

INSIGHT 04

SUB-LIMITS VS ADDITIONAL LIMITS: KEY DISTINCTIONS AND THEIR IMPACT ON CLAIMS

In the Specialty Insurance Market, understanding the key components of Limits of Liability, specifically Sub-Limits of Liability and Additional Limits of Liability is crucial.

This insight explores the importance of defining these Limits of Liability in Specialty Insurance contracts in order to protect Insurance Brokers, Insurers and Insured parties from unforeseen financial risks.

April 2025



CoverageClubb

THE BACKGROUND

The Specialty Insurance Market provides tailored insurance coverage solutions for complex risks that standard insurance policies may not adequately address.

Within Specialty Insurance policies, Limits of Liability clauses define the Insurer's financial obligations in the event of a claim. Two key components of Limits of Liability are Sub-Limits of Liability and Additional Limits of Liability. Understanding the distinction between these two components and the potential consequences of not clearly delineating them in insurance contract documentation is critical for Insurance Brokers, Insurers and Insureds.

SUB-LIMITS OF LIABILITY

Sub-Limits of Liability refer to specific caps within an insurance policy that limit the amount an Insurer will pay for specific types of losses or specific coverages within the overall policy Limit of Liability.

Sub-Limits of Liability are often included to restrict exposure to high-risk aspects of insurance coverage while maintaining an affordable premium.

Some examples of Sub-Limits of Liability commonly found in the Specialty Insurance Market are as follows:

- Within a Property Insurance Policy, coverage may be afforded for Expediting Expenses, which typically provides cover for additional costs incurred to speed up repairs or replacements following a covered loss. These costs could escalate, and therefore, a monetary Sub-Limit of Liability will typically be imposed which restricts the amount recoverable for such costs under the insurance policy;
- Within a Business Interruption Policy, there may be coverage afforded for Contingent Business Interruption, which typically covers loss resulting from interruption or interference to the Insured's business caused by physical loss or physical damage to property of the type insured by the Policy which is owned or controlled by the Insured's customers or suppliers. The Sub-Limit of Liability applicable to Contingent Business Interruption coverage may be

a monetary amount, a specified time limit (typically a number of days), or a combination of the two with the greater or lesser of the monetary amount or specified time limit applying.

In order to clearly identify that a Sub-Limit of Liability applies to a certain risk or coverage, the relevant clause within the Policy Wording will typically include language such as *"This Policy insures, up to the Sub-Limit of Liability stated in the Policy Declarations"*.

In addition, the Policy Wording will often include language which outlines the application of Sub-Limits of Liability and interplay with the overall Limits of Liability, such as the below:

"Sub-Limits of Liability will be the maximum amount payable and will apply on an any one Occurrence basis. The Sub-Limits of Liability stated below or elsewhere in this Policy are part of and not in addition to the Limits of Liability"

Sub-Limits of Liability therefore ensure that Insurers are able to provide coverage for risks that may represent a particularly high risk and/or high financial exposure, whilst being able to efficiently manage their maximum exposure. Sub-limits of Liability also allow the incurring of particular expenses by the Insured to be effectively controlled by placing a threshold on the maximum amount recoverable for such expense.

ADDITIONAL LIMITS OF LIABILITY

Additional Limits of Liability, on the other hand, represent an extra amount of coverage, extending beyond the base Limit of Liability for specified risks and expanding the monetary amount of available funds for covered claims.

Instances where Additional Limits of Liability may be applied include:

- Within an Onshore Property Insurance Policy, where there may be coverage provided for Professional Fees, which typically covers architects', surveyors', consulting engineers' and other fees incurred by the Insured in the reinstatement of the Property Insured following Physical Loss or Physical Damage by a peril insured against. The application of an Additional Limit of Liability for such Professional Fees coverage, seeks to ensure that in the event of a total loss where the full base Limit of Liability is utilised, a monetary amount is still available to the Insured for those necessary fees incurred in the reinstatement of the lost or damaged property, whilst also placing a threshold on the maximum amount recoverable for such fees;
- Within an Offshore Energy Property Insurance Policy, coverage is typically provided for Removal of Wreck and Debris and costs or expenses of averting or minimising loss or damage (commonly known as Sue and Labour Costs). It has become convention in the Offshore Energy Insurance Market for such coverage to be afforded subject to an additional limit.

The London Standard Platform Form (2009), JR2009/003 dated 28/04/09, contains ample provision within its Declarations that outline the *"Additional limits applying to certain risks and/or coverages"*. For costs or expenses of averting or minimising loss or damage, an additional limit of 25% of the applicable insured value, is afforded on an any one occurrence basis. For wreckage or debris removal costs or expenses, an additional limit of 25% of the applicable insured value, on an any one Occurrence basis is also afforded. The JR2009/003 also outlines that such coverage that is subject to an additional limit *"shall not exceed 50% of the applicable insured value, any one Occurrence"*.

The application of Additional Limits of Liability is an attractive coverage proposition for Insureds and allows coverage for certain risks to apply in addition to the base Limit of Liability or Sum Insured, ensuring coverage for certain exposures is ring-fenced and still available in the event of a total loss.

CONSEQUENCES

Failing to clearly define and differentiate between Sub-Limits of Liability and Additional Limits of Liability in insurance contract documentation can lead to significant complications, including:

1. **Coverage Disputes and Litigation** – Insured parties may assume that coverage applies up to the full policy limit when, in reality, a Sub-Limit of Liability or Additional Limit of Liability imposes a specific cap. This misunderstanding could lead to legal disputes and financial consequences for the Insured;
2. **Underinsurance Issues** – Without clearly outlining when a Sub-Limit of Liability or Additional Limit of Liability applies, Insured's may not realise that they need supplementary coverage to sufficiently cover their risk exposures, leaving them financially vulnerable in the event of a claim;
3. **Regulatory and Compliance Risks** – Ambiguities in policy language may result in non-compliance with industry regulations, leading to penalties or enforcement actions against Insurers and/or Insurance Brokers. In addition, the application of Additional Limits of Liability may also result in Insurers becoming overlined, whereby they have assumed more risk than their underwriting capacity or regulatory limits allow;
4. **Loss of Trust and Reputation Damage** – Insurers who fail to clearly outline Limit of Liability structures within specialty insurance policies risk reputational harm, potentially losing clients and market credibility. Conversely, where an Insurance Broker has arranged an insurance product and failed to clearly outline Limit of Liability structures, this can also lead to reputational damage, financial damage in the form of errors and omissions and the loss of clients.

CONCLUSION

Well-structured Specialty Insurance policy documentation should clearly distinguish between base Limits of Liability, Sub-Limits of Liability and any Additional Limits of Liability.

Insureds must understand these terms to make informed coverage decisions, while their Insurance Brokers and Insurers must ensure clear, precise policy language is used to avoid disputes and financial impacts.

By clearly outlining the application of any Sub-Limit of Liability and any Additional Limit of Liability, Insurance Brokers, Insureds and Insurers can better manage risks and maintain financial security in the face of unforeseen losses.



CoverageClubb

james@coverageclubb.com

DISCLAIMER:

CoverageClubb Limited provides insights and publications for information purposes only. We do not sell, underwrite, or guarantee insurance products. The information we offer herein is not a substitute for professional legal, financial, or insurance advice, and we recommend consulting a licensed insurance provider for specific policy decisions.

We are not liable for any actions taken based on the information provided. Use of our services is at your own risk.

For further clarification, please contact us at [CoverageClubb | Contact](#).

This disclaimer is subject to change without notice.