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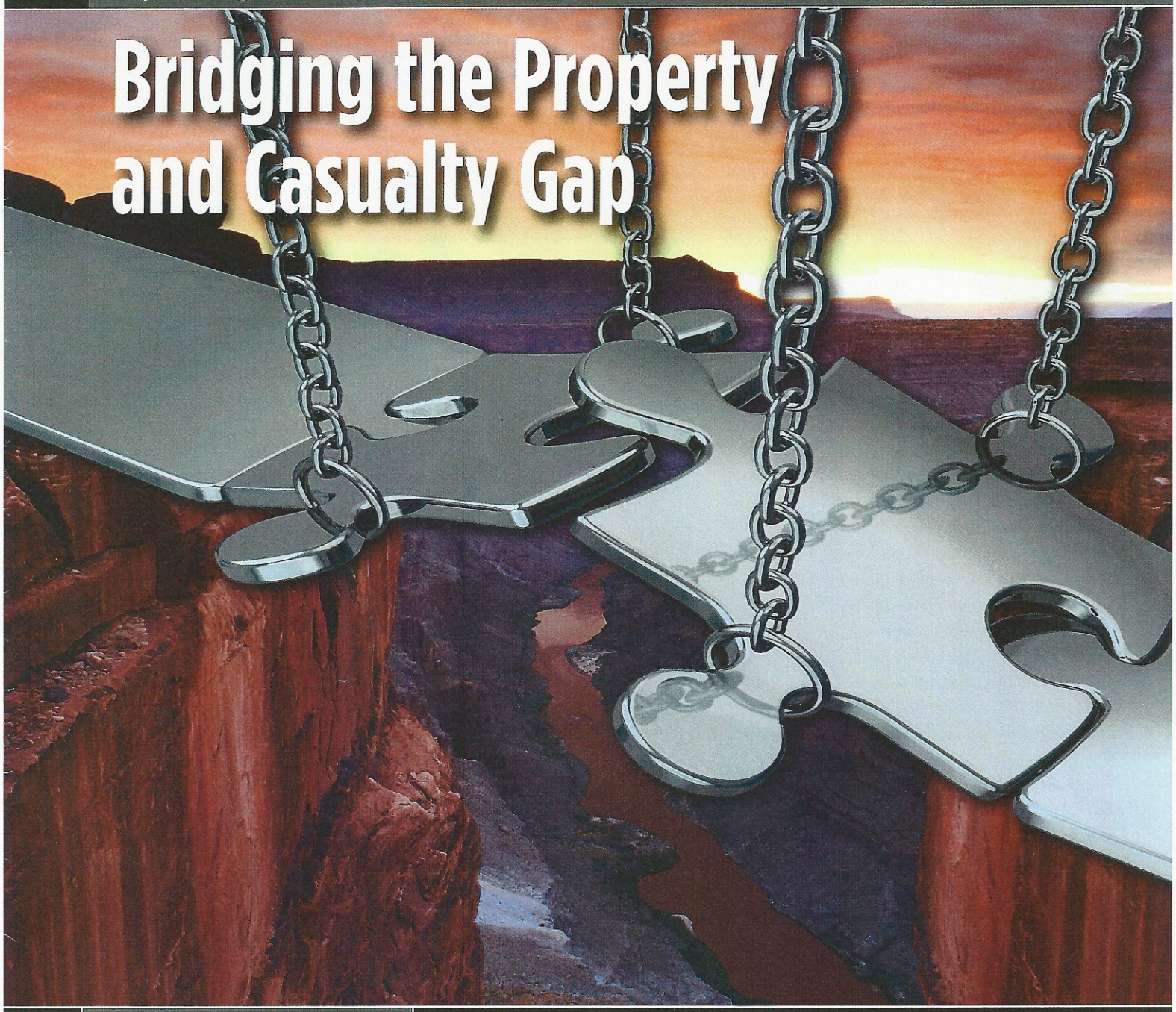
Bridging the Property and Casualty Gap



