

What is it and why is it important for business brokers?



Frequently Asked Questions

What is professional liability insurance?

Professional liability, errors & omissions (E&O) and malpractice insurance are three different names for the same type of insurance. Professional liability insurance protects you from claims alleging negligence in the performance of your professional services.

For a business broker, much like a real estate broker, this typically means a ‘perceived’ error which results in financial damage. This could be in the form of a dissatisfied seller not getting the price they wanted for their business or a buyer alleging the business does not perform as promised.

“When I saw how straightforward Aon’s application was and how affordable the policy was, I knew it was time to put a policy in place.”

Jeff Snell, M&AMI, LCBI, ABI
ENLIGN Advisors
IBBA Chairman Elect 2019

Why do business brokers need professional liability insurance?

It’s a fallacy that only doctors and lawyers get sued for their professional services. That simply isn’t the case. Real estate, insurance and business brokers are all licensed professionals. They are responsible for their work and can be held to a professional standard of care for their work. They can all be sued. That’s why they need to be insured.

Why would I need professional liability insurance when I don’t make mistakes?

In today’s litigious world, you don’t have to make a mistake to get sued. All a buyer or seller has to do is believe they suffered damages to file a lawsuit. Or if a

seller makes an error in their financial records that results in the buyer not earning the revenue projected, the business broker may be named in a lawsuit.

Unfortunately, even if the court renders a verdict of not guilty for a business broker, these types of cases can take years to resolve and cost tens of thousands of dollars in legal fees. Even in the case of a frivolous lawsuit, your insurance pays the costs to defend you. Without insurance, you’re stuck footing the bill.

Business Broker Legal Case Example*

Summary: A man engaged a business broker to purchase a business. The business broker furnished him with a brochure detailing an auto repair business that reported annual gross receipts of \$580,000 and a net profit of \$142,000. The buyer consulted a CPA and attorney. Both advised him not to buy the business based on the seller’s incomplete financial records. The buyer purchased the business anyway and signed a provision expressly disclaiming any reliance on statements or actions made by the broker.

Allegations: A year later, the buyer alleged the seller had falsified his financial records. He sued the seller and the business broker, claiming the broker had participated in fraud.

Court Ruling: A trial court found fraud on the part of the seller and ordered him to pay compensatory and punitive damages of \$500,000. They ruled the business broker had not participated in the fraud and that the non-reliance provision in the purchase agreement barred the buyer from asserting a fraud claim.

Business Broker Legal Expenses: \$24,000

Does having insurance give me 'deep pockets'?

Some people have the misconception that having insurance can make you a target. The decision regarding who to sue is not made on the basis of who has insurance; it's made on the basis of who may have been responsible for causing the financial damages.

Plaintiff's lawyers don't know who's insured and not insured at the time they decide to file a lawsuit. They're not going to find out until the discovery phase. Prior to discovery, a defendant can spend a great deal of money on legal expenses that otherwise would be paid by professional liability insurance.

What happens if I get sued and don't have insurance?

Just because a business broker is uninsured does not mean they won't be sued or are going to be dropped from the case. Should a jury decide against you, a court order will follow. If you or your insurance company does not pay the court order, this creates an unsatisfied judgment.

An unsatisfied judgment against you is much more damaging to your credit than bankruptcy. It's unlikely you would be able to get a mortgage or a loan. The plaintiff's attorney can make a motion to enforce that judgment. When they do that, it means your wages can be garnished.

Do you offer any discounts?

Yes, we offer a 15% premium discount for any of the following professional certifications:**

- Certified Business Intermediary (CBI)
- Mergers & Acquisitions Master Intermediary (M&AMI)
- Certified Mergers & Acquisitions Professional (CM&AP)

We are the only insurance program to offer these credits.

"We switched our E&O insurance to Aon and took advantage of the IBBA CBI discount. We paid about 20% less than our previous E&O insurance carrier."

Louis Vescio, M&AMI, CBI
Coastal Business Intermediaries

Does the policy cover me as a real estate agent?

Yes, we can add it by endorsement if real estate sales are less than 35% of your total revenue. There is no cost for the endorsement.

Do you cover independent contractors?

Yes, we can add independent contractors coverage to the policy. We can also write policies for individual business brokers.

Do you have any payment options?

You do not have to pay the entire premium in one payment. Ask about our premium finance options.

For rates and additional information, contact Kristoffer Boyd at

215.293.1230 • kristoffer.boyd1@aon.com



*This is a hypothetical case study for illustrative purposes only.

**The total discount does not exceed 15%, regardless if the business broker holds multiple certifications. Proof of certification is required.