# Will you be covered?

Professional standards



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Jane Mellor shares some hints and tips to bear in mind when it’s time to renew your professional indemnity insurance

## Key Points

### What is the issue?

The professional indemnity insurance (PII) market has hardened considerably over the last 12 to 18 months and members need to be aware of that and plan accordingly.

### What does it mean for me?

It is a mandatory membership requirement for CIOT and ATT members in practice to have PII in place which meets the requirements of the PII regulations. Members

therefore need to take account of the current market, plan ahead and ensure suitable cover is in place.

**What can I take away?**

This article includes some tips in relation to PII arrangements which will help to prepare members in relation to renewals.

It is a CIOT and ATT membership requirement that all members in practice have professional indemnity insurance (PII). A member in practice is a principal in a business which provides tax services; i.e. a sole practitioner, a partner in a partnership, a member in an LLP or a director of a company.

Members in practice must confirm that they have PII cover in place when they submit their annual membership return. Any member in practice failing to have cover in place risks referral to the Taxation Disciplinary Board and disciplinary action. Full details of the regulations and associated guidance are available on the CIOT and ATT websites (www.tax.org.uk/PIIregs and www.att.org.uk/PIIregs).

During 2020, we have received a number of queries relating to PII. This article looks at some of the key points which have emerged and which members may find useful before renewing their cover or moving into new areas of work. Covid-19 has, of course, had implications as well and members need to be prepared for questions in terms of how they are operating in the current climate. Here are some top tips for navigating through the minefield.

**1. Allow sufficient time for renewal**

As highlighted in the May 2020 edition of Tax Adviser, it is taking longer to renew PII and that was the case even before the pandemic hit. Insurance companies and brokers have had to close offices and adapt to different working arrangements just as others have, which has compounded potential delays in processing renewal applications.

Members should submit their requests for renewal as early as possible to ensure that they secure cover by the renewal date.

**2. Consider the implications of taking on new areas of work**

The insurers view some areas of work as being riskier than others. Examples given by brokers include offshore tax, trust work, tax mitigation schemes, investment advice, insolvency, valuations and M&A work. In terms of clients, work for high net worth individuals, famous clients, those in the entertainment industry and solicitors tend to be viewed as being riskier.

If you are considering a new line of work, it would be prudent to alert your insurer and find out whether that would increase your premiums prior to engaging with a client to undertake that work.

**3. Budget for increased premiums**

We have received a number of reports from members in practice of substantial increases in premiums, with some reporting a threefold increase over the previous year's premium.

The insurance market was hit badly by the Grenfell disaster. Whilst this was in the construction industry, the ramifications have been felt throughout the insurance market with insurers looking carefully at the risks they are willing to cover and the associated premiums. In the accountancy sector itself, insurers have been hit by claims in relation to historical tax mitigation schemes and auditing. This has made insurers more cautious in terms of what they are willing to cover. We are told by the industry that historically accountants and tax advisers have enjoyed lower premiums than many other professionals. To an extent, there has been a correction in the market this year.

**4. Previous claims (or disciplinary action)? Have a plan.**

People make mistakes and sometimes things go wrong. This can be a key issue at renewal time. We understand that in general a current insurer is more likely to 'stick with you' if there has been a problem; sometimes, however, they will refuse to renew and it can be difficult in some cases to obtain insurance from a new provider. Brokers have stressed that where there has been a claim, insurers will want to see what was done to put right any historical problems and what measures have been taken to minimise the risk of a repeat of the same issue.

**5. Make sure you have an alternate agreement in place**

A recent trend emerging is that some insurers want to know whether a firm has made an arrangement with another firm for cover in the event of illness or death (an alternate arrangement). It appears that insurers may also want to see the formal written agreement in relation to these arrangements, as well as details about the other firm, including professional body membership and even claims history.

Further guidance on alternates and a sample agreement can be found in Professional Rules and Practice Guidelines (PRPG) (www.tax.org.uk/prpg and www.att.org.uk/prpg) and at www.tax.org.uk/alternates and tinyurl.com/y5mgd7zv.

### 6. Be prepared for questions relating to Covid-19 working arrangements

We are aware that a number of insurers are now asking additional questions in relation to working arrangements during the pandemic and some are excluding cover for Covid-19 risks. As an indication, some of the questions that you might be asked include:

- Does your company have an up to date Business Continuity Plan (BCP) as part of its risk management process, including processes to allow all staff to adequately work remotely?
- For how long can current remote working arrangements be maintained?
- How is the supervision of staff and auditing of files/work maintained during lengthy periods of remote working?
- Is it anticipated that there will be a significant reduction in annual income?

Our Professional Rules and Practice Guidelines state that members should have a business continuity plan. If you do not currently have one in place or your plan has not been reviewed for some time, it would be a good idea to review it.

### 7. Check arrangements with your insurer prior to retirement or business changes

Members are reminded that if they cease to be in practice, for example through retirement, they must have run-off cover in place for a period of not less than six years after cessation. Standard practice is that it is the incumbent insurer who provides the run-off cover, so this is not a time when members can look to change arrangements and move to another provider.

One point to look out for if you are trading through a limited company is what happens if and when the company is dissolved as the insured entity (the company) no longer exists. It is important to discuss this with your broker before closing the company. See also the PII FAQs on run-off cover (www.tax.org.uk/PIIregs and www.att.org.uk/PIIregs).

**8. Use a good insurance broker**

A good insurance broker will help firms to work through what is required at renewal time. In many cases, there are standard questions which must be answered for the insurers. The broker will guide you through what is required and which insurance company might best suit your needs. They are there to help ensure that your submission to the insurance company is well presented.

The CIOT and ATT cannot recommend that members take out a particular PII scheme. However, we have arrangements with two insurers who can provide a policy which complies with our PII rules. Details are on the CIOT website (www.tax.org.uk/PIIproviders) and the ATT website (www.att.org.uk/PII).

**And finally…**

Members must be prepared for their PII renewal date and ensure that they allow sufficient time and take appropriate steps so that cover is in place by the deadline. PII provides protection to clients and to members and their firms, and it is a key requirement of being a CTA or an ATT in practice. If you do not hold or cannot obtain a PII policy, you will be referred to the Taxation Disciplinary Board.

If you experience difficulty in obtaining or renewing PII please contact the Professional Standards team for guidance and support by emailing: standards@ciot.org.uk or standards@att.org.uk.