



IFF Research

Research Report Professional Indemnity Insurance Survey 2011

Prepared for The Law Society
By IFF Research

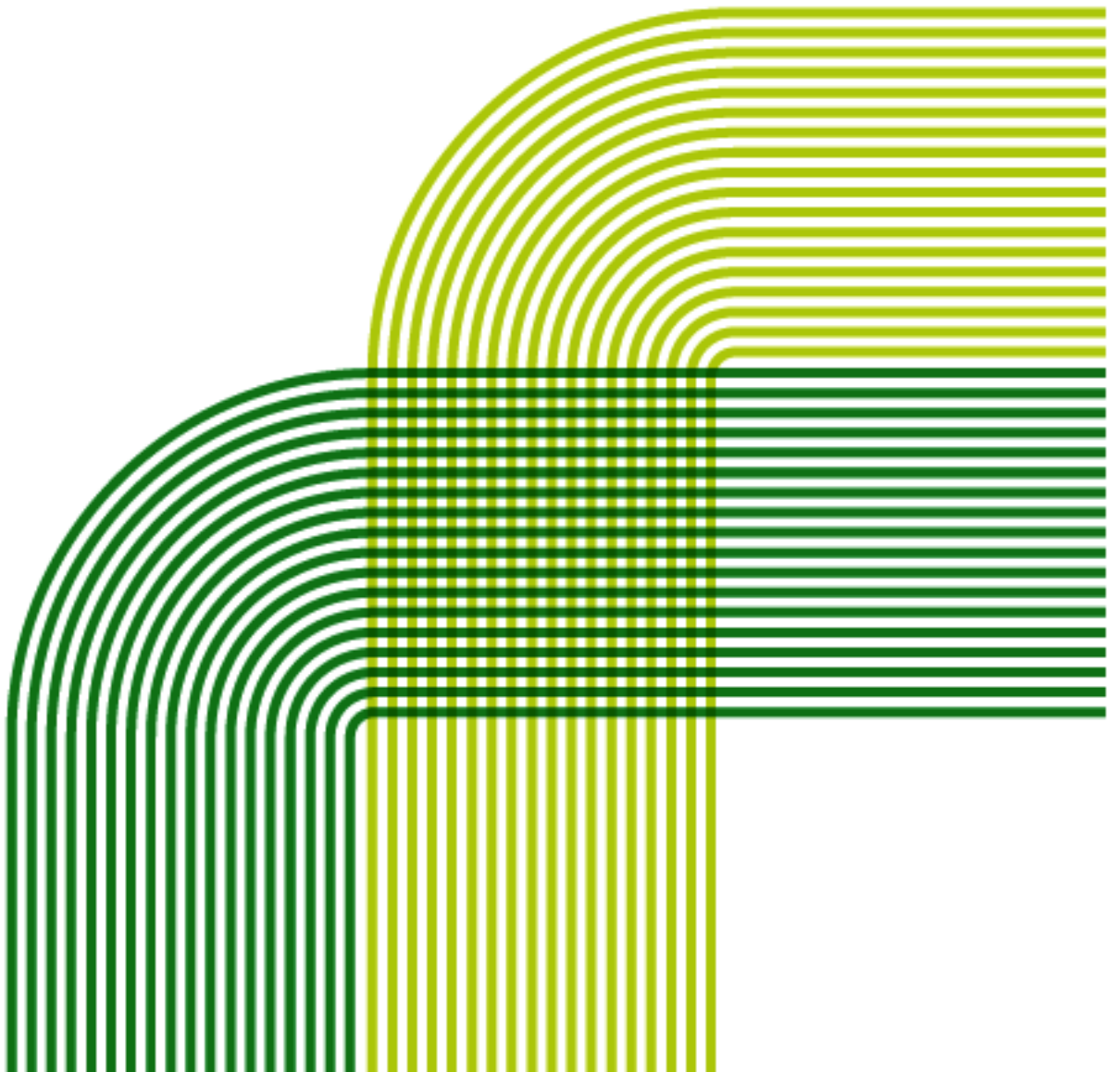




IFF Research

Contact details

Lorna Adams, Peter Hall and Jessica Huntley-Hewitt
IFF Research Ltd
Chart House
16 Chart Street
London N1 6DD
Tel +44(0)20 7250 3035
Fax +44(0)20 7490 2490



