



A VL real life claim example

Defence Costs

Exposure Exceeded Policy Limit

The Insured is a firm of architects with professional indemnity insurance. The policy limit of indemnity was \$1,000,000 including costs. During the period of cover the firm was served with proceedings alleging negligence and seeking \$2.5M in damages. The architects believed that they had some valid defences to the claim and that the quantum claimed was significantly overstated. The Insured notified the claim and expected VL to defend it. However, as the potential quantum of the claim exceeded the limit of indemnity under its policy. Section 9 of the Law Reform Act 1936 required the full \$1,000,000 limit of indemnity to be preserved for the satisfaction of any judgment against the architects. It effectively debarred the Insured from accessing their professional indemnity policy limit of indemnity for defence costs.

In anticipation of this issue VL had produced a solution to this dilemma by offering a separate form of policy which provides cover solely for defence costs in this type of situation. This policy indemnifies only defence costs and is unaffected by Section 9 of the Law Reform Act and the Supreme Court decision.

The Insured fortunately had this cover which meant that VL could pay for the claim to be defended and settled within the indemnity limit of the professional indemnity policy.

CEG 058-102019/000