



How to get PII ready

What's happening in the Professional Indemnity Market (PII)?

The insurance market is cyclical in nature and goes through soft and hard fluctuations. The PII market has hardened over the last couple of years and typically this results in increased premiums, a tightening of underwriting criteria, reduced insurer capacity, and fewer entrants into the market.

In addition, a 2018 Lloyd's of London review of the worst performing lines of business found that PII was the second worst performing insurance class (behind USA property business). The review found that many Lloyd's syndicates had collected too little in premium for the claims that had been paid out. Lloyd's of London required loss-making syndicates to submit business plans that return them to sustainable profitability and if syndicates do not stick to their plans, Lloyd's can prevent them from underwriting loss-making lines of business. As a result, many insurers had to increase premiums and excesses and underwrite risks more stringently.

How is this affecting mortgage intermediaries?

AMI is aware from member firm research that premium increases are common. A survey of 18 member firms that renewed in 2020 showed that 100% had an increase to their PII premium – nearly 75% of firms had an increase of 40% or greater, with 44% seeing an increase of over 100%. The highest premium increase was 322%. Over a third of firms also saw an increase to their excess(es), with the highest excess increase at 650%.

Mortgage intermediary firms' PII renewals are being affected by factors such as: insurers withdrawing from the market; activity from claims management companies in respect of mortgage advice claims, particularly historic interest only products; and the increased Financial Ombudsman Service award limit (currently at £355,000).

How can my firm get 'PII renewal ready'?



Choose your insurance broker wisely - not all brokers are the same. It is worth choosing a broker that is a specialist in the mortgage intermediary market and has multiple insurers on panel that conduct manual underwriting of risks, rather than relying on online portals which are likely to quote using algorithms and could offer less flexibility. Some brokers may have access to specialist schemes that offer more competitive premiums and/or enhanced policy wordings.

If you decide to obtain quotes from another broker it is advisable to only do so if your existing insurer has declined to offer terms (and your broker has no alternatives), or if the increase to the premium/excess and/or changes to the policy terms (e.g. exclusions) cannot be managed by your firm. However, make sure the alternative broker is aware which insurers have been approached as insurers may decline to quote if they receive a submission from multiple sources. The hardened PII market has reduced insurer capacity and there are only a handful of insurers (circa 3-4 to AMI's knowledge) that are willing to quote for mortgage intermediary firms. Whilst AMI cannot recommend a particular broker, upon request we can supply details of insurance brokers that may be able to assist mortgage intermediary firms.

Talk to your broker – questions to ask your broker include:



- Can the broker provide advice?
- Which insurers does the broker use?
- What is their broking process? For example, do they only approach a few select insurers or is the market exercise more comprehensive?
- Do they have direct access to the insurer(s) or is it through a chain of other brokers (known as a wholesale broker)?
- What is the quote turnaround time?
- Does the broker charge a fee?
- Does the broker charge an admin fee for mid-term adjustments?
- Is there an option to pay the premium in instalments?



Be proactive - firms should start to review their renewal two-three months prior to the renewal date. Do not wait until your broker has contacted you to discuss the renewal, as this may not be until 21-28 days before the renewal date. Be proactive and contact your broker to understand the plan for renewal, to discuss any concerns you may have and to go through any changes that might impact the renewal terms, such as a change in turnover or business activities.



Provide quality information – your broker will ask you to complete a standard proposal form, but it is worth going beyond this to present your firm in the best possible light.

Insurers look at a firm's 'risk profile' and underwriters will have standard rates to apply. However, by providing more detailed and quality information (especially 'soft facts' and not just numbers and percentages) it can provide the rationale for the underwriter to discount the rates in some areas.

AMI has created a [renewal presentation document](#) which can be used by member firms as a template to supplement the proposal form but check with your broker whether they have a preferred format.

Some top tips:

- ✓ ***New** – Try to build a good relationship with your broker and underwriter. If needed, ask if a three way call can be arranged between your firm/the broker/the underwriter to discuss your submission.
- ✓ Take this opportunity to promote and 'sell' your business. Where there is space on the proposal form to provide more information, provide it. ***New** – If there's not space provided, consider noting relevant additional information in a letter to accompany your submission.
- ✓ ***New** – Consider providing additional information on the systems and controls in place for business that may be deemed 'higher risk' by the underwriter, such as lifetime mortgages. We are aware that some insurers are requesting an additional questionnaire if a firm advises on lifetime mortgages.
- ✓ ***New** – Insurers may be cautious of a firm's 'marginal' business, such as areas where they only do a small number of cases every year. If a firm is struggling to secure PII it should consider how important this marginal business is and work with its insurer/broker to assess options. For example, a firm may want to understand if removing this business would make a material difference to how the insurer viewed the 'risk' and its ability to offer renewal terms.

- ✓ Break down income streams and include clear details on the activities that your firm is involved in.
- ✓ Evidence good culture, such as employee qualifications, staff training and mentoring, how quality and control is implemented and how new advisers are supervised and signed off as competent. Include details on how the firm has implemented the Senior Managers & Certification Regime (SM&CR) and how firms assess the fitness and propriety of certified staff.
- ✓ Provide details of any trade body membership (e.g. AMI).
- ✓ Provide evidence of controls, policies, and compliance. Include as much quality and relevant information as possible in this section.
- ✓ Include details of any professional external services used by the firm (e.g. compliance).
- ✓ Insurers understand that errors and omissions happen, but it is the way in which firms handle incidents, learn from these and make changes to policies and procedures to prevent re-occurrence that is important. Insurers are likely to look less favourably upon submissions if there is no information included on any previous incidents.
- ✓ Demonstrate claims management procedures, such as prompt notification to insurers of incidents that may give rise to a claim.
- ✓ Provide more detailed information on previous claims and incidents that may give rise to a claim, such as a background on what occurred and what has been done to mitigate future claims. Providing this information is unlikely to reduce your premium but helps to avoid the repudiation of claims due to non-disclosure. It is also important for the underwriter to understand this section in greater depth, as PII is on a 'claims made' basis which means that it's the policy that is in force at the time of a claim that would respond to a loss.

How has coronavirus impacted PII renewals?



At quote stage, insurers are requesting more information in relation to coronavirus as they want comfort around any potential coronavirus related losses. Examples of information they may request includes:

- How the firm has been affected by coronavirus.
- A firm's approach to the coronavirus pandemic.
- Copy of the Business Continuity Plan (BCP).
- How the BCP is being implemented.
- How the business adapted to home working.
- Future plans e.g. home working, return to office, hybrid working.
- How systems and controls have been maintained during coronavirus e.g. audits, supervision etc.

Ensure that you speak with your broker to fully understand the policy and any alternative quotes, examples include changes to policy coverage (e.g. excess and indemnity limits), policy conditions, applicable endorsements, policy exclusions and claims procedures (including what constitutes a notifiable event).

It is important that any policy purchased is suitable and meets the FCA's requirements under [MIPRU 3.2](#). You should also check with your broker whether the indemnity limit is 'any one claim' or 'in the aggregate' and that cover is provided up to the Financial Ombudsman Service award limit.