CONSUMER ACTION NEWS

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Liability insurance

Liability insurance: The kinds, the coverage and the cost

By Ruth Susswein

Liability insurance is coverage intended to protect you for injuries and damages you unintentionally cause to someone else or their property. We will examine what the liability portion of your insurance policy covers, how much coverage you need to protect yourself and your assets, how your rates are determined and what to consider when filing a claim.

Auto liability insurance

If you accidentally slam into the back of another car, you are responsible for the damage to the other car and for any injuries incurred by the drivers and passengers in the accident. Some states will hold the driver who's at fault financially responsible for all damage and injuries; other states will require drivers to share the cost. See "Auto liability insurance: The factors driving your coverage," on page 4, for coverage details, including who pays the medical bills in an auto accident.

Homeowners liability insurance

Who's at fault if someone slips on the icy sidewalk in front of your house? If your community requires that you keep the sidewalks free and clear, then you are probably liable, which means the injured party can file a claim against your homeowners policy. According to Nolo (*https://www.nolo.com/legal-encyclopedia/slip-fall-claims-homeowners-insurance.html*), publisher of do-it-yourself legal books, there must be an "unsafe" condition on your property for you to be held liable. For information on how much liability coverage you need and where your responsibilities kick in, see "Homeowners liability insurance: Vital asset protection," on page 2.

Renters liability insurance

If your dog takes a bite out of the neighbor's pooch, you can count on covering the cost of vet bills if your neighbor holds you liable. If the injury is major enough to cost more than the deductible (what you pay out of pocket) on your renters insurance policy, you may be very glad you invested in this affordable coverage. For more information, see "Renters liability insurance: Defending against legal claims," on page 6.

Small business liability insurance

If you're the owner of a small business, you may have many exposures to a liability claim; it's important to know that you're protected if a customer is injured on your property, if your product accidentally injures a buyer, or if your customer is so dissatisfied with your services he sues. See "Business liability insurance: Big protection for small businesses," on page 7, for information about the different types of business liability insurance.

How much coverage do I need?

How much financial protection you need to purchase depends on how much you have to protect. The more assets you have, the more there is to lose. The question to ask yourself is, What's at risk? If someone sues you, could you be at risk of losing your home, your car(s), and your savings if you are found liable? If you own a dog, a swimming pool or have a young driver in the house, you'll want to consider increasing your coverage amounts. According to the Centers for Disease Control and Prevention, more than 4.5 million people are bitten by dogs each year, accounting for a surprisingly large number of homeowners insurance liability claims.

How much will it cost?

The cost of liability coverage will depend on the state you live in (or operate in, for business insurance). The cost will also be affected by your claims history; have you ever filed a claim or been sued?

Unfortunately, your credit record will factor into the cost of coverage as well. Consumer Action and other consumer advocates for years have argued that there is no justification for charging higher insurance premiums based on someone's payment history. Still, it's been an unfair, and possibly discriminatory, practice in insurance pricing for decades. According to research by the Consumer Federation of America, "drivers with poor credit can be charged as much as 283 percent more for auto insurance than those with excellent credit—regardless of their driving record."

In addition, home and auto insurance companies rely, in part, on credit-based insurance scores (similar to credit scores) to determine rates. A credit-based insurance score looks at how reliably you've paid your bills in the past, your current debt load, how long you've had credit, the types of credit you have (credit card, car loan, mortgage) and your insurance claims history. The scores are designed to predict the likelihood of your filing an insurance claim (*https://content.naic.org/cipr_topics/topic_creditbased_insurance_scores.htm*). The *New York Times* (*https://www.nytimes.com/2017/05/05/your-money/poor-credit-history-can-affect-homeowners-insurance-rates.html*) reported that a homeowners insurance premium for someone with poor credit can be "more than double, on average, the rate for a homeowner with excellent credit," according to the rate comparison site InsuranceQuotes.com. Only California, Massachusetts and Washington State ban the use of credit reports in setting any insurance premiums. Maryland bans the practice for homeowners coverage, and Hawaii, for auto insurance. (Visit *https://www.policygenius.com/homeowners-insurance/how-your-credit-score-can-affect-your-homeowners-insurance-rates/* to learn more about state laws.)

