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vero liability

Public Liability - Selecting Policy Limits

Is due consideration given in assessing policy limits for Public Liability policies?

What should be looked at when determining an appropriate limit of indemnity? Here are just four commonplace factors:

1. Contractual Requirements

With few exceptions, principals in contract require contractors and sub-contractors to hold Public Liability insurance with limits greater than $1m. Whilst until recently a $2m limit was frequently called for, it is now more likely to be $5m, $10m or $20m.

Mostly we see such increased limits put in place just for the contract period, typically for months rather than years. Consider, however, the "damage" trigger in PL policies. The claim occurrence, faulty work etc, happens during the contract period when the increased policy limit applies but the resultant damage manifests in the future and perhaps lower limit policy period. The cover limit at the time of the damage applies. It may well be inadequate.

Selecting an appropriate policy limit should take account of past work history as well as current activity. The extra premium required to maintain an increased limit permanently is unlikely to be a deterrent.

2. Products Liability

It is a universal feature that the policy limit for Products Liability is aggregated for all claims during the policy period. You might expect that "products" means something "manufactured" but the PL policy creates a much wider context.

The policy definition is: "The ***Insured's Products*** means any thing (after it has ceased to be in the possession or under the control of the Insured) manufactured, constructed, erected, installed, repaired, serviced, treated, sold, supplied or distributed by the Insured (including any container, other than a vehicle)".

Every business where work or output fits into that policy definition has an exposure to multiple claims. But with an "aggregate" limit in the policy that limit is more likely to be inadequate.

Another aspect often overlooked is the downstream use of a product. A simple inexpensive component can end up being used in a complex and costly application where its failure can produce disproportionate liability costs. Does the policy limit take account of these possibilities?

3. Care Custody & Control/Service & Repair

The standard default sub-limit for these "extensions" is $250,000 and for many businesses this may be adequate. But how do you test the adequacy? Care Custody & Control is essentially a Bailees Liability cover intended for bailees where there is no direct charge for bailment. Arranging a Bailees cover entails determining the maximum value "at risk" at each location. Is there any reason for this process to be overlooked when considering the suitability of the standard "CCC" limit?

With Service and Repair the focus is often on the value of the property/vehicle which is being worked on. But would a standard sub-limit be adequate cover for the accumulated value of property/vehicles being held by a repairer during, pending or on completion of service or repair?

4. Inflation

It is probably thirty or more years since $1m became the "default number" for PL policy limits. But inflation, whilst modest year by year, has been cumulatively significant over those thirty years.

Based simply on the Consumer Price Index, $1m in 1980 is now around $4.5m ***(RBNZ Inflation Calculator).*** In the construction sector 30 years ago to build the average family home, say, 100sq/m might have cost $75,000 whereas today the equivalent is more likely to be 200sq/m for $450,000. Homes costing in excess of $1m to build are no longer a rarity.

With the emphasis on greater housing density multi-unit blocks will become commonplace and exposure at a single site will readily run into multi-million dollars. Most obviously the trades' risk exposures are commensurately greater.

> The effect of inflation across the board means that the "default" $1m, or even $2m policy limit may no longer be adequate

Detailed claim scenarios for each of the situations described above are available to view on our website. For further information your specialist VL Underwriter will be happy to discuss this with you.