



10 THINGS TO KNOW ABOUT PROFESSIONAL INDEMNITY INSURANCE

A GUIDE TO PROTECTING YOUR BUSINESS

Made possible



10 things to know about Professional Indemnity insurance

1. Do I really need Professional Indemnity insurance?

Do you provide advice or a professional service to clients? If so, it may be advisable to consider professional indemnity (PI) insurance. It's a type of business insurance that can provide cover for disputes arising from a mistake or allegations of negligence.

Most businesses invest time and effort into looking after their customers and building up a good professional reputation. Unfortunately, mistakes can happen and disputes can arise, often leading to hours of worry, expense, bad publicity and even significant damage to your professional reputation. Professional Indemnity insurance can help take away some of the worry and defend your claim in court should it come to that.

Some real world examples that could lead to a dispute and a claim for financial damage:

- A website hosting company accidentally deletes clients' websites
- An architect specifies inadequate materials for a construction project
- An IT specialist installing software onto a client's system accidentally corrupts important files
- An advertising agency prints the wrong telephone number on a client's advert
- An employee accidentally posts confidential client information on the company website

- An accountant uses an outdated form which results in their client underpaying their tax returns
- A business consultant provides strategic consultancy which leads to legal repercussions, fines or loss of business for their clients
- A direct mailing firm accidentally sends out the incorrect draft of a mailshot containing wrong or defamatory information
- A logistics firm directs deliveries to incorrect addresses
- A marketing firm suggests a brand name that means something negative in another language

Basically if a business can get things wrong in the provision of a professional service they have an exposure.

“ But I've been doing this for years, I'm an expert and I know I won't make any mistakes ”

PI insurance doesn't just cover mistakes made, it also steps in to defend you should your client accuse you of making a mistake even if the basis of their accusation is unfounded.



2. What is a 'professional service'?

A professional service is an intangible service being provided by people who are selling their skills and specialist knowledge based on their qualifications or historic experience. Such people are relied upon as being experts in their fields and as holding a greater level of knowledge and specialism in their subject matter than the average person.

Professional services can include:

- Design
- Consultancy
- Engineering
- Advertising
- Marketing
- Software development
- IT services
- Testing
- Inspecting
- Advising
- Specification
- Translation
- Valuation
- Intermediaries/Agents
- Recommendation
- Mediation
- Services which depend on specific qualifications and training such as solicitors, accountants and surveyors
- Other non-manual services which depend on a specialist knowledge and skills such as commercial artists, safety consultants and training specialists.

3. What does PI insurance cover?

Where the insured firm or party are legally liable, whereas insurance such as Public Liability is designed to cover against physical damage, Professional Indemnity insurance is designed to cover financial damage which a client may claim has arisen as a result of negligence, error or omission, misstatement or misrepresentation arising out of professional services.

Over and above the standard errors and omissions cover, many PI policies may also include cover for claims made against you which arise from:

- Loss of documents in many different formats
- Accidentally releasing confidential information about clients
- Accidentally saying or writing something which is deemed defamatory
- Unintentional use of third party copyrighted images, texts or designs
- Dishonest acts of employees.



4. But I didn't charge my client for this work... Do I really have an exposure?

“ But I didn't charge a fee...
But it was just an offhand
comment...

But it wasn't part of the job I was
employed to undertake...

But I was just helping a
friend out with a personal
recommendation... ”

In today's compensation culture people are far more inclined to look for somebody to blame when things go wrong. It doesn't really matter whether you charge a fee for your services or offer what you see as some friendly free advice, a professional owes a duty of care to clients and if something goes wrong there could be a claim for financial compensation.

Whether you think the claim is justified or not, where you could be held to be legally liable, having PI insurance in place can offer you some peace of mind.

“ I know you're my friend but as
you are a professional accountant
I relied on you when you said our
books were all in order...

I appreciate that you only came
in to measure the boundaries,
however as a professional
surveyor we relied on your
confirmation when you assured
us that the building was
structurally sound...

I know we only met briefly but
since you're a professional
business consultant I assumed
you were giving me good
strategic advice...

The IT guy who came to install
our printers said that our network
security was up-to-date...

You recommended the
contractors I employed. As
my architect I relied on your
recommendations. ”

5. What's the difference between 'Claims Made' and 'Claims Occurring' cover?

Insurance policies are generally provided on either a 'Claims Made' or 'Claims Occurring' basis.

