



MANAGING LEGAL LIABILITY SERIES: How Much Liability Insurance Coverage Should I Have?

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In short, the answer is “it depends.” The consensus of professionals in the field is that any type of farm, agritourism or direct marketing operation should have at least \$1 million in coverage. That amount of coverage will suffice for the vast majority of claims against the business.

Several factors impact how much coverage above \$1 million an operation should carry. First, how many assets do you have? The rule of thumb requires an equal dollar amount of coverage as the extent of your assets. For example, if you own \$5 million worth of real estate and other assets, I suggest at least \$5 million in coverage. If you own valuable assets, you are more likely to be the target of litigation, frivolous or not. Second, what do your business contracts require? Giant Foods and Walmart, for example, reportedly require a minimum of \$5 million in products liability coverage if you wish to sell to them. Third, how risk averse are you? Do you lose sleep over the possibility of having too little coverage? One rule of thumb is to obtain sufficient coverage to make you sleep well. Finally, how much does the coverage cost? You should ask your insurance agent to give you a quote for \$1 million; \$2 million; and \$5 million in coverage, for example. Generally, the cost of increased coverage is not a large amount. Each individual can gauge the increased cost versus the increased comfort of higher coverage.

Business owners often claim that the business should not obtain a large amount of liability coverage. Large insurance policies allegedly make the business the target of large lawsuits. Such claims are a fallacy. The amount of money that a person will request in a lawsuit should be based on their injuries and the conduct of the business. Asking for a large recovery based on a large liability insurance policy is both unethical and ineffective. The jury or judge will not know the amount of insurance coverage.

In summary, each individual business should weigh the factors unique to their business, including the extent of assets owned by the business and the risk aversion of the owners, and determine an optimal amount of liability insurance coverage. Consult with your insurance agent and determine the cost associated with various limits of liability. In any case, this assessment should be made before liability issues arise so that the business can act proactively to protect the assets and the owners.