

Professional Indemnity Insurance-

WHAT'S REALLY CHANGED?

Griffiths & Armour's Architects' Professional Indemnity Insurance Scheme was launched in 1997. Twenty-five years on, Graeme Tinney reflects upon the support received from the profession, the liability challenges that continue to define the local PI market and what the future holds

It is now 25 years since the launch of our Architects' Professional Indemnity (PI) Insurance Scheme, which was announced in the pages of this publication. Whilst it feels like a lot has changed over those intervening years, it is striking when looking back at that first article just how much has stayed the same and particularly so when it comes to the underlying principles of our PI facility.

Our founding objective was to provide architects with something new - a genuine alternative. At the time, there was no shortage of competition within the market, but there was a real dilemma for architects in trying to identify the most appropriate solution in terms of cover, security, cost and potentially most significantly, sustainability.

Even then it was our belief that architects and perhaps particularly larger architectural practices were adopting a more considered approach. Rather than simply accepting the vagaries of the insurance market and regarding PI insurance as a commodity purchase, we felt that many were looking to secure longer-term support from quality insurers who had a genuine understanding of the architectural profession. Architects wanted to achieve realistic premiums reflecting the risk profile of their individual practice, a specification of cover that would support their business objectives and greater certainty in the event of claims arising. Against a background of increasing risk and tighter margins, the benefits of a carefully tailored insurance programme and the importance of effective risk management support were becoming increasingly clear and it was this holistic approach that provided the foundation to our PI scheme.

Our early success suggested that many firms seemed to share our philosophy, but few could have imagined the challenges that lay ahead. The difficulties experienced in the wider economy and the fall-off in construction activity from 2008 presented unprecedented challenges for the country, the construction industry generally and for architectural firms. One of those challenges was a threat to the availability of PI insurance protection, but it was an opportunity for us to demonstrate the real value behind our promise of ongoing support for the local market. Despite the



challenging conditions, our clients continued to have access to effective and affordable insurance protection - something which played an important role in supporting their survival, recovery and ultimately, their renewed growth. With the market having entered an even 'harder' phase in recent years, insurers and brokers are once again being put to the test. We at Griffiths & Armour are not immune from the difficulties being encountered, but I am proud of the work our team are doing in helping clients navigate through the challenges and coming to the assistance of firms who have struggled to source solutions elsewhere. It is gratifying that 25 years on from the launch of our PI facility, we continue to receive the support of many of Ireland's leading architectural firms. Some of these relationships can be traced back to the establishment of our facility but in the wake of recent market turmoil, we have seen a noticeable increase in the number of firms subscribing to our philosophy.

The challenge is to regain the trust and confidence of insurers and to evidence that the risks we are presenting to the market are capable of being funded through increased PI insurance premiums

Whilst we welcome the opportunity to develop these new relationships, the current industry problems that exist are an unfortunate reminder of something else that hasn't changed - the cyclical nature of the PI insurance market. Many of the forces driving the market and the problems being experienced by individual firms are similar to what we saw in the early 2000's. Like then, the pricing and availability difficulties have in large part resulted from unsustainable competition that prevailed over the preceding decade, with certain insurers concentrating on growth in market share as opposed to underwriting profitability. Invariably, such insurers were operating on narrowly based and often inadequately developed risk and claims statistics and this resulted in levels of premium that were a long way below the reality of what was required. As the true cost of the risk emerged (as experience tells us it always has), the reaction (just like in the early 2000's) was a dramatic reduction in market appetite, leading to insurer withdrawal and severe underwriting action from those remaining within the market. It is perhaps a sad indictment of the insurance market and its ability to learn lessons from the past. It also underlines the importance and benefits of adopting a longer-term approach.

But not everything has stayed the same over the past 25 years and we cannot rely upon the market to self-correct. In 1997, we were talking about the emergence of what we termed 'a risk dumping mentality'. Unfortunately, this is now far more prevalent and widespread, with employers and their legal advisers seemingly determined to force liability down the supply chain through increasingly onerous contracts and unreasonable PI insurance requirements, with little consideration to whether parties can control or fund the risks they are required to take on. Along with an inefficient legal system and the much reported '1% rule' which is driving up the cost of claims, this 'risk dumping' has come to define the local liability landscape for construction consultants. It leaves insurers struggling to understand the exposures they are being asked to underwrite and is eroding capacity within the market.

The challenge for us all is to regain the trust and confidence of insurers and to evidence that the risks we are presenting to the market are insurable and capable of being funded

through the increased PI insurance premiums that firms are now paying. But that challenge is beginning to be met head on. Positive features to the local market include the introduction of the Building Control Amendment Regulations in 2014, revisions to Government guidance on procurement and PI requirements and the promise of liability caps on public sector projects which we and others have campaigned so hard to achieve. But there remains significant work to be done.

At an individual level, architects should understand that quality has never been so high on insurers' agendas. The good should prosper but those who are unable to demonstrate how they are effectively managing their risk will continue to face ever more significant challenges. For their part, insurers need to demonstrate an underwriting strategy that encourages quality and rewards good behaviours. We remain at the vanguard of those efforts. It cannot be an entirely broad-brush approach that fails to give any recognition of the positive risk features of individual firms who are carefully navigating their way through an extremely challenging risk and economic landscape.

Underlying everything is the need for cultural change at industry level. A move away from 'risk dumping' and a 'race to the bottom' to a renewed focus on quality, competence and lifecycle cost. Put another way, a re-balancing of risk and reward and a fairer deal for all parties. These are principles that we have strongly advocated for and it is, we believe, the only rational way to encourage sustainable insurer appetite and informed competition within the insurance market. The question is, what do we want from the next 25 years? Whilst we have always had to adapt our proposition to a changing risk environment, our focus on partnering and pro-active risk management will continue. It is rooted in the founding principles of our architects' PI facility; it is what our clients have grown accustomed to and have come to rely upon. We welcome the opportunity to develop new relationships in the same vein.

**Graeme Tinney is Director and Chief Executive Officer of Griffiths & Armour Europe DAC
Griffiths & Armour Europe Designated Activity Company, trading as Griffiths & Armour, is regulated by the Central Bank of Ireland**



**Griffiths & Armour Europe DAC
Alexandra House, The Sweepstakes, Ballsbridge, Dublin 4**