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Professionals Face Challenging Times

There can be little doubt the professional indemnity (PI) market is set for challenging times ahead. Macro-economic stresses resulting from the global pandemic and Brexit are putting businesses' balance sheets under increasing strain and the quality of professional advice under the spotlight. In these circumstances, there is the potential for an uptick in litigation as companies facing revenue shortfalls, declining asset values, or other under-performance issues, question past decisions and the quality of professional advice received.

While broadly speaking we believe the economy is in a much better position to withstand these shocks than during the last financial crisis, when excessive risk taking by banks combined with a downturn in the subprime lending market in the US culminated in an international banking crisis, two things are different this time around. One: the technology that enables us to adapt to the new normal carries inherent risk. And two: the way we work has changed, probably forever, with every profession facing unique challenges.

Cyber threats are rising – malware, phishing and social engineering are all increasing as criminals seek to exploit weaknesses of staff working remotely in a less secure environment and with limited access to their usual network of advice and support. In this environment, data breaches are more likely, and companies will be at increased risk of ransom demands where e-criminals have managed to access operating systems. It is inevitable that companies will find it harder to maintain cyber awareness and a culture of caution with staff working remotely and keen to go the extra mile, or potentially deploy tech workarounds in order to continue to deliver.

In terms of how each profession is affected by the ramifications of the pandemic, it is worth looking in detail at each in turn.

Solicitors

Against this backdrop, solicitors face a number of threats. Reduced access to either informal or organised supervision may mean that individuals working remotely may be more susceptible to distraction and prone to making errors. Working procedures will need to be reviewed so

that firms can ensure adequate supervision and there is no drop off in terms of the quality of work performed. Good IT infrastructure will be essential both for business continuity overall and for tracking timelines on individual cases including pre-action protocols, litigation milestones, limitations and other key diary dates.

Going forward, firms will need to consider how they can maintain services if remote working practices continue or are re-imposed, or a proportion of staff fall ill, with the threat of fraud a key concern if clients are not allowed to be physically present to provide information, review or sign official documentation.

While there can be little doubt that all professions face challenges due to the pandemic, our underwriting strategy remains consistent.

Accountants and auditors

The accounting and audit professions have also faced considerable challenges in the way it works during the pandemic. Auditing under lockdown or social distancing regulations is fraught with difficulty. Tasks including performance of physical stock checks, reviewing management documents and interviewing responsible staff require even more careful planning than before. Although there has been some relaxation around filing obligations, it will be important to ensure diary systems are updated to meet new filing deadlines and observe time limits for tax matters.

These challenges come at a time when the profession is already facing demands to take on greater responsibility for fraud detection and is under pressure to reform following a series of high profile failures, which in turn are raising questions about how these firms should be structured

Architects, engineers and surveyors

Professionals involved with the construction and property sectors are also facing unprecedented challenges.



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Building designs prepared pre COVID-19 will almost certainly no longer be fit for purpose. Clients will be reviewing requirements; planning consents will need to be re-negotiated and contracts (freehold and leasehold) may require substantial revision. Delays will be inevitable and may require additional or varied services to be performed, resulting in a re-negotiation on fees, rents and capital values potentially triggering disputes.

For surveyors, the future is likely to involve more desk-top and drive by valuations which carry additional risk. However, exposures are likely to be less significant, as a property market 'bust' scenario seems unlikely as mortgage lending criteria has been stricter and there has been no prior boom, rather a post GFC incremental increase in property values. Additionally, there is a shortfall of residential property supply in the UK, although the commercial (retail and office) markets are under strain at present.

Brokers and financial intermediaries

The insurance industry will be well aware of the mis-selling issues facing brokers and the significance of the case currently before the High Court regarding commercial business interruption policies. To a lesser degree, questions also exist around travel and event cancellation policies and medical covers.

The outcome of this case will have a significant industry impact but, in any event, there will need to be a clear focus going forward on ensuring risks are fairly presented, all material information is provided for underwriting and that renewal dates are met so there are no gaps in coverage.

What does the future hold?

While there can be little doubt that all professions face challenges due to the pandemic, our underwriting strategy remains consistent. We take a pragmatic view based on years of experience, knowledge of the wider economy and, more specifically, each individual profession. Not all businesses and all business models will survive. But good businesses will adapt and take the right decisions in close partnership with their trusted professional advisers.

We are flexible and will look at each case on its merits. We enjoy rock solid A+ capacity and as primary market leaders our underwriting appetite remains resolute. As we look ahead, we are cautiously optimistic. Challenges create opportunities. The economy will recover. Businesses will continue to rely on professional advice. Carriers must put their capacity to work and underwrite responsibly.

LEARN MORE

Our specialised underwriters, claims professionals and risk control specialists can help you address the exposures created by today's rapidly changing marketplace.

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ABOUT SOMPO INTERNATIONAL

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