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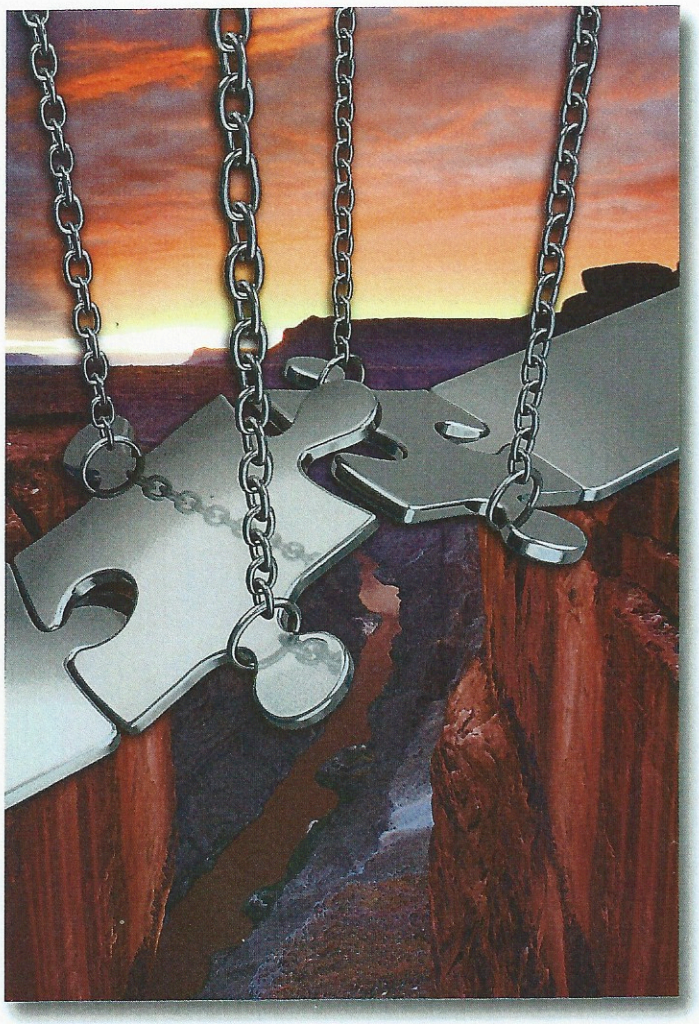
Bridging the Property and Casualty Gap

by Richard F. Stolz

You work hard to help clients build up the asset base that will enable them to meet their financial goals. Would it not be a spectacular financial planning failure to see assets built up over years or decades evaporate overnight due to lack of appropriate or sufficient property and casualty insurance protection?

Yet due to certain dynamics in the property and casualty (P&C) insurance industry, as well as a reluctance by many CFP certificants to stray too far into the P&C realm, the chances are high that many or even most of your clients today lack adequate protection from both common and uncommon hazards, according to P&C experts and financial planners who pay close attention to their clients' insurance needs. The results can be financially devastating.



"I've seen, over and over, financial planning people completely ignore the property and casualty needs of their clients," says Clark D. Randall, CFP®, of Lincoln Financial Advisors, in Dallas, Texas. "They may say, 'Buy an umbrella policy,' and that's pretty much the extent of their recommendations," says Randall, a 20-year veteran of the financial services industry who describes himself as a risk manager. Randall also directs the financial planning academic program at Southern Methodist University and teaches a class on financial planning fundamentals there.

Meanwhile, Kevin Gahagan, CFP®, of Mosaic Financial Partners Inc. in San Francisco, California, has seen the effects of this lack of attention to P&C risk exposure. "In the last ten years," he says, "I don't think I've seen a new client where we didn't recommend some fairly significant revisions in their property-casualty coverage. It's quite common to find clients who really have not looked at their property and casualty for an extended period of time."

Why are so many consumers underinsured? What are the gaps in P&C coverage that financial planners need to be on the lookout for and what coverage is appropriate, both for the average client and the affluent client? How should planners go about being sure those gaps are being properly filled? How will the client pay for additional coverage? And what is the planner's role in all this if they don't sell P&C coverage?

Planner as Risk Manager

Gahagan shares Randall's belief that many financial planners steer clear of P&C matters. Why? One reason, he suggests, may be that most planners, if they moved into planning from the insurance business, typically came from the life and health side and are somewhat uncomfortable dealing with P&C issues. (For his part, Gahagan was a corporate human resource executive before entering the financial

planning field, a career that may have heightened his sensitivity to the kinds of personal calamities that many people experience.) Some planners also may worry about additional liability (see sidebar "Does Advising on P&C Issues Increase Professional Liability?"). But that's no reason for them to assume, or simply hope, that their clients have adequate coverage.

Indeed, as noted, Randall considers the nature of his work as a financial planner, at least in part, as a risk manager. The risk of losses due to "litigation, natural disaster, or theft" may be no less than the risk of losses due to a bad investment strategy, he says. "And the more wealth they have," Randall adds, "the greater the likelihood that they're going to have some pretty significant gaps" in their insurance coverage.

