

PROFESSIONAL INDEMNITY INSURANCE FOR MORTGAGE BROKERS.



Mortgage Broker Professional Indemnity Insurance is a required purchase but it is becoming increasingly difficult to get the right cover.

You are no doubt aware from recent Press coverage that there is increasing scrutiny around the suitability of 'Interest Only' Mortgage Products and specifically, advice given to customers in relation to these products. A number of Law Firms are now farming and progressing claims on behalf of consumers in this respect and PI Insurers are experiencing a sharp rise in claims being notified as a result.

The main issue is whether the claim is successful or not as when a letter of claim comes in from a CMC like 'Pure legal', or 'Claim My Mortgage' etc it has to be defended prior to proceedings, it has to be defended. These cases won't go to the Financial Ombudsman Service as generally they're pursued through the courts. Initial defence results in approximate costs of £7,500 plus VAT - hence insurer schemes are closing due to seeing many urgent, 'distressed' cases. With average mortgage broker premiums at £600 - £700 insurers money is quickly lost.

What if your specialist area is Mortgage broking and Insurance Broking? In this continuing 'hardened market' the insurance broker him/herself is now prey to rising premiums, limited capacity and inadequate cover. Experts warn that brokers will struggle to find professional indemnity (PI) insurance with only a hand full of insurance markets still offering cover.

Read on...

Historically, Insurance Brokers Pi cover was considered very competitive, with both low rates with an active claims ratio however as brokers have now been heavily impacted by the Covid-19 crisis, this 'hit' has accelerated the need for a PI cover review.

Potential areas of claim:

- 1) All examples below could result in a potential Professional indemnity insurance claim with possible non-disclosures from Brokers.*
- 2) Business interruption: Should policies even respond to Bi? The outcome could be devastating for the insurance market.*
- 3) Travel insurance: in most cases, it's unlikely to be covered. Event insurance: common exclusions include pandemics.*

Securing Professional Indemnity Cover in a Hardening Market
Despite the harsh implications of the hardening PI market, by considering the following guidance, you can help your organisation maintain adequate cover.

• Communicate with your broker

Make sure you meet with your broker to discuss what level of cover and unique policy features your organisation needs. After all, your broker has the insurance expertise to provide you with the most cost-effective, high-quality cover solutions. Ensuring frequent communication with your broker will help you stay informed, supported and most importantly - adequately covered!

• Start the renewal process early

In a hard market, you can't wait until the last minute to secure quality cover. With this in mind, be sure to engage in your PI policy renewal process as early as possible. Doing so will give you plenty of time to gather any documentation required for renewal. In addition, before finalising your policy, insurers will likely ask more detailed questions therefore it is vital to make a head start on the process.

• Invest in risk management

Now more than ever, it's vital to invest in robust risk management processes and provide documentation of these practices to your insurer upon renewal time. Your risk management documentation should highlight:

- Proper cash flow processes.*
- Seamless contracts with clients that clearly outline the responsibilities of both parties.*
- Effective supply chain management (eg positive relationships with suppliers, due diligence of supply chain risks and well-distributed liability agreements).*
- Robust internal practices and standards to mitigate on-site risks*

I hope this information has gone some way to answering questions and alleviating any stress. Our friendly team of experts welcome your call should you have any questions.

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