PI Insurers on High Alert

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PI Insurers on High Alert for Pension Transfer Advice Exposure

Within the Professional Indemnity (PI) Insurance market, it is a common occurrence for Insurers to ask IFA's to supply data relating to their pension transfer related activities at renewal. This data, collected alongside other information, was part of the usual information gathering process to allow the insurer to understand the advice profile of the firm.

Over the last 12 months the landscape has shifted considerably. Instead of pension advice statistics being a background item for an underwriter they are now front and centre, as a key influencer as to whether they actually put up terms at all.

Whilst Pensions Freedom has on the one hand created an opportunity for IFAs, as clients have more choice to change their pension arrangements, on the other it has created a significant risk exposure in the eyes of insurers. IFAs appear to be polarised on the matter since the introduction in April, with some assisting their clients to take advantage of the new rules whilst others are steadfastly refusing to transact the business, especially in the case of defined benefit transfers, even if it means losing the client.

PI Insurers are becoming increasingly concerned about:

- The rapid increase in Pension Transfer cases.
- The heightened risk related to Defined Benefit Transfers.
- The treatment of 'Insistent clients' in relation to Pension Transfers.

What effect has this had on Insurers?

It is widely known that there is a very limited number of insurers that write IFA business, often with small teams of no more than 2-3 underwriters. The reaction so far has varied, with some more 'on top of' this situation than others. Firms conducting a higher volume of this advice may experience one or more of the following outcomes when renewing their insurance:

- Increased scrutiny and requests for additional information.
- Higher premium and excess levels at renewal.
- Specific exclusions in relation to Pension Transfer advice.
- Alternative insurers declining to offer terms.
- Insurers non-renewing an existing client.

We have seen examples of all of the above across a wide range of firm sizes, often where there has been no prior warning and resulting in firms being left in the lurch with no cover at all.

> "Insurers are also drilling down into a number of key areas regarding a firms' risk profile from infrastructure (e.g. experience of advisers and depth of internal compliance and administration support) to where advisers are located on a day to day basis."

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What can IFAs do to remain in control of their risk profile from an PI insurers perspective?

- Be aware of the impact that Pension Transfer advice can have on your PI Insurance.
- Communicate with your broker during the year, not just at renewal. Your broker should be right on top of this issue.
- Don't start the renewal process too late, provide clear information to your PI Insurer and be willing to provide additional information.
- Create a relationship with your PI Insurer which your broker should be encouraging and if they are not, then alarm bells should be ringing!
- Demand of your broker that firm renewal terms are provided at least two weeks prior to your policy expiration.

What other aspects are insurers focusing on?

Insurers are also drilling down into a number of key areas regarding a firms' risk profile from infrastructure (e.g. experience of advisers and depth of internal compliance and administration support) to where advisers are located on a day to day basis.

The IFA PI Insurance market has suffered considerable losses in recent years, principally linked to the economic crisis of the late noughties which resulted in a number of insurers pulling out of the market altogether. With the punishing level of claims activity created by failed UCIS products still in recent memory, underwriters are now eying Pension Transfers as the next iceberg on the risk radar.

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