Moreover, on a practical level, financial planners may be better suited than traditional P&C agents to identify those gaps (which is not the same thing as filling them, however). That's because by virtue of deciding to work with a financial planner, clients have decided to bare their financial souls in a way they may not choose to when talking to a traditional P&C professional.

"Most people would rather have their fingernails pulled out than talk to a property and casualty agent," says Tod Aronson, a seasoned (and third generation) P&C professional with E.R. Munro & Co. in Pittsburgh, Pennsylvania. Aronson frequently works with financial planners to help arrange appropriate P&C coverage for their clients. That is, financial planners don't need to become P&C agents themselves to help clients secure the coverage they need, but instead, to help pinpoint those needs and make sure they are met.

Aronson is candid about the inadequacy of the service performed by many run-of-the-mill P&C agents. "The financial planner should not assume that the P&C agent is doing his or her job," he warns.

He advises planners to ask their clients when they last received an insurance review from their P&C agent. "If the client says, 'Review? I'm supposed to be getting a review?' you know you need to rock the boat for your client."

Adds Gahagan: "Even with high-end clients, many property-casualty agents simply do not periodically review the adequacy of their coverage."

Why not?

"This is conjecture," Gahagan says, "but one reason may be that often insurance agents working on a commission model are looking to make a sale, and will look for what can be sold. Nobody wants to pay more than they have to for insurance, so there's a hesitance, at times, to go back to the client and say, 'You really need more insurance.'"

Does Advising on P&C Issues Increase Professional Liability?

Does trying to help minimize clients' risk exposure by advising them on property and casualty matters open up more professional liability for the planners themselves? It's not an unreasonable question to consider in the context of risk minimization.

But planners who do make a point of delving into the P&C realm turn the question around. "I'm relying on the idea that I'm doing a better service to my clients and therefore minimizing the risk of being sued by providing this service, than by ignoring the need," says Clark D. Randall, CFP®.

Adds Jon Beyrer, CFP®, "It's the same way we look at taxes or estate planning. We're not lawyers and we're not accountants, but we're always talking to people about tax and estate planning issues. We draw the line at holding ourselves out as experts and giving direct advice on these issues.

"We let our clients know we're educating them about the issues we see, helping them come up with thoughts and questions for the true experts"—whether it's an attorney, accountant, or property and casualty broker.

The issue boils down to being clear about the limits of one's expertise, Beyrer says. "It falls back to the Certified Financial Planner code of conduct: If you don't feel you have enough expertise in an area, you disclose that to the client and bring in an expert, or refer the client to that expert. If we sold insurance, that would be a different story."

And the advice from David Shaffer, someone who sells P&C insurance and gets a lot of business from financial planners, revolves around procedures. "You need to document your conversations with clients about your recommendations," he says.

If you recommend that they obtain or increase coverage for a particular risk, but they elect not to follow that recommendation, having the client document that decision in writing can "almost bullet-proof" advisors against litigation, he says.

Making the Easy Sale

David Shaffer, a P&C professional based in Walnut Creek, California, concurs: "Maybe the agent on the phone wants to keep the value as low as possible when they talk to you because they may be worried they're not going to make the sale if they recommend a suitably high level of coverage."

Indeed, often that fear is justified, as Aronson explains. "Too often, someone calls you and has an existing policy. The first comment out of his mouth is, 'I'm paying too much for car insurance.' And the agent says, 'Oh, I can save you some money.'" And the sale is achieved when the agent simply determines how much the

client is willing to pay, then finds a policy that meets the desired premium, regardless of the adequacy of the coverage.

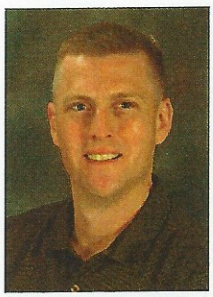
Aronson also notes that "some" P&C agents "are pressured for production; once you're on the agent's books, they're only thinking about getting in another 25 policies by the end of the year, rather than what's already on the books and what they should be doing for those people, because if they don't get those 25 new policies in, they'll lose their contract with that company."

Even without intense production pressures, if an agent is a direct writer, limited to one insurance company, a client may wind up with an inadequate insurance policy because the agent simply didn't have the ability to sell a better policy.

Shaffer illustrates by noting that one of the country's largest P&C companies, in its homeowners policies, limits coverage of living expenses when policyholders are forced out of their homes due to fire or storm damage, to 12 months. "If your home was destroyed," he says, "it's impossible to rebuild in 12 months."

