

What Is An Appropriate Level of Professional Indemnity Insurance (PII) Cover?

In this month's issue, Solicitor Assist/MFL Professional Insurance Brokers revisit an area we consider on a regular basis.

We are often requested by firms to advise on what we feel the correct level of cover might be for them to buy, so, how much cover is really necessary?

All firms should be aware of the Minimum Terms and Conditions cover and the requirement to maintain a minimum cover of at least £2m for any one claim in respect of sole practitioners and partnerships or £3m any one claim for LLPs and Limited Companies.

However, do these limits go far enough?

Our initial advice to any firm would be to state that it is essential that the firm themselves recognise the various professional indemnity exposures they might face and which arise from their professional services.

The firm needs to ensure the limit of indemnity they purchase reflects their own specific risk, and this needs to take into account the many factors which will lead up to this decision, some of which might include the following:-

- Size of firm (No. of Partners, Fee Income etc.)?
- Disciplines undertaken and the general incidence of claims made throughout the profession within that discipline, e.g. any contentious work undertaken, whether commercial, wills, corporate, or M&A etc.?
- Would the work undertaken have a significant financial impact on the firm's clients?
- Number and values of transactions undertaken, could these increase exposure? For instance, potential losses arising from large value or multiple conveyancing exposures? The firm's own highest contract values over the last 6 year period?
- Work the firm may no longer undertake but which historically where they may have had an involvement and which might present an exposure to loss (e.g. financial services)?

The above represents just a few examples of questions a firm might ask themselves with regards to the exposures surrounding the actual legal work undertaken.

Where else might the solicitor's practice be vulnerable?

- Theft of client money is unfortunately becoming all too common. Such losses might arise from many types of fraud, both internal and external, so, how much is held in the client account? Could a fraud here leave a firm's limit of indemnity exposed?
- Are risk management procedures sufficiently robust? Once consideration has been given to the above aspects of the firm's risk, how are these risks then managed internally?
- Were problems to arise, how quickly and efficiently might the firm be able to solve those problem?
- Most PII proposal forms go into varying degrees of questioning around a firm's quality management procedures so can provide a good indication in assisting with this question – though whilst these of course may often prevent the problem in the first place, will they help mitigate the potential loss?

Having made the decision as to the level of PII to be purchased, the firm can instruct their broker to seek the appropriate options on their behalf; but remember, nobody knows a practice as well as those running it so whilst the insurance broker can help with some guidance; the ultimate decision should rest with the firm itself.

If you wish to discuss any aspect of this article in greater detail or require assistance in sourcing an appropriate level of cover at a competitive price, please do not hesitate to contact ourselves as below. In particular, we do have available a very competitive Excess Layer/Top-Up facility and would be happy to provide quotations accordingly.

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