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Why Your Clients Should Consider Umbrella Insurance

Risk can take many forms.

By **Damon S. Winter** | August 19, 2022

As financial advisors, we're used to helping clients with many kinds of insurance, including life, disability, long-term care and even health insurance with tools like health savings accounts.

But our clients also have property and casualty insurance policies, such as auto, homeowners, renters, condo and more.

While you may not work directly with those policies, they remain important parts of any client's overall financial plan — not only to protect against property damage, but also personal liability.

When it comes to those insurance policies, many policyowners may believe they have "full" coverage when there really is no such thing.

A quick review of their policies will reveal coverage limits. For instance, a client may have comprehensive and collision coverage on their auto insurance, but low liability protections.

These clients fail to recognize they are essentially self-insuring about their policy's stated liability limits.

Many clients reject the idea of increased liability protections because they believe their odds of involvement in a costly lawsuit is low.

While this may be true, this is a conflation of odds and risk — and the risk to a client's finances can be devastating if a lawsuit award exceeds the liability limits of their insurance policies.

As financial advisors, we help our clients with risk management, and all advisors should recommend umbrella insurance to help clients mitigate this particular risk.

What is umbrella insurance?

The idea behind umbrella insurance is simple: an additional liability policy (usually in million-dollar increments) on top of homeowners, renters, car or other vehicular insurance.

Umbrella policies kick in once the liability coverage of the underlying policy is exhausted because of a lawsuit, protecting clients from having to pay hundreds of thousands out of pocket because of an accident.

Insurers typically require policyowners to bundle umbrella insurance with auto or home policies.

Also, there are usually minimum liability coverage amounts for the underlying policy — a typical minimum might be \$250,000 for an auto policy or \$300,000 for a home, renters or condo policy.

If needed, umbrella policies can cover legal settlements, court-ordered damages or legal fees.

Without this protection, clients are leaving their own assets on the line without realizing the risk they have assumed.

We live in a lawsuit-happy country where people will often sue if they think they have a case.

Not all states have caps on lawsuit damages either, so clients can't always rely on state law for protection against exorbitant jury awards.

Notably, umbrella insurance does not cover everything.

It will not cover damages to a client's property, nor will it cover harm to people or property a client inflicts on purpose.

Business activities and liability assumed under contract are also typically excluded.

Why isn't it more common?

If umbrella insurance is such a good idea, it raises the question of why it is not commonplace.

The answer is that many home and car owners simply do not know it exists.

Some property and casualty clients tune out if their agent brings it up, assuming the agent is just trying to upsell them.

This creates an incentive for agents not to mention it at all, because they fear losing business.

Financial advisors, on the other hand, leave the topic alone because they do not specialize in property and casualty insurance and are apprehensive about client questions.

So, in many cases, no one discusses umbrella coverage with clients.

To remedy this, financial advisors should build relationships with property and casualty agents whom they trust to properly advocate for their clients' best financial interests.

This will help ensure that the agents who specialize in these policies can discuss them more freely, without being written off as just trying to make a sale.

Who should get umbrella insurance?

Anyone can get sued, so theoretically anyone can benefit from umbrella insurance.

But certain groups of people stand to benefit from an umbrella policy more than others.

The clearest examples are home and car owners — they cannot completely foolproof their home against accidents, nor guarantee they will never be deemed responsible for a car crash.

Landlords and tenants can also benefit for similar reasons.

Some other factors can also trigger considerations for adding this coverage.

These include having teenage drivers in the household, owning a dog or having home features such as a pool, hot tub or trampoline.

Financial advisors do not need to be experts on umbrella insurance, but they should be able to refer clients to someone who is.

Using an umbrella policy is an unlikely scenario — but no client will ever regret having this valuable risk management tool if they need it.



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