Thus, even a motivated client and a captive agent with the best of intentions could not sell the "correct" policy to a homeowner seeking more than standard coverage.

That scenario may illustrate the situation that many financial planning clients unwittingly wind up in: They have outgrown the ability of their P&C agent to meet their insurance needs. "The agents who just represent one carrier, to a certain extent, are limited in what they can do for wealthy clients," says Randall. "People making a few hundred thousand dollars a year, with a few million in assets, sometimes are still running their property and casualty coverage like they're earning $75,000."



"I've seen, over and over, financial planning people completely ignore the property and casualty needs of their clients. They may say, 'Buy an umbrella policy,' and that's pretty much the extent of their recommendations."

—Clark D. Randall, CFP®

Common P&C Gaps

What are the common and not-so-common kinds of gaps in P&C coverage that financial planners need to be alert for—either through their own probing or by relying on the expertise of a properly trained and motivated P&C professional?

The most pressing risk management issues for the vast majority of clients, say planners and P&C specialists, revolve around getting the right auto and homeowners policies in place.

"According to the Professional Insurance Agents of Wisconsin, practically two out of three homeowners are underinsured," asserts Shaffer.

"One of the classic things we see from clients coming in," adds Kevin Gahagan, "is they're underinsured for catastrophic risks to their home, when you look at the cost of replacement coverage."

"Most policies provide rising coverage for inflation," Gahagan adds, but they often fail to keep pace with construction costs—at least where his clients live.

Naturally, the hazards of home ownership in Gahagan's home state of California—brush fires, mudslides, and earthquakes—make him particularly sensitive to the possibility that a house will not merely be damaged, but destroyed.

That sensitivity is shared by Jon Beyrer, CFP®, with the Blankinship & Foster planning firm in Solana Beach, California. Some homeowners insurance carriers "have been a little bit shy about covering properties here. They tend to actually mislead people at times and say, 'You're fine, you have enough coverage,' but if you press them, and say, 'If my house is gone, how much are you going to pay me to rebuild it?' it's a different story."

But the risk of under-insurance is probably far more likely to be the result of lack of attention to the issue by homeowners and their advisors than deceptive practices on the part of insurance carriers and brokers. For example, it's common for people to make significant improvements to their homes, but neglect to request a corresponding increase in insurance coverage, Shaffer says.

Additional caveats and pointers on securing adequate homeowners insurance protection include

- **Appraisals.** If a home is particularly valuable or has special decorative or architectural features, have it appraised by an appraiser approved by the insurance company, rather than simply relying on standard replacement-cost formulas tied to square footage or neighborhood real estate prices. "With a high-end insurance company," Gahagan says, "you can request that the insurance company send out an appraiser."
- **Contract language.** Pay attention to contract language specifying whether a damaged or destroyed home will be fixed with "similar" or "like-kind" materials. That may mean the difference between having plaster walls replaced by drywall or plaster (like the original).
- **"Extended coverage" provisions.** "Every policy makes a provision for

what they call 'extended coverage,'" Gahagan says. It's supposed to provide an additional benefit under extraordinary circumstances, such as a surge in construction costs that could occur in the wake of a natural disaster in which the demand for construction services spikes. But policyholders should not underinsure on the basic policy amount in the hope that extended coverage will bridge the gap. "The consumer is expected to maintain the appropriate level of core coverage," he says.

- **Personal property replacement.** "Some carriers may offer some kind of cash settlement—they'll just write you a check for lost property," says Gahagan. "Others will just reimburse you if you go out and buy the lost items. That's very different."
- **Miscellaneous limits.** On high-end homeowners policies, you won't find as many limits on reimbursement for damage caused by such hazards as backed-up sewer lines, says Tod Aronson. Such distinctions can make a big difference in some situations, he notes.

In addition, Clark Randall has compiled the following short list of common gaps in clients' P&C coverage that result more from taking short-cuts or from simple oversight, than from any technical issues buried in insurance contract language.

- The general contents of the home are covered as a percentage of the home's value. "This is arbitrary and should be reviewed for accuracy; the homeowner should have his contents documented," Randall says.
- Valuables—jewelry, antiques, and so forth—have not been scheduled and are not adequately covered.
- Improper coverage for a home that has been retitled into a trust.
- Lack of proper coverage for jet skis and ATVs.
- No coverage for flooding. (Flood damage doesn't only hit homes situated in coastal areas or on riverbanks, and coverage is more widely available than many believe.)
- Lack of proper coordination between a base auto or homeowners policy and an umbrella policy that leaves a significant coverage gap.

