

What Is Professional Liability or E&O Insurance?

How would your business respond – and survive – if it made such a severe mistake that it cost a customer tens of thousands of dollars? Or, even more frustrating, what if a customer blames – and sues – your professional services firm for losses when you're not at fault?

Professional Liability insurance, also known as Errors and Omissions (E&O) coverage, is designed to protect your business against claims that professional advice or services you provided caused a customer financial harm due to actual or alleged mistakes or a failure to perform a service.

In addition to responding to your customer's financial losses, professional liability coverage can help your business:

- **Pay legal expenses.** Whether your business is at fault or not, legal costs can add up. A professional liability policy can help your firm cover unexpected legal fees—for valid claims and frivolous suits alike.
- **Manage claims.** Your professional liability insurer can help your business respond to claims and guide you through arbitration or litigation.
- **Meet contractual requirements.** Many corporate service contracts require professional service providers to carry professional liability coverage.
- **Compete.** Carrying professional liability coverage can give you a competitive advantage by giving your customers an extra level of security.

What Types of Businesses Need Professional Liability Insurance?

Any business that provides its clients with expert guidance, information, or knowledge-based services – such as a bookkeeper, marketing consultant, or executive recruiter – can benefit from professional liability coverage. Certain specialized or licensed businesses like [software development companies](#) can find professional liability solutions designed specifically for their sector. Likewise, [in-house attorneys or corporate counsel](#) can seek professional liability coverage under an employed lawyers policy, while media organizations such as publishers or broadcasters can seek coverage for their intellectual property through a media liability policy.

A broader range of service providers can seek coverage under a [Miscellaneous Professional Liability \(MPL\)](#) policy. Even if your business works in a highly specialized niche, an insurer that provides MPL coverage may be able to write a customized policy for your specific needs, tailored to fit your services.

What Types of Claims are Made Against Professional Service Firms?

Professional liability claims range widely – from a business demanding a refund from a tax preparer that filed its federal tax returns but failed to complete state and local returns, to a manufacturer suing a consultant for recommending costly investments in new equipment that failed to lower production costs. However, they are generally based on a customer's perception that a professional services firm has:

- **Failed to complete expected tasks.** A customer expects a services firm to complete a greater scope of work than what was delivered, resulting in losses to the customer.
- **Provided erroneous guidance.** A customer claims that it suffered financially because a professional services firm provided inaccurate, incomplete, or misleading information or guidance.
- **Fallen short of promised results.** A customer incurs financial losses when the results forecast by a professional service provider are not met.

Your business can also help prevent professional liability claims from arising or limit their severity by taking key steps to limit errors and disputes in the first place. Read "Seven Steps to Limiting Professional Liability Claims" to learn more.

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