

Introduction to Liability Insurance

If someone falls while visiting your business premises or a customer is hurt by a product your business sells, you can be held responsible. That's the risk that liability insurance covers. Liability insurance, also called Commercial General Liability (CGL), covers four categories of events for which you could be held responsible: bodily injury; damage to others' property; personal injury, including slander and libel; and false or misleading advertising. CGL coverage pays for the injured party's medical expenses. It excludes your employees, who are covered by workers' compensation.

There are three types of legal damages people may sue you for that are typically covered by a CGL policy:

- **Compensatory damages:** financial losses suffered by the injured party and future losses they may suffer resulting from an injury they claim in the lawsuit.
- **General damages:** non-monetary losses suffered by the injured party, such as "pain and suffering" or "mental anguish."

Standard liability insurance does not protect a business against:

- *Claims from sexual harassment, wrongful termination of employees, failure to employ or promote, or race and gender lawsuits.* These and other employee-related claims are covered by employment practices liability coverage. The cost of employment practices liability coverage depends on the number of employees, whether there is a history of the company having been sued in the past, and other business risk factors. The policy also pays for legal costs associated with a company's defense of a lawsuit related to employment practices.
- *Claims related to operating an automobile or truck.* If you own vehicles for your business, whether for deliveries or client consultations, you will need separate commercial automobile coverage to protect you and your employees against liability claims resulting from car accidents.
- *Automobile liability insurance is required in the District of Columbia.* It requires drivers to have a minimum level of insurance coverage for bodily injury and property damage caused by the insured's negligence. Drivers are also required to have a minimum level of uninsured motorist coverage, which helps you when you are involved in an accident where the other driver is at-fault and they don't have auto insurance. In the District, "no fault" auto insurance, also known as personal injury protection (PIP), is optional. It provides coverage for medical, rehabilitation, funeral and lost wages to the insured and their passengers regardless of who was at fault. If your vehicle is primarily used for business, make sure you obtain a commercial auto policy.
- *Professional Liability insurance — or Errors and Omissions insurance — is coverage for wrongful practices by professional service providers (e.g. healthcare providers, lawyers and consultants).* This type of insurance covers faulty service (errors) or failure to provide a service altogether (omission). Malpractice insurance is a specific type of professional liability policy that protects physicians and other licensed professionals from liability associated with bodily injury, medical expenses and property damage, as well as the cost of defending lawsuits related to such claims.

As with other liability insurance policies, premiums for professional liability coverage depend on the type of professional service provided and its level of risk.

Claims related to workers' compensation insurance:

- Workers' compensation insurance protects a business owner from claims by employees who suffer a work-related injury or illness. Workers' compensation insurance is required for companies in the District with one or more employees. Typically, workers' compensation covers the employee's medical expenses, rehabilitation costs and missed wages. Contact the D.C. Department of Employment Services at 202-671-1000 with your questions about specific workers' compensation requirements in the District.
- According to the Small Business Administration, business owners, independent contractors, farm workers and unpaid volunteers are usually exempt from workers' compensation eligibility.
- If this is the first time you're purchasing workers' compensation insurance, the rate will depend on your payroll and your industry. After a few years, your premiums may be based on the actual experience of your company.

Other types of liability insurance include:

- An umbrella liability policy provides extra protection above a standard policy. Umbrella policy coverage limits are typically within the \$1 to \$5 million range and are appropriate for business owners who have large assets or may be especially vulnerable to lawsuits.
- Crime Insurance protects businesses from theft and malicious damage, such as employee embezzlement.
- "E-insurance" or Internet Business Insurance covers Web-based businesses for damages caused by computer hackers and viruses.

Tips and Considerations Concerning Liability Insurance

- Liability insurance premiums are typically based on a business' sales and payroll estimates provided prior to policy inception. If the actual amounts turn out to be higher after the policy has been issued, you may need to pay an incremental premium. Conversely, if the amounts are less than estimated, you could get a refund.
- Other factors that influence your liability premiums include your type of business and the risks generally associated with it. For example, a toy manufacturer may pay \$3 per \$1,000 of sales. Thus, on \$10 million of sales, the premium would be \$30,000. A company that manufactures a less "risky" product or engages in a less risky business, such as a florist, may pay \$1.50 per \$1,000 of sales or \$15,000.
- Insurance companies evaluate a business's risk for liability coverage based on numerous factors: the number of claims filed within an industry or probability of a claim for a similar type of company; the financial stability and longevity of a business; state laws; business products and/or operation; and a business' approach to handling and preventing potential risks.

If you have solid, documented practices and safety procedures in place, you may be considered a lower risk by an insurance company for liability insurance and therefore be charged lower premiums.

About DISB

The D.C. Department of Insurance, Securities and Banking, also known as DISB, has two missions: to fairly and efficiently regulate financial services in order to protect the people of the District of Columbia; and to attract and retain financial-services businesses to the District. Visit us online at disb.dc.gov. This information is courtesy of the National Association of Insurance Commissioners Insure U for Small Businesses.

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