CLUE—Comprehensive Loss Underwriting Exchange—reports are separate from your credit report or insurance score (*https://www.bankrate.com/insurance/homeowners-insurance/clue-report/*). A CLUE report is a record of the claims history on your property—types of claims filed and amounts paid out—over the past five to seven years and is used to help set homeowners insurance rates. (Similarly, a CLUE auto report is used to set auto insurance rates based on the seven-year history of losses associated with a driver and their car.) Consumers can order a free CLUE report once a year, just like a free annual credit report, and are entitled to correct errors.

What to consider when filing a claim

Policyholders often worry that if they file a claim with their insurers, their premiums will shoot up. You'll want to consider how much harm was done to a person or their property, and the cost of footing that bill without making an insurance claim. How much is your deductible, before your coverage kicks in? If the cost of the damage is not much more than your deductible, it might not be worth the risk of a higher premium to file a claim after all. You'll also want to think about the likelihood that the injured party might sue you; liability insurance covers the cost to defend you in court.

Also, be cautious about even inquiring about filing a claim. In some cases, a call to your insurer for that information can be filed away and count against you when your risk level is reevaluated by your insurer. File too many claims—even legitimate ones—and your insurer may simply drop you. However, if it's unclear who was at fault, or if someone is injured, experts agree, it is better to file a claim. Consider all your costs and risks before deciding.

Homeowners liability insurance: Vital asset protection

By Monica Steinisch

When most people think of homeowners insurance, they think of the portion of the coverage that rebuilds their home and replaces personal belongings in case of fire or other damage. But the liability portion of the policy could actually prove much more valuable if you were ever sued and found responsible for someone's injury or death, or for damage to their property.

What's covered

A standard homeowners policy includes some liability coverage. The bodily injury portion protects you in the case of unintentional injuries to other people for which you or residents of your home are found to be responsible. The property damage portion of the coverage protects you if you or someone in your household is responsible for unintentional damage to someone else's property.

Liability coverage typically pays for:

- Medical bills that result from a visitor's accidental injury at your home (this "no-fault" medical coverage, typically with a limit of between $1,000 and $5,000, allows the injured person to submit medical bills directly to your insurance company, without filing a liability claim against you)
- Legal costs for your defense if you're sued over an injury or property damage
- Damages awarded to a plaintiff in a lawsuit against you (for pain and suffering, lost wages, etc.) or in a settlement
- Death benefits to the family of someone who dies as the result of an accident at your home
- The cost of repairing damage you or a family member (or pet) causes to others' property

The coverage applies if, for example, your houseguest falls down the stairs because of a wobbly step you failed to repair, your dog bites the delivery person, a sick or dead tree that you should have removed falls on your neighbor's garage, or the gardener you hired falls through a rotting deck on the way to your yard.

It also may cover damage or injury you or family members—including pets—cause to others away from your home. So, if Rover bites someone while out on a walk, you would submit a liability claim (assuming Rover is covered; see next section).

It doesn't pay for damage or injuries suffered by you or members of your household.

What's not covered

Exclusions are what's *not* covered. For example, while dog bites are normally covered, some policies exclude dogs with a history of biting, or certain breeds that are considered to be more likely to bite or to cause greater injury. Certain high-risk equipment or property features, like trampolines and swimming pools, often are excluded.

Also excluded are liability claims related to business activities. This could include, for example, a claim resulting from the UPS driver slipping on your slick stairs while delivering business supplies. It could also include an injury to your housecleaner (covered under normal circumstances) if he or she is hurt while cleaning a part of your property that you use only for business purposes.