> "We draw the line at holding ourselves out as experts and giving direct advice on these issues. We let our clients know we're educating them about the issues we see, helping them come up with thoughts and questions for the true experts."
>
> —Jon Beyrer, CFP®

Nanny Hazards

Although the biggest gaps often exist in coverage for garden-variety auto and homeowner-related liability, a few other often-overlooked areas stand out for Randall. High on his list: Exposure from liability associated with a nanny or housekeeper who isn't properly insured for sickness, injury, or automobile accidents. Clients typically treat them as independent contractors and not employees—potentially a very costly mistake, Randall says.

Here's how the discussion goes, according to Randall: "I suggest to the client that they need to get workers comp insurance for their employees and they say, 'Hey, I'm not running a business here.' Then I ask, 'What happens if she gets injured at your home?' They say, 'She has health insurance.'"

"Then I ask, 'How do you know she has health insurance? And even if she does and files a claim, the first thing she's going to be asked [by her insurance company] is, 'Was it on the job?'" (If so, of course, she's likely to be denied benefits.)

And what happens if the nanny is driving the client's car, taking his child to the park, and has an accident? "This varies by state," Randall says, "but typically, a nanny wouldn't be covered by your policy because she's not considered a member of the family." Therefore, he suggests, you need to put her on your policy."

"Even if the nanny's driving her own car and has a wreck, if it's determined that she was working for you when she had the wreck, you as the 'employer' are now liable."

But is the nanny really an employee?

"If she's there every day, and you're telling her when to get there, what to do, she reports to you, and you can fire her, then you need to consider her a W-2 employee," Randall says. He notes that even in such circumstances, the "employer" (at least if he lives in Texas) would not be required to buy workers comp insurance. But not buying that insurance "means you have unlimited liability," Randall says.

Special Risks

Of course, the property-casualty industry can plug more esoteric exposure gaps for clients with special needs, low risk tolerance, or both. For example, one carrier recently began offering a policy that insures against embezzlement by fiduciaries, including financial advisors.

Other specialized policies of possible interest to high net worth clients cover the risk of having to pay a ransom to gain release from kidnappers, ancillary losses

related to burglaries, damage and personal injuries sustained at large parties and events, and litigation associated with service as a director on a corporate or charitable organization board, among others.

Cheap Protection

Indeed, the economic impact associated with litigation—perhaps associated with injuries caused in an auto accident—could dwarf the economic damage caused by a flood or house fire. But because the chances of sustaining such a loss are small, so, too, is the typical premium cost on the kind of personal umbrella policy that shields policyholders from claims exceeding the limits of their basic auto policies.

For example, the annual premium on a $5 million policy might range from $500 to $750. Yet a client's exposure to litigation may increase not with his or her odds of being involved in an accident, but by how wealthy they are perceived to be, warns Aronson.

"You may be on the verge of bankruptcy, but if you drive a nice car and live in a nice neighborhood, people still perceive you as having a lot of money. So, if there's an auto accident, a slip and fall, whatever, they're going to go after you," he warns.

And if they do, it's best to have an umbrella policy written by the same underwriter as that of the auto policy and homeowners, he adds. "At a time of loss, you have only one company to deal with."

As with homeowners policies, there are distinctions between umbrella policies offered by mass-market carriers and those that specialize in higher-end markets. Kevin Gahagan points to one carrier's policy, for example, with a $2 million nominal limit that also would cover up to that same figure in legal defense cost. There's no "free lunch," however. "You pay for this," he says.

The issue of how much coverage clients should buy is never clear-cut, advisors say. It's not enough, of course, merely to match coverage to a client's assets, because any claims exceeding that level, to the extent of the excess, would need to be financed out of the client's pocket.

Looking at statistics on jury awards for, say, personal injury cases doesn't necessarily answer the question, according to Aronson. "Let's say that 95 percent fall under $1 million," he says. "Do you want your client to be that unlucky person whose case is in that 5 percent?"

In the end, one simply needs to present the choices to clients, and let them make the decision. But what is the role of the financial planner, and that of the P&C professional, not only in deciding how much coverage is appropriate, but in the overall process of helping clients determine and meet their insurance needs?

The Planner's Role

Financial planners who do consider clients' P&C coverage a key element of their overall financial picture stress the limits of their own knowledge on the finer points of this kind of insurance. "We don't purport to be experts, but we do understand the dynamics sufficiently well to advise clients to work with a licensed agent," explains Gahagan. "Often we will review a policy, but we do not have the requisite level of expertise to advise a client in detail with respect to insurance contracts. From a process standpoint, we typically look at property-casualty every two years. Our first cut is the high-level issues."

