

Covering the Basics of Employment Practices Liability Insurance (EPLI)

Employee practices liability insurance is a specialized insurance product that covers employers who find themselves the target of work-related lawsuits. EPLI generally covers a business for the following employee-related actions:

- Discrimination
- Sexual Harassment
- Wrongful termination
- Breach of employment contract
- Negligent evaluation
- Failure to employ or promote
- Wrongful discipline
- Deprivation of career opportunity
- Wrongful infliction of emotional distress
- Mismanagement of employee benefit plans

WHAT DOES EPLI INSURE? EPLI covers the defense costs, judgments and settlements but may or may not cover punitive damages, fines or penalties. Depending on the type of business and the amount of exposure, a typical company can purchase a coverage limit ranging anywhere from \$1 million to \$25 million. As with most any coverage, additional limits can be purchased, it's just that this range contemplates the majority of what we see companies request. This limit may or may not include legal costs associated with any resulting judgments or settlements against the company.

WHO IS INSURED BY EPLI? EPLI coverage usually encompasses the corporate entity, employees, former employees, and directors and officers. A few insurers also include volunteers in their coverage. In addition, some EPLI policies cover only managers and supervisors as opposed to every employee. Each company should examine the exposure for all employees and volunteers and decide if all workers need to be insured.

WHAT ARE THE EXCLUSIONS? Workers Compensation, business liability claims such as bodily injury and property damage are not normally covered by EPLI insurance. A good rule of thumb is that any liability covered specifically in another policy is excluded from EPLI.

HOW IS A COMPANY EVALUATED FOR RISK? Several factors affect the risk level including the type and size of the business. To determine the risk, the insurer will generally evaluate the business's employee handbook, employment applications, and personnel policies as well as analyze past claims, lawsuits and allegations.

EMPLOYEE PRACTICES LAWSUIT STATISTICS The number of civil rights employment cases filed in federal court more than doubled from 1992 to 1996, going from 10,771 to 23,152. In 1995, the median compensatory award for a wrongful termination case was more than \$200,000. This is forty-five percent higher than the previous year.

Risk managers and business leaders would be well advised to consider the merits of EPLI as well as educate themselves and their employees on work-related practices in an effort to reduce their exposure to such lawsuits.

Article provided courtesy of the Insurance Information Institute (1997). For more information on this subject or insurance product's appropriateness in your situation please consult your qualified legal professional and insurance agent or broker.