

## Analysis: Why brokers face higher rates for PI cover

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An increase in claims is leading some insurers to withdraw professional indemnity cover to brokers

When a claim goes wrong the insurance broker is often the one in the firing line.

Franklands Insurance and Risk Management brokers' professional indemnity (PI) specialist Neil Chatburn says: "Clients have become more willing to blame their broker when things go wrong."



This is why he still sees frequent notifications of claims against brokers, he adds.

Last year Arthur J Gallagher-owned Giles was sued by Eurokey Recycling for £17m in one of the most high-profile claims in an underinsurance case against a broker.

Although Giles won, industry experts point out that even a positive result for the PI insurer can still be costly.

RWA Business Consultancy founder and compliance expert Robin Wood says: "Claims are going on all the time, but only certain ones go to court. They are not all won by the claimant, but they embroil the PI insurer in extra costs to defend them."

### Big name withdrawals

These costs have been a key driver behind the gradual withdrawal of some big players from the market in recent years.

One of these is AIG. Liberty, another mid-sized sized player, has gradually reduced its appetite and, in some cases, increased its rates.

QBE Insurance and Barbican have also reduced their commitment to broker PI. Liberty and AIG declined to comment about their involvement in broker PI.

Chatburn says: "Insurers have become tighter in their terms. They are increasingly looking at how brokers handle their risk management."

Pressure to maintain a healthy bottom line is also hitting insurer appetite.

Specialist law firm Mills & Reeve, which handles broker negligence cases, says insurers have endured a prolonged period of soft market conditions, where low premiums and relatively poor investment returns have combined to create a challenging environment.

## Negligence claims

The law firm says: “To return a profit to shareholders, insurers have had to diversify into higher risk products as well as review their underwriting strategies and their approach to claims management – one effect of which is that claims that might otherwise have been paid, through commercial or relationship management, have been declined.

“One of the knock-on effects for insurance brokers is that they have more frequently become the target for negligence claims, where insurers have avoided cover or exercised a policy right to limit their liability.

“As a result, insurers’ appetite for underwriting brokers’ PI insurance has waned.”

Manchester Underwriting Management chief executive Charles Manchester adds: “The amount you can charge a broker to reflect their exposure, compared to a very large loss, makes it difficult to get the premium to [be proportional to] their exposure to large losses.

“If you are writing insurance brokers’ PI long enough, you have to think about how you are going to deal with that.”

Wood, who sat on the now-defunct Insurance Brokers Registration Council, says rates are rising because they have been historically low.

“We have seen evidence that premiums are rising very drastically. Rates were too low and untenable,” says Wood.

“Brokers have become more of a target in terms of PI claims so rates have to go up so insurers can make a profit.”

Meanwhile, there are insurers who might want to enter the PI market but are reluctant to do so. This is because they are wary of providing PI cover to a broker who places a significant amount of insurance with them as well.

MGB Insurance Brokers joint managing director Nick Bender says: “Insurers like to have a balanced book. There is a potential conflict between writing broker PI and getting claims from that broker.

The frequency in claims is also driving insurers to become more selective about brokers they will write PI for, depending on how good a broker’s risk management process is.

The factors that insurers focus on include: looking at what a broker’s note-taking is like, how they record conversations with clients, and how early they warn clients about new risks to their policy.

In the last few years, PI insurers have borne the brunt of claims against a broker but, Wood says, things might be improving. “The quality of insurance brokers are becoming far less of a risk to the PI market,” he says. “Insurers will focus on those good ones and give them decent cover.



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“But those that have had claims, or those that don’t have good record-keeping, will either be refused or have an expensive premium. It is rare that an insurance broker will be incompetent technically. It is more a case of being incompetent professionally.”

A large part of Griffiths & Armour group chief executive Steve Bamforth’s work when placing PI cover involves advising broker clients on how to improve their risk management process.

“One of the big things we do is to keep reminding them that if they are having conversations with clients and not documenting them they will run into trouble,” says Bamforth.

## Less competitive

On a more positive note, despite a number of insurers reducing their appetite, or completely withdrawing, the situation has not

reached the levels of the 1980s when some brokers struggled to operate because of high premiums.

Chatburn says: “Broker PI has been historically competitive – it is just a little less so now. It does remain relatively affordable compared to other professions, but there has been no doubt that rates have been too low for too long and now insurers are doing something about it.”

Nick Bender says that to weather the volatility of insurers leaving the broker PI market a significant number of his broker clients have long-term insurance contracts.

He said: “[It] insulates against any knee-jerk reaction. Insurance brokers are quite conservative so they quite like the insurance to be ring-fenced.”

There are also new entrants underwriting in this market.

MUM has paired with insurer CGPA Europe to launch a broker PI product that provides cover of up to £10m.

And while the Insurance Act 2015 should reduce the uncertainty surrounding how good a broker is at record-keeping or a disputed claim, the jury will be out on that one until the legislation comes into force next year.

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