

Risk Management



LIABILITY INSURANCE

Liability and Property Insurance



Today, more than at any time in history, people tend to settle their disputes in court. Awards to plaintiffs in recent years have been astronomical even when the defendant's liability has not been based on intentional wrongdoing or even negligence.

No matter how well a person has planned in all other areas of his life, if he has inadequate liability coverage he risks being wiped out financially by a single lawsuit.

DISCOVER YOUR RISKS

It is impossible to avoid all risk. Even if you were to stay in bed all day your dog might bite a passer-by; a tree might topple and destroy your garage or that of a neighbor; fire might break out in the basement, with or without any negligence on your part; a family member might be involved in an accident with your car; the postman might trip on the front stairs; your son might hit a baseball through old lady Fearful's window, causing her to have a heart attack, and so on indefinitely. From your bed you could find yourself involved in a myriad of lawsuits; some of them groundless! Like it or not, you would be stuck with the trouble and expense of defending yourself against these claims unless you had the foresight to acquire property and liability insurance in significant amounts.

RELEGATE VIA COST-BENEFIT ANALYSIS

The worksheets at the end of this chapter will aid you in discovering your risks and performing a cost benefit analysis. As we discussed earlier we have four alternatives in dealing with risk.

Accept—Avoid—Reduce—Transfer the risk. In relegating each identifiable risk to its proper category, we must view it in the light of our overall financial picture. Since a home is often the major part of a family's net worth, the risk of destruction can neither be accepted or wholly avoided. Certainly by proper maintenance and good housekeeping, such as disposing of old rags and papers as a potential fire hazard for example, the risk of destruction to your home can be reduced. Almost universally, however, people would agree the risk is best transferred.

HOMEOWNERS POLICY

Homeowners policies are not just for home owners, there are special policies for tenants also.

Besides insuring your home against things like fire, lightning and vandalism, personal property coverage is thrown-in and combined with the all important comprehensive personal liability coverage so necessary today. A homeowners policy is cheap when compared with the price of buying separately the three policies mentioned above.

There are seven common varieties of homeowner policies. The recommended reading list will point you to information which will explain more thoroughly just how each policy differs. You and your agent, by taking into consideration your specific financial situation and exposure to risk, should be able to decide on a homeowners policy that is best for you.

CAVEAT (BEWARE)

If you recall, both health and life insurance policies had 31-day grace periods in which your coverage continued even though the premium was late. There are no grace periods, as such, when speaking of liability and property insurance. When premiums are late you're not covered (unless another agreement can and should be worked out with your agent in advance).

Comprehensive Personal Liability Insurance (CPL) does pay property damage and for medical expenses incurred by a third party whether the insured is to blame or not. Of course there are certain legal technicalities; such as the determination of trespasser statutes and eliminating the possibility of there having been an intentional tort. However, the fact remains that benefits can be paid to a third party regardless of the insured's fault; something that is often overlooked.

Therefore any accident or injury should be reported if it occurred on your property or was caused by your self, family, employee or animal.

You should, of course, read your policy carefully paying particular attention to things that may suspend or reduce your coverage, such as leaving a property vacant over a specified length of time.

Although many of the exclusions found in *all risk* policies can be insured against with separate policies of their own, you should be aware of them. A few are: flood, earthquake, professional and business oriented liability, automobile, airplane and water craft liability and damage to property used by or rented to or under the custody of the insured.

AUTOMOBILE INSURANCE



An automobile is often the second most valuable property a family owns (home being first) and even more often it is the most dangerous. You may want to protect the value of your automobile for your own sake, but many states require you to carry insurance for the sake of others; to protect other people from possible damage inflicted via your car. Such coverage extends to liability arising from the ownership and the use of automobiles. Like the modern homeowners policy, there is a Personal Auto Policy which is more comprehensive in its coverage than the

earlier auto policies were. Be aware of the areas excluded from coverage when you buy your policy. Nowhere does it pay more to shop than when purchasing auto insurance! Although price is probably your main consideration do not overlook the service record of your particular agent, the financial strength of the insuring company and the dividends certain companies may pay.

DEDUCTIBLES

Everything that has previously been said regarding deductibles when discussing other kinds of insurance, applies to property and liability policies also. It cannot be overemphasized that the higher your deductible the more coverage you can afford. You should pay repair bills under \$200 or \$300 yourself and budget for potential repairs. Insurance was not meant to take care of small repairs. Protection against catastrophe is what you need and should try and obtain in the most economical manner. Typically a premium increase of \$10 or \$20 can double or triple your liability coverage. Where else can you find such a bargain?

UMBRELLA CONTRACTS OR EXCESS LIABILITY POLICIES



Umbrella contracts are insurance policies which appeared in recent years in response to the million-dollar-plus awards in liability cases. There is a required minimum limit of underlying liability in areas where coverage is available. The umbrella policy only provides for defense and pays liability claims after the limits of underlying liability policies have been exhausted. For example, if you have auto liability coverage with a \$500,000 limit and the court awards Mrs. Maine, a passenger in the car that collided with yours, \$1,000,000, an umbrella policy would pay the additional \$500,000. Without the umbrella you would be personally liable beyond your auto policy limit. It's possible the underlying limit requirements might be less than you are presently carrying on some of your policies. Check your limits on aircraft, and any professional policies you may have. If you are able to reduce the underlying coverage to the point where your umbrella policy can take over, you will save premium dollars on your underlying policies.

Extended coverage is available, as part of the umbrella, with no underlying policy required. You might want protection from personal injury claims, such as coverage for proof of false arrest, invasion of privacy, wrongful entry, false imprisonment, libel and slander. This kind of protection is usually found only in business or professional liability policies. If you have no underlying policies in these areas then you must pay a deductible which can range anywhere from \$200/\$300 to \$1,000 or more depending on the coverage you seek.

Even if you think the chance of being involved in a lawsuit is small, the premiums are about the only thing I can think of that stand between you and potential financial disaster if you run up against one of Melvin Belli's descendents in a courtroom.

SUMMARY

This chapter can briefly be summed up using the mnemonic DRIER

D - discover your risks

R - relegate those risks by Accepting, Avoiding, Retaining or Transferring

I - insure wisely by employing a cost-benefit analysis using deductibles

E - evaluate your insurer by checking financial soundness, and service as well as cost

R - review periodically; your insurance coverage can quickly become outdated

Worksheet

WHAT IS YOUR PRESENT EXPOSURE HOW MUCH LIABILITY CAN YOU HANDLE?

In your own notebook, answer the following questions:

1. Are you an employer, director or officer in a corporation or any organization?
2. Is there usual exposure due to your profession, business or personal activities?
3. Do you own or rent any real property, automobiles, airplanes or watercraft?
4. Make an inventory list of your personal property. Include a brief description, purchase price and date of purchase or when it was first acquired. Keep this in a safety deposit box.
5. Perform a cost-benefit analysis of your present property and liability coverage. Carefully compare the premium price with the coverage provided. Be aware of exclusion and non-responsibility clauses. Are you making the best possible use of deductibles? Are you over or under insured?

Recommended Resources

You can Save a Bundle on Your Car Insurance, by Paul Majka

So you Think You're Covered, by Stanley Leinwoll

No Fault, by Paul Gillespie & Miriam Klipper

Business Insurance <http://www.iii.org/individuals/business/optional/epli/>

Auto Insurance Information <http://www.iii.org/individuals/auto/>

Homeowners Insurance <http://www.iii.org/individuals/homei/>