



The Law Society

Professional indemnity insurance survey

2009-10 renewal

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supporting
solicitors

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Key findings

- More than three-quarters of firms (79%) reported no difficulty in renewing their PII in 2009–10, compared with 74% in 2008–09.
- Most firms (65%) submitted their first PII application by mid August and most (68%) were notified of the outcome in September.
- Average response times of insurers for applications received in August and September improved by 1 week and 2 weeks respectively since 2008-09.
- Most firms were offered (82%) and accepted (68%) cover from their insurer for 2008–09.
- Most firms (93%) received an offer from at least one qualifying insurer.
- Nearly two-thirds (62%) of firms stated that their premiums had increased since 2008–09, with the median compulsory PII insurance increasing by a third (33%) from £12,500 in 2008-09 to £16,666 in 2009-10.
- More than a third (39%) of firms stated that the renewal dates should be staggered.
- While there were some differences in the renewal experiences of black and minority ethnic (BME) firms and wider profession firms, it is difficult to explain these differences given the diverse risk profiles of these firms, the small sample sizes and a lack of understanding of the actuarial models used by insurers to assess firms' insurance risk.

Timing of applications

The time that firms made their first PII application was:

- In July (33%)
- In August (36%) - by mid August (65%) and by end of August (73%)
- In September (25%)
- After 1 October (2%)

Firms with 5 to 25 partners were more likely to apply in July or earlier in 2009-10 – 52% compared to 32% of 2 to 4 partner firms or 39% of sole practitioners.

These figures were similar to the dates firms first submitted their applications for compulsory level of PII for 2008-09.

Timing of notification of outcome of applications

Only a fifth (20%) of firms had been notified of the outcome of their application by August – the majority (68%) were notified in September, a further 8% were notified of the insurer's decision after the 1 October deadline, although only 2% of firms had applied after the deadline. The majority of firms were given little time to consider the quote – 60% of firms received notification of their quote from mid September onwards. It seems that all the insurers have similar notification patterns, no particular insurers were advising firms earlier or later than others.

The earlier a firm applied for PII the longer the response took. Those first applying in June or earlier, on average, received a response in 11 weeks; first applications in July on average waited 6 weeks; those made in August waited 4 weeks and those in September 2 weeks. This suggests that insurers did not process application forms when they were received and waited until nearer the deadline.

Compared to the renewal process in 2008-09, the response time by month nearer the 1 October deadline has improved – last year on average September first applications were responded to by insurers in 4 weeks, August first applications in 5 weeks, July first applications in 6 weeks, and June first applications waited 9 weeks.

Outcomes of applications

Previous insurer

The majority of firms (82%) were offered cover by their previous insurer – similar to the figure (84%) for 2008/09. Nine percent of firms did not apply to their previous insurer and a further 4% were new firms. Two-thirds (68%) of firms used the same insurer in 2009-10, about the same as in 2008-09. Most firms with 5 to 25 partners used the same insurer (86%) compared to two-thirds of firms with 2 to 4 partners (64%) or sole practitioners (67%).

Only a small proportion of firms (5%) were not offered cover by their previous insurer – representing just 12 firms. Half of these were sole practitioners and half were firms with 2 to 4 partners. Not all could identify when they applied and when they were notified by their previous insurer – of those who could 8 out of 10 applied in July or August and 8 out of 9 were notified that they were not being offered cover in September.

Offers of PII

Most firms (93%) received an offer from at least one qualifying insurer and 2% of firms recorded no response from an insurer. Although 12% of applications were refused, this represents 7% of firms. No firm with 5 to 25 partners was refused cover by any of the insurers, compared to 8% of sole practitioners and 9% of firms with 2 to 4 partners.

Difficulties in renewing

Over three-quarters (79%) of firms reported no difficulty in renewing their PII, compared with 74% in 2008–09. Around a fifth (21%) of firms, irrespective of size, experienced a problem in the 2009-10 renewal process. The most commonly cited difficulty (48% of firms facing difficulties) was “little time given to consider quotes”.

Premium levels

Nearly two-thirds (62%) of firms stated that their premiums had increased since 2008-09, while 14% of firms had had their premiums reduced, and for 17% premiums had stayed the same. Fewer premiums decreased this year (14%) compared to 22% in 2008-09. There were no significant differences between 2008-09 and 2009-10 in the proportions of firms whose premiums had increased or stayed the same.

Firms which had changed suppliers since 2008-09 were more likely to have had their premiums reduced; a third (32%) stated their premiums had decreased since 2008-09, compared to only 9% of firms who stayed with the same insurer.

