

QoN 010-17 – Impacts and pressure on professional indemnity insurance

In response to my questions about Professional Indemnity Insurance at the PJC hearing on 18 November 2020, Commissioner Press acknowledged the issues with PI insurance for financial advisers, suggesting that the market had been subject to a re-pricing in response to the Royal Commission and the focus on non-compliant business models and businesses. The increases and reduced capacity have impacted more than just those businesses who were on the stand at the Royal Commission. Can you please provide more insight into the pressures on the PI market and the impact of the Royal Commission. To what extent does ASIC consider that the increased limits that have applied since the commencement of AFCA have impacted PI Insurance pricing? Also, to what extent might COVID 19 have impacted the PI Insurance market?

Answer:

The professional indemnity (PI) insurance market has contracted in recent years as result of a number of insurers withdrawing from the Australian market or reducing their capacity in relation to some lines of cover. There has also been some re-pricing of risks which has resulted in increases in premiums and excesses, and limits on the terms of cover.

ASIC is aware that these factors are causing difficulties for some participants. However, although for the most part, most licence applicants and renewing licensees appear to be able to obtain appropriate PI insurance. ASIC is aware that a very small number of licence applicants and licensees seeking to renew, are experiencing difficulties in obtaining adequate PI insurance cover, or finding it very expensive and exploring alternative arrangements.

ASIC does not have the data to be able to form a view on the impacts that the commencement of the Australian Financial Complaints Authority has had on pricing in the PI insurance market.

ASIC also does not have the data to form a view on the impact of COVID-19 on the supply of PI insurance. On the demand side, ASIC is aware from feedback provided by participants, that significant increases in the cost of PI insurance makes it even less affordable for some licensees given the contraction in economic activity caused by COVID-19.