

## Advice from Tribe Advisory – Buying Professional Indemnity insurance cover

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### Introduction

Professional indemnity insurance (PII) is an insurance policy that will protect you from claims made by clients who are not satisfied with the work you have done for them.

In basic terms PII protects your business against the payment of compensation to a client who alleges that you made mistakes or were negligent in the advice that you provided. PII will also cover the associated legal costs. You may need PII cover even if the advice that you give is incidental to your main business activities, including, for example, design work undertaken as part of preparing a quotation.

It can also cover, dishonesty, loss or damage to the customer's data, defamation, and any alleged breaches of your client's intellectual property.

Whether you are starting out in business, freelancing for the first time, becoming a sole trader, setting up a limited company, or simply wondering whether you need to, or should take out a professional indemnity insurance policy, this guide covers everything a surveying business owner needs to know. It explains how Professional Indemnity Insurance works, whether it's relevant to you and gives you tips on how to choose the right type of policy for your business.

### Who provides Professional Indemnity insurance and how can I get it?

#### Insurance companies

Professional Indemnity insurance is offered by a number of insurance companies and those insurers that have been validated by RICS and are able to underwrite RICS members against RICS minimum policy terms are listed [here](#)

#### Insurance brokers

It is recommended that an insurance broker is used to access the insurance markets. The benefit is that they can assist you in evaluating your precise needs and will negotiate the price, terms and conditions on your behalf, from competing insurers.

RICS preferred insurance broker partner is **Howden**, a leading UK firm with a team of PII specialists ready to help you, however there is not a requirement to use a specific broker.

You can find out more about **Howden** [here](#)

### What is Professional Indemnity insurance?

Professional indemnity insurance will protect you from potentially crippling claims by unhappy clients. There are a variety of potential danger areas, including:

- Negligence – where you have been negligent, or where you have breached a duty of care to your client.
- Loss of documents or data – where you have mislaid important paperwork or data belonging to a client.
- Intellectual Property (IP) – where you have accidentally infringed copyright, trademarks, or other types of IP owned by other businesses or individuals.
- Defamation – where you have created or used material about other organisations, that may cause offence.

- Dishonesty – where someone from your business has stolen from a client.

Not all PII policies will cover you for every one of these possible scenarios. When you are researching policies and getting quotes it's important you check exactly what each one covers.

### **Why should I buy Professional Indemnity insurance?**

Professional indemnity insurance is mandatory for most of the regulated professions, including chartered surveyors, chartered accountants and solicitors.

RICS, as your governing body, requires a [minimum standard of cover](#). Through this, the quality and integrity of the profession is maintained and, importantly, in the event of a claim, both the Chartered Surveyor is protected, and legitimate claimants can be compensated.

RICS minimum requirements for Professional Indemnity insurance is set out in the [RICS Professional Indemnity Insurance Requirements document](#) and you should share this with your Insurance Broker, to ensure they are aware of these requirements.

It is also common for business clients to insist that you have PII cover in place before they hire you to perform work for them. PII is increasingly a standard inclusion in commercial contracts.

Because you are providing a professional service or advice of any kind, it's imperative to get professional indemnity insurance. A professional mistake can be very costly, and without cover in place it's possible a claim could wipe out your business.

When you consider that having cover can be the difference between saving and losing your business if you do make a mistake, the cost of PII is in context. The value of PII is far more than just a regulatory requirement; it is an essential tool of trade and, of course, will give you and your clients peace of mind.

### **What protection will a Professional Indemnity policy offer me?**

PII cover will typically protect you in the following ways:

- You will be covered in the event that you have made a mistake that leads to a client making a claim against you.
- Your insurer will take care of any legal representation you require.
- Even if you lose your case, most policies will also cover the cost of any damages granted to a client. The amount of financial cover you qualify for will depend on the level of protection you opt for when taking out a policy.
- A policy will also cover the costs of putting right any mistakes you have made.
- Many professional indemnity policies will also protect you if you lose a client's documents while they are in your possession.
- Some policies even provide cover if an employee, but not a company director or partner, has stolen from a client.

### **How much cover do I need?**

RICS sets minimum standards for the PII that you buy. In addition, the amount of cover you need may be dictated by your client, or by the nature of the work that you undertake.

When liaising with your insurance broker, these are the questions you need to consider, when determining the amount of cover required and offered;

- What is the value of the contracts or projects you are engaged in, and how big are the clients you are working for?

