

Excess and Umbrella Liability Policies (Lecture 14)

Overview of Lecture 14 (Chapter 13, CPCU 4)

I. Introduction

II. Nature of Commercial Umbrella Liability Insurance

III. Nature of Commercial Excess Liability Insurance

IV. Concurrency

I. Introduction

- catastrophic liability loss protection

- pays only after the basic limits of the underlying coverages are exhausted

- excess and umbrella policies are available on both an occurrence and claims-made basis

- coverage for BI, PD, PI and AI

- combined single limit- each occurrence limit --no separate aggregate limit
- can layer occ and claims made policy (potential for coverage gap because of different triggers)

A. Excess liability policy

- provides excess limits above the limits of the applicable underlying coverage (which may be primary, umbrella, or excess)

B. Umbrella liability policy

- provides excess limits and also may offer certain coverage not available in the underlying policy, subject to a retained limit by the insured
- does not necessarily follow terms and conditions of underlying coverage

II. Nature of Commercial Umbrella Liability Insurance

A. Characteristics

- 1.
2. drops down to provide primary coverage for certain exposures that are not covered by the underlying policy (not true of excess liability policy)

B. Underlying policies

- 1.
2. minimum limits required on underlying policies, such as CGL 500k per occ, 1,000k general, 1,000k products-completed op

C. Limits of Liability

1. Losses covered by underlying primary insurance and umbrella

2. Losses not covered by primary but covered by umbrella

- umbrella would pay that portion of loss that exceeds the retained limit (self-insured retention)

3. Losses involving underlying aggregate limits
 - if primary limit exhausted, then umbrella would pay the entire loss subject to the aggregate limits of the umbrella policy

D. Ultimate net loss

- 1.
2. umbrella policy pays for "ultimate net loss" in excess of the applicable underlying limit which is either (1) amount recoverable under the underlying insurance contract or (2) retained limit if the loss is not covered by the underlying insurance

III. Nature of Commercial Excess Liability Insurance

A. General characteristics

1. purpose is to provide excess protection in the event that the per occurrence or aggregate limits of the primary policy are exhausted because of covered claims or suits
2. not subject to a retained limit because excess policy generally will not provide any broader protection

B. Higher Limits

C. Gap or buffer layer coverage

D. Layers of coverage

IV. Concurrency

- policy periods of primary, excess, and umbrella policies must be concurrent (inception and expiration) to obtain maximum protection
- no credit for reduction of underlying aggregate limit if occurrence did not take place during the umbrella period