

Insurer Defense Obligations

Did you know that a liability policy, which is part of any typical car or home coverage, has two distinct obligations? A liability insurance policy, either vehicle or personal liability, is designed to protect you against your legal obligation to pay others because you have hurt them and/or have damaged their property. A policy also defends you against claims or lawsuits. In other words, besides paying for claims or suits, a liability policy also pays for their related legal costs and court fees.

What Is Covered Under Defense Costs?

Defense costs generally include:

- Attorney fees (including cost of legal staff and expenses)
- Court costs of the applicable jurisdiction
- Costs of filing necessary legal papers
- If applicable, costs of expert witnesses
- Costs associated with investigation, etc.

How Are Defense Costs Handled?

Defense Coverage can be offered in two ways. It can be provided as part of the insurance policy's liability limit or as a separate coverage. You must read your policy carefully because the method has a huge impact on the amount of your insurance protection. Let's say that Policy A and Policy B both provide liability insurance limits of \$100,000; Policy A provides defense coverage as part of the insurance limits while Policy B gives separate protection. Now let's see what can happen:

Example: Jay Lowcare is sued by his son's teacher. The teacher came by drop off the son's homework while the student is missing school due to illness. When the teacher started down the wooden stairs of the Lowcare's front porch, the second stair broke. The teacher suffered cuts and compound fractures to his left leg. The damages (medical and rehab costs) totaled \$95,000 and the defense costs were \$18,000. Here's how each policy would handle the costs:

Expense	Policy A	Policy B
Defense Cost	\$18,000	\$18,000
Damages	\$95,000	\$95,000
Total Damages	\$113,000	\$113,000
Total Paid	\$100,000	\$113,000

If Jay Lowcare's protection worked like Policy A, Jay would be personally responsible for paying the remainder of the damages because the defense costs ate into his insurance limits. Policy B's method of providing coverage offers the most protection. If you're not sure how your policy handles the cost of your legal defense, talk to an insurance professional and make sure you get the coverage you need.

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