

Liquor Liability Insurance



Serving alcohol is a common practice for restaurants, bars, catering companies, entertainment venues and similar establishments. While providing a wide array of beverage options is important, serving alcohol in particular can create a variety of risks for business owners.

For instance, if a patron of your business becomes intoxicated and injures a third party or causes property damage, you could be held liable for the damages. In order to protect your business from serious financial and reputational losses, it's important to consider purchasing liquor liability insurance.

What is Liquor Liability?

The term liquor liability refers to an organization's legal and financial responsibility for the actions of individuals who consume alcohol at their establishment. Under liquor liability laws, a business can be found liable for both the bodily injury and property damage caused by a person they improperly served alcohol to.

What is Liquor Liability Insurance?

Liquor liability insurance is designed to protect any business that sells or serves alcoholic beverages. Specifically, this type of insurance covers damages that result from things like fights, careless behavior or automobile accidents caused by individuals who have consumed alcohol.

Liquor liability is important, as it protects you should your clients or patrons sue your business for damages related to their intoxication—something a general liability policy won't cover.

Most businesses carry a general liability policy, which covers claims against your business for bodily injury, property damage or personal injury. While these policies often include host liquor liability coverage, they only provide protection related to the incidental service of alcohol. While host liquor liability may protect you if you are simply serving alcohol at a company party, it does not offer the coverage you need if you sell alcohol as part of your business.

What's more, the majority of states require establishments that serve, sell or assist in the purchase of alcohol to carry liquor liability insurance. As such, it's important to know what to look for in a policy.

What Should My Policy Account For?

When it comes to protecting your business from any kind of liability, it's critical that you account for common risks. In order to secure the right level of coverage, keep in mind the following policy enhancements when shopping for liquor liability insurance:

- **Assault and battery coverage.** When alcohol is involved, fights are a common risk. However, many liquor liability policies exclude coverage for assault and battery. Therefore, it's important to ensure you account for this protection when

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building your policy. It should be noted that assault and battery coverage can also be extended to include specific incidents such as sexual assault, stabbings and shootings.

- **Defense costs.** Legal fees from liquor-related claims can easily exceed tens of thousands of dollars. Be sure that your policy accounts for defense costs outside of the policy limit. Otherwise, legal expenses could quickly exhaust your policy limit, leaving little to no insurance to pay for any damages.
- **Employees included.** Even if you forbid your employees to drink on the job, there's a chance that they may disregard your instruction. Look for a policy that will cover your employees as patrons to better protect your business from liquor-related incidents.
- **Mental damages.** In the event of a lawsuit, claimants may allege they were injured in nonphysical ways. In these instances, patrons could sue you for stress, mental anguish or psychological injury. Ensure that your policy accounts for these types of injuries.

It should be noted that liquor liability insurance won't cover claims that arise from the sale of alcohol to minors or similar illegal transactions. Be sure your employees are instructed to verify patrons are of legal drinking age.

What Determines Pricing?

The underwriting process for liquor liability insurance can differ depending on the type of business you conduct. In general, the following four factors determine the rating and pricing of coverage:

1. **Type of venue.** When examining a business's risk, underwriters look to identify the primary purpose of a venue. If you own a restaurant, the

primary purpose of your venue is to serve food, so you are generally considered to have less risk than a nightclub or tavern.

2. **Location of the venue.** Liquor laws can vary drastically depending on the jurisdiction. Each state has its own scoring system based on the nature of local dram shop laws. Dram shop laws impose certain liability standards on area venues that serve alcohol. Because the strictness of these laws may change from location to location, where you operate your business can have a major impact on how your liquor liability insurance is priced.
3. **Percentage of liquor sales.** As a general rule, the more alcohol sales you make, the higher your premiums will be. This factor tends to have more of an impact on pricing than venue type, as a restaurant that has a high percentage of alcohol sales may be priced similar to a bar.
4. **Individual traits of the risk.** There are a number of miscellaneous variables underwriters will take into consideration when pricing out policies, including the following:
 - a. Types of entertainment offered
 - b. Experience level of management
 - c. Formal loss control measures
 - d. Security measures and procedures for dealing with intoxicated patrons

Serve Your Patrons Responsibly

When serving liquor, the best way to protect your business from potential claims is through proper risk management and liquor liability insurance. These policies can be complex, and it's important to discuss the nature of your operations with a qualified insurance broker. Contact The Insurance Exchange today to learn more.