

BUSINESS LIABILITY INSURANCE

DEFINITION

Business liability insurance protects a company's assets and is designed to pay for obligations when claims of malpractice, errors, and negligence arise in the normal course of business. If someone were to suffer personal injury or property damage because of a company's products, services, or premises, liability insurance would cover the cost of the company's defense and any settlement or awarded judgment. This type of insurance comes in various forms which can cover different liabilities and provide various levels of coverage. Professionals in some industries may even be required by their state government to carry such a policy.

HOW THEY WORK

TYPES OF POLICIES

There are a number of business liability insurance options that can protect a business from significant losses. The four most common types are:

- **General Liability Insurance** – This is the most common form for a company to have. It can cover slander, libel, personal damages, property damages, and other miscellaneous injuries a company or its employees may have caused accidentally or through negligence.
- **Professional Liability Insurance** – This type covers employers or business owners that provide services to their clients. It can cover errors or omissions (E&O) made by the professional during the course of his/her everyday work. Depending on the business type, a company may also be required by their state to have this type of coverage. For example, in some states, attorneys may be required to purchase errors and omissions (E&O) insurance and physicians may be required to purchase malpractice insurance.
- **Product Liability Insurance** – Product liability insurance protects a business against suits and claims based on an injury or wrongdoing caused by a product the business creates or sells. It covers the manufacturer's or seller's liability for losses or injuries to a buyer, user, or bystander. These can be caused by a defective product, malfunction in its use, or the failure of the company to warn of the product's risks.
- **Employment Practices Liability Insurance** – This insurance protects a business, its directors, and officers from lawsuits by current, prospective and former employees. Some of the areas it can cover are discrimination (age, sex, race, disability, etc.), wrongful termination, and sexual harassment.



NEED FOR COVERAGE

Given the increasing litigious nature of our society, it is becoming more and more imperative that businesses carry a form of business liability insurance. No matter how careful a company is, chances are that it will someday be the subject of a lawsuit. Depending on how the business is structured, its owners could also put their personal finances at risk in the event of a claim resulting from their negligent or illegal actions. Court costs, damages, and legal fees can all add up to potentially devastating amounts for a company. Annual premiums will vary with the type and amount of coverage, but it is a wise decision to have it when compared to the significant dollar amount a company may lose in the course of fighting a claim. Even if the claim is never taken to court or if the company is eventually cleared of any wrongdoing, a lawsuit can be extremely costly and time consuming.

COVERAGE LIMITS

A liability policy will outline the maximum amount the insurance company will pay against a liability claim. If a company gets sued for \$1,000,000 but its coverage maxes out at \$500,000, then the company is responsible for paying the difference of \$500,000. If a company is at risk for higher claims than its liability policy covers, it can also purchase excess liability insurance, or “umbrella insurance,” to increase the coverage limits.

COVERED EXPENSES

The expenses that are covered by a policy will vary, but the following expenses are usually included:

- Judgments, damages and awards
- Court fees
- Legal and attorney fees
- Lost productivity
- Transportation costs
- Lost profit
- Loss of use of damaged property

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