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What Is Commercial Umbrella Insurance?



You've probably heard of umbrella insurance, a type of coverage that protects you if a claim exceeds your insurance policy's limits. But you might not be familiar with how it works, why your business may need it, and how it differs from excess insurance and regular insurance coverage.

Commercial umbrella insurance fulfills a specific business need: to increase the liability coverage you already have in your commercial general liability, commercial auto and employers liability coverage. If you've purchased a business owners policy (BOP), an umbrella policy can extend your coverage as well.

The key is to have these underlying policies in place first. Umbrella insurance is written on top of your existing coverage. For example, if you don't carry commercial auto insurance, an umbrella policy won't cover your employees if they cause an accident since you don't have the underlying coverage.

In addition, umbrella protection extends your coverage only when your business is liable for property damage, personal injury or advertising injury. It's not meant to increase your commercial property insurance limits.

How it works

Your business may have risks that go beyond the limits of your underlying policies. Suppose you have a general liability policy that covers up to \$1 million in claims. A customer gets hurt while on your property, and the damages amount to \$1.2 million.

Ordinarily, you would have to pay the remaining amount above \$1 million, or \$200,000. Depending on your policy's limits, you could face substantial liability exposure.

You can protect yourself from catastrophic claims through a product called excess insurance, which simply increases the payout amount on a liability policy you already have. It increases the limits, but it doesn't change the conditions or perils stipulated in your policy. If something is excluded from the underlying policy, it will also be excluded from the excess coverage.

Additionally, excess insurance is attached individually to each of your liability policies – not to all at once.

An umbrella policy, on the other hand, covers all your liability policies. It also can provide coverage that is broader than the underlying policy. An umbrella may pay a claim that wouldn't ordinarily be covered by the underlying policy. Some common examples are extending auto coverage to include foreign countries or broadening liability coverage to include injuries that occur away from a job site.

If an umbrella policy covers a claim excluded by your underlying policy, you'll need to first pay a self-insured retention (SIR). Sometimes known as the drop-down deductible, the SIR is the amount you must pay before the umbrella policy pays out.

If your underlying policy covers a claim, you must first exhaust that policy's limit before making a claim on your umbrella policy.

In some cases, an umbrella policy may have exclusions not contained in your underlying policies. Be sure to ask your insurance professional what is included and what isn't.

What's covered

Umbrella policies typically cover legal costs you incur if you are sued and any judgments and settlements you must pay. They also pay for damage to another person's property and medical expenses if someone is injured. Some policies also cover libel, reputational damage, product liability and professional liability.

If you have a commercial auto policy, umbrella insurance also covers your liability from accidents, including when you don't own the vehicle (provided you have hired auto coverage).

Umbrella policies don't cover punitive damages or personal liability.

Umbrella insurance has the advantage of extending the limits of several liability policies with one blanket policy. This may be preferable to raising the limits of several individual underlying policies.

Umbrella coverage is usually purchased in increments of \$1 million. For example, a \$10 million policy would provide up to \$10 million in liability protection. This is on top of the limits on your underlying policies. So if

your general liability coverage has a \$1 million limit, you could double your coverage by purchasing a \$1 million umbrella policy. Umbrella coverage is usually less expensive than the underlying policy.

Bear in mind that all of your underlying policies will draw from the single umbrella limit. If you use \$1 million from a \$3 million umbrella policy to pay an auto claim, that leaves you \$2 million for other claims. Umbrella policies have per occurrence and aggregate limits that are the same. If a single claim exceeds your per occurrence limit of \$3 million, you will have exhausted your aggregate limit as well.

In some cases, an insurer may require that you carry additional underlying liability insurance before it will write a higher umbrella policy.

When do you need umbrella coverage?

Certain types of businesses are more likely to need an umbrella policy. A lot depends on your liability exposure. Do you frequently have customers on your premises? Is your type of business considered a high risk, or is your work site potentially hazardous? Do your employees work on a customer's property? Do you own vehicles and make deliveries?

Retail, hospitality, construction, shipping, manufacturing, health care and energy are some industries where employers may need umbrella coverage. Likewise, an umbrella policy may make sense for certain situations, such as if your company owns a boat or airplane. In some cases, a business partner may require that you have umbrella insurance. Government contractors are often required to carry it.

The cost of umbrella coverage depends on factors such as type of business, location, number of employees and your prior claims experience. Consult with an insurance professional to determine the coverage you need and your best options for limiting your exposure to a lawsuit or costly medical award.

When purchasing umbrella coverage, also keep these points in mind:

- Umbrella coverage doesn't have to be written by the same company that writes the underlying policies.
- Make sure your umbrella policy has the same coverage dates as your underlying insurance.
- You must keep your underlying coverage in force during the term of your umbrella policy.

Talk to an insurance agent who knows your market

Before you purchase umbrella coverage, make sure you have all of the liability coverage you need. Work with an agent to identify gaps in coverage. For example, do you need employment practices liability insurance to protect against discrimination, harassment and other employee lawsuits? Do you need directors and officers liability insurance to protect your top executives and board members? Do you need professional liability to protect against claims of error or negligence in the performance of your duties?

You should also be aware of recent market trends in umbrella insurance. These policies have seen double-digit premium increases recently in a hardening property/casualty market. As a result of increased lawsuits and higher claims, carriers have tightened their underwriting and reduced the amount of coverage they are willing to offer. Higher-limit policies may be harder to find or more expensive.

Umbrella coverage is still one of the best ways of protecting against extraordinary claims that could bankrupt your business. For many firms, it's an essential risk-management tool.

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