If insurance is provided on a 'Claims Occurring' basis you are generally covered for claims that arise out of loss or damage that happens during the term of the policy irrespective of when the claim is made.

It is important to note that PI insurance is instead provided on a 'Claims Made' basis, which means that you are only covered for claims or circumstances made and notified during the term of your policy. If a claim was made against you after you have ceased to have PI insurance in place you would not be covered.

An example of 'Claims Made' cover:

A small IT company is successful in tendering for a new project that specifies they must have Professional Indemnity insurance in place. After the project has been completed the company decides that it no longer needs PI cover and so does not renew the policy. A short while later a claim is made against them that some serious issues have been discovered. Although the IT company was insured at the time the work was done, because they do not have insurance in place **at the time the claim is made** they are not covered.

6. What is retroactive cover?

In business there is always the risk that advice, negligence or a mistake from the past can come back to haunt you. The good news is that Professional Indemnity insurance can help to protect you from claims from the past, if your policy includes 'Retroactive Cover'.

Retroactive Cover provides a safety net that can cover you for claims against work that you did in the past, generally extending cover back to a specified date which will be written into the policy as the retroactive date. When taking out PI insurance consider whether you will need Retroactive Cover and, if so, how far back you will need it to cover. If in any doubt seek professional advice.

7. What is run off cover?

If you sell the business, cease trading or retire, there's always a risk that someone could make a claim against you for work carried out in the past, going back many years. If you have no insurance in place at the time of a claim being made, you would not be covered.

Run Off Cover is designed to insure against claims that may arise after ceasing trading. Some professional bodies advise their members to maintain Run Off Cover for up to six years or more, though everyone will have different needs. If in doubt seek professional advice.

8. What's the difference between an IT service and a service provided using IT?

In an age when being online is now seen as commonplace, more and more industries are using online platforms, websites and mobile applications to provide their professional services.

Being online is now a way of life with holidays, dating, grocery shopping, job applications, technical advice, online training courses and much more being just a few clicks away. So when you operate an online service should your PI policy be covering an IT risk or something different? Whilst this often becomes a source of confusion it is actually quite straightforward as it comes down to the type of professional service being supplied by you to your customer.

An IT service is provided by people with skills, knowledge and specialism related to computer systems and software who are providing this service to their customers. If, however, the service being provided by you to your customer is not an IT service but instead relies on a different set of professional skills then, regardless of the way this service is provided to the customer, this is not considered to be an IT service and instead remains to be considered as the same type of professional service it would have been had it been provided directly to the customer rather than online.

9. Is PI insurance just one more expense I can do without?

An unnecessary expense, or an investment in your business future?

Business disputes can, and do, happen every day. As a busy professional you will want to concentrate your time running your business. Having the right kind of PI insurance in place can give you some peace of mind and protect against worry, wasted time, sleepless nights, damage to your brand, your reputation and everything you've worked hard for. Could you afford to defend a legal action against you and your business?

Having PI insurance can also act as a marketing tool to build credibility and help you win more work by being able to demonstrate to potential clients that your work is fully insured and that you take your business responsibilities seriously. Many large organisations, councils and government departments will not entertain tenders from businesses that do not have PI insurance in place.

10. How much PI cover do I need to buy?

Along with every other type of business insurance, it is important when buying PI insurance to ensure that you have enough cover and aren't running the risk of being 'under-insured'.

This will involve looking at the size and type of projects you handle, the industries and markets you work in, the size of clients you work with, and assessing worst case scenarios and the potential size of a claim. Ask yourself *"If I mess up what is the worst that can happen, who is likely to sue me and how much might that potentially cost me?"* Take that amount and then factor in the cost of employing solicitors to defend you, plus cost and expenses for investigations in to claim incidents, and the chances are you will probably still be estimating too low.

The general advice is to buy as much cover as you can afford. If in any doubt seek professional advice.

Ask your broker about Professional Indemnity insurance from QBE

People often think one insurer is the same as the next. In fact, the best feedback we get from clients is that we take a different approach and a unique view of each case.

As a business insurance specialist, QBE understands that when it comes to Professional Indemnity, every client's risk profile is different and needs an insurance partner who can respond quickly to their unique challenges. From policy inception to claims settlement, the QBE approach is to use our market expertise to understand the needs of the individual client. We don't believe one size fits all.

Ask your insurance broker about QBE business insurance.

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Made possible



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