Renting out your home (or a room in it), whether on your own or through a service like Airbnb or VRBO, would likely be considered a business activity, particularly if it is more than just once or twice. As such, your insurance company could deny coverage if a guest files a claim for an injury or property damage suffered while in your home. (Airbnb and VRBO do offer some liability protection, though hosts should understand the exclusions and limits, and that the coverage and policies are voluntary and can change at any time.) Learn more in the Insurance Information Institute's "Coverage for renting out your home" (*https://www.iii.org/article/coverage-for-renting-out-your-home*).

Of course, criminal or intentional acts aren't covered by liability insurance. So, for example, throwing bricks at your neighbor's car because he parked in your driveway is going to cost *you*, not the insurance company.

Exclusions can vary. Read your policy documents carefully to make sure you understand exactly what is and isn't covered. If you're not sure about whether something is covered, ask the agent or insurance company representative. Some insurers will offer coverage at an additional cost for risks that are typically excluded. Consider insurability and cost when making certain decisions (like what type of dog to adopt or whether to install a trampoline).

Cost and coverage

The insurer will only cover liability costs and claims up to the coverage limit, as stated in your policy documents. If your coverage is inadequate, you could end up paying out of pocket for legal costs, medical bills or a judgment if these exceed your coverage limit.

A typical homeowners insurance policy includes a minimum of $100,000 for liability, but it's generally recommended that homeowners purchase at least $300,000 to $500,000 worth of coverage, since even seemingly minor incidents can lead to claims that exceed $100,000. The cost of such an increase is relatively low, typically increasing your annual premium by less than a hundred dollars.

Supplemental coverage

If you have significantly more valuable assets or greater risks (such as a teen driver), consider purchasing additional coverage through an excess liability policy or an umbrella policy. Both increase the amount of your liability protection, but while an excess liability policy covers the exact same risks as your underlying homeowners policy, a personal liability umbrella policy (PLUP) covers some additional liability risks, such as libel and slander (for example, if you're sued by a business for posting a negative online review). Not all insurers offer excess liability policies, so an umbrella policy may be your only option for additional protection.

An umbrella policy kicks in after you've reached the liability limits of your underlying homeowners policy. Most companies that sell excess liability and/or umbrella policies require a minimum of $300,000 underlying liability insurance on your homeowners policy (and $250,000 on your auto policy). (You'll be required to insure your auto or home with the umbrella policy issuer, and may be required to insure both with that issuer.)

Even people with modest assets might want to purchase an umbrella policy to protect their future earnings, which could be in jeopardy in a lawsuit that exceeds the coverage limits of their homeowners (or auto) policy. The Insurance Information Institute (*https://www.iii.org/article/should-i-purchase-umbrella-liability-policy-0*) estimates a cost of anywhere from $150 to $300 per year for $1 million of coverage, with each additional $1 million in coverage costing $50 to $75 per year (up to $5 million).

Claims

AllLaw outlines the process of filing a homeowners liability claim (*https://www.alllaw.com/articles/nolo/personal-injury/making-accident-claim-against-homeowners-insurance.html*). It's similar to filing other types of claims, except the liability portion doesn't have a deductible you are required to pay before the insurance company begins paying losses.

Any claim, including for liability, could cause your insurance premium to go up.

For information about the claims process in general, visit the United Policyholders Claim Guidance Library at *https://uphelp.org/claim-guidance-damage/homeowners/*.

Auto liability insurance: The factors driving your coverage

By Alegra Howard

If you cause a traffic accident or are liable for a wreck, auto liability insurance covers the other driver's expenses. It does not pay for your own personal injuries, those of your passengers, or damage to your own vehicle. Those costs are covered by collision and comprehensive auto insurance coverage.

Think of liability insurance as the baseline for auto insurance coverage. It is required by law in most states, and collision, comprehensive and other types of optional auto insurance coverage cannot be purchased until you've met the minimum liability requirements for your state. There are two types of auto liability coverage that drivers are typically required to have. Bodily injury liability helps pay for the other person's medical or recovery expenses, plus any legal fees you might face as a result of the accident. It also covers claims for the other party's lost wages. Property damage liability helps pay for things like the other driver's car repairs, rental cars, and other property that was damaged as a result of the wreck (including damaged property that was inside the car at the time of the accident).

