PROFESSIONAL INDEMNITY – WHAT EXACTLY ARE YOU SIGNING?

Have you ever been presented with an insurance policy that only an insurer would be qualified to understand? The insurance industry is guilty of being overly technical, yet, Professional Indemnity is something business owners just can't afford to get wrong.

If you are a business owner, sole trader, contractor or freelancer, then I'm sure you've been made aware just how vital Professional Indemnity (PI) is to protect yourself against negligence claims should they arise.
Sadly, there are some policyholders who underestimate the need for PI due to being misled by an insurance representative…

…"You don't design anything and you don't directly give advice, so it's not something you have to worry about."

Oh no.

Then there are some under the impression that if they have a policy in place, they're completely protected.

I'm sure you know what's coming next…

Unfortunately, and it is a big unfortunately, this isn't the case.

It is essential that you understand the principle of your cover type and the content of your policy to ensure it is comprehensive enough for your requirements.

Whilst there is a general awareness about PI, the aim of this piece is to bring your attention to 5 key points that are often overlooked or misunderstood.

1) Excess

Do you know whether your policy excess includes or excludes legal expenses? Should you find yourself in a situation that requires you to call upon your PI cover to defend an incoming alleged claim, you may be subject to pay a large excess for a situation which may not even represent a valid claim.

2) AOC versus AGG

Any One Claim (AOC) versus Aggregate (AGG) is a huge differential in PI insurance and how it protects your business. AOC means that your cover will pay out to your set liability amount against each claim. Therefore, if you face more than one claim in a year, then each claim is individually covered within the remit of your policy. However, if your PI policy is based on an AGG basis then you are only covered to a set amount – once that amount has been used up then you are completely exposed to future claims within the same year. Should you have £1million PI insurance in place then AOC cover will pay out up to £1million per claim, whereas AGG cover will only pay out up to £1million in total.

It's worth considering which of these two options you are contractually obliged to have in place and which option is best suited to your business type to ensure you have sufficient protection.

3) Collateral Warranty Reviews
If the sector you operate within involves you signing Collateral Warranties, you should be aware of how many warranties your PI insurance provider, if any, will review on your behalf. Does your policy state a specific number of reviews allowed within each year? Is this number enough? What happens if you exceed this number? Or do you have unlimited reviews, providing you with uncapped peace of mind?

Make sure you understand the Collateral Warranty review section of your policy and the process you need to follow when submitting warranties for review. It is important to remember that signing a collateral warranty that hasn't been vetted by a qualified individual may lead to an invalidation of the policy wording and the potential for an incoming claim to be dismissed.

4) Claims Notification Conditions Precedents

It is important to understand your Claims Notification Conditions and follow them accordingly. Failure to submit your claim correctly could impact the claim itself. Your policy may even dictate that any circumstances that 'could' lead to a claim be notified too. If you use a broker and alert them to your situation or claim, it is then their responsibility to advise the insurer accordingly. Claim Notifications Conditions often have a timescale attached - if your notification falls outside of the incident-to-notification timescale, your cover may be invalidated. Specific notification details will be set out in your policy – do you know what these are or where to find them? A technical loophole can easily put you at risk; that's why it's important to understand the conditions of your PI cover in preparation for any type of claim.

5) Jurisdiction versus Geographical Limits

Understanding the difference between jurisdiction limits and territorial or geographical limits is crucial. If you are covered within certain geographical limits, you need to know where the boundaries are. If an incident occurs outside of your set territory, you may not be protected. If you have opted for jurisdiction limits you are covered for any claim brought to the court system of any nominated countries in your policy, making this the sensible choice for businesses that operate across the whole of the UK and beyond.

There are many more than 5 points to consider - some of which are industry specific and some of which are policy relevant; but in both instances, your broker should be able to talk you through topics such as the basis of cover applicable to PI and Claims Made.