

# MARKET UPDATE

## PI MARKET UPDATE FOR MORTGAGE BROKERS & INDEPENDENT FINANCIAL ADVISORS

**MAY | 2020**

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### PROFESSIONAL INDEMNITY

- Premium increases?
- Reduction in cover?
- Increased excesses?

*These are the challenges being faced by firms operating in the Financial Services market.*

We recognise that it has become increasingly difficult for firms operating in the Financial Services market to arrange PI cover and we'd like to help. As part of our #Maywehelp campaign this month, we're explaining the reasons for the P.I 'hard market' and offering you a one-to-one with our expert advisors.

### LET'S LOOK AT P.I FOR MORTGAGE BROKERS AND FINANCIAL ADVISERS

There are a number of challenges being faced, but the main 3 are:

- Rating increases
- Insurer delays and
- Renewal challenges

## WHY IS THIS HAPPENING?

### MORTGAGE BROKERS

#### *Fewer Insurers*

With the loss of Beazley (who were once one of the go-to providers), the P.I market has shrunk leaving 'Arch Collegiate' (who have average premiums of £700/£800) and 'Liberty & Markel' (who deal in the higher end with minimum premiums of £2,500 & £10,000).

#### *Interest Only Mortgages sold prior to 2012*

The issue here is if the claim is successful. When a letter of claim comes in it must be defended prior to proceedings. These cases won't go to the Financial Ombudsman Service and are generally aimed at being pursued through the courts. With costs around £7,500 plus VAT- this is causing a big increase in PI claims, which has affected availability of cover and pricing; arguably one of the key events in causing the Beazley/Towergate scheme ending.

#### *Exclusions of commercial insurance*

Due to a hardening market in Insurance broker PI, it is now nearly impossible to get cover for Mortgage Broker PI to include commercial Insurance (Referral only routes are acceptable).

New policies will exclude cover for Interest only mortgages

Large excesses are being applied to Interest only mortgages on current renewals.

### INDEPENDENT FINANCIAL ADVISERS

The IFA market has been in a hard market state for nearly a decade. Our IFA partners will already be aware of the difficulty faced in obtaining the right cover a reasonable cost.

#### *Limited insurers*

There are only 4 main markets available i.e. Liberty, Collegiate, Arch and Generali. Naturally, this means that there is less supply and premium cost/adequate coverage are a challenge.

## ***Defined Benefit Transfers (DBT's)***

These have caused a substantial issue within the market and as such, (in terms of PI cover), the following reasons are why DBT's are a source of difficulty:

- i) Difficult to cover DBT's for new quotations, (NB: with the right advice options can be explored)
- ii) With substantial increases to excess, existing providers will still cover DBT's, however, this has a big impact on Capital Adequacy = more money to be held in the bank.

DBT's remain the main driver of PI issues in this market, and more losses are expected over the next 24 months.

## ***Financial Ombudsman Service awards***

These are increasing and pressurising the market with increased premiums and excesses. This has also caused Insurers to ask for percentage contributions (i.e. a percentage of the total claim cost) or even limiting their Insurer Contribution to any claims. Naturally this can cause a large hole in your finances.

## **WE ARE HERE TO HELP!**

***We understand the challenges and know how to navigate them to offer the best advice and products. If you are struggling with your Professional Indemnity renewal, please feel welcome to contact us and ask to arrange a one-to-one discussion with an expert.***

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If you require any further information that is not covered in this document or simply wish to discuss any issues in more detail, please contact us on 02921 677140 or [info@protectcommercial.co.uk](mailto:info@protectcommercial.co.uk)

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