Minimum liability coverage requirements (*https://www.thebalance.com/understanding-minimum-car-insurance-requirements-2645473*) for bodily injury and property damage depend on the state that you live (and drive) in. Every state requires some type of liability coverage, except for two: New Hampshire (*https://www.nh.gov/insurance/consumers/documents/nh_auto_guide.pdf*) and Virginia (*https://www.dmv.virginia.gov/vehicles/#uninsured_fee.asp*) allow you to drive without liability coverage. But uninsured drivers will still be on the hook for bodily injury and property damage expenses in these states if they are found liable in an accident (and it costs $500 per year to opt out of liability coverage in Virginia).

The average cost of liability insurance is $611 a year (*https://www.policygenius.com/auto-insurance/learn/how-much-is-car-insurance/*), but the actual price you'll pay depends on things like your driving record, the state you're in and your insurer. Most auto insurers offer bodily injury (BI) and property damage (PD) packages. For example, you may be able to purchase auto liability coverage with limits that look like "25/50/10" ($25,000 BI per person limit, $50,000 BI per accident limit, $10,000 PD limit) or "100/300/50" ($100,000 BI per person limit, $300,000 BI per accident limit, $50,000 PD limit). Keep in mind that bodily injury limits have a per-person limit, but property damage has a per-accident limit. That means if you hit two cars, the final number is the *total* your insurance company will pay for property damage—not *per car*.

Choosing the right amount of coverage

State minimum liability insurance requirements may not be enough to cover the costs you have to pay. If you are liable for an accident and don't have enough coverage, the other drivers (and their passengers) can sue you to cover their expenses. Having adequate liability (and collision) insurance can protect your savings, home and wages if you cause a serious accident. Calculate your net worth to help determine the amount of liability coverage you need (*https://www.nerdwallet.com/article/finance/net-worth-calculator*). If you don't have many assets, you might not need more coverage. Low-income, low-asset individuals may, in effect, be "judgment proof," but the law may stipulate that you need to purchase a certain level of coverage nonetheless.

When choosing your deductible (the out-of-pocket amount you pay toward an accident or a claim), consider how much the different deductible plans cost, your level of emergency savings, your driving history and driving frequency. If you are prone to accidents and have a daily peak-hour commute, you may want to consider a lower deductible (if you can afford it), as your risk of being in an accident might be higher.

No-fault and 'tort' states

Twelve states (Florida, Hawaii, Kansas, Kentucky, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Dakota, Pennsylvania and Utah) and Puerto Rico have a "no-fault" system of insurance for personal injury claims that requires drivers to carry their own personal injury protection (PIP) coverage and pay for their own medical bills (as well as their passengers' expenses) regardless of who is at fault in a car accident. Other drivers involved in the accident can sue the liable driver only if their injuries and subsequent medical bills exceed a certain amount (which differs by state).

No-fault insurance only applies to medical bills, not property damage or car repairs. If you are the liable driver in a no-fault state, you'll still be required to cover the victim's property damaged in the accident (through property damage liability insurance or out of pocket). Arkansas, Delaware, Maryland and Oregon require drivers to have PIP coverage as part of their car insurance, but are not no-fault states.

According to WalletHub (*https://wallethub.com/edu/ci/no-fault-insurance/9240*), no-fault insurance costs an average of $897 per year for state-minimum coverage, but its exact cost will depend on your state, personal driving history and how much coverage you purchase.

Kentucky, New Jersey and Pennsylvania allow drivers to opt out of their state's no-fault system. They are sometimes referred to as "choice no-fault" states, meaning drivers have the ability to opt out of the no-fault system and sue at-fault drivers after they file a form with their state's department of insurance or purchase the correct policy from their auto insurer.

