell includes uninsured and underinsured motorist coverage (it's not a given).

If you are in an accident and the person who hit you has too little or no insurance, the last thing you want to be doing is running around figuring out how to pay for rehabilitation or long-term care.

against the driver results in a jury award of \$13.7 million.

With the sagging economy has come an increase in the number of drivers who lack insurance. In parts of the U.S., an estimated one in four cars has an uninsured driver; that's alongside the many insured drivers who have reduced their limits to save premium.

Low state limits for auto insurance — both third-party liability and uninsured/underinsured (UM/UIM) — are another reason for the growing scarcity of adequately insured drivers. A good umbrella policy can compensate for the shortcoming. Beyond paying third-party claims against the policyholder, an umbrella policy from a top-notch carrier protects the policyholder from injury by someone who can't pay, says Gatewood.

"If you are in an accident and the person who hit you has too little or no insurance, the last thing you want to be doing is running around figuring out how to pay for rehabilitation or long-term care," he explains. "The umbrella policy can actually protect you against others' responsibility."

The cost of umbrella coverage is quite reasonable, he adds, since it's a relatively low-frequency, high-severity business. In many cases, the cost for additional protection is best offset by raising the policy deductible.

Placement? No Problem...

For those and other reasons, the personal umbrella is among the fastest-growing product lines for Burns & Wilcox, Donovan says. It's a product whose time has come, and it's available on a mono-line basis from strong, highly rated carriers.

"Often clients come to us for an

umbrella because they are already coming to us for excess and surplus (E&S) coverage with a difficult risk — a home with a tough claims history or an auto driven by a son who is taking a course to control anger-management issues or a DWI conviction," she says.

Sometimes the broker is placing other component parts of a personal risk management program for his or her client, so it makes sense to have Burns & Wilcox do it all, according to Donovan. "Umbrellas are high-touch, low-profit items, so why not have a wholesale broker work on it?"

Burns & Wilcox also serves as an aggregator for agents who lack purchasing power or access to the umbrella marketplace, she adds. "Many standard market carriers will only write an umbrella over their own policies, but we have access to carriers who will write over multiple insurance carriers. Also, we can, and often do, provide very high limits: \$10 million, \$20 million, even \$30 million. That can be difficult to find."

What's more, Burns & Wilcox is fast, often securing quotes for several different policy limits in five minutes.

"Whenever something bad happens, we have the notion that someone must pay; it's almost a form of wealth redistribution," Donovan observes. "Sympathetic juries or judges see a kid hurt in a swimming pool and justice must be done. If the injury involves a swimming pool in a backyard or a weapon in the house, the homeowner will pay unless he is totally without means."

Even if it goes unused, Gatewood says, "the umbrella is your sleep-at-night protection against losing all your assets. That alone is worth the price." ▣

Burns & Wilcox serves as an aggregator for agents who lack purchasing power or access to the umbrella marketplace