

## Selecting Liability Limits

The right limit depends on contractual requirements, industry benchmarks, your corporate balance sheet, risk tolerance, and where your exposures lie.

Clients often ask for guidance on selecting liability limits. There's no one-size-fits-all answer: the right limit depends on contractual requirements, industry benchmarks, your corporate balance sheet, risk tolerance, and where your exposures lie.

Below, we highlight key factors to consider, along with recommendations from the broker's perspective.

### 1. Contractual Obligations

Many technology contracts, particularly with enterprise or U.S. counterparties, require minimum liability limits (e.g., \$5M Tech E&O or Cyber). In addition, indemnification obligations can drive exposure well beyond those contractual minimums. For example, if your company indemnifies a customer for data breach losses, a claim could easily exceed your base limit.

**Broker's Recommendation:** Review indemnity clauses carefully with your broker. Coverage should not just meet minimums but be sufficient to respond if indemnification obligations are triggered.

### 2. Jurisdiction of Exposure

Liability claims in the U.S. are more severe than in Canada. If you have significant U.S. contracts or revenue, higher limits are advisable to account for U.S. litigation risk and potential class action exposure.

**Broker's Recommendation:** If your business touches the U.S., strongly consider building towers above Canadian norms. Underestimating U.S. exposure is one of the most common pitfalls we see.

### 3. Benchmarking

In the SaaS and broader technology space, insurers and counterparties often look for certain ranges:

- **Errors & Omissions (E&O):**  
Typically \$5M–\$10M, higher for enterprise or financial clients.
- **Data & Network Security Liability:**  
Often aligned with E&O, sometimes purchased in towers exceeding \$10M.
- **First Party Cyber (business interruption, ransomware response):**  
Coverage limits should reflect expected loss scenarios (e.g., a 2-week-long outage or ransom demand).
- **Intellectual Property (IP) Infringement Defense/Pursuit:**  
Highly variable; \$1M–\$5M limits are common in SaaS, but subsectors (e.g., fintech, healthtech) may require higher limits.

**Broker's Recommendation:** Benchmark against peers but recognize that subsectors vary significantly. Consult your broker to tailor limits based on client base, contract mix, and subsector-specific exposures.

## 4. Corporate Balance Sheet Strength

Your company's financial capacity is one of the most important limit-setting factors. A well-capitalized company may elect to self-insure certain risks, while a firm with limited reserves needs coverage to protect against even moderate claims. Consider:

- Current cash reserves and liquidity.
- Access to financing or investor support in the event of a claim.
- Impact of a large uninsured loss on operations, growth, and valuation.

**Broker's Recommendation:** Align liability limits with what your balance sheet can realistically absorb. We often advise clients to imagine a major claim hitting tomorrow, could you pay it without disrupting growth or breaching loan covenants? If not, insurance should bridge that gap.

## Closing Perspective

Selecting liability limits isn't just about "how much insurance can we afford." It's about aligning coverage with contractual obligations, industry expectations, your balance sheet's ability to absorb loss, and your company's risk appetite. A thoughtful, broker-led process ensures your limits protect the business while positioning you as a credible, resilient partner to clients and investors.

**Reach out today for advice to align your coverage with contractual obligations.**

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## 5. Risk Tolerance

Even if contracts and benchmarks point to a certain limit, your company's own risk appetite matters. Some boards prefer to retain more risk to save on premiums, while others seek to maximize protection against low-frequency but high-severity events. Risk tolerance should consider:

- Balance sheet strength
- Investor or lender expectations
- Comfort level with uninsured exposures.

**Broker's Recommendation:** Align limits with both your financial capacity and stakeholder expectations. Your broker can model different claim scenarios to help quantify the trade-offs.

## 6. Claims Severity & Scenario Testing

Limits should reflect realistic worst-case scenarios, for example, a large client data breach, an IP infringement suit, or a service outage causing contractual penalties.

**Broker's Recommendation:** Work with your broker to stress-test different scenarios. This helps ensure limits are chosen based on financial impact, not just affordability.