States with an at-fault, or "tort," system of insurance require the at-fault driver's insurer to compensate individuals injured in a car accident, as well as cover any property damage resulting from the accident. This process often takes longer, as fault needs to be determined, and that sometimes requires a lawsuit.

Rental cars

Before you rent a car, it pays to know whether the liability coverage under your personal auto policy will protect you. Most policies extend coverage to cars you rent, but it's worth checking with your insurer so you don't risk having gaps in coverage. (Outside of the U.S., it's advisable to buy liability insurance at the rental counter.)

In every state but California, rental car companies are required by law (*https://www.iii.org/article/rental-car-insurance*) to provide drivers with the state-required minimum amounts of liability insurance as part of a rental agreement (*https://www.thebalance.com/understanding-minimum-car-insurance-requirements-2645473*). Be aware, though, that this likely won't be enough coverage to protect you financially if you're in a serious accident. Even though rental car companies aren't required to provide liability insurance in California, drivers are still required to have adequate amounts of liability coverage.

If your personal auto liability policy has higher amounts of liability coverage than the state minimum, you will be as adequately insured when renting a car as driving your own vehicle. If you don't have a personal liability policy, or it's minimal, consider purchasing supplemental liability insurance from the rental car company or, less expensively, through a third-party insurer before you hit the road. Also check for rental car liability coverage through your homeowners or renters insurance policy.

Protection alert: While credit cards don't typically provide liability insurance, travelers have, for many years, relied on credit cards to provide primary or secondary rental car collision coverage. However, your reliance on collision insurance from your credit card issuer may be coming to an end, as the benefit has started to disappear from cardholder perks (*https://blog.autoslash.com/credit-cards-dropping-car-rental-insurance-as-travel-benefit/*). Check with your credit card company (and get the coverage information in writing, if possible) before renting a car to make sure you can still count on this benefit.

Filing a claim

If an accident wasn't your fault, most insurers won't hike up your premium when you file a claim, unless you reside in a no-fault state—then you could see a rate hike. If you were responsible for the accident, your annual premium will likely rise dramatically after filing a claim. Drivers can see an average increase of 34-44% after one at-fault accident, according to Coverage.com (*https://www.coverage.com/insurance/auto/car-insurance-rates-after-an-accident/*). In fact, even inquiring about filing a claim could affect your rate , as the inquiry may be logged and kept in an insurance underwriting database for seven years (*https://www.washingtonpost.com/news/get-there/wp/2014/12/15/just-asking-about-an-insurance-claim-can-make-your-rate-go-up/*).

To avoid a hefty rate hike, consider whether the damage costs are close to your deductible. If property damage is minimal, try to settle with the other driver by paying the other driver's repairs out of your own pocket rather than involving insurers. However, if there were any injuries, the damage is significant, or the fault is unclear, it's smart to file a police report and alert your insurer immediately.

Renters liability insurance: Defending against legal claims

By Lauren Hall

Increasingly, landlords in many states are requiring renters insurance for their tenants as a way to avoid disputes over who is responsible if an accident occurs. Landlord insurance covers common areas, not renters' possessions or any liability claims that renters may face from visitors to the premises, neighbors or even trespassers. Renters insurance covers you and your family members' personal possessions (e.g., furniture, clothing, books) that are stolen or accidentally damaged. It also includes living expenses (hotel or dining costs) if renters are forced out of their home due to damage (caused by a fire, for example) that makes the rental uninhabitable. Finally, it includes liability coverage, which is when you are held liable for accidental injury or damage to visitors or their property.

Liability can stem from many circumstances:

- A child wandering into your backyard and seriously injuring themselves after jumping on your trampoline
- Your dog biting a jogger
- An intoxicated house guest driving away from your party and getting into a deadly auto accident (Yes, you can be held liable for providing them alcohol.)
- Damage your child causes to your neighbor's authentic Persian rug
- Libel and slander lawsuits (For instance, if your exaggerated Yelp review of a local business results in a lawsuit over the business's lost income.)

