



# **Ten things you need to know about professional indemnity insurance**

**If your business offers any kind of advice or professional service, you need to know about PI insurance**

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# What is professional indemnity insurance?

Professional indemnity (PI) insurance is a business insurance product that offers protection against the costs you could face as a result of disputes over alleged mistakes or negligence on your part.

However hard you work to do the best for your clients, there's always a chance something could go wrong and end up in a dispute or law suit. In fact, you could do nothing wrong - but still face accusations.

Whether or not you're at fault, defending yourself can be time-consuming, stressful and expensive. That's where PI insurance comes in - covering your costs and making sure you're properly defended.



# Ten things you need to know about professional indemnity insurance

## 1. What could possibly go wrong?

If you're not sure when you might need professional indemnity insurance, here are just a few examples:

- A website hosting company accidentally deletes a client's website
- An architect specifies inappropriate building materials
- An IT firm corrupts important files while installing software
- An advertising agency includes the wrong phone number in a client ad
- One of your employees posts confidential client information online
- An accountant uses an out of date tax form leading to underpayment
- A business consultant's advice leads to legal issues, fines or loss of business
- A direct marketing firm mails out incorrect or defamatory information
- A logistics firm directs deliveries to the wrong addresses
- A marketing firm suggests a brand name that means something bad in another language

## 2. What counts as a professional service?

Whenever you provide some kind of non-manual service on the basis of specialist skills or knowledge you have that sets you apart from the average person, you are effectively providing a professional service.

Professional services can include:

- Design
- Consultancy
- Engineering
- Advertising
- Marketing
- Software development
- IT services
- Testing
- Inspecting
- Advising
- Specification
- Translation
- Valuation
- Acting as an intermediary or agent
- Recommendation
- Mediation
- Services requiring qualifications and training, e.g. solicitors, accountants and surveyors
- Commercial artists
- Safety consultants
- Training specialists



### 3. What does PI insurance cover?

Professional Indemnity insurance can cover you for claims for financial damage arising from negligence, error or omission, misstatement or misrepresentation which you are alleged to have committed while providing a professional service.

Along with standard cover for errors and omissions, PI policies often include cover for:

- Loss of documents in a variety of physical or electronic formats
- Accidental release of confidential information about clients
- Accidentally saying or writing something which is deemed defamatory or damaging to character or reputation
- Unintentional use of third-party copyrighted images, texts or designs
- Dishonest acts of employees
- Professional negligence
- Any form of invasion of privacy and breach of confidence

Professional Indemnity policies can also cover:

- Court attendance compensation
- Acquisitions and previous businesses
- Awards by Ombudsmen
- Claims brought against principals
- Public relations and crisis management services

## 4. Beware of grey areas

You will often hear comments like:

**“But I didn’t charge a fee...”**

**“But it was just an off-hand comment...”**

**“But it wasn’t part of the job I was employed to undertake...”**

**“But I was just helping a friend out with a personal recommendation”**

Do I still have an exposure?

The short answer in each case is: yes, you very well may have.

Whenever things go wrong in today’s compensation culture, the search begins for someone to blame. Regardless of whether you charge for your services or whether you believe you’re just giving some friendly advice, a professional duty of care can still apply and you could still have a financial exposure.

## 5. You’re only covered if you have a current policy

Professional Indemnity policies are written on what is known as a ‘Claims Made’ basis.

This means cover applies to claims made and reported during a policy period and not once the period is over. If you no longer have PI insurance in place when a claim, or incident that could give rise to a claim arises you will not be covered.

### A cautionary example:



**A small IT firm successfully tenders for a new project, for which they are required to have PI insurance in place. Once the project is complete, the firm decides it no longer needs PI cover and does not renew. Shortly after that, the client uncovers a defect and makes a claim. Because PI is a ‘Claims Made’ policy, the firm is not covered – even though it had insurance when the work was done.**

## 6. What is retroactive cover?

We have established that Professional Indemnity policies are written on a ‘Claims Made’ basis, responding to claims made during the policy period irrespective of when the event giving rise to the claim took place.

It is not unusual for insurers to set a limit on how far back they will provide cover for when wrongful acts or omissions happened or were alleged to have happened. This is known as the retroactive, (‘retro’), date.

When taking out a PI policy you’ll need to consider whether you want it to include retroactive cover. Remember any claims made for events prior to the retroactive date chosen will not be covered so if you’re not sure when to set this, it’s a good idea to get some professional advice.

## 7. What is run-off cover?

If you sell your business, cease trading or retire, someone might still make a claim against you for something that happened in the past – potentially many years previously. Run-off cover protects you against such claims.

Some professional bodies advise members to keep run-off cover in place for six years or more. Again, if you’re not sure whether you need run-off cover – or for how long – it makes sense to seek professional advice.

## 8. Do I need a PI policy that covers IT risk?

People are often unsure when taking out PI insurance cover whether or not they need a policy that specifically covers IT risk. It's not always obvious whether you're providing an IT service or simply a service that's provided through IT.

We all live much of our lives online now, and more and more businesses rely on online platforms, websites or mobile applications to deliver their professional services. IT is everywhere. So perhaps the confusion is not all that surprising.

In reality, the distinction between providing an IT service and providing an IT-enabled service is actually quite straightforward. If your business sells itself on the basis of knowledge, skills or specialisation in the field of computer systems and software, then you are providing an IT service and will need insurance to reflect this. If the core skills or expertise you offer clients are not specifically IT-related, then you almost certainly won't.

## 9. Is PI insurance just one more expense I can do without?

There is no law that says you **have** to buy PI insurance – although quite often now clients will require you to have it before they'll take you on. So you **could** see it as an avoidable expense. But a better way of looking at it is as an investment in the future of your business.

Business disputes can and do happen every day – and they can be both expensive and time consuming. Knowing you have appropriate PI cover in place saves worry, wasted time, and damage to the business brand you've worked hard to build. Before you pass up on PI insurance, be sure you can afford to fight a legal action from your own resources.

As well as saving sleepless nights, PI insurance can play a positive role. By underlining your credibility, security and professionalism – and the fact that you take your responsibilities seriously – it acts as a marketing asset. It's something more and more clients look for in their professional service providers, with many large businesses, councils and government departments rejecting tenders from firms that don't have PI insurance in place.

## 10. How much PI cover do I need?

As with any other type of business insurance, it's important to make sure you have sufficient cover in place and not risk being under-insured.

That means looking at the type and scale of projects you handle, the industries and markets you work in, the size of clients you work with, and the possible financial impact of a worst-case-scenario claim.

Ask yourself this: what's the worst that could happen, who might sue me, and how much for? Take that number and add the costs of hiring solicitors to defend you and investigating claim incidents.

If in doubt, seek professional advice.

## Ask your broker about PI insurance from QBE

It's tempting to assume one insurer's as good as the next. In reality, that's simply not the case. At QBE we like to think we're a little different. And our clients and their brokers seem to agree. They often tell us how much they value the way we consider every application on its own unique merits.

As business insurance specialists, we understand that no two businesses have the exact same PI insurance requirements. We believe you need an insurance partner who can respond rapidly to your unique challenges and opportunities. From policy inception to claims settlement, we focus our market expertise on matching our PI solution to your precise needs.

**One size never has, and never will, fit all.**

Ask your insurance broker about QBE business insurance.

Web: [www.QBEurope.com/sme](http://www.QBEurope.com/sme)





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