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PII Made Simple

<http://www.lawsociety.org.uk/advice/articles/pii-guides/>

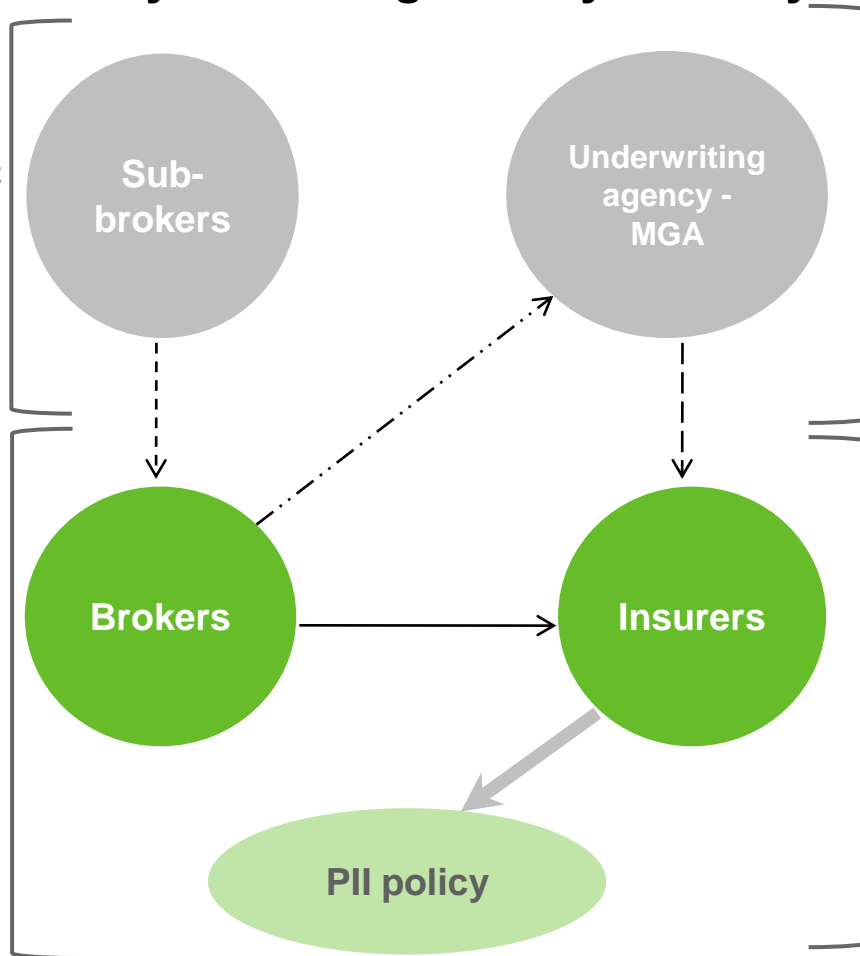


Understanding the PII market

Who are you dealing with in the intermediary chain?

Solicitors may be dealing directly with any of these entities...

- **Sub-brokers** are brokers that 'broke' into larger or more specialist PII brokers in order to gain access to insurers
- **Brokers** advise on and arrange insurance
- Most brokers have no authority to bind insurers
- Brokers have a duty to act for you
- Brokers are regulated by the **Financial Conduct Authority (FCA)**
- Different brokers provide different types of services



An insurance contract between **solicitor** and **insurer**

- **Underwriters** provide services to insurers – may be accessed directly or via broker
- They are able to bind cover on behalf of insurers but do not carry any of the actual PII risk
- **Managing General Agents (MGA)** are a type of underwriting agency
- **Insurers** carry the risk in exchange for premium insurers – may be accessed directly or via broker or MGA
- **Participating insurers:**
 - ✓ are authorised by the FCA to conduct business in the UK
 - ✓ have signed an agreement with the **SRA** to provide solicitors' PII policies



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Searching for a broker

Your broker search

FCA Register

- Public record of all the firms, individuals and bodies that are regulated by the Financial Conduct Authority, including PII brokers and insurers
- Only tells you whether broker is eligible to offer certain products or services in the UK / European Economic Area (EEA) countries
- EEA firms are regulated in their home countries and are passported into the UK

BIBA Search

- The British Insurance Brokers' Association represents the interests of insurance brokers, intermediaries and their customers; search the website or call directly on 0870 950 1790
- [BIBA's search facility](http://tinyurl.com/pyegcj9) (<http://tinyurl.com/pyegcj9>): enter postcode and select 'indemnity – commercial' and 'professional indemnity - solicitors' in the 'insurance type' option boxes to find a solicitors' PII broker in your area

Other Directories

- There are other online directories available, some of which may focus specifically on solicitors' PII
- Before using these websites, you may wish to make further enquires to determine how they assess brokers' level of expertise and whether brokers pay a fee to obtain directory entry

Make sure you ask brokers the right questions – [Slide 7](#)



Your access to the market

The type and size of your firm will impact your access to the market and the types of insurers you should approach.

