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You can never have too much insurance

Umbrella policies kick in when others run out

Settlements may ring in over a policy's payout

Many years ago, I wrote Aaron's First Law of Precipitation: "Wherever I am when it starts raining, my umbrella is somewhere else." Over the years, I have learned to cope with the chronic shortage of umbrellas by owning at least a half dozen of them at any one time and always keeping at least one in the house, car, office, boat, and suitcase.

This basic rule eventually led me to create Aaron's Second Law of Precipitation. It reads, "Always have umbrella insurance." This, of course, does not mean I have insurance coverage on my umbrellas. In fact, I lose umbrellas so frequently that I doubt if any company would want to insure them.

An umbrella insurance policy is one which provides additional or excess third-party liability insurance over and above the primary homeowner, condominium owner, automobile, cottage, RV, boat, rental property and other insurance. Coverage under an umbrella policy kicks in when the other policies run out, and provides an extra layer of protection against lawsuits resulting from damage to someone else's property, or from injuries resulting from an accident.

Umbrella policies may also protect against false claims and intentional acts such as libel and slander, vandalism by minors, false arrest, wrongful entry, invasion of privacy, and volunteer work in a non-profit organization.

In Ontario, umbrella insurance can usually be purchased in amounts of \$1 million to \$5 million, in addition to the underlying policies, which carry \$1 million in liability coverage. The coverage is often written with the same company, which carries one of the underlying policies.

Here's how it works:

Suppose you have a car accident in which you cause injuries to one or more persons with total damages of \$1.8 million. In today's society, that type of award or settlement is not impossible, or even unusual. Loss of future income, lifetime nursing care and pain and suffering damages can easily exceed \$1 million.

In this case, the basic automobile insurance would cover the first \$1 million in damages, and the umbrella policy would pay the rest. The same formula would apply if the injuries were caused by a household accident, for example on an icy driveway or in a swimming pool, or in an accident involving an insured cottage, rental property, condominium, boat or recreational vehicle.

Umbrella policies cover damage claims that you, your dependents or even your pets may cause.

Without an umbrella policy, the victim of an accident could wind up seizing the personal assets and income of an under-insured policyholder, resulting in loss of the insured's home or savings, and possibly even bankruptcy.

Three myths are typically associated with umbrella insurance: It's just for rich people; it's too complicated to co-ordinate with existing basic insurance, and the premiums are expensive. All of these are incorrect.

Umbrella insurance provides peace of mind for very little cost, starting around \$200 to \$300 a year for an additional \$1 million in coverage. My own policy provides \$5 million in coverage for \$406. I think of umbrella insurance as bankruptcy protection not for the other party but for me. It also provides psychological comfort: if you wind up hitting a pedestrian with your car, rear-ending the car in front, if your neighbour slips on your front steps, or if you hit a buddy with a golf ball, hockey puck or baseball, you're protected when the damages exceed the underlying liability coverage.

Other types of insurance may be more difficult to arrange. I have had three cases recently where clients had their real estate purchases jeopardized because they couldn't arrange property insurance at the last minute.

In the first case, the property had an old basement oil tank, which the insurance company was reluctant to cover. The insurance policy was issued only after the purchaser promised in writing to remove the tank and install gas heating.

The same thing happened to a client who was purchasing an older home with knob and tube electrical wiring. Insurance companies are getting very fussy about covering properties with any possible risk factor however remote.

The third case really surprised me. A young couple was buying a house and had never had an insurance policy of any kind. They had lived with their parents before venturing out on their own and did not own a car.

Several insurance companies turned them down because they had no "insurance history." Finally, the only coverage they could get was with their parents' insurance company.

Today's lessons are these: Never take insurance for granted. Allow plenty of time to arrange a new policy. Consider umbrella coverage. And finally, you can never have too much insurance. Just ask your lawyer.