# Corporate Exposure: Understanding Your Policy, Part III

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In this final segment of our series on policies, we review standard loss reporting requirements and the difference between excess and umbrella policies.

## The Protocol of Reporting

We begin with reporting protocol.

Each policy will differ in how it details your responsibilities in reporting a claim to your insurance company. Failure to comply with the provisions may negate coverage. Be certain you understand the reporting requirements. Some policies state "first knowledge" of an event that *may give rise* to a claim, which triggers your responsibility to report to your carrier. Others stipulate "immediately," "as soon as possible," "as soon as practical," or "at first notice." "Immediately" presumably means as soon as you are aware of a loss. "As soon as possible" and "as soon as practical" should be self-explanatory—although, as you can no doubt appreciate, these terms may give rise to a series of disagreements about your compliance with the time stipulations.

We have had extensive experience with client policies that state "first notice." One must answer the question, "First notice to *whom*?" For example, someone in your company receives a notice of claim; the process of making copies, filing the information, placing relevant materials in the mail, and forwarding copies to headquarters may take several weeks. Carriers have tried to deny coverage, saying the insured had knowledge on a particular day but failed to advise, as stipulated in the policy. The result can be a "reservation of rights" position.

We suggest policies containing the term "first notice" also stipulate that this means notice to the CFO, risk manager, or whoever else is designated. Suffice it to say you should not allow the policy merely to indicate "first notice" without identifying who must have knowledge before reporting requirements go into effect.

All policies require your cooperation with the carrier's investigation, as well as agreement not to interfere with or jeopardize defense settlement strategies. Open communication between you and your carrier is vital in any claim resolution. Do not wait until a claim, however, to get to know your adjustor. Establish a foundation for communication.

*Make sure you know exactly what your policy covers—and how to report your losses.*

Several "claims made" policies now offer "tail coverage" for losses that may be reported some time after the policy expires. Review the reporting requirements, since they may differ from the requirements of your current policies.

## Excess versus Umbrella Policies

Excess and umbrella policies are often—incorrectly—used interchangeably. They are not the same, and each may have different reporting requirements.

An excess policy increases the limits of coverage on one specific policy. You may have a $1 million products liability policy and a $4 million excess policy, bringing your total products liability coverage to $5 million. Be certain the $4 million excess policy follows form with your $1 million primary policy; make sure that there are no gaps between the two and that they have similar reporting requirements and coverage.

An umbrella policy sits above *all* your policies and thus increases all policy limits of protection. For example, you may have a $1 million products policy and a $5 million automobile liability policy. Having a $5 million umbrella policy increases your limits of protection from $1 million to $6 million in products liability coverage and from $5 million to $10 million in automobile liability coverage. Once again, though, be certain that the umbrella policy covers the same items as your primary policy and that there are no differences between the two.

## Summary

During the past three months we have emphasized the need for you to understand your policy coverage, and, more important, the nuances of reporting claims.

As noted earlier, always review the effect different deductibles and self-insured retention will have on pricing. In addition, be certain to ask your carrier for a copy of a specimen policy before making your final decision. Purchasing insurance on cost differences alone is not advisable, particularly if a loss occurs and the policy does not respond. Services, pricing, coverage, and financial stability should all play a role if you want to make an informed risk management decision.

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