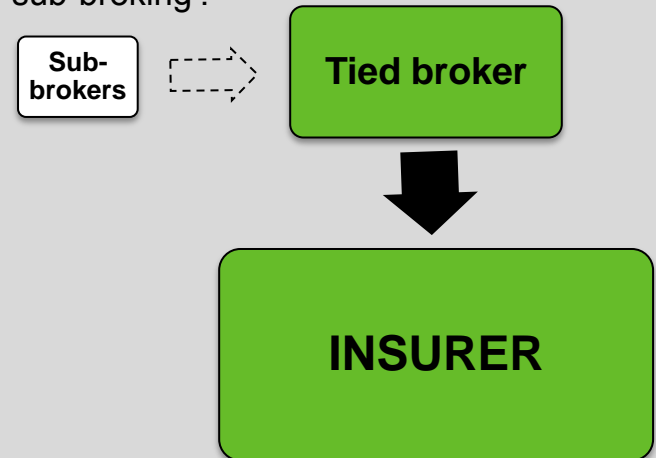
Smaller Firms may need to use multiple brokers to gain access to the full range of insurers within the market ([Slide no 5](#)).

Typically, **Larger firms** use a single broker to access the market.

Refer to our [Insurer's Guide](#) (<http://tinyurl.com/p26u8cd>) which allows you to check broker access to insurers, confirm which insurers cover your market segment and find out whether or not insurers are rated (see also [Slide no. 6](#))

Key considerations

- Ask whether your broker what insurers they can access – compare with your full market in the [2013 Insurers Guide](#) (<http://tinyurl.com/p26u8cd>)
- Ask whether your broker is under a contractual obligation to conduct business exclusively with one or more insurer i.e. a 'tied' broker.
- If another broker wants to place business with an insurer that has a 'tied' broker, they will have to place the business through the 'tied' broker. This is known as 'sub-broking':





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What service are you getting?

All brokers offer different types of service to clients. Ask whether your broker provides an **execution only** or **advisory service** to make sure you get the level of cover you need and are able to identify and access your full market.

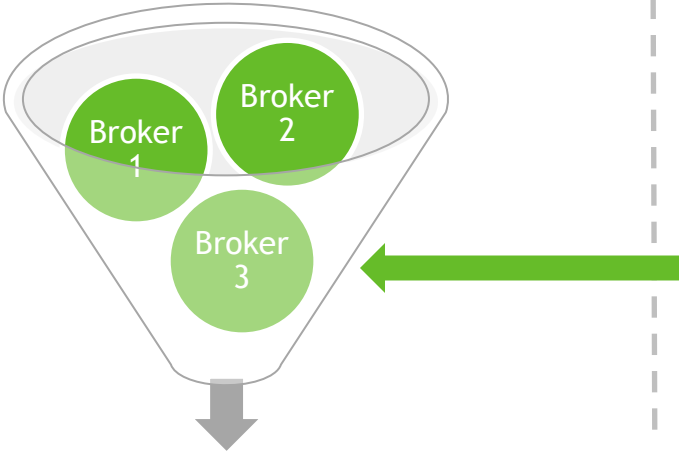
WARNING!
You need to actively manage brokers to ensure that your proposal does not go to the same insurer more than once.

Execution only

Advisory

- Execution-only brokers do not advise you on the market or how best to present your firm to insurers, they will only place your cover.
- It is common for execution only brokers to be 'tied' to a particular insurer(s).
- You may need to instruct multiple brokers to access your full market.

- If you are paying for an advisory service, your broker should advise which insurers to approach and whether to accept an offer.
- They should provide details about market conditions, the reputation and solvency of insurers (see [Slide no. 6](#)).
- May assist in completion of your proposal form.
- Should be able to advise on the best insurers for your firm type and size.



BUT

- Advisory brokers may still be 'tied' exclusively to one or more insurers.
- You may have to instruct other brokers on an execution only basis to access your full market.

FULL MARKET ACCESS



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Understanding the costs

Commission and Fees

- You should always ask your broker for full disclosure of commission and fees.
- FCA regulations only require brokers to disclose commission if asked.
- Where the premium is <£50k, commission is usually taken.
- Fees are negotiated directly with you for performance of services (usually instead of commission).