How likely is all of this? Approximately one in 1,000 homes files a liability claim annually. Dog bites account for one-third of home liability claims, and the average cost for a dog bite claim in 2019 was nearly $45,000 (*https://www.iii.org/article/spotlight-on-dog-bite-liability/*). From bites to backyard slips, these types of incidents may not only include medical care, but also claims for "pain and suffering," lost work income, and other unforeseen costs.

The liability portion of your renters insurance also covers the cost of defending you in court, as well as attorney fees and other costs associated with investigating an incident or settling the case.

The price of protection

Experts often recommend that renters have $300,000 in personal liability coverage—$200,000 more than the standard $100,000 frequently quoted by insurers—but you can typically buy up to $500,000 in liability coverage. If you need more than that, you're going to want to get either an excess liability or an umbrella policy. Generally, umbrella policies (which are similar to excess liability policies but cover some additional risks) cost between $200 and $350 a year for an extra $1 million of liability protection, with an additional $100 a year (on average) for every $1 million in coverage over that. Umbrella coverage sometimes requires you to have both your renters and auto coverage with the same insurer that writes the umbrella policy. Umbrella coverage kicks in when you've maxed out the underlying liability coverage in your home or auto policy.

For the average person, renters insurance—including standard liability coverage—can cost anywhere from $5 a month to upwards of $20. Families with many possessions to protect will typically pay more. Also, your rate will vary depending on the number of past claims you've filed, your age and your insurance score. Your insurance score is based on your credit history, debt load and your history of filing insurance claims. This score is designed to predict the risk of future insurance loss. It's common for a basic renters insurance deductible (for personal property claims) to run between $500 and $1,000. Generally, you are not required to pay a deductible on liability claims.

You may save money on renters insurance if you haven't had any losses (defined as "direct physical damage to property or injury to persons") in the last five years. You can often "add on" renters insurance to your existing auto insurance coverage—and save money by "bundling" coverage. What's more, if several years pass without filing any insurance claims, you may be eligible for a discount (*https://www.nerdwallet.com/article/insurance/renters-liability-insurance*).

To file or not to file: That is the question

Any time you file an insurance claim, you run the risk of your policy rates increasing. Not only that, but file enough claims, and the company could cancel your insurance altogether. Knowing this, it's important not to make frivolous claims and to try to settle minor issues with houseguests outside of the insurance system, if possible. According to the website Money Under 30, insurance companies bank on the insured filing approximately one claim every decade (*https://www.moneyunder30.com/home-renters-insurance-when-make-claim*).

Reading the fine print

While renters liability insurance covers other people that you—or your family members— unintentionally harm, a roommate or "significant other" is not considered a family member, unless you opt to pay a little extra per month to include them under your policy.

The personal property component of renters insurance covers your possessions in a rented living space. The housing unit is covered by your landlord's insurance. Renters insurance doesn't cover your vehicle if it's stolen or damaged, but will often cover personal property that was stolen from your car. Finally, renters insurance does not include intentional injuries or damage.

Business liability insurance: Big protection for small businesses

By Monica Steinisch

The kinds of insurance a small business should have varies—not all businesses have employees, inventory or a commercial property. However, nearly all businesses need some form of liability insurance as protection from a potentially devastating lawsuit.

There are a number of factors to consider when determining the types and amount of liability insurance to buy.

Types of coverage

There are several kinds of business liability insurance because the risks related to running a business are many and varied. Most businesses don't need all types of liability insurance, and many need only one. Here are the most common policy types:

General business liability insurance helps cover claims related to bodily injury and property damage caused unintentionally by your business (*https://www.thehartford.com/general-liability-insurance*). The coverage pays medical bills, court judgments and settlements, and related legal costs. Unlike personal liability coverage, the business version typically *does* have a deductible—a fixed out-of-pocket expense you agree to pay before your coverage starts to pay.

