



Introduction

Independent Financial Advisers have been finding the procurement of Professional Indemnity Insurance (PII) to be a difficult and expensive process in recent times. The sector has experienced the perfect storm over the past six years, with a combination of increased claims frequency, significant instances of fraud and emerging and uncertain risks, for example with the introduction of Pension Freedoms, the annual renewal exercise has become a growing challenge for many firms.

Not unexpectedly, PII has now returned to the spotlight with calls to review the level of cover that policies are providing to firms. There is a great deal of variation in the coverage offered in the market as there are no standard minimum terms mandated by the Financial Conduct Authority (FCA), but this is to be reviewed in their consultation on the future of Financial Services Compensation Scheme (FSCS) funding.

The focus for firms should be to carry the most appropriate level of coverage with the least restrictions. Whilst it is true to say that many of the PII challenges the industry is facing are largely outside the control of individual firms, there are significant benefits to preparing for renewal throughout the policy year.

This guide highlights some relatively straightforward steps that can be taken by you to improve the management of PII renewal process and ultimately achieve a better result, by using your time efficiently and minimising excesses and exclusions and hopefully premium.

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PII Requirement

Chapter 13 of the IPRU-INV Interim Prudential sourcebook for Investment Businesses specifies the Professional Indemnity Insurance requirements for firms. The table below gives some key reference points when assessing the levels of coverage that you currently hold. The relevant chapter can be found here FCA Handbook - Chapter 13

Requirement to hold professional indemnity insurance	A firm must take out and maintain at all times professional indemnity insurance that is at least equal to the requirements in this section IPRU-INV 13.1.5.
Limit of Indemnity	EUR 1,120,200 for a single claim against the firm; and EUR 1,680,300 in the aggregate IPRU-INV 13.1.10. This has to be equivalent on the date of inception and ensure that the limit of indemnity is appropriate for the period covered by your Policy IPRU-INV 13.1.15.
Excess	Any excess higher than £5,000 carries a requirement for the firm to hold additional capital resources IPRU-INV 13.1.27.
Exclusions	Any exclusions carry a requirement for additional capital resources IPRU-INV 13.1.23. The table shows this clearly based on relevant income emanating from the excluded activity - relevant income is defined under IPRU-INV 13.1.8.
Coverage	The cover provided by the policy should be wide enough to include the liability of the firm, its appointed representatives, its tied agents, employees and its agents for breaches under the regulatory systems or civil law IPRU-INV 13.1.17.



Managing your PII Policy

You should make sure that staff are familiar with your PII policy terms, so they understand the covered activities and limitations. Then by actively managing the insurance throughout the year you will positively position your firm for the renewal process.

Maintain a claims register

This will help insurers review claims and consider the measures you have taken, or can take, to prevent a reoccurrence. Also, review all similar cases – will these result in further claims and where can processes be improved?

Advise changes to your firm

Changes to your business activities, newly Appointed Representatives, a merger or acquisition and other material changes must be disclosed to insurers to ensure cover remains fully operative.

Risk management & compliance

Robust procedures to identify, assess and mitigate risk and regularly review higher risk areas. If you have an external compliance provider then continually review that advice to assess whether the service remains compatible with your requirements.

Manage Investment Information

The type and nature of data requests has become more prevalent in recent times, so prepare to provide comprehensive details for each investment type: amounts; provider(s); performance; and percentage of your client's investment portfolio.

Review client documentation

Regularly review and update your documentation. Submitting documents such as Suitability Reports and Internal Procedure Guides with your renewal forms can often provide added reassurance that you have the required structures and systems in place.

Five Building Blocks to Success

Firms that achieve the best renewal results proactively manage each area, for example, maintaining a database of each investment type will save you time. All too often, firms attempt to compile these lists on demand which can take substantial resources to compile.

We would, also, strongly recommend regular discussion with your insurance broker. This will increase your awareness of the insurance market conditions, emerging trends and issues and provide you with early warning of your existing insurer's underwriting stance changing in a way that could adversely affect you.

The run up to renewal

We recommend you start the process, at least, 90 days before your renewal date.

1 Start your renewal process early

One of the most significant contributing factors for firms receiving onerous terms is when their proposal form is submitted just a week or two before the renewal date. This can typically cause last minute issues if the insurer requests further information, or offers any unsatisfactory terms, as it may not leave enough time for further discussion or time to seek alternatives.

Ensure your broker is experienced in dealing with IFAs and has a good understanding of your firm

We see many firms which have been presented incorrectly to insurers by an inexperienced broker who then approach us late in the day. The correct presentation to insurers first time is key. There are extensive benefits in having a specialist IFA broker, who fully understands your business, motivating the IFA PI market to work with you, not against you.

