Coverage Insights

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Excess Liability (Umbrella) Insurance

Excess liability insurance (ELI), more commonly known as umbrella insurance, is one of the most important types of insurance your company can buy. It protects your business from holes or limits in existing policy coverage as well as from financially draining lawsuits. Just as you carry an umbrella to protect you from a potential downpour, ELI protects your company from the types of claims that could close your business.

Umbrella Basics

Businesses choose ELI essentially to back up the limits contained in their underlying liability policies (commercial general liability, business auto, employer liability, workers' compensation and professional liability.) For the most part, it is used to cover exceptionally large events or losses with low probabilities of occurrence. Without ELI, these events – as few and far between as they may be – would be financially devastating to many companies.

Who Should Consider ELI?

All types of companies would benefit largely from ELI. Because it extends coverage so dramatically at a relatively small additional cost, many choose to pay the extra price. The amount of coverage needed will always depend on the total value of your assets. Here's how it works:

Assume a jury ordered your business to pay $3 million in damages for a liability claim, but your general liability policy has a $2 million limit. Your company would normally be required to cover the additional $1 million. However, with a $4 million ELI policy, the $2 million commercial policy would exhaust, and then the umbrella policy would cover the outstanding $1 million.

Other Benefits of ELI Coverage

Ultimately, ELI acts as a sort of dual policy, providing coverage in two ways:

- Paying liabilities in excess of existing policy limits
- Providing coverage in areas not included with existing policies

You have already read how ELI acts with basic coverage to cover costs; however, it also provides extra coverage in other areas by using a self-insured retention (SIR), a dollar amount that functions like a deductible. In umbrella coverage, the SIR will vary by situation and by state, but it starts at $10,000. So if ELI is being used in areas without any other basic coverage, it will kick in after you pay the set SIR.

ELI is also beneficial because an effective policy can save your business money and cover more assets by using fewer individual policies. However, depending on your policy, some coverage may be excluded under ELI. Common exclusions include employment practices liability, professional liability and product recall coverage.

The umbrella market is often erratic. We can find you competitive quotes addressing your specific risk categories. To learn more about including excess liability/umbrella insurance to protect your company, call Garland-Sturges & Quirk today.