



Commercial Insurance  
Professional Liability

## Limits caution

Inadequate limits of liability cause problems for law firms

### Your law firm's best choice

The limit of liability is the maximum amount for which an insurer is liable, as set forth in the insurance policy and declarations page. The need for adequate limits of liability is best demonstrated by examining some of the ways that inadequate limits cause problems for law firms.

#### **1. The need for higher limits remains even after the nature of services rendered by a law firm changes.**

If there is a need for higher limits due to the nature of the law firm's practice and the firm discontinues that kind of work, the need for higher limits will not cease at that time. With a claims-made-and-reported policy, the need continues until the statute of limitations has fully expired for that type of work. For example, if a law firm ceases doing \$1 million estate planning and corporate tax advice today, it still needs the higher limits since the beneficiaries of the estates or the corporation can bring a claim against the firm for a number of years, depending upon the jurisdiction involved, the type of claim that might be alleged and so forth.

#### **2. A single case potential is only one factor considered when deciding the amount of limits to purchase.**

Often, the law firm looks at limits in terms of any one maximum possible or probable claim. However, the limits on a claims-made and reported on an entire policy year. There have been times when a law firm's limits were exhausted not by any one case, but by an accumulation of two or more cases whose value was within the per claim limit of liability.

#### **3. The element of time may inflate the value of a case.**

Consider the docket one will be faced with in the event of a claim that becomes a lawsuit. Some metropolitan areas have a period of 4 to 6 years from the filing of a lawsuit to trial. In lawyers' professional liability claims, the value of the underlying case may determine damages. While relatively low limits may be enough now, can you be assured of this in the future?

#### **4. The "X" factor cannot be predicted.**

While insurance companies can underwrite the firm and review the historical exposure of the firm's mix of practice, there is no guarantee that the firm's exposure will remain the same. Consider the insured law firm that runs a small real estate and personal injury practice and whose lawyers have local relatives. If any of the relatives require business or tax advice, or estate planning or other services with which the firm may be unfamiliar (such as a complex products' liability suit), they are still likely to seek first the services of the relative. This potential change in an insured law firm's practice cannot be predicted.