

A guide to Professional Indemnity Insurance

By giving professional advice a company can create a 'duty of care', which is an obligation in law. If a duty of care is owed, there is always the possibility that a third party could take legal action for negligence if they feel that they have suffered any form of loss.

Owners of businesses that provide professional advice should therefore consider whether they are fully protected against such potential claims, by weighing up how much time and money a claim for negligence could cost and by considering if a large claim could put the company out of business. SMEs are particularly vulnerable as they may not have the means or resources to defend themselves against large legal claims.

That's where Professional Indemnity (PI) insurance can help. It is designed to offer protection should such claims occur and provide business owners with the peace of mind that their business is safeguarded should the worst happen.

PI offers you peace of mind that you are covered should the worst happen.

What is a 'Professional'?

A Professional is considered to be a Qualified, Skilled and Experienced person or business offering specialised advice, designs, specifications or other professional services (such as consultation or training). These are referred to as their professional activities.

Professions that may benefit from having Professional Indemnity cover include:

- Business consultants
- IT professionals
- Computer hardware suppliers
- Software, website and app developers
- Advertising, marketing and media companies

- Recruitment consultants
- Fitness professionals
- Teachers and tutors.

To more bespoke services such as:

- Piano tuners
- Undertakers
- After-dinner speakers
- Feng shui and lifestyle consultants.

Why would an SME need Professional Indemnity cover?

In addition to prudent business practice to minimise and mitigate risk to the business, there are a number of reasons why an SME would need to take out PI cover. These include:

- **Contract:**
They are taking on a contract that states they must hold PI cover
- **Regulation:**
They are legally required to hold PI cover
- **Exposure:**
They have identified a specific professional exposure that they wish to cover
- **Professional Body:**
Their governing body requires them to hold PI cover.

What does Professional Indemnity insurance cover?

Legal liability

PI is designed to cover third party claims arising from the insured's professional negligence, error or omission, misstatement or misrepresentation which result from the insured's professional activities.

General Extensions

- Libel and slander
- Loss of documents
- Dishonesty of employees
- Breach of confidentiality
- Breach of copyright.

Optional covers may also be included in the policy, for example:

- Cyber Liability
- Crime
- Public / Products Liability
- Employers Liability
- Directors and Officers Cover.

How does Professional Indemnity differ to other types of insurance?

Professional Indemnity insurance steps in where a professional has been accused of being negligent in undertaking their professional activities. Claims arise where there is an allegation of fault from a third party to whom the insured will have owed a duty of care and where the third party alleges financial loss.

Example:

A marketing agency runs a promotional campaign for a client but accidentally includes incorrect contact details on a magazine advert. The client claims the marketing agency's negligence has led to loss of business. While the facts may be correct, determining the amount of the loss is not straightforward.

Compared to other insurable risks where it is relatively easy to identify the cause of the loss, establish who is at fault and calculate the financial cost, quantifying the loss under a Professional Indemnity negligence claim is far less tangible.

How does PI Insurance respond?

As a Professional Indemnity insurer, we start by responding to the third party's allegations and work to defend our client's reputation. Where required, we appoint solicitors who are specialists in PI to help establish if there is any weight to the allegations that have been made. Based on the findings we would then look to either pay the claim or defend our client and refute the claim.

Ensure you have adequate cover

Not all professionals are the same. Many SMEs are now offering slightly different, unusual or bespoke services. Because of this, it is important that you look closely at your business, including your own risk management procedures and processes to ensure you are not left vulnerable to professional indemnity claims.

And not all Professional Indemnity insurance policies are the same, so it is important to seek professional advice from an insurance broker to ensure that you have adequate and appropriate insurance cover for your business needs.

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