

Business Liability Insurance

Hello!

For this month's newsletter, business liability insurance is highlighted. This type of coverage 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 a 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 provides various levels of coverage. Professionals in some industries may even be required by their state government to carry such a policy.

Types of Policies

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

- General Liability Insurance – covers slander, libel, personal damages, property damages, and other miscellaneous injuries a company or its employees may have caused accidentally or through negligence. This is the most common form for a company to have.
- Professional Liability Insurance – 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 – 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 – 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.

Covered Expenses

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

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

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 limit is \$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.

Business Umbrella Liability Insurance

This is used to provide additional coverage for costs associated with lawsuits, legal fees and settlements and can also cover bodily injury and personal property claims that are not covered by other liability policies. It is designed to cover legal costs, court awards and out-of-court settlements that are over and above the limits of a company's general liability policy. These policies have two kinds of coverage:

- The amount that exceeds the maximum coverage limits from a company's primary business liability or auto policies.
- Additional coverage not provided by a company's primary business liability or auto policies.

The coverage limits for this coverage are usually between \$1 million to \$5 million and are recommended for business owners who have significant assets or may be particularly susceptible to lawsuits.

Conclusion

With the increasing litigious nature of our society, it is becoming more imperative for businesses to have some form of business liability insurance. No matter how cautious a company is, there is a risk 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, attorney fees, and damages can all add up to potentially devastating amounts for a company and having this coverage can partially or fully cover these expenses. It is a wise decision for a company to have this coverage compared to the potentially significant dollar amount a company may lose in the course of fighting a claim.