When that review leads to the conclusion that a client may be underinsured in some area, or lacks coverage entirely for a particular risk, "if the client is working with an agent with whom they are satisfied, we will have the client talk to their agent about changing coverage," Gahagan says. "I have yet to find a P&C agent who differed with us when it came to increasing coverage."

But if the client's P&C agent is a direct writer for a carrier whose products are geared to people with average needs, and that agent cannot accommodate the insurance requirements of a high net worth client, Gahagan and his colleagues will bring in an independent P&C broker. "We'll have them do an analysis and put together a proposal with comparative pricing with two or three carriers, and have that presented to the client as part of a follow-up to our initial reviews," he says.

> "If the client says, 'Review? I'm supposed to be getting a review?' you know you need to rock the boat for your client."
>
> —Tod Aronson

Clark Randall tends to use one particular P&C expert as an integral part of preparing a financial plan. Randall gives the P&C broker all the relevant insurance contracts and other financial information to incorporate into the analysis of the adequacy of the client's coverage. When the analysis is done, the broker, Randall, and the client meet together to go over recommendations. "Some of the things he finds are new to me," Randall admits.

A Drain on Investments?

One might worry that the ultimate upshot of a comprehensive P&C review is clients dramatically increasing their coverage and dedicating a lot more of their income to insurance premiums—funds that might otherwise be directed to investments. But that is generally not the case, planners say.

Why not?

"In most instances, we find clients carrying a $500 or sometimes a $1,000 deductible," notes Gahagan. "But the pur-

pose of insurance is really to protect against catastrophic loss." Therefore, he generally recommends that clients raise their deductibles.

Doing so, while simultaneously raising the coverage amount, can result in a wash on premiums. An illustration offered by David Shaffer, the P&C broker in Walnut Creek, makes the point: Raising the deductible on a particular $500,000 homeowners policy from $500 to $1,000 essentially buys an additional $100,000 in coverage. Similarly, raising the deductible from $500 to $5,000 results in a 5 percent drop in premium, and a 40 percent increase in maximum coverage, to $700,000.

Or, assuming the client already has a high enough coverage limit but has a low deductible, raising that deductible can free up cash for other purposes. In Shaffer's illustration, raising the deductible on a $700,000 policy from $500 to $5,000 would shave about $800 in annual premium cost.

The case for raising deductibles is fortified by the reality that, in a tight insurance market, it may be imprudent to file relatively small claims, even if they would be covered. "If your claim history is problematic, you will be canceled," Gahagan warns clients. "Problematic" is in the eye of the beholder, but candid P&C brokers will discourage policyholders from filing small claims, Gahagan says.

One client who filed three claims, totaling $5,000 over an 18-month period, had his policy yanked, Gahagan recalls. "We ultimately got him covered again, but set a $5,000 deductible."

"If a baseball goes through your window," he adds, "you should self-insure. But if you're going to pay those claims yourself anyway, then don't pay the higher premium for a low-deductible policy."

> "Maybe the agent on the phone wants to keep the value as low as possible when they talk to you because they may be worried they're not going to make the sale if they recommend a suitably high level of coverage."
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> —David Shaffer

> "Some carriers may offer some kind of cash settlement—they'll just write you a check for lost property."
>
> —Kevin Gahagan

What Does the Planner Get from This?

Clark Randall points out that he gets no additional fees from a client review of P&C coverage. But his P&C broker, who also doesn't charge a fee for a review, often does wind up getting some business. "More often than not," Randall says, "my clients will use my guy because their own agent is captive and may not have the capability to provide the coverage."

But is a "premium" placed on financial planners who help clients address their property-and-casualty exposures and insurance needs? Don't count on lots of referral business from P&C brokers brought in to assess financial planning clients' insurance needs, says Randall. "The way it ends up working," he explains, "is this P&C guy gets the majority of his referrals from financial planners, so he doesn't run into situations where he has a client who doesn't already have a financial planner." (That's also been Randall's experience with attorneys.)

But of course, that's not the purpose of the exercise, says Randall. "I just want to make sure my client is covered."

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The Weekly Newspaper for Financial Advisers

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Adding an insurance agent to wealth preservation team

By Andrew McElwee

Comprehensive financial planning should include a discussion about property, liability and other risks to a client's assets and family.