- Discuss and agree which insurers your broker will be approaching

 Whilst some brokers rely solely on in-house facilities, others conduct more extensive marketing exercises. Where you feel you have exposure to any higher risk areas it can be beneficial to seek comparative quotations. Try and avoid more than one broker approaching the same insurer on your behalf as this could well affect the terms you receive. It is also important to establish whether your broker has direct access to insurers or whether they are going through another broker. It is rare that the extra links in the chain enhance communication and understanding.
- Remain in touch with your broker

 Once you commence your renewal process ensure that you remain in constant communication with your broker and receive terms well in advance of your renewal date. This will prevent any last minute surprises and ensure that you can fine tune and discuss any alterations to your cover.
- Presentation is key

 A rushed, untidy proposal form with poor responses or ignored questions is likely to impact the way your firm is perceived. Ensure that your submission is clearly completed, percentages totalled and any supplementary information is clearly labelled. It is also vital to accurately answer questions, with some referring to work conducted over the last year while others refer to activities conducted over longer periods of time. This has disclosure implications also as anything which is not disclosed may not be covered down the line. Your broker should review the information submitted beforehand and ensure that the presentation is adequate.
- In conclusion

 Planning, preparation and communication throughout the year is time well invested and could save you money, time and certainly any stress at renewal. As there is no standardised wording for Financial Advisers in the PI market, familiarity with your policy and insurance wording will help you to make a more educated decision at renewal. Your broker should be able to advise you on your coverage levels and suggest any pertinent improvements which can be provided by your current or alternative insurers. One should be wary of singularly focusing on price as a saving on the premium could have a costly impact on the firm should a complaint arise.



Checklist

Below is designed to be a useful checklist for the renewal process. Whilst not an exhaustive list, it does provide guidance on key preparation points.

- **Proposal Form** - Has the form been completed legibly and accurately? - If any question is not relevant to your firm, enter a N/A in the box. - If there is insufficient space in the form provide a covering letter ensuring that there is clear reference to the relevant question on the form. - Do all the individual activity percentages add up? - Is your firm likely to engage in any new activities in the next 12 months or undergo any material changes? Ensure that these are disclosed. - Is it signed and dated? Complaints Register - Provide a list of all complaints and claims showing investment types, detail of the claim, whether it has been reviewed by FOS and the status. - Where there have been claims, state the steps that have been taken to avoid a reoccurrence (review of all similar cases, change in the process etc.). **Supporting Info** - Corporate brochures and organisation charts (optional). - Spreadsheet of high risk investments and Defined Benefits transfers. - Sample suitability letters with rationale explained. - Overview on risk management processes. - Compliance audit information. If any negative feedback has been received. Explain the rectification steps taken. **Marketing** - How many brokers are being approached (more than 2 can very quickly prove counter-productive). - What is the insurer strategy? Overlaps and duplication often negatively impact the interest from insurers and ultimately premium. **Timeframe** - Has the deadline for delivering the quotation been given to your broker/s? It is key that you have the appropriate amount of time to make an informed decision or to make alternative arrangements. - Ensure that you are familiar with the differences, if any, in coverage. **Considering Moving Insurer or Broker?** - Are you aware of the implications in any change of excess or new exclusions?
 - How experienced are they with the IFA PII Sector?
 - Ensure that all circumstances that may give rise to a Claim are discussed and notified before the end of your current policy.

About Protean Risk

Protean Risk combines one of the most extensive choices of IFA insurers available, with specialist sector and product knowledge to offer our clients some of the best terms available in the market. Utilising our extensive IFA experience allows us to gain a clear understanding of your needs and advise upon which IFA insurers and which wordings are most suited to your firm.

As a qualified and specialist Independent Financial Adviser Insurance Practice, we regularly conduct in-house policy wording reviews and benchmarking studies, maintain an up-to-date knowledge of the market and are highly skilled at negotiating and tailoring wordings specific to your particular needs.

As a client you can expect a high quality personal service including:

- O Guidance on the risk submission so that you positively position your firm in the insurance market.
- Fully informed insurance marketing strategy, outlining key markets to approach and tactics to employ to secure the best results.
- Experienced, direct negotiation of terms from specialists involved in the IFA sector every day.
- O Full policy wording reviews.
- Prompt service response at renewal and throughout the policy period.
- O Continued claims support throughout the policy year.

About Julian Brincat

Julian Brincat specialises in IFAs and has over a decade of insurance experience working for leading brokers. Having graduated with a BA (Hons) in Politics and Economics, Julian undertook his legal qualifications which contributes to his depth understanding of insurance wordings.



Other publications available at www.proteanrisk.com:

- How IFAs get a better PII deal
- IFA Claims Best Practice
- IFA PI Insurance Market Investigation
- IFA Professional Indemnity Review Matrix
- 2017 Professional Indemnity Insurance Guide

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This publication is designed as a guide only. For specific advice surrounding PII you should contact your insurance broker.

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