



Reflections on our PII renewal. Frankham maintain market leading Professional Indemnity Insurance, but at what cost?



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It is clear that after divorce and moving home, undertaking your firm's PII renewal is currently the third most stressful activity a senior professional in our industry will undertake.

As the Frankham Consultancy Group recently completed the renewal of its £10M PII policy, including cover for fire safety and cladding work, we reflect on the odyssey we have undertaken to renew. It is also an attempt to explain how this experience should send warning signals to clients, regulators, professional bodies and fellow firms about the appropriateness and affordability of the cover being offered to professional services in the built asset sector. At a time of pandemic and future economic uncertainty.

This is not a sob story for our firm. We know from conversations with others that our general experience is NOT unique, and we are all largely in the same boat. Firstly, despite being in business for over forty years we ended up with less than a handful of underwriters interested in insuring us with only a few days to go until renewal and after weeks of broker negotiations. Why? Well, firstly underwriters have left our sector due to historic poor profitability and the beginning of payouts post Grenfell. So, we have a smaller pool in the first place.

Secondly, if you are working in the fire risk management or fire engineering space or assisting clients with resolving cladding issues then you are talking about a "teardrop" of underwriters who are even remotely interested. The vast majority of underwriters are excluding cover for fire and cladding claims and will only consider a fortunate few for such level of insurance. Then there are the terms, but more on that later.

The implications are not good:

- Less competition amongst underwriters
- Firms suddenly now not having cover for in progress or historic work
- Getting to £10M cover is now a real hurdle
- Firms having to withdraw their expertise from certain types of work.

Thirdly, when there is limited competition and the need to recover previous year's losses, you do not need to have a PhD in economics to foresee the impact on prices. Premiums have gone through the roof and continue to do so it seems, with no end in sight. We are told this is an across-the-board phenomena. We have seen our own premiums rise by circa 4X over two years. And then, to add to it all your retention or excess also goes up. So, you get less defacto cover for a higher price. >

You have to ask yourself can these premiums and excesses really be justified in relation to the risk being assumed? Has the industry suddenly radically changed its risk profile? Is the work to remediate cladding not under the microscope, receiving levels of scrutiny and quality control the like of which has not been seen before – is not the risk of such work in fact lower than historically was the case?

Again, the implications are not good:

- Adequate insurance is becoming unaffordable for all but the largest firms. PII insurance has leapt up suddenly to be the number 1 or 2 non-wages cost in many firms.
- Such a rapid increase means firms will potentially have to make tough tradeoffs between accepting very high excesses in return for cuts to premiums. Is a SME firm with an excess in the range of £250-£500K in the real world really insured? Would they have such levels of excess cash in the bank to cover it?
- Nobody knows when the premium increases will stop. This year, next year, the year after next. All talk is of us being in the grip of a “hard cycle”. So faced with this, how are firms to strategically ensure their survival this year and the next. Increases in productivity are generally incremental, you do not get the magnitude of change required overnight to counter the immediate premium increases. If anyone knows how to achieve a 4X increase in productivity in one year, please contact me and we can start a consultancy firm together. Choices are therefore going to focus inevitably on pricing and cutting costs. Even potential savings achieved from forms of flexible home and office working will not solve this one.

Finally, even if you have the headline “£XM each and every or round the clock reinstatement” cover, do the detailed terms and exclusions render it null and void in a practical sense. Draft terms that in effect said if you breach the regulations, you are not covered, were put before us. Terms that in effect excluded all cover for claims relating to the external façade, in the guise of cladding exclusions, were put before us. You have to be on your guard to spot these and even then, try to understand their potential scope. What is the usefulness of such cover given what we do day in and day out involves interpreting and following regulations, specifying and designing in their context? How much of our work does not involve the external façade? Such cover is full of holes.

But such terms are out there it seems in proposed draft policies and maybe unwittingly in final ones as firms run out of negotiating time and options... not everyone will be protected by the RICS minimum terms.

As mentioned at the start of this article, we got our renewal on practically the same terms as the year before. We are fully and appropriately insured for the work we have done, the work we are doing right now and the work we are competing to do tomorrow. But it was a long and winding road, brutal in its commercial terms.



The balance is clearly not right and it is damaging the future of the sector and our ability to help resolve the cladding issues.

This experience is not unique and many others will have fared worse. None of this serves our clients, our people or the wider society – that relies upon our collective efforts and expertise to work, live, rest, recover, learn and play in a safe, functional and uplifting environment, because if this continues, I cannot see how we will all survive. More practices will be driven out of the fire and cladding work, expertise and know-how will be lost, and there will therefore be less resource to carry out remedial works and solve the problems identified post Grenfell.

The RICS and government talk about talking. But that is obviously not having a meaningful impact, if the current renewal landscape is anything to go by. Something needs to be done now. We are doing our own bit, talking to our MP about these issues, raising awareness with our clients and taking part in collegiate discussions with other firms around this issue. But clearly more needs to be done by our professional bodies and the government to work with the insurance sector to come up with the right balance of premium vs risk. The balance is clearly not right and it is damaging the future of the sector and our ability to help resolve the cladding issues.

If any of this resonates, please do get in touch at jason.waplinton@frankham.com.

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