4 simple steps to choosing Public Liability limits

At a glance

- Public and Products Liability (PL) insurance is an important part of doing business, with minimum levels commonly required
- However, minimum Limits of Indemnity are not necessarily enough for clients' actual needs, especially following recent changes to the law
- Our four steps can help to ensure you select the correct limit of indemnity for your business when sourcing PL insurance

Public and Products Liability (PL) insurance is a core cover for today's businesses, safeguarding your solvency, profitability and brand.
We explain the benefits of reviewing you PL limit of indemnity, and offer guidance on choosing a suitable level of cover.

Rising costs prompt need for review

PL insurance protects against property damage and/or personal injury caused to third parties by the nature of business activities.
Claims values have seen significant increases in recent years, causing many Clients to consider the need for higher limits of indemnity to remain adequately insured.

Change in personal injury discount rate

This is especially true for claims involving personal injury, where a recent change in the law has dramatically affected potential settlement values (see case study example in right hand column).
The recent change in the personal injury discount rate means that clients can now realistically anticipate losses in excess of £10m on a single severe injury claim. Going back five or 10 years that would have been pretty much unthinkable.
As incidents can involve multiple claimants, this development highlights the need to think carefully about maximum exposures and the limits of indemnity you hold.
Businesses should consider the following key points when determining an appropriate level of cover:

1. Minimum requirements

PL insurance has become an important part of doing business, and an increasing number of contracts require parties to hold minimum levels of cover.
This is especially true when dealing with public sector bodies, which typically require £10m be held by anyone working for, on behalf of, or in partnership with them.

Industry bodies may also stipulate minimum insurance requirements for their members, particularly those associated with the building trade.
Clients should therefore review their obligations and ensure they are meeting minimum requirements.
However, minimum levels requested by other parties have very little bearing on an organisation's actual needs.
When asked to source PL cover, Noyce will look to assist and guide clients in assessing their level of exposure, and in evaluating the Limit they need.
The following additional factors therefore should always be considered when purchasing PL insurance.

2. Nature of activities

Clients need to think carefully about the possible scenarios where their activities could cause damage or injury.
Higher risk activities, working around valuable assets and the provision of critical components are all likely to result in higher claims frequencies and values.
Certain industries and territories are also known to be more litigious or generally award higher damages. For example, the United State and Canada present notably higher exposures, and some PL policies may include limitations on claims from those jurisdictions.
Each business will have their own unique circumstances, resulting in very different claims scenarios and maximum potential losses. It is therefore important to take time to understand your particular needs if appropriate cover is to be recommended.

3. End use

Thinking should not be limited solely to business's immediate dealings, but also the end use of their product or service.
For example, the potential liabilities of a metal bolt manufacturer are significantly higher if their bolts are ultimately used within a safety critical part of an automobile engine.

4. Common policy terms

Many PL policies include some common policy terms to be aware of.
In particular, while public liability is written on an 'any one occurrence' basis, products liability is typically offered as an 'aggregate' limit of indemnity. This means that the limit of indemnity applies across all claims during the policy term, not each claim in isolation.
Clients with product-led businesses will therefore need to consider higher limits of indemnity in order to adequately manage their product-related risks. They should also be advised to consider product recall cover.
Other common limitations may relate to exports to the United States and Canada, or products for use in aircraft and activities involving radiation.

Options for increasing limits

Should higher limits be needed, the primary insurer can be approached to request an increase. However, not all policies will be able to accommodate this, and an insurer might not have the appetite or capacity.
Often, a simpler and more economical option is to source an excess of loss policy.
Package policies tend to offer a maximum of £10m in PL cover, but that does not mean it is necessarily the maximum a customer will need. Any business running should consider £10m as an absolute minimum, as just one claim can now exceed that limit.
Excess of loss policies are a good way of ensuring that you have the necessary limit for your business needs, after consideration of all these factors, and they provide an economical way of significantly increasing limits of indemnity accordingly.

How we can help

Contact us on 023 8062 2190 to see quotes to increase your limit of indemnity.

Case study – from £6.8m to £10.7m

In this real claim with Zurich Insurance, a cyclist hit a pole due to the alleged negligence of a policyholder. They sustained a brain injury requiring long-term care.

- Claim reserve before 27 February 2017 (+2.5% rate) – **£6.8m**
- Claim reserve after 27 February 2017 (-0.75% rate) – **£10.7m**

The change in personal injury discount rate caused the likely future care costs settlement to increase by £3m alone. Overall claim reserve increased by £3.9m in response to the change.