

Professional indemnity insurance rockets following Grenfell



Professional indemnity insurance is taken out to protect professionals in the construction industry in the event of a negligence claim, as very few companies will have sufficient resources to protect against anything more than minor claims.

Any professionals who offer design solutions or otherwise give advice will need to take out professional indemnity insurance, including design and construction contractors, architects, engineers of any discipline and project managers to name a few.

What has happened to the market?

Since the tragic events of Grenfell in 2017, the professional indemnity insurance (PII) market has become increasingly expensive with premiums increasing for the first time in years.

In fact, several insurance companies have withdrawn from the construction sector altogether as underwriting construction PII has become too much of a risk and far from profitable.

As a result, insurers still active in the construction sector are looking to limit their exposure. In practice, this means:

- Higher policy excesses
- A soar in premiums
- Coverage restrictions and limitations, especially with regards to cladding and fire safety issues



- An increase of PII coverage held in the aggregate. As consultant regulating associations often require that consultants hold PII cover on an 'each and every' basis, consultants can still get hold of these policies. Contractors, however, will find it far more difficult as it is becoming increasingly normal for them to have a policy with an aggregate limit of indemnity
- Insurers are undertaking extensive due diligence and questioning prior to renewing PII policy coverage, leading to longer delays.

What are the contributing factors?

The aftermath of the Grenfell tragedy

With inquiries and reports on the tragedy, many issues surrounding cladding and fire safety have been highlighted and numerous claims notifications have been made. This has made PII insurers think twice about underwriting such risks, especially when the legal framework governing the materials used in construction (building regulations), is being interrogated for its adequacy.

The demise of Carillion

Since one of the country's biggest contractors went insolvent, insurers are wary of an industry where profit margins are narrow at the best of times, let alone set against a backdrop of political and financial uncertainty following Brexit. In an industry where insolvencies are such a real risk, an insurer's ability to recover sums of money from the parties at fault is less sure-fire than it ever has been.

An increase in claims

In the past few years, there has been a huge increase in claims, especially as construction projects are getting more complex due to the implementation of evolving technologies.

Conclusions

It is clear that finding affordable renewal cover has become a serious budgetary consideration for businesses in the construction industry. Adopting a good risk management ethos and carrying out regular risk assessments is paramount in helping to mitigate costs in such a turbulent PII market. Insurers will be asking questions about risk management, and more of them, so the earlier that contractors, consultants and sub-contractors engage with this process, the better.

How we can help

From developers, investors and contractors to high net worth individuals, our construction lawyers offer clients a wealth of expertise, ensuring construction contracts are well drafted and watertight, and disputes skillfully handled.

If you're looking for expert advice, [please get in touch](#).