



# YOUR RISK MANAGEMENT STRATEGY

## UNDERSTANDING INDEMNITY INSURANCE

Risk management is becoming an important issue for charities and not-for-profit organisations to consider when undertaking work for others. Acevo and Zurich have worked in partnership to produce this guide to understanding indemnity insurance for you.

### The context

The Compact, designed to create an effective contracting relationship between national and local government with the third sector says in section B4:

In order to maximise value for money, funding bodies should consider

the following when assessing the level and scope of controls required:

- proportionality;
- well managed risk taking; and
- attention to outcomes.

Acevo members have asked if the levels of insurance being requested by local authority funders are proportionate and fair.

In some cases, they are being asked to increase the levels in line with the local authority's own maximum cover.

They are sometimes asked for professional indemnity insurance as well as employers and public liability insurance.

More clarity is required to help the sector decide what to do.

## The current situation

When a local authority (LA) outsources their services they need to ensure they are not sued for any injury that occurs. When they outsource the contract they still have the same duty of care to all. Therefore they want your policy to dovetail with their own risk management strategy.

As a third party contractor you need to have sufficient insurance to cover yourself, but this need not necessarily be as high as the local authority's.

Your insurer or broker will be able to advise on the appropriate level of insurance you will need for each contract. It is best to discuss it with them, ensuring you provide them with information about any additional risks you may be taking on.

There may be additional costs involved. The LA should understand that you will be factoring these additional costs into your contract proposal.

The insurer will be able to advise you if the risks and costs you are being asked to take on are reasonable.

Under the principle of full cost recovery, charities can claim the cost of indemnity insurance back. You can ask the LA what level of cover they are expecting you to have and then factor that cost into the contract.

You should discuss these sorts of things as negotiations are continuing. You should have a risk management strategy and know the costs that you are going to incur in your organisation.

## TIPS TO HELP

- Draw up a risk management strategy
- Get to know the different types of indemnity insurance
- Read the Zurich guide *Making Insurance Simple*: [www.zurich.co.uk/home/forpublicsector/Charities/Makinginsurancesimple-aguide.htm](http://www.zurich.co.uk/home/forpublicsector/Charities/Makinginsurancesimple-aguide.htm)
- Discuss risk management as negotiations continue
- Build additional risk management costs into your contract
- Inform the LA of the risk management programme you have in place
- Ask who is paying the additional risk management costs
- Give the client the choice – tell them it will cost extra or they can adjust the requirements

### ASK THE FOLLOWING QUESTIONS:

- What are the risks associated with this contract?
- What level of indemnity insurance do you/the LA have?
- Which of these risks should you take on?
- Which of these risks should be shared?
- Is this an appropriate level of risk for a charity to take on?
- What would be a sufficient level of insurance?



Whatever activity you are carrying out, you need cover. Zurich recently settled a claim involving one individual for £4.5 million.

Employers Liability is compulsory by law. If you have employees you definitely need Public Liability cover and possibly Professional Indemnity cover too.

Ask yourself what may you be picking up the tab for? If the injured person is likely to take an action against the LA the charity needs to be covered too.

# YOUR QUESTIONS ANSWERED

## What should I do to avoid being oversold a policy?

Make sure that you aren't being sold a policy you don't need and that it meets your requirements in terms of the cover and limits it offers. The essential covers would be public liability (including products liability), employer's liability (if you have employees) and possibly professional indemnity, depending on what activities your organisation carries out.

## What risks suit what policies?

A public liability policy will cover the organisation against claims from third parties who have suffered, or allege they have suffered, personal injury or damage to property as the result of negligence on the part of the organisation.

Employer's liability, as its name suggests, covers the organisation against claims from employees who suffer injury at work as a result of the organisation's negligence. This insurance is compulsory by law.

Professional indemnity covers claims from third parties where an organisation is providing 'professional' services to a third party, this could be in the form of advice or design etc. The policy would cover financial loss claims as well as personal injury.

The policies cover the legal costs in defending these actions as well as any damages that are awarded.

## Is it best to be overcautious?

In terms of the limits that you select for your policies then the answer would be yes.

## What questions should I ask my insurance provider?

What does the policy cover? What does it exclude? What provisions do I need to comply with? What is the limit of indemnity? Is there an excess? Who is the insurer?

## How can I ensure value for money?

It's a question of comparing the cover, making sure there are no major differences and ensuring that the insurer has appropriate resources to service your business and can offer appropriate underwriting support and claims handling facilities.

## How often should I review our policies?

Annually, although in some circumstances you may negotiate more favourable insurance terms by signing a long term agreement with a single insurer.

## Do premiums vary greatly between companies?

Yes. Some insurers will 'target' particular categories of customer and their premiums may well be less than other 'general' insurers.

## How can I reassure others that our policies are sufficient and fit for purpose?

You could arrange for a letter from your broker or insurer setting out the cover details or send them copies of the policy.

## If someone is selling me a policy, what is good and what is bad practice?

The insurance industry has produced a code of practice on contract certainty, which provides quite a lot of detail. To read it visit the Association of British Insurers' website: [abi.org.uk](http://abi.org.uk). Essentially, it says that all terms of a policy must be clear and unambiguous by the time the policy is entered into.

All terms must be clearly expressed, including any conditions or subjectivities. Contract documentation must be provided to the insured promptly.

## Do I have the right to say "no" to others who want me to increase my premiums or limits?

The only people who can increase your premiums are your insurers. If they do this then you can look to place your business elsewhere. If your organisation is carrying out work for others then they may ask you to increase your limits which could result in increased premiums. In these circumstances, it's a case of discussing this with them to ensure the limits they are asking for are reasonable for the work being undertaken.

### About Zurich

Zurich has over 100 years' experience in the insurance sector offering risk management services. Zurich has the experience to support you and to create tailor-made products to cover the risks you face. It specialises in the charitable and public sector. [www.zurich.co.uk](http://www.zurich.co.uk)