- Have you clearly outlined the specific nature and the mix of your work and explained where your revenue is derived?
- If you make a mistake, how much damage could it cause, and how much compensation would a client try to claim against you?
- How much would it cost you in legal fees to defend the case?
- What is the worst-case scenario, and would your business be able to survive such a claim?
- Will the insurance meet the RICS minimum standards?

Most PII policies enable you to select a level of cover that's suitable for you, and you will be guided by the questions above. The policy limits are predicated by the size of your business predicated by your turnover. RICS sets out the limits required [here](#).

Of course, the higher the level of cover, the larger the premium so ensuring that the cover is appropriate to you, your business, the nature of your work and the requirements of RICS is important. Your insurance broker will advise you on the cover and limits that you require.

### **What to look out for when researching Professional Indemnity insurance**

A quick online search will highlight dozens of insurers that offer PII but RICS members must use an approved insurer from the [RICS PII insurer list](#), via your appointed broker or Howden who is RICS preferred insurance broker partner.

With such an array of providers to choose from it can be difficult to know where to start. Some aspects for you to bear in mind, when discussing your needs with your insurance broker, include:

- Can the policy be tailored to suit your specific needs? If it can be, you will avoid having to pay the premium for cover you don't need
- When do you need it to start and can you get a quote and buy immediately to put you on cover?
- If you have a current policy with an upcoming renewal date, can you obtain competitive terms; with improved coverage and/or premium cost?
- In the event of a claim, the excess is the amount that you will need to pay. What is the excess, does it meet the limits required by RICS and is it appropriate to your business?
- Is there an option to pay by monthly payments instead of an upfront lump sum? This is especially useful for new businesses and those that prefer this method of cashflow control
- Does the insurer have a good reputation?
- Do you feel the insurer will deal with a claim efficiently and pay out if needed? The claims service and an insurer's willingness to pay should influence your selection

Ultimately, your selected insurer, guided by your insurance broker, should balance the premium charged, the strength of the cover and the service that you will receive if you are unfortunate enough to have a claim.

### **When comparing quotations ensure that evaluation is "like for like"**

PII is not commoditised, and policy terms and conditions can vary; so, it is important to recognise the differences and their potential impact, in the event of a claim. Your insurance broker will be able to assist your evaluation of competing offers from insurers.

One key point to look out for is whether the cover is offered on an, 'annual aggregate limit' or 'each and every claim' basis; noting that some policies combine both.

By way of simple example, if a policy offers cover of £2,000,000 on an annual aggregate limit basis, that is the maximum the policy will pay out during a year's insurance, regardless of how many claims are made in the policy period. Any costs required, over the aggregate limit, must be met by you.

However, PII policies sold as 'each and every claim' basis will pay out up to the policy limit on any number of claims in the period and the total cost of those claims is not limited or capped. This type of policy clearly offers you a superior level of protection.

RICS requires your PII to be on an "each and every claim" basis.

### **Run-off cover**

As PII policies run on a 'claims made' basis rather than 'occurrence' basis, you could potentially be liable for claims from past clients long after your PII policy has ended or if your business ceases trading. Run-off cover will protect you against this kind of eventuality.

RICS requires that regulated firms carry adequate and appropriate run-off cover when they are deregistering and ceasing to trade.

This must have a minimum of six years cover for consumer claims. Insurers will provide £1,000,000 aggregate limit for consumer claims automatically in their policy wording. No premium payment will be required to trigger this.

You can obtain run-off cover for longer period than six years, or with higher cover limits, if they you it adequate and appropriate.

It is also required that you take out 'adequate and appropriate' run-off cover for commercial claims, and RICS would normally expect this to cover six years after closure.

*Ask your broker for advice on the suitability of this cover, if unsure.*

### **Summary**

Professional Indemnity insurance is not only required by RICS, but it is invaluable protection for you and your business. Navigating insurance offers can be complex, so it is recommended that you seek specialist support from an insurance broker, such as RICS preferred partner, [Howden](#).

There are a number of [RICS Validated Insurers](#) who provide PII, but terms and conditions are likely to vary. This class of insurance remains competitive, but premiums have been rising because of increasing claims costs and the lack of profitability for insurers in the sector.

It has never been more important to ensure that you have the right level of cover at the best possible price, to ensure that your business remains resilient and sustainable, even if you are unfortunate enough to have a claim made against you.

**Finally, remember the cheapest policy may not be the best one**