

It's Getting Harder to Secure PI Cover in the Construction Sector: What You Can Do

In the midst of various large-scale catastrophes over the past few years in the UK construction industry—including the Grenfell tragedy, Carillion's financial collapse and a range of damaging natural disasters at the hands of climate change—a significant increase in professional indemnity (PI) claims has generated a hardened PI insurance market within the sector.

What's more, insurance experts predict that the construction industry's PI market will continue to deteriorate in the coming months, making it increasingly difficult for construction firms to secure adequate PI cover. As a result, it's crucial for construction employers to take appropriate actions to limit the impact of the hardened PI market on their cover options.

Top Causes of the Hardened PI Market

A hard market is characterised by high demand and lower supply—resulting in higher premiums, more stringent criteria for securing cover and additional restrictions on your policy. There are several factors that led to the industry's hardened PI market:

- **Claims chaos**—More than anything, the overall increase in PI claims throughout the UK construction industry has been a major cause of market deterioration. Especially as construction projects continue to become more large-scale and complex due to the implementation of evolving technologies (eg renewable energy features), they are consequently carrying additional risks and expenses. In response, any

project-related disputes or losses typically result in costly claim settlements for insurers.

- **Broken supply chains**—Following the collapse of Carillion, the resulting supply chain fallout created financial issues for firms across the construction sector. In addition, the destruction of a major company in the industry highlighted the harsh reality that no organisation is immune to the impact of a partner insolvency. Put simply, insurers have become increasingly wary of providing cover to construction firms in response to evidence of lacking supply chain resilience, heightened vicarious liability exposures and sector-wide economic downturn.
- **Contracting concerns**—Due to the competitive nature of the construction industry, securing a contractual agreement as quickly as possible with a client has become a vital aspect of obtaining work. However, doing so often leads to a hastily generated contract that aims to please the customer rather than limit the liability of the employer. Consequently, construction firms have become more likely to make claims resulting from contract disagreements, leaving insurers to pay the hefty price tag.
- **Fire safety fears**—Lastly, the Grenfell tragedy has created increased awareness around fire safety and cladding concerns within the industry. Since the government updated cladding regulations earlier this year, insurers are understandably



more fearful of the prospect of costly cladding-related claims.

Implications of a Hardened PI Market

At a glance, the influx of construction industry PI claims from sector-wide catastrophes has caused a number of insurers to stop selling PI cover altogether. Further, the insurers that have remained in the market have implemented a variety of measures to limit their exposures and reduce their risk of continuously paying out costly claim settlements. These measures include:

- **Extra information**—Prior to renewal time, insurers have begun requiring more detailed information from construction firms regarding their business operations, supply chain processes and current risk management methods. Doing so can significantly lengthen the amount of time it takes to generate proper terms and determine an updated policy.
- **Higher premiums**—In order to compensate lost profits from a growing number of claims, many insurers have increased their premium rates—forcing construction firms to pay additional expenses for adequate cover.
- **Cover restrictions**—Above all, insurers have implemented serious restrictions upon policy renewals, such as limiting cover to a single aggregate amount, imposing a higher self-insured excess, excluding consequential or economic losses, and eliminating various policy extensions (eg cyber-liability cover).

How You Can Secure Adequate PI Cover

Despite the harsh implications of the hardening PI market, you can help ensure your construction firm maintains appropriate insurance cover with this guidance:

- **Invest in risk management**—Now more than ever, it's vital that your organisation invests in robust risk management processes to combat industry concerns and
- provides documentation of these practices to your insurer upon renewal time. Specifically, your risk management documentation should highlight:
 - Proper cashflow processes and healthy profit margins
 - 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
- **Secure quality contracts**—Especially in the current PI market, it's not worth it to rush through a contract agreement. Be sure to communicate effectively with clients to establish seamless, detailed contracts that clearly outline the responsibilities of both parties. And don't forget to document these contractual risk management practices for your insurer.
- **Consult your broker**—Most importantly, make sure you consult your broker to discuss what level of cover and unique policy options your organisation needs.

