[Insurer Name]
[Insurer Address]
[City, State, Zip Code]

[Date]

[Policyholder Name]
[Policyholder Address]
[City, State, Zip Code]

Re: Notice of Potential Policy Limit Exhaustion and Reservation of Rights
Claim Number: [Claim Number]
Policy Number: [Policy Number]
Date of Loss: [Date of Loss]
Claimant: [Claimant Name]

Dear [Policyholder Name],

We are writing to you regarding the claim filed by [Claimant Name] arising from the incident on [Date of Loss].

Based on our preliminary investigation and the demands presented by the claimant, the potential damages in this matter may exceed your policy limit of $[Limit Amount] per occurrence. Please be advised that [Insurer Name] is not responsible for any portion of a judgment or settlement that exceeds your applicable policy limits.

Reservation of Rights

This letter serves as a formal Reservation of Rights. While we are currently investigating this claim and providing a defense, this action does not waive any of our rights under the policy. We reserve the right to deny coverage or withdraw from the defense should it be determined that the claim is not covered or once the policy limits have been exhausted by payment of judgments or settlements.

Your Right to Personal Counsel

Because the claims against you seek damages in excess of your insurance coverage, you have the right to retain your own personal attorney, at your own expense, to represent your interests regarding any potential excess exposure and to associate with the counsel we have provided.

Policy Limits and Settlement

Under the terms of your policy, our duty to defend and pay claims ends once the applicable limit of liability has been exhausted. We will keep you informed of any settlement negotiations and significant developments in this case.

Please contact the undersigned at [Phone Number] or [Email Address] if you have any questions regarding this matter.

Sincerely,

[Adjuster Name]
[Title]
[Insurer Name]