

Don't Get Caught Holding the Bag If Your Company Is Sued

There is no set formula regarding how much liability insurance a business needs. However, the more coverage you have, the more bulletproof your company becomes.

If you are running a very successful business, you will probably want minimal disruption if an incident occurs in which you may be seen as liable. Therefore, the more coverage you have, the greater the likelihood that your company will not be affected by such an incident.

Conversely, if you don't have enough coverage, the incident may result in you paying hundreds of thousands or if not millions of dollars out of pocket. For many companies, that would be a death knell.

Hitting your limits

Your liability coverage will usually be included in your company's property insurance as well as commercial auto policies. You may also have errors and omissions coverage for professional services.

But if an injured third party is demanding more than your liability limits, you are looking at potential out-of-pocket costs.

For example, if you have a \$2 million liability policy-and the third party will not settle for anything less than \$4 million, then you have a problem on your hands. You also have to consider legal fees, which are included in your policy up to its limit.

Understanding the numbers

In most cases, you will see two numbers on your liability policy:

1. Your occurrence limit. This refers to any single accident/incident and to subsequent related incidents. The policy will state how much the insurer will pay for each individual incident, such as two separate vehicle accident.

So any death, injury or property damage from each accident is covered by this occurrence limit.

2. The annual aggregate. This annual limit is if there are multiple incidents. The occurrence limit is important and is the number you should look at as your coverage amount.

The ultimate backstop

There are a few ways you can purchase higher limits. Some companies will allow you to increase your liability limits on each of your policies. But, you may be capped at a certain limit, depending on the policy type, the size of the policy and the company.

The best solution is to purchase an umbrella policy. An umbrella policy will extend the limits on all or most of your policies. For example, if you have a \$2 million occurrence limit, the coverage amount in an umbrella policy will pick up any coverage thereafter.

Umbrellas can be purchased in increments of a million dollars. It's not unusual for a business to purchase \$10 million or more of this excess coverage.

Deciding on limits

We can help determine how much coverage you should have.

Liability limits should be taken seriously because your business is your livelihood.

Any liability incidents are not pleasant, especially when they put your business or your assets at stake. Robust insurance policies help neutralize these incidents and are crucial to the ongoing success of a business, especially when an undesirable incident occurs.

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