

KNOW YOUR (LIABILITY INSURANCE) LIMITS

Pay attention to your insurance limits – the most that your liability carrier will pay to another person who claims that you hurt them or damaged their property. You can find your limits on your auto, homeowners', umbrella, or business policy declarations page.

Ignoring your limits and their relation to your personal assets could cause unwanted risks and nasty surprises. Understanding them and selecting them carefully could (1) ensure you get the protection that you want; and (2) encourage better treatment by your carrier when someone makes a claim against you.

Higher Limits Encourage Carriers To Treat You Better

When an insured has higher limits at risk, the carrier obviously faces greater potential exposure, depending on the claim. Well-run businesses of any sort – insurance or otherwise – assign their sharper, savvier people to manage bigger risks. So a well-run carrier should generally assign its more experienced, proven claim handlers to claims where the limits are larger.

And experienced claim handlers should make fewer errors, both in determining whether coverage exists and in trying to successfully resolve claims within limits, if possible. Also, such claim handlers also might have more monetary authority to settle claims. That could eliminate red tape and delay as the claim progresses.

Perhaps most importantly, the interests of you and your carrier are most tightly aligned on a covered claim when the limits are large and the amount demanded is within those limits. If a verdict or judgment well beyond your limits possible, that extra amount may matter a great deal to you but not as much to your carrier. Larger limits help make that less likely. And a greater shared interest should encourage better treatment by your carrier if someone makes a claim against you.

Higher Limits Do Not Cost Much More

The cost of additional insurance goes down as the limits go up. Or, in other words, the last \$100,000 of a \$1 million policy costs far less in premiums than the first \$100,000. Just by way of example, personal umbrella insurance that covers you for claims from \$500,000 to \$5 million can cost less than \$500. The extra protection is cheap.

Higher Limits Protect Against Personal Liability

When a claim goes over your limits, complications can arise. As noted above, your insurer's and your interests might not connect as closely. Your personal assets could be at risk if a potential verdict against you might go beyond your agreed limits.

And if the claim goes far beyond limits and you have significant personal assets, you may never even get a settlement demand within your policy limits. That could force you to try the case or pay money from your own pocket to resolve it out of court.

Also, carriers can and sometimes do refuse to accept settlement offers within limits. If they refuse such a settlement and a verdict above your insurance results, you could be personally responsible for the difference. (You also might have a claim against your carrier for that amount, but enforcing that right could be expensive.) Higher limits can help avoid all these problems.

Conclusion

So, next time you renew insurance for you or your business, take a look at your limits, and ask your broker how much higher limits might cost. Greater peace of mind may not be as expensive as you think.

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