Product liability insurance skyrocketing

The National Federation of Independent Business recently conducted a Product Liability survey of small businesses. The results, reprinted from the NFIB Speaks Out Newsletter, follow.

1. Approximately three of five small manufacturers surveyed carry product liability insurance. Propensity to carry such coverage is directly related to firm size.

2. One in 12, about nine per cent, of all firms surveyed, cannot afford product liability insurance and another 17 percent cannot afford desired limits. However, less than one percent cannot find anyone to insure them for any price. Almost three percent have "gone bare", once having had insurance and now not being able to afford it.

3. Product liability insurance rates are escalating at an alarming rate.

4. By the end of 1976, product liability claims against surveyed small manufacturers will have doubled over the past five years. Insurance payments to claimants will have risen significantly over the same period as well.

Most claims settled that included some payment to a claimant are relatively small. However, a substantial difference exists between mean payments and median payments due to a few very large financial settlements.

5. Estimated premium payments of surveyed firms for the coming year will be approximately six times larger than payments made by insurers to claimants over the last 4¾ years.

6. The most significant finding of this survey is that one in eight surveyed small manufacturers have failed to develop a new (new for the firm) product and one in 20 is dropping a product due to the inability to obtain product liability insurance, the cost of product liability insurance premiums, or the threat of product liability suits. This type of impact is predominant in the "Chemicals, Petroleum, Rubber and Plastics" sectors.

7. Prior increases in product liability insurance premiums caused 25 percent of the surveyed firms paying premiums to raise the price of their goods, and another 21 percent have raised or will raise their prices due to expected premium increases. □