Standard liability policies cap what they will pay out for claims against you. If you need a much higher coverage limit than a standard policy offers, an umbrella policy may fill the gap. (See the "Supplemental coverage" section in "Homeowners," on page 3, for information about umbrella policies.)

Depending on the policy, it may also cover other types of claims—for example, those related to libelous or slanderous statements you make, copyright infringement in your marketing materials, or injuries caused by your products. If you need that type of coverage and it's not included, you can augment a basic liability policy with additional insurance, known as endorsements, that cover the specific risks associated with your business.

Among the things that general liability won't cover are intentional acts that cause injury or damage, employee injuries, and auto-related injuries or damage. Nationwide offers an online tool (*https://www.nationwide.com/business/insurance/industries/*) to help you determine what coverage your business is most likely to need, based on your industry.

Some businesses with a physical location and/or physical assets (equipment, inventory, etc.) combine their liability insurance with their business property insurance in a single **Business Owner's Policy** (BOP;

https://www.thehartford.com/business-owners-policy). A BOP can offer premium savings and may include additional protections, such as replacement of lost income due to a covered loss that interrupts business operations. Like a general liability policy, a BOP can be customized using endorsements.

Professional liability insurance—also known as errors and omissions (E&O; *https://www.thehartford.com/professional-liability-insurance/errors-omissions-insurance*) insurance—can help cover legal costs and a settlement or judgment if you are sued because you or your employees made a mistake while providing professional services—for example, you made a crucial error on the tax return you prepared for a client, resulting in an audit and large tax penalty.

Employment practices liability insurance (*https://www.iii.org/article/what-employment-practices-liability-insurance-epli*) covers businesses against claims by workers that their rights have been violated. These can be cases alleging sexual harassment, discrimination, wrongful termination, infliction of emotional distress and other employee grievances. The coverage reimburses the business for legal costs, judgments and settlements. It typically does not pay for punitive damages or civil or criminal fines.

Cyber liability insurance (*https://www.thebalancesmb.com/what-is-covered-under-a-cyber-liability-policy-462459*) covers a business's financial losses resulting from a data breach or other internet-related (i.e., cyber) incident. The insurance typically pays the out-of-pocket expenses that a business directly incurs as a result of a breach. For example, it may pay the cost of restoring data or software damaged by a hacker, as well as any related judgment or settlement the business is obligated to pay—say, a client sues the business for negligence after his medical data was exposed and publicly released. It may cover other things, like the cost of notifying affected parties about the breach. The insurance doesn't cover intentional actions or utility failure.

Product and completed operations liability insurance (*https://www.thimble.com/blog/products-and-completed-operations-insurance-for-small-businesses*) provides protection for bodily injury and property damage caused by your products or your work away from your premises. For example, it may cover the costs that arise because you neglected to tighten the screws on a stool you built, causing it to collapse and injure the buyer in his home. This coverage may be included in a general liability insurance policy; check with the insurer.

Needs and cost

There's no such thing as one-size-fits-all business liability coverage. The kind of coverage you purchase has to be tailored to the specific risks your business exposes you to, and the amount of coverage must be adequate to protect your assets. You may be best protected by structuring your business as a limited liability corporation (LLC; *https://www.nolo.com/legal-encyclopedia/limited-liability-protection-llcs-a-50-state-guide.html*).

The best way to get the right combination of coverage type and amount is to consult with a business insurance agent—preferably more than one. The same company that insures your home or auto might be able to also provide the business insurance you need, and multiple policies with the same carrier could qualify you for a discount. However, a company that specializes in business insurance may be better able to advise and customize coverage. The Hartford, Nationwide, Hiscox and CNA are some of the names in the business insurance arena, but there are dozens of options. Do an online search for keywords such as "small business insurance" or "small business insurer reviews" to learn more about your options. Once you've chosen two or more companies you're interested in, contact them for guidance and pricing.

