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# THE FULL GUIDE TO PROFESSIONAL INDEMNITY INSURANCE



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As the Technical Claims Director for Romero Insurance Brokers, Stuart leads on the more complex claims processes and interrogation of insurance policy details.

A respected industry leader and excellent communicator, Stuart gives an in-depth account of the necessity of Professional Indemnity cover, also detailing what businesses should be made aware of, and how much cover they may require.

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# INTRODUCTION

Professional indemnity insurance is one of the most complex areas of liability insurance and one that is often misunderstood due to its unusual and sometimes counter-intuitive conditions regarding both cover and the reporting of claims. When purchasing Professional Indemnity insurance, the support of a good broker – through the handling of claims and the arranging of cover - can be the difference between the successful protection of one's business or a costly claim.

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# WHAT IS PROFESSIONAL INDEMNITY AND WHAT DOES IT COVER?

Professional Indemnity insurance is a type of cover that responds to allegations of inadequate advice, service or design by a business. In its most basic form, 'PI cover', as it is known, is the non-tangible version of Public Liability Insurance.

While Public Liability insurance covers physical mistakes that cause damage or injury to an innocent party, Professional Indemnity insurance responds when the damage or injury is as a result of poor advice, inadequate design or a failure in the service provided by a professional organisation.

Whilst Professional Indemnity is a complex and intricate aspect of insurance, its operating principle can generally be distilled to the same fundamental trigger in the majority of cases:

- An expert providing a professional service has been negligent, therefore creating a situation that has given rise to a loss.

Examples of Professional Indemnity claims include:

- An architect providing inadequate designs for a house
- A solicitor wrongly advising a client on how to pursue a legal matter
- An accountant failing to file a client's tax returns in time

In these cases, Professional Indemnity insurance would need to have been purchased by the professional or business operator to protect themselves from the financial losses as a result of a negligence claim.

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# WHO REQUIRES PROFESSIONAL INDEMNITY INSURANCE?

All businesses that provide advice to customers could have a Professional Indemnity exposure, especially if they are specifically engaged in producing designs, offering financial or legal guidance, or making recommendations in respect of materials and specifications.

Most companies that work in the financial or legal sector will have Professional Indemnity cover as a matter of course, specifically because their professional advice is what is relied upon by customers in making important decisions relating to their assets, revenue or legal rights. However other companies, such as builders, plumbers and engineers can also have Professional Indemnity exposure if they are advising customers, developers, architects or other similar such parties. This advice could be in relation to the design or specification of a construction job, its methodology or on recommended materials.

Certain businesses will also be required to have professional indemnity cover as part of their membership of a professional body. These regulatory bodies include the below:

- Solicitors Regulation Authority (SRA) for solicitors
- Royal Institution of Chartered Surveyors (RICS) for surveyors
- Bar Standards Board (BSB) for barristers
- Financial Reporting Council for accountants
- Architects Registration Board for architects

Over **25% of all business insurance claims** are professional indemnity-related (this makes professional indemnity claims **the most frequent type of claim** in the UK)

Despite this, the biggest concern for companies were cyber claims (34%) and business interruption (34%)

The **UK PI market** was estimated to be worth £2.9bn in 2021, however this **has since grown**.

The **largest premium paying sectors** are:

- Construction and Design - **£600m**
- Legal Services and Solicitors - **£340m**

Sectors with the **largest proportion of Professional Indemnity claims** made against them:

- **30%** Solicitors
- **27%** Construction professionals

The **largest Professional Indemnity claim** ever made was for **£1.6 billion**

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As of 2023, the majority of Professional Indemnity claims were made against solicitors (30%), although construction professionals also made up 27% of the claims submitted in the same period. Clearly the exposure to these sorts of claims is not limited to the 'classic' professions of doctor or barrister, but extends to include any business that provides work that involves advice, design or specification. Indeed, the construction and design sector currently carries an estimated open market PI premium of £600m, over twice as much as the premiums paid by solicitors - £280m.

As one can imagine, the value of Professional Indemnity claims can range from a few hundred pounds to many millions, especially when one factors in not only the costs involved in rectifying a problem but also the associated legal fees, disbursements and other ancillary losses incurred in representing each party. As an eye-watering example, the largest Professional Indemnity claim ever made was for £1.6 billion and was filed by a major accountancy firm against a sub-prime lender.

What can we learn from these statistics? There is an increasing 'blame culture', and political, societal and environmental changes could mean difficult times ahead.



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# WHY IS PROFESSIONAL INDEMNITY INSURANCE ESSENTIAL?