Yet many wealth managers and financial planners aren't experts at managing risks beyond the volatility in investment vehicles. So how do wealth managers incorporate these potential wealth-draining exposures into the planning process?

First, they can initiate a risk management and insurance conversation with their clients by asking a series of questions that may raise "red flags" about unique or complex risks that aren't sufficiently protected by typical insurance products. These questions go beyond making sure the customer has purchased personal-liability and homeowners' insurance.

For example, planners can ask if their clients are serving on boards, transferring real assets through trusts, employing domestic help or planning to take exotic trips.

Once a planner has identified some red flags, they can arrange a meeting for the client with an independent insurance agent or broker who is able to provide advice on ways to mitigate exposure as well as secure a range of different insurance coverage. When evaluating agents, planners should carefully consider whether they provide products and services in line with their clients' needs.

A recent survey of planners by the Chubb Group of Insurance Companies in Warren, N.J., found that many simply direct clients to captive insurance agents for property-and-casualty insurance. These intermediaries sell just one insurer's products and in many cases don't have the unique expertise and capabilities to assess, help prevent and budget for the wide variety of risks that planners' clients face.

While many independent agents and brokers have specialized expertise and access to a wide variety of products, they aren't all created equal. Personal-insurance agents typically are able to sell P&C coverage only from those insurers that have appointed them.

These insurers will have different ratings for financial strength and reputations for claims handling, and may target different segments of the population.

If a planner isn't licensed to sell life and health insurance products, then the agents with whom they work also should be able to provide those products.

The size of the agent's firm also matters. Insurance agencies can range from one-person operations to huge multinational brokerage firms.

Some agencies are locally or regionally based and may be able to sell insurance only in a limited number of states, which can be a problem if clients own property in multiple states or countries. Even if the firm isn't licensed to sell insurance in other states or countries, it should at least have relationships with those that do.

Planners should select an agent who is always ready to help their clients.

Here are some questions to consider: Does the agent take a consultative approach similar to that of planners? Is the agent focused primarily on managing clients' risks or selling insurance? Can the agent help a client at a moment's notice, such as when a disaster occurs? Will the agent be there not only to help the client file a claim but also to make sure that the insurer processes that claim as quickly and fairly as possible? Will the agent act as the client's advocate in any claims negotiation? Does the agent encourage a thorough risk management review at least once a year?

As revealed by Hurricane Katrina, an often-overlooked but extremely important concern can be an agency's contingency plan. If a disaster destroys both a client's home and their agent's office, that client could be left, quite literally, in the dark.

Top-notch agencies have a plan in place to serve their clients' claims needs through temporary offices or unaffected branches.

Finally, planners can ask the agents to provide client references. In addition, they should check state insurance department websites to find out if the agents have been subject to any disciplinary action such as a fine or a license suspension.

The close relationship that many planners have with their clients is causing insurance agents to take notice. Increasingly, they are eager to enter into relationships with planners.

By recommending hand-picked independent insurance agents to help the client analyze, mitigate and budget against risk exposure, planners are able to complete a comprehensive plan that emphasizes both the acquisition and preservation of wealth.

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Wealth&Personal Finance TUESDAY, MARCH 18, 2008

Umbrella Coverage For Preventing Your Ruin

LORI WASELCHUK FOR THE NEW YORK TIMES

THE GOODS *Charlotte Edmonston, left, an insurance agent, with a client, Ann Brown Singleton, at Ms. Singleton's home in Baton Rouge, La., on a vintage car that she and her husband own.*

By JOSEPH B. TREASTER

HERE'S the nightmare: Your car skids. You crash into a Mercedes with a highly paid business executive at the wheel. He's hurt so badly he cannot return to work. A jury awards him millions of dollars and you have to pay it.

You're wiped out financially. The court takes your savings, goes after your home and, for decades, requires you to give up a part of your salary.

For some people such a nightmare could never happen. They have an extra insurance policy, known as umbrella or excess liability coverage, which takes care of their liability for the lawsuits and medical bills of the auto accident victim — or of the teenage guest who dives into the shallow end of the swimming pool or the deliveryman who trips on the front steps.

But many people with major assets either do not buy the extra coverage or do not buy enough. Some do not know about umbrella coverage, which also pays for lawyers and other legal expenses. Others have heard of it but do not understand it. Still others decide that they do not want to pay for it, even though the cost is usually a fraction of the price of a typical package of home and auto insurance.