Generally speaking, rates will be based on:

Risk exposure: A building contractor will pay more than an IT business based on the potential liability risk. Likewise, an accounting firm that provides tax advice for hundreds of high-net-worth clients will likely pay more than a single accountant with a few dozen clients.

Coverage limits: The higher your policy limits (the amount the insurer could potentially have to pay out), the higher your premiums.

Claims history: A history of liability claims will raise your premiums, just as it would for a personal homeowners or auto insurance policy.

Because of the wide disparity in risk exposure and coverage needs among businesses, premiums can range widely. According to online insurance brokerage Insureon (*https://www.insureon.com/small-business-insurance/general-liability/cost*), the median general liability insurance premium for the insurer's construction and contracting businesses is $825 per year, compared to $275 for a photo and video business. Insureon's analysis of 28,000 of its policies found that the median cost of general liability insurance is $42 per month—around $500 annually—with most small business owners (48%) paying between $300 and $600 annually, and 17% paying less than $300.

For more information about business insurance, visit the U.S. Small Business Administration (*https://www.sba.gov/*) and the Insurance Information Institute (*https://www.iii.org/insurance-basics/business-insurance/coverage-questions-2*).

The liability claims process

By Ruth Susswein

The process of filing a claim under your liability coverage can differ depending on the type of coverage and the particular situation.

If you are holding someone else liable for an auto insurance claim:

- Get the driver or responsible party's name, contact information, insurance company name and policy number, license plate number and a police report.
- Take photos of the damage.
- If you live in a no-fault state, contact your auto insurer to file a claim; otherwise, contact the at-fault party's insurance company.
- An insurance adjuster will investigate who's officially at fault and how much the policy will cover.
- If the other driver is injured in an accident that is your fault, your liability insurance will cover his medical costs (*https://www.forbes.com/advisor/car-insurance/car-accident-insurance-claim/*).

For a homeowners liability claim:

- Document any damage with photos that include the time and date. (Enable time and date stamps in your smartphone or camera settings.)
- Have your policy number and description of the damage ready when contacting your insurer.
- If someone was injured on your property, provide your insurer with the details of the injury and how it happened as quickly as possible.
- Get contact information for the injured person and any witnesses.

If you are holding the other party liable:

- You should send a notification letter (*https://www.injuryclaimcoach.com/letter-of-notification.html*) to the liable person requesting their insurance company information if they have not provided it. Send the letter by certified mail. Keep a copy for your records. (Learn more about filing a claim against someone else's homeowners insurance at *https://www.policygenius.com/homeowners-insurance/how-to-file-a-claim-against-someone-elses-homeowners-insurance/*.)
- If the injury happened in a place of business, request that the business preserve and retain any information related to the claim, such as a video recording.

If you are sued:

- Typically, you are required to notify your insurer as soon as you know that you are being sued.
- Cooperate with the insurer's investigation of the damage or injuries.
- Your insurer has a legal "duty to defend" you (*https://www.thebalancesmb.com/liability-coverage-and-the-duty-to-defend-462618*), including representing you in court.
- The insurer also has an obligation to pay damages or a settlement on your behalf.

Consumer Action

www.consumer-action.org

Consumer Action has been a champion of underrepresented consumers nationwide since 1971. A nonprofit 501(c)(3) organization, Consumer Action focuses on financial education that empowers low- and moderate-income and limited-English-speaking consumers to financially prosper.

By providing financial education materials in multiple languages, a free national hotline and ongoing financial services research, Consumer Action helps consumers assert their rights in the marketplace and make financially savvy choices.

Advice and referral hotline

Submit consumer complaints to our hotline:
English: http://bit.ly/CA_hotline_ENG
Spanish: http://bit.ly/CA_hotline_ES
(415) 777-9635
Chinese, English and Spanish spoken

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Mail to: Consumer Action, 57 Post St., Suite 611, San Francisco, CA 94104. Donations are tax-deductible. 5/21