

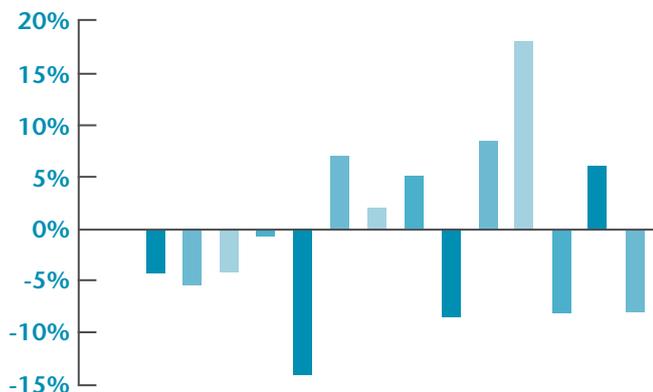
Professional Indemnity (PI) Insurance Market Update

Insurers no longer prepared to drive PI pricing down

Overview

The first half of 2017 saw insurers start to push PI premiums where rates were deemed too low. No longer are existing insurers prepared to continue to drive pricing down. Accounts with paid claims or open notifications experienced the greatest impact with several insurers simply pricing themselves out of renewals. Insurers are reviewing accounts carefully focusing heavily on risk/contracts management, regulatory environment and oversight of regional offices. Growth in fees, new disciplines or acquisitions is triggering increased premiums.

Rate Movement by Profession



The hardening Directors & Officers (D&O) market is having a two pronged impact on the PI market. Established PI Insurers are demonstrating caution and taking the opportunity to review their books alongside the D&O. Other D&O Insurers who have not traditionally written a significant amount of PI are looking to diversify into the class. Overall capacity is relatively stable. There is a growing trend for limits to become cost inclusive and many accounts experiencing increased deductibles.

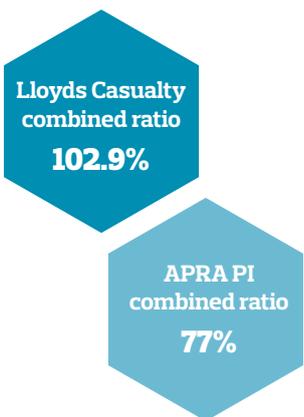
A greater focus on loss mitigation and late reporting of claims

A greater focus is being placed on loss mitigation and late reporting of claims. PI policies are written on claims made and reported basis, with exclusions for any claim (or circumstance likely to give rise to a claim) known prior to the policy period. Bearing this in mind, most claims begin their life as some sort of unresolved

issue or concern. The parties then work to resolve such 'punch-list' deficiencies in an amicable manner, usually outside of their insurance policies. Those that can't be resolved typically escalate to a formal claim, triggering a report to insurers. This period between the date the original deficiency became known, and the date the claim is presented to insurers can be a problem, especially if the deficiency knowledge predates the policy period. This is despite the fact that during the deficiency resolution phase, none of the parties had any intention to escalate the matter to a claim, which may not meet the test of a circumstance likely to give rise to a claim.

Caution amongst London and Australian Markets

There is an emergence of waste-to-energy claims out of the UK arising from blockage of waste, failure to meet design life, odours and new technology. A large solicitor claim is creating caution amongst the London and Australian market.



Contractual claims continue to feature in the construction sector pushing up loss ratios that historically would have been excluded. Insurers are expressing concern on the future state of the Australian property market. If history were to repeat-a drop in property prices would have a ripple effect amongst real estate agents, mortgage brokers, valuers, financial planners, lawyers, builders, engineers and others.

Risk Management practices that can help avoid claims and attract good insurance pricing

Senior Management Sponsorship



Risk management initiatives that are sponsored and led by senior management are the most effective – this ‘sponsorship from the top’ approach helps to ensure employees at all levels become and remain committed to a good risk management culture

Quality Assurance



Good quality assurance (QA) and quality control (QC) practices and ensuring consistency in the application of QA/QC policies to every project

Clear Contracts



Contracts that include a clear and detailed scope of services and an appropriate standard of performance, avoiding any expressed fitness for purpose or large indemnities

Communication



Maintaining good communication and proper documentation

Clients



Investigating client behaviours, experience and financial situation before bidding or commencing work with them

Project Selection



Checking that the projects are reasonably feasible, commercially viable and within firms’ capability with regard to size or new technology

Looking Forward

In the near future we do not expect to see significant variations in the availability of capacity or coverage which is positive. However, given the current environment we do see increases in losses and pricing. Our experienced brokers will already be putting together plans to ensure your program is managed for the best outcome in such scenarios.

Contact

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