300f018 Policy Insurance Limits

If you examine the insurance policy covering your business, you'll see an insurance limit. For instance:

Acme General Manufacturing	
Coverage	Insurance Limit
Coverall Protection	$1,000,000

According to the above, it may appear that you have a million dollars in coverage. But what does that mean? Well, traditionally, such an insurance limit provides up to one million dollars of coverage for each and every eligible loss that takes place during the applicable (annual) policy period. This is often called an "occurrence" limit because the entire amount is available to respond to each eligible incident that occurs during the policy period. Another type of protection is provided by an "aggregate" limit. This describes an amount that applies over the entire policy period.

Example: The Acme policy above has a Jan. 1, 2010 to Jan 1, 2011 policy period. During the policy period, Acme is sued five times.

Loss	Date	Amount	Available Occurrence Limit	Available Aggregate Limit
Type A Loss	2-23-10	$200,000	$1,000,000	$1,000,000
Type B Loss	3-3-10	$450,000	$1,000,000	$800,000
Type C Loss	6-12-10	$175,000	$1,000,000	$350,000
Type A Loss	8-4-10	$300,000	$1,000,000	$175,000
Type D Loss	12-06-10	$50,000	$1,000,000	$0
Total Paid			$1,175,000	$1,000,000

Under the "Occurrence" limit, the total policy amount was available for each loss. Under the "aggregate" limit, each loss reduced the available limit until coverage was exhausted. In this situation, Acme would have had to handle $175,000 on its own.

Aggregate limits are used by various insurers and/or for various instances where the company wishes to be more certain about its total possible financial exposure. Some insurers and some types of policies may use sub-limits as a method to control the amount they pay for losses. A sub-limit is a coverage amount that applies to certain types of losses or to losses involving certain types of property. Sub-limits may be used with either "occurrence" or "aggregate" limit policies. To keep things less confusing, let's use the same Acme policy situation and adding an Occurrence policy with sub-limits. In this instance, the policy provides the following:

$100,000 Sub limit for Type B Losses

$50,000 Sub limit for Type C Losses

Loss	Date	Amount	Available Occurrence Limit	Available Aggregate Limit	Available Occurrence or Sub-Limits

Type A Loss	2-23-10	$200,000	$1,000,000	$1,000,000	$1,000,000
Type B Loss	3-3-10	$450,000	$1,000,000	$800,000	$100,000
Type C Loss	6-12-10	$175,000	$1,000,000	$350,000	$50,000
Type A Loss	8-4-10	$300,000	$1,000,000	$175,000	$1,000,000
Type D Loss	12-06-10	$50,000	$1,000,000	$0	$1,000,000
Total Paid			$1,175,000	$1,000,000	$700,000

Even though it has an "occurrence" limit, the sub-limits have had a drastic impact. In this instance, Acme would be left to handle $475,000 in losses that wouldn't be paid by the policy.

Because of the existence and the impact of different types of limits, you should be certain of exactly what your policies provide. An insurance professional would be just the person to contact to discuss this very important issue.