

Liability Insurance Policy: Coverage, Claim & Exclusions

Businesses usually have to operate in uncertain environments. Even the most thriving of enterprises have to juggle between different kinds of liabilities. Some liabilities are certain and foreseeable, while others are unexpected. Liability insurance policy is useful in such situations because liabilities that may seem trivial could impact your business operations beyond imagination.

What is Liability Insurance?

Businesses could incur several unintentional liabilities, even if the business tries hard not to. For instance, even an accidental harm or injury caused to a customer might land the company or a professional in a lawsuit, costing millions. Fortunately, there are various liability insurance products available in the market to help one overcome financial loss due to such situations.

Types of Liability Insurance

A liability insurance is an amalgamation of various types of [insurance](#). Each type is according to the industry and the requirement of that business. Some of the most popular types of liability insurance are:

- **Product Liability Insurance:** A product liability insurance policy protects you against customer claims arising due to accidents caused by your product's performance. For example, a cell phone customer may sue the manufacturer of the phone if it explodes while charging or if it injures the customer in anyway. Such lawsuits can cost the company millions in the absence of a proper product liability insurance. Packaged food companies may also face claims related to health and wellness damage due to food consumption.
- **Professional Liability Insurance:** This liability insurance covers you from financial and legal costs associated with claims made against you or your company due to lapses in the performance of professional services. A professional liability insurance can come in handy if you face liabilities due to such damage.
- **Public Liability Insurance:** [Public liability insurance](#) protects you from claims made against your company, products or employees which might have harmed general public. In India, it is mandatory for business operating in hazardous areas to enrol into a public liability

insurance as per the Public Liability Insurance Act, 1991. For other businesses, it is not mandatory, but is highly recommended.

- **Third Party Liability Insurance:** A third party liability insurance is mandatory when you buy a new vehicle. You are not allowed to drive the vehicle unless you have a third-party liability insurance. Any human injury or property damage caused to a third party by your vehicle is covered under this insurance.
- **Employers' Liability Insurance or Workmen's Compensation Insurance:** The employers' liability insurance covers the owner or management of the company against claims by the employees. Employees may claim compensation for any kind of losses or injuries caused due to the organisational environment or infrastructure. For instance, a worker may get injured due to the chemicals he works with in a factory, or an employee might suffer from food poisoning due to the canteen food. Such unexpected situations might require you, as a business owner, to compensate the employees for such damage. Under such circumstances, employers' liability insurance can indemnify your employees against any such unfortunate events and save you from hefty financial outgoes and legal hassles.

What all Liability Insurance Covers?

For product liability, it covers the following:

- Death, injury or accidental damage to the property, in case of any problem in the product manufactured by the insured

For public liability, it covers the following:

- The plan compensates claims due to accidents, injury and damage taking place on your premises in connection to your business

For professional liability, it covers:

- Various categories of professions like doctors and lawyers
- Liabilities falling on them due to any omission or mistake done by them while offering the service

For employers' liability insurance, it covers the following:

- Death or injury or occupational disease taking place during the course of the employment

How Liability Insurance Functions

Before deciding to buy a liability insurance, you should be aware about how it works.

- Evaluate the kind of business you deal with and the type of liability insurance you are eligible for
- Evaluate the types of risks you can face in your business and the losses you will have to bear in case of any untoward incident
- The above two points will help in deciding the premium amount
- Compare the companies and policies well by reading the documents and policies
- Opt for the policy that gives the best deal
- Fill in the proposal form and submit the required documents
- In case a claim is needed, fill in the claim form and supplement it with the needed documents
- Once the scrutiny is done, the insurance company will either approve or reject the claim
- In case the insured is not satisfied, he/she can approach the court of law

Eligibility Criteria

Let us look at various sections that should go for a liability insurance policy in order to lead a happy life and carry on peacefully with their businesses:

- Manufacturing companies because there is a high risk of the general public getting harmed due to organisational operations
- Places like schools, hospitals, BPOs, IT firms, etc. can consider availing public liability insurance with non-industrial risks
- Professionals like medical practitioners, chartered accountants, lawyers, consultants, architects, designers, etc.
- Business whose product is consumed or exposed to the public at large

Liability Insurance Claim Process

In case any business or organisation needs to make a claim under liability insurance, you can follow the below mentioned steps:

- Read your policy documents to understand whether you can be compensated and, if yes, then how can it be done

- Inform the provider about the problem either by calling them, mailing them or visiting the nearest branch office
- Report the concern or the issue to the authority concerned, for instance the police in case of a theft or death. You need to submit this report to the [insurance company](#) along with the claim form and other required documents
- Arrange for the evidence
- A supervisor appointed by the provider will scrutinise the case and accordingly will give a nod or a rejection for it. He/she will also decide the compensation amount accordingly
- Don't forget to follow up regularly to know the status of your claim

Documents Required for Claim Process

In order to make claims under various types of liability insurance, you should know what documents to submit. Let us look at them:

- Dully filled in claim form
- Copies of necessary reports, depending on the case, such as an FIR report or other reports needed from the hospital, fire department or civic authority
- Details of the business
- Photographs of the loss and its witness
- Photo copies of required licences, certifications and permits
- Surveyor report

Cases Where You Can't Claim Liability Insurance (Exclusions)

- Intentional damage
- Lacking contractual obligations. For example, the company might reject the claim for damage due to fire, if you have not kept fire extinguishers in your factory, which is mandatory as per the law.
- Injuries caused due to mental loss, loss of reputation, defamation and other similar matters
- Costs due to recall of any product
- Liability due to pollution
- Illegal personal profit
- Dishonest acts

Important Aspects

Before purchasing the liability insurance, you should be aware of all the aspects related to each type of insurance so that you get the best deal for your business. Let us look at some points:

- The premium is based on risk perception and past data available with the insurance company
- Your business turnover is also an important factor in considering the sum insured and the premium payable. The history of your business and past claims may also influence the premium payable for your liability insurance
- Under public liability insurance, an extra payment can help in getting pollution and contamination coverage and transportation coverage

Advantages of Buying Liability Insurance

A liability insurance is a must for businesses that deal with public in some way or the other. Let us look at some of the advantages of buying a liability insurance

- It covers any accidental injuries caused to the insured
- Covers damage caused to another person or property
- Protects the insured from any wrongful activity
- Helps minimise risks