Professional Indemnity.co.uk

What you need to know about...

...the limit of indemnity

Call us Mon-Fri 9am-6pm

0345 251 4000

The LOI is the amount of cover or protection provided under the professional indemnity policy. Calculating the right amount isn't an exact science, but getting it right is very important to avoid under-insuring, which could have disastrous consequences for a firm, its directors and the staff.

Key Points To Consider

If it's your decision how much cover you purchase for your business, it's important to be aware of the main factors which should influence your decision. Here are some points which we hope will help you to make an informed decision about the level of cover you need;

a. CLAIM INFLATION Professional indemnity claims can take years to reach settlement. In some cases, for larger claims it can take up to ten years! But the level of the insurance cover is fixed at the LOI purchased when the claim is first notified. Would that limit still be enough to cover the claim and costs at the time of settlement in ten years? You should factor in inflation.

b. THIRD PARTY LEGAL COSTS The third party (claimant's) legal costs can double the amount of a PI claim. These legal costs will be a major part of the claim and you need to ensure that your LOI not only factors in the client loss, but also factors-in a significant amount for their legal costs.

c. STATUTORY INTEREST PI claims usually include an amount for statutory interest on the loss, incurred over several years. This can significantly increase the amount of the claim eventually paid. Factor-in an amount for this part of a potential claim against you.

d. REGULATORY REQUIREMENTS Check the mandatory insurance requirements of your Regulator to ensure you fully comply with the minimum LOI they require you to carry. Either visit their website or call us for details.

e. CLAIMS MADE INSURANCE This is 'claims made' insurance cover. It's the LOI purchased today which will applies to all of your historic work. So if you reduce your LOI when a project or piece of work has been completed, bear in mind that it will be the lower level that now applies if a claim comes in NOT the LOI applicable when you carried out the work.

f. CATASTROPHE COVER You will know your clients better than your Regulator or your PI Broker. ALWAYS consider 'worst case' scenarios* when considering the LOI and not just the most common or likely problems. It's important, so spend some time discussing this at Board or Partner level or call us to discuss.

*Worst Case Scenario

There's no exact formula for calculating an accurate level of PI cover and unfortunately many professionals do not always appreciate or even imagine the scale of the worst case scenario risks to their business. In the event, they find themselves under-insured and the main reasons for this are;

- Wanting to spend the minimum amount on insurance
- Only buying the amount of cover required by their regulator
- Not believing a catastrophe scenario could ever happen
- Not appreciating the full extent of the risks they face

Our Recommendation

Although most Institutes and Associations provide their member firms with specific requirements for the level of PI insurance cover they must carry, this is only a minimum requirement and cannot possibly take account of each firms individual risk. Based only on our experience, we recommend the following as a minimum;

Sole Trader	Insure for *at least* four times fee income (£ 250,000 minimum)
Limited Company	Insure for *at least* three times fee income (£ 500,000 minimum)
Partnership	Insure for *at least* four times fee income (£ 1 million minimum)

Increasing Cover Does Not Significantly Increase The Premium

PI insurance rates are represent extremely good value. If you wish to discuss your level of insurance cover or require indications of the cost of increasing your cover please contact us.