

Professional Indemnity Insurance

Challenges for Real Estate firms in 2009

Recently, there has been a lot of press about the challenges that some firms have faced in renewing their professional indemnity (PI) programmes this year.

It is widely accepted that the recent experience of cumulative premium/rate reductions are not sustainable in the long term, and this is particularly true with the real estate sector, as a result of the downturn in the UK property market which has led to an increase in claims and notifications in this area.

Generally survey & valuation (S&V) activities are viewed as a higher risk than firm's other activities, such as general agency activities. Valuers are often a target of lenders looking to recover losses following a downturn in the property market. This can also lead to an increase in fraud related issues and it is expected that an increase in the amount of property related fraud claims will materialise in the next couple of years.

Market Conditions

The RICS website details 41 qualifying insurers able to offer compliant coverage, however, this seemingly large number of insurers is by no means a guarantee that renewal will be easy. This is demonstrated by the fact that these insurers have different appetites:

- Not all insurers will write S&V risks
- Some insurers will write survey risks but not valuation risks
- Some will write valuation risks but not for lending purposes
- Some have limits on the amount of S&V work they will accept as percentage of the firm's overall revenue.

In addition to these factors, more general changes in the insurance market regarding underwriting considerations are also adding to the pressure of insurance renewals:

- Insurers have become more selective and are asking more questions, including seeking supplementary questionnaires before they will provide terms



- The imposition of higher excesses, particularly for S&V claims is common
- Some insurers won't consider S&V exposures in London and the South East
- Some insurers are reluctant to write new policies for surveyors because of potential exposure to claims from work undertaken during recent times when the economy and property market were prospering.

Firms that undertake high levels of S&V work and those with claims who cannot demonstrate satisfactory risk-management procedures, may find themselves subject to punitive terms.

However, there is still adequate capacity for firms with strong risk management procedures, satisfactory claims experience and those that are well presented to insurers.

Helping Yourself

- Allow sufficient time to prepare for your renewal; at a minimum start planning around 12 weeks ahead of renewal dates
- It is essential to have risk management procedures in place to mitigate against potential claims, but in addition make sure you know how to demonstrate to your insurers how these procedures work in practice

- Be prepared to provide more underwriting information than in previous years. To differentiate yourself from your peers, provide information even before it is sought.

This could include:

- Banding of valuations
- Contractual limitations
- Risk management controls, i.e., valuation authorisation, peer review process, sign off, etc.
- Client selection process

JLT Financial & Professional – Working With You

In this increasingly challenging insurance market, you need a dedicated, experienced broker that can help steer you through the difficult market conditions.

JLT can provide you with the background to assist you in your decision of insurer selection; it is important to take into account the length of time they have been writing S&V exposures, their reputation for paying claims and their financial rating. Due to the claims made nature of PI policies it is the insurer at the time a claim or notification is made that will need to deal with the claim regardless of when the event giving rise to the claim occurred.

The real test of the value of an insurance programme is always at the time of claim and this is an area in which JLT truly leads the way. Our knowledge of insurance products, strong position within the insurance market and our dedicated London-based claims team allows us to settle claims quickly and with a minimum of adversarial negotiations, leaving you to get back to business with the minimum level of interference.

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