In the US, Professional Indemnity insurance is often referred to as 'Errors and Omissions' cover, and this is exactly what a business is insuring against – mistakes.

It is a cliché that everyone makes mistakes, but is nonetheless absolutely true – occasionally even the best, brightest and most conscientious of us will be distracted while doing something important, misread a word or sentence, or provide advice with good intentions only to find that it was misguided or given when not in possession of all the facts. In these scenarios, PI cover is there to cover a business or individual.

Take, for example, a contractor who is engaged to design and build a new car park. If there are small errors in structural calculations, to even a tenth of a percentage point, these could cause significant rectification costs, as well as fees for structural engineers, surveyors, forensic experts and solicitors. Indeed, this example is in fact a recent case that was handled by the Romero claims team, which saw damages being settled at £550,000, plus costs.

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# HOW MUCH PROFESSIONAL INDEMNITY INSURANCE COVER DO BUSINESSES REQUIRE?

How much Professional Indemnity cover a business requires depends on each business's risk exposure, the industry they sit within, the size of their workforce and their risk history.

Any consideration of the amount of PI cover will be based on an estimation of the claim value which could be submitted against the company. There is a tendency for business owners to approximate their exposure as being lower than it should be. Estimations should be based on the worst-possible scenario; hence businesses remain fully protected.

The financial implications of a silly mistake can cost a client hundreds of thousands of pounds, if not millions; therefore it is crucial for a business to be as realistic as possible when setting their Sum Insured.

When considering the Sum Insured for professional indemnity cover, a client should liaise closely with their broker. A good broker will advise on the customer's needs based on general requirements as well as their experience of claims within the specific industry sector. The Sum Insured should be subject to constant review and, if necessary, revision, in order to ensure that the business is adequately covered.

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# WHAT RECENT DEVELOPMENTS HAVE AFFECTED PROFESSIONAL INDEMNITY INSURANCE?

Professional Indemnity insurance, and its premium levels, are still recovering from the market shocks that have occurred in the last few years.

One major shock was the Grenfell tragedy. That event saw PI insurers take immediate action in an effort to limit their exposure to sub-standard cladding, with fire safety measures being excluded across the entire industry and premiums rocketing as providers became noticeably 'risk averse'.

This phenomenon has seen some softening in the last 18 months, with certain insurers offering limited cover for fire safety risks. But any green shoots of returning confidence remain fragile.

In addition, the introduction of the Building Safety Act has caused significant ripples throughout the PI insurance industry, as limitation periods for cladding products installed before June

2022 now extend back as far as 30 years. For new work, this limitation period is 15 years. As a Professional Indemnity policy responds to incidents on a 'claims made' basis (i.e. the current policy responds at the point that the claim is made, not when the defect may originally have occurred) this leaves current insurers potentially exposed to claims that may stem from work that was undertaken before they even existed.

Certain insurers have sought to impose restrictions, conditions and exclusions on their PI policies in order to minimise their exposure to these 'long-tail' risks, whilst also increasing premiums accordingly.

Through recent developments, it's clear how a broker will help navigate this challenging climate. A dedicated broker will be able to negotiate with insurers on PI policy premiums, understand how best to minimise exposure, and keep businesses up to date on Professional Indemnity regulations.

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# PROFESSIONAL INDEMNITY INSURANCE WITH ROMERO INSURANCE BROKERS

A PI claim can be an extremely stressful event; the significant costs involved could threaten a business's survival. Without adequate cover and a broker's claims handling expertise to draw upon, businesses are likely to struggle.

Romero Insurance Brokers specialise in complex, high-value Professional Indemnity cover, both in terms of the placement of business as well as the handling of often intricate and demanding technical claims.

PI cover generally carries a unique set of conditions, reporting obligations and exclusions. Without high-level professional support a client may inadvertently undermine their own defence. A company should seek the best possible cover and support from the right broker, and Romero

Insurance Brokers is best placed to protect businesses from complex, varied and extremely costly risks.

Our clients take advantage of our 20+ years of experience and our dedicated professionals who fully understand the Professional Indemnity claims process.

In such difficult and turbulent times, the service of a top award-winning broker should not be understated. We offer a dedicated helpline and always put the client first.

Romero Insurance Brokers is dedicated to protecting your today and your tomorrow. Our promise has, and always will be, to Treat Customers Exceptionally.

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**IF YOU WOULD LIKE TO DISCUSS PROFESSIONAL INDEMNITY INSURANCE,  
PLEASE GET IN TOUCH WITH OUR AWARD-WINNING TEAM**

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