



INSURANCE

INDEMNITY

LIABILITY

Do you understand the difference?

Contracts frequently make reference to the words ‘insurance’, ‘indemnity’ and ‘liability’. Sometimes confusion can arise however as to the legal implications of this terminology. This factsheet sets out a quick guide to these terms and what they may mean for you and/ or your business.

Insurance

Insurance is when a party takes out a policy which transfers risk from them to an insurer in exchange for payment. It guards the insured party against any losses for any risks which are specified in the policy.

Business insurance is typically taken out to protect assets, income (e.g. business interruption cover) and liabilities. It is very important that you read the terms of any policy carefully before taking it out to ensure that it protects your business against the appropriate risks.

In addition, you should make sure that you are familiar with any notification clauses. Most insurance policies require the insured to notify the insurer about an insured event within a specific period of time (e.g. 28 days). Strict compliance with these notification terms is necessary to avoid the insurer declining cover for the claim.

Indemnity

Indemnity refers to a contractual obligation for one party to provide compensation to another party when that party has suffered a loss. Indemnities are frequently used in contracts as a way to allocate the risk between the contracting parties.

For example, when a business is sold, the vendors may give an indemnity to the purchasers in respect of any claims that arise from the period in which the vendors were in control of the business.

The precise wording of the indemnity can be negotiated between the parties. Sometimes, one party will agree to provide an indemnity but only (i) for a specific period of time or (ii) up to an agreed amount.

Liability

Liability is a term used to describe a situation where one party is legally responsible for something. Liability can arise as a result of:-

- i) Terms contained with a contract
- ii) Negligence where one party owes the other party a duty of care
- iii) Legislation

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Our Corporate and Dispute Resolution Teams have a wealth of experience dealing with issues that relate to insurance, indemnities and liability. If you require any assistance in respect of any of the matters addressed in this factsheet, please do get in touch.