



Independent Financial Advisers
Professional Indemnity
Insurance Buyers Guide

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 during recent 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 in the **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 section IPRU-INV 13.1.5 .
Limit of Indemnity	EUR 1,250,000 for a single claim against the firm; and EUR 1,850,000 in the aggregate as defined under 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 as defined under IPRU-INV 13.1.27 .
Exclusions	Any exclusions carry a requirement for additional capital resources as defined under 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 as stated in 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.

Five Building Blocks to Success

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.

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 and time.

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 factors for firms receiving onerous terms is when their proposal form is submitted shortly before the renewal date causing last minute issues with requests for further information, not enough time for further discussion or to seek alternatives. Find out, well in advance (at least 2 to 3 months) if there have been any developments with your insurer and let your broker know if there have been any updates in your firm that may impact your forthcoming renewal.
- 2 Ensure your broker is experienced in dealing with IFAs and has a good understanding of your firm**

There are extensive benefits to working with an experienced broker who fully understands your business and the IFA PII market. A simple conversation over the phone or meeting with your broker should reassure you on this.
- 3 Discuss and agree a good strategy**

Sending your submission to too many brokers potentially means the same insurer is being approached multiple times with varying standards of presentation which could negatively affect your renewal process. Your broker should guide you as to the strategy including insurers they will approach and the potential outcomes.
- 4 Presentation is key**

The correct presentation to insurers first time is very important. A rushed, untidy proposal form with poor responses or ignored questions will impact the way your firm is perceived. Ensure that your submission is clearly completed, percentages totalled, and any supplementary information is clearly labelled. If you have had any noticeable change from last year (spike or drop in income, claims, new activity etc) provide additional information to your broker. Request your broker reviews the information before approaching insurers to ensure there is no missing information.
- 5 Keep in touch with your broker**

Once you commence your renewal process ensure that you remain in regular communication with your broker and establish deadlines to receiving terms to ensure you have plenty of time to decide.

In conclusion

Hopefully this will help you plan and prepare for your renewal and provide you with a bit more insight into how the PII market works. There are no two ways about it, the market is currently difficult and less straightforward than it has been for a few years, but by being proactive and concentrating on your renewal, you should effectively minimise any negative outcomes and we can all hope that the market gets easier in the years to come.

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.

- Considering Moving Insurer or Broker?**
 - Ensure that you are familiar with the differences, if any, in coverage.
 - 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:

- 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.
- Full policy wording reviews.
- Prompt service response at renewal and throughout the policy period.
- 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:

- **PI Insurance Claims Guide**
- **PI Insurance Guide for Regulated Firms**
- **PI Insurance Guide for Non Regulated Firms**
- **Cyber & Data Insurance Guide**
- **A Guide to Crime Insurance**

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