Risk factors and premium levels

Regression analysis on premiums paid indicated that 81% of the variance in premiums paid could be explained by looking at the number of solicitors in the firm (including partners), firm's gross fee income in the past 12 months, whether in the last 12 months an insurance claim was made against the firm, and if there had been a decrease in the number of fee earners.

Suggested improvements to PII renewal process

Nearly three-quarters (71%) of firms stated improvements that could be made to the PII renewal process:

- Staggered renewal dates (39%) – only 8% of firms mentioned this in 2008-09
- Insurers to offer quotes earlier (15%)
- Insurers to take a more individualistic approach (10%)
- Return to the Solicitors' Indemnity Fund (or other co-operative scheme) (9%)

Successor practice rule

A quarter of firms (26%) had considered restructuring in the past. Of all firms which considered restructuring, two-thirds (67%) did not proceed with the restructure, and 16% were influenced by the successor practice rule.

Differences in black and minority ethnic firms compared to the wider profession

Characteristics of BME firms compared to wider profession

BME firms were more likely to undertake work in immigration and crime, than the wider profession and less likely to undertake work in probate, wills and trusts. Immigration work made up a higher proportion of BME firms' total gross fee income (21%), than the wider profession (3%). The annual gross income was on average less (£280,000) for BME firms than the wider profession (£400,000). BME firms were more likely to identify themselves as High Street firms (68%, compared to 53% of the wider profession) and based in Greater London (50%, compared to 18% of the wider profession). BME firms were also more likely to have a foreign sounding name (42%, compared to 3% of the wider profession).

Timing of notification of outcome of applications

There was no evidence to suggest that insurers were less likely to respond to BME firms than the wider profession.

There was no difference in the average time taken from first applying for PII cover to receiving a decision from the insurer, nor in the average amount of time from first applying to accepting an offer, between BME firms and the wider profession.

BME firms were notified of a decision by insurers later than the wider profession. Under half (44%) of BME firms were notified by the first insurer they approached by mid September, compared to 64% of the wider profession – giving a greater proportion of wider profession firms more time to approach another insurer before the 1 October deadline. Later notification to BME firms is partly explained by a greater proportion of BME firms making their first application later than the wider profession (50% of BME firms had applied by mid August, compared to 64% of the wider profession). However, BME firms first applying in July were notified on average by insurers in 56 days, compared to 44 days for the wider profession. There were no differences in the time insurers took to process applications pre or post July. There were no significant differences in the characteristics or the risk factors of the BME firms which applied in July compared to those BME firms applying at other times.

Offers of PII

Based on all the applications made to insurers, the wider profession were more likely to receive an offer than BME firms (84% compared to 73%). A higher proportion of BME firms (16%) than wider profession firms (6%) were not offered cover by their previous insurer.

The number of firms in the wider profession who were refused cover is low (17), making it difficult to make comparisons with the BME firms which were refused cover. However, in examining the findings of all those refused cover compared to those firms who did not receive any refusals from suppliers, there are some factors which are characteristic of BME firms and might explain why more BME firms were refused PII cover. Firms undertaking work in immigration were more likely to be refused cover (28%), than firms not undertaking immigration work (10%). The average proportion of total gross fee income derived from immigration work was higher for firms refused cover (25%), than those which were not refused cover (11%). High street firms were more likely to be refused (19%, compared to 11% of other types of firms), as well as firms based in Greater London (21%, compared to 12% of firms based outside Greater London).

Assigned Risks Pool

There were more BME firms (9%) than the wider profession (2%) in the Assigned Risks Pool. With a small number of responses it is impossible to conclude reasons for the higher number of BME firms in the Assigned Risks Pool compared to the wider profession. However, a high proportion of BME firms in the Assigned Risks Pool had received an insurance claim, and / or had a decrease in fee income over the last 12 months, while others had a disciplinary action.

Premium levels

There was no evidence that the cost of PII insurance for 2009-10 was higher for BME firms, than the wider profession. BME firms were more likely to be paying a premium of less than £10,000 (56%), compared to 42% of the wider profession.

However, of firms which experienced a change in their premium, BME firms were more likely to have experienced an increase of 50% or more in the premium for 2009-10; over a third (39%) of BME firms compared to 27% of the wider profession stated they received an increase of 50% or more to their premium for 2009-10. BME firms receiving a 50% increase in premium were more likely to have made an insurance claim in 2008-09. This was not true of the wider profession.