"This is a neglected area," said Mark Schussel, a spokesman for the Chubb Group of Insurance Companies, which caters to affluent home and auto owners. "Some people have some coverage. But

they haven't changed the amount in years. Some people have a $1 million figure in their heads, and it just doesn't make sense anymore."

Charlotte Edmonston has been an insurance agent for more than 30 years. She works with wealthy clients in Baton Rouge, La., and oversees agents in 29 cities nationwide for the personal insurance unit of Arthur J. Gallagher & Company, a big insurance broker with headquarters near Chicago.

Her first question for new customers is whether they have umbrella coverage. Most of them already do. But "90 percent of them are underinsured," she said. "Usually they were sold too little from the get-go, and their assets have grown and they never revisited the issue."

For Jeff Cox, an owner of the third-generation insurance agency of Lloyd Bedford Cox in Bedford Hills, N.Y., and Greenwich, Conn., "the discussion about umbrella coverage usually starts at $5 million." But he can provide up to $100 million in coverage.

Umbrella and excess coverage are extensions of home and auto insurance. Banks make people buy home insurance to get mortgages, and states require drivers to buy auto insurance. But no one mandates buying a policy that could turn out to be the most important part of your insurance package.

As a result, only 15 percent to 20 percent of clients at the Wall Street insurance agency of Campbell Solberg Associates buy umbrella coverage, said Rick Wiltshire, an executive at the firm. Instead, they stick with the $100,000, $300,000 or, in some cases, $500,000 in liability coverage that comes standard with the most widely sold home-insurance policies.

"You never think it's going to happen to you," said Rick Blank, an agent in White Plains, N.Y., with the Preferred Services Group. "Personal injury lawyers are making money by suing people. If you don't have enough insurance you become personally liable."

Some insurance companies that cater to the wealthy say that as many as half of their customers buy umbrella coverage. But State Farm, the biggest home insurer in the country, with a clientele of mainly middle- and lower-income homeowners, says about 12 percent of its policyholders buy umbrella coverage.

Buying such coverage usually does not greatly increase the overall cost of home and auto insurance. For example, in Louisiana, insurance on a $1 million home well away from the coast might run $4,500 a year, Ms. Edmonston, the Baton Rouge agent, said. Two cars could raise the cost of the package to $7,500. And $5 million in umbrella coverage might cost about $600 more, or about 8 percent of the total. In New York, agents say, $5 million in coverage might cost about the same.

Ms. Edmonston consolidated home and auto coverage for Ann Brown Singleton, a stockbroker and financial adviser in Baton Rouge, after her husband died and she married Andrew Jackson Singleton, a sales manager for several national companies. Together, they owned several houses, three vintage cars, jewelry and art.

"I had a $1 million umbrella, which I thought would certainly satisfy everything," Ms. Singleton said. "When Charlotte Edmonston got through with her analysis she said, 'Whoa, you need a $5 million umbrella.' Whether lawsuits are valid or not, you wind up having to defend yourself against them, and you never know how high the judgment is going to go. I find that frightening."

Philip J. Hirschkop, a lawyer just outside Washington, said he had a client without an umbrella policy who had only the $100,000 coverage that came standard with his home and auto insurance policy. He was sued for much more over an auto accident and was in danger of "losing everything he owns."

Around the country, at companies dealing with rich clients, the first million in coverage is usually the most expensive, at perhaps $150 to $300 annually, said Jeanne M. Salvatore, a specialist in home insurance at the Insurance Information Institute. Each additional million in coverage, she said, could cost around $100 to $125 annually. The rates per million decline as coverage increases. But at $10 million in coverage, the rate jumps because few customers buy that much, meaning insurers can spread their risk over only a relatively small group of customers.

The situation is often the reverse for the many insurers who specialize in middle- and lower-income clients. Often their rates shoot up after the first million in umbrella coverage because they have only a small group of buyers of umbrella policies larger than $1 million. A smaller pool of customers creates more risk per dollar of premium for an insurer, so the insurer charges more for the coverage.

One homeowner said that for a $3 million umbrella policy from a middle-income insurer, the second and third million in coverage cost him 3.5 times the rate for the first million of coverage.

Thankfully, accidents with elephantine lawsuits are not everyday events. When they do occur, however, the results can be devastating.

One of Mr. Cox's clients crashed into the rear of a car on a slick highway. A woman and a child were critically injured. After two years of litigation, his client settled the lawsuit for more than $5 million. The client had $15 million in umbrella coverage. The policy paid for the settlement and all legal costs. "Without the umbrella," Mr. Cox said, "they would have been completely wiped out."

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