

Key Takeaways

The Hidden Costs of Professional Indemnity Insurance



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Act immediately when a complaint arises

- Notify your broker or insurer as soon as a complaint or concern is raised
- Do not admit liability
- Do not offer compensation or agree to fix the issue before seeking advice
- Let your insurer or broker assess whether formal action is required

Keep thorough records

Keep copies of:

- Contracts
- Emails
- Text messages
- Meeting and phone notes
- Photographs
- Follow-up confirmations after verbal discussions

Understand your excess

Not all excesses work the same way, and the type you have can significantly affect what you pay during a claim.

- **Cost-inclusive excess:** You pay legal and claim-related costs until your excess is exhausted, meaning you could still pay your excess even if you successfully defend the claim
- **Cost-exclusive excess:** You generally only pay the excess if the claim settles. If there is no settlement, you may not have to pay anything

Review contracts before signing

Many hidden costs come from contractual obligations rather than insurance itself.

- Excessively high insurance limits
- Requirements to maintain cover for years after a project finishes
- Unlimited liability
- Indemnifying another party for their mistakes
- Waiving proportionate liability protections
- Guarantees or warranties that extend beyond normal legal responsibilities

Don't take on uninsured risk

Your insurance may not respond if you voluntarily accept responsibilities beyond common law.

Avoid agreeing to:

- Liability for another party's actions
- Unlimited contractual obligations
- Unreasonable guarantees of outcomes

Plan for run-off cover

Professional Indemnity claims can arise years after work was completed

Consider:

- Maintaining cover after retirement or closing your business
- Understanding how long contracts require you to keep insurance
- Reviewing run-off needs based on your business structure and exposure

Protect your future insurability

A claim history follows your business.

To minimise long-term impact

- Notify issues early
- Defend unfounded claims rather than settling unnecessarily
- Keep continuous cover
- Preserve your retroactive date by avoiding policy lapses

Expect market conditions to affect premiums

Premiums are influenced by the wider insurance market, not just your own business.

In a hard market:

- Higher premiums
- Higher excesses
- More exclusions
- Reduced cover
- Fewer insurers competing

In a soft market:

- Lower premiums
- Broader cover
- More competition

Practical Checklist

- Notify complaints immediately.
- Never admit liability before speaking with your broker or insurer.
- Keep written records of all client communications.
- Check whether your excess is cost-inclusive or cost-exclusive.
- Ensure you can fund your excess if needed.
- Review contracts for hidden liabilities.
- Confirm your cover limit matches your exposure.
- Maintain continuous cover and protect your retroactive date.
- Consider runoff cover before retiring or closing your business.