📖 **Liability**   🕐 **5M**

We learned earlier that *liability insurance* is important in protecting insureds against third-party injuries. Liability insurance protects insureds in two ways.

1. It provides **defense** in cases where the policyholder is alleged to be responsible for injuring and/or damaging property of a third party, as the insurer will represent the insured in court.

2. If the policyholder is found guilty, the insurer will be **responsible for the damages** up to the policy limit.

Liability coverages usually have two distinctive characteristics. They are categorized as having **low frequency, but high severity** claims, and they have a **potential for high litigation cost**.

Once a claim is reported, it usually takes a long time for these claims to be settled. To make these claims more predictable, most liability coverages are on a *claims-made* basis, instead of an *occurrence* basis.

-   On a claims-made basis, insureds are only covered for losses if the claims are reported during the policy period.

-   On an occurrence basis, incidents or events that occur during the policy period are covered irrespective of the report date.

This means that for policies on an occurrence basis, insurers are potentially responsible for covered perils/events that happened decades ago but have not yet been reported. For policies on a claims-made basis, some insurers may offer an endorsement that allows for extended coverage after the policy end date. This is called *tail coverage*.

In addition, sometimes liability coverages include defense costs in the policy limit. This is done to reduce the insurer's risk since liability coverages have a potential for high payout.

Here are a few liability coverages that can be purchased:

-   product liability insurance

-   errors and omissions insurance

-   medical malpractice insurance

-   professional liability insurance

-   directors and officers liability insurance

- cyberliability insurance