Run-off costs

- The SRA requires insurers to provide six years' cover after a firm ceases to practice (See: <http://tinyurl.com/k78ctz2>).
- The SRA does not set the premium.
- Your broker should explain charges for the run-off premium.
- Typically, run-off is 200%-300% of annual premium.
- Plan for these costs with our retirement calculator: <http://tinyurl.com/lsknmzs>.)

Premiums

- You and your broker must ensure arrangements are in place *before* the policy commences to pay your premium.
- Will your insurer require payment in advance or in instalments?
 - Does your broker offer a premium finance service?
 - Is Insurance Premium Tax included within the quote?

Financial security of your insurer

- The solvency of your insurer can have a critical impact on your firm.
- Seek insurers' official ratings from an independent agency e.g. "Standard + Poors" (see our Guide: <http://tinyurl.com/p26u8cd>).
 - The SRA has changed terminology to 'participating insurers' to reflect the fact that it does not, at present, require any minimum level of financial security rating.
 - If your insurer is unrated, it is an unknown quantity. Be aware of the risks: <http://tinyurl.com/bxabpf3>).

What is the Law Society doing to help?

The Law Society is actively considering practical ways in which we can assist our members, particularly within the 1-4 partner segment, with a view to increasing the available options for purchasing rated cover, and to do so on terms that represent good value for money. We continue to work to increase stability and transparency in the market.

Extended Indemnity Period (EIP) / Cessation Period (CP) cost

- For firms unable to obtain insurance
 - From 1 October previous insurers must offer 30-day EIP and 60-day CP.
 - You should ask whether your insurer will charge an additional premium.
- For more information: <http://tinyurl.com/kbcc6gj>.



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Questions to ask

Be proactive: if you are not sure – ask!

Are you regulated by the FCA? ([Slide no. 3](#))

Are you a broker or a sub-broker for solicitors' PII? ([Slide no. 2](#))

Do you place the insurance cover directly with the insurer or do you send it to another broker, underwriting agent or MGA? (Slide nos. [2](#) and [4](#))

What premium figure did the insurer quote? ([Slide no. 6](#))

What commission do you or any other intermediary receive? ([Slide no. 6](#))

Are you a specialist in the market? ([Slide no. 5](#))

How many years of experience do you have in placing solicitors' PII?

What percentage of the solicitors' PII market did you place last year? Use Annex B of [Insurers' Guide](#) to compare broker market share (<http://tinyurl.com/p26u8cd>).

What type and size of firm do you usually look after?

Is your service 'advisory & execution' or 'execution only'? ([Slide no. 5](#))

Test a broker's eligibility for your firm and determine cost of cover

Test a broker's experience and service offering



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Before you accept an offer: checklist

It's not just about price

- Have you checked the **financial security** of the insurer?
- How long is the **offer** open for?
- Will the insurer provide a **quotation** later in renewal if you do not accept the offer now?
- Are there any **terms** and **conditions / caveats** attached to the offer?
- If you are considering an offer from a new insurer, weigh up the importance of **continuity of insurance** for:
 - avoidance of coverage disputes;
 - Insurers' understanding of your business and claims history;
 - 'loyalty' discounts.
- Check the insurer's **experience** and **longevity** in the market.
- What is the level of **excess** that you will have to pay if there is a claim?
- What is the cost of **run-off cover**?
- Will **claims handling** service / **risk management** support be provided?
- Have you compared quotes from your **full market**?



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Further help & support

www.lawsociety.org.uk/pii

Resource	Where to find it
PII Buyers' Guide Explains the different types of intermediaries in the market and has tips to help solicitors get the most out of their relationship with brokers.	http://www.lawsociety.org.uk/advice/documents/pii-buyers--guide/
Insurers' Guide A non-exhaustive list of those insurers who are participating in the market each year and their rating.	http://www.lawsociety.org.uk/advice/documents/pii-insurers--guide/
Importance of financial security	http://www.lawsociety.org.uk/advice/articles/pii-insurer-insolvency/
PII practice note	http://www.lawsociety.org.uk/advice/practice-notes/professional-indemnity-insurance/
PII FAQs	www.lawsociety.org.uk/Advice/documents/PII-FAQs/
2013 PII webinar	http://cpdcentre.lawsociety.org.uk/course/5399/life-without-the-assigned-risks-pool-pii-renewal-2013
PII Helpline	02 07320 9545