

Hard Market

Part Two

Professional Indemnity Insurance Factors to consider in the hard market

In our last article, we reviewed the shift in the Professional Indemnity Insurance (PII) market, looking at why premiums are rising and why some accountants are finding it more difficult to obtain PII for their practices. This month we look at navigating the hardening market and how you can present your firm in the best light to secure cover at an affordable price.

If you undertake activities that insurers consider higher risk, such as corporate finance, tax mitigation or overseas work, or if you have had a claim made against you or your firm, insurers will require more information at your next renewal.

A fully completed proposal form and additional information relating to these matters will need to be supplied and ideally should be sent to your broker well in advance of your renewal date.

Your proposal form

This is your presentation to insurers and is a reflection of the quality of your firm. A fully completed, neat and legible form will always make a good first impression.

When completing the form include your firm's brochure or give details of your website or online presence. The form can be lengthy and ask for a lot of detailed information; nowadays forms are often tailored to only ask for additional information where a certain question or activity triggers this.

However, you have a legal duty to provide insurers with all material information that could affect your insurance; therefore, you must include any material facts, positive or negative even if a specific question does not appear on the form.

In addition to the proposal form, what other details can you give to insurers?

Letters of engagement

These are important as they form the basis of your contract with your client and therefore need to be in place and up to date. Make sure letters of engagement cover the scope of work agreed and are updated regularly to include any new areas of work.

Limit your liability to an agreed and reasonable level. Often policyholders use their limit of indemnity as a maximum cap.

Operational procedures

Increasingly now, insurers are asking about the firm's operational procedures, checks and supervision. This is to ensure that there is adequate risk management in place to reduce the likelihood of any errors, omissions or fraud. Factors insurers will be interested in include:

- Your management structure/hierarchy explaining how staff are supervised and how quality control is exercised.
- Do you obtain references when employing staff? Is there a documented training programme in place and is CPD recorded?
- Do you operate an accessible diary system to ensure that deadlines are met?
- Do you have a Compliance Officer who regularly audits your files?

- Does your firm handle client money and how often do you check your cashbooks and bank accounts? Are these independently reviewed and reconciled against bank statements?
- Is there a dual sign off procedure in place for financial transactions?
- Is there a Business Interruption plan in place?

Evidence of a well-run, efficient practice will only be to your advantage.

Claims and High Risk activities

If there have been claims or circumstances notified, insurers will want to know the cause and outcome. It is possible to improve the situation by letting insurers know what subsequent actions you have taken to prevent a reoccurrence, for example have you had your files independently audited or reviewed to ensure there are no further matters of a similar nature, or have you put additional checks and procedures in place.

With higher risk activities insurers will be interested in the qualifications and experience of the individual carrying out this work and whether independent specialist advice is sought. A CV can also be helpful.

Fraud

We are seeing more firms affected by fraudulent behaviour on the part of their employees and have been asked what indications can identify or signal this. From our experience, we find that the reasons for fraud vary greatly, for example dislike of an employer, gambling habit or financial difficulties at home.

An individual engaging in fraudulent activity may:

- Avoid taking holidays even if these are due and may insist upon coming to work while sick to avoid any oversight of their work.
- Prefer to work on their own and work outside of normal hours. Show a reluctance for other employees to assist them.
- Have unusually close relationships with clients or suppliers.
- Have sole authority to make or receive payments from clients. Often there will be multiple transactions and variable amounts relating to a single client.
- Have more than one key position or area of responsibility within the company.
- Exhibit a change in lifestyle or suddenly seem a lot better off, make large purchases or have known debt problems or gambling habits.

While care must be taken to avoid unfair accusations, sudden shifts in behaviour are best addressed in the interests of both protecting the practice from fraud and ensuring general employee wellbeing.

Employers must be vigilant to identify any of the above and underwriters are interested in any policies and procedures in place. Whatever your situation, a good, strong, clear presentation to insurers is key to obtaining comprehensive and value for money PII cover.



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