Contents

1	Executive Summary	5
	The 2011-12 PII application process	5
	PII cover in 2011-12	6
	Risk Factors	7
	Conclusions	7
2	Background and Methodology	9
	Background to the research	9
	Aims of the research	9
	Research methodology and representativeness of the sample	9
3	The PII Renewal Process	12
	PII cover for the 2010-11 period	12
	Re-applying in 2011-12 to 2010-11 insurers	13
	PII application process for the 2011-12 period	14
	2011-12 PII applications to insurers	16
	Timings of 2011-12 PII application submissions	19
	Timings of 2011-12 PII application responses	20
	Outcomes of 2011-12 PII applications	22
4	Current PII Cover for 2011-12	24
	2011/12 Insurers	24
	Reasons for selecting 2011-12 insurer	25
	Entering the Assigned Risks Pool	26
	Point at which cover effected	26
	Cost of premiums	27
	Excess	30
5	Restructuring and run-off cover	33
	Successor Practice Rules in a recent merger	33
	Potential impact of run-off	33
6	Risk factors associated with PII premiums	35
	Relationship between risk factors and PII premiums	38
	How difficult was the PII renewal process (and why)?	38
	Why was the process difficult?	39
7	Conclusions	41



8 Appendices 42

Appendix A : Details of statistical analysis	43
Appendix B: Advance letter sent to law firms	47
Appendix C: Pro-forma sent to law firms	49
Appendix D: 2011 survey questionnaire	51
Appendix E: List of brokers used by law firms in 2011-12 PII applications	82

List of Figures

Figure 3.1: Insurers providing 2010-11 cover	12
Figure 3.2: Whether sought to renew cover with 2010-11 insurer in 2011-12	13
Figure 3.3: Number of brokers applied to for 2011-12 PII cover	14
Figure 3.4: Number of brokers applied to for 2011-12 PII cover by number of partners	15
Figure 3.5: Brokers used to provide PII quotations for 2011-12 cover	16
Figure 3.6: Number of insurers approached for 2011-12 PII cover (directly or via a broker)	18
Figure 3.7: Insurers approached to provide PII quotes (directly or via a broker)	19
Figure 3.8: Date of submitting PII applications for 2011-12	20
Figure 3.9: Date of receiving a response to 2011-12 PII applications	21
Figure 3.10: Proportion of firms receiving one or more refusals	23
Figure 4.11: Insurers used for PII in 2011-12	24
Figure 4.12: Reasons for decision	25
Figure 4.13: Cost of premiums	27
Figure 4.14: PII premiums as a percentage of gross fee income	30
Figure 4.15: Excess payable on claims	31
Figure 4.16: Value of top-up cover purchased	32
Figure 5.1: Run-off cost as a factor by size of firm	34
Figure 6.2: Risk factors experienced in last 5 years	37
Figure 6.3: Difficulty of PII renewal process	39
Figure 6.4: Reasons for difficulty	40

List of Tables

Table 2.1: 2011 PII survey response rate	10
Table 2.2: 2011 PII survey quota targets	10
Table 2.3: Profile of achieved interviews by size and region	11
Table 2.4: Condensed population by size and region (used for weighting)	11
Table 3.1: Mean number of days taken by insurers to respond to PII applications for 2011-12	21
Table 3.2: Response time for PII applications in 2011-12	22
Table 4.3: Point at which offer accepted	26
Table 4.4: Median premiums by size of firm	28
Table 4.5: Median premiums by size of firm	28
Table 4.6: Comparison between this year's and last year's premium	29
Table 6.1: Risk factors experienced in last 12 months	36
Table 6.2: Median PII premiums by size of firm and claims in last 12 months	36



1 Executive Summary

- 1.1 In November 2011, the Law Society commissioned IFF Research to conduct research among law firms in England and Wales to understand their perceptions and experiences of effecting Professional Indemnity Insurance (PII) for the period 2011-12. An equivalent survey has been conducted annually since 2008.
- 1.2 A telephone survey was conducted with 600 law firms ranging in size from sole practitioners to firms with 25 partners (firms with more than 25 partners were ineligible for the study).
- 1.3 Data were weighted to be representative of the Law Society's member population by size (number of partners) and region.

The 2011-12 PII application process

- 1.4 Nearly nine in ten firms (87%) sought to renew cover with their 2010-11 insurer (among firms that were trading in 2010-11 and weren't in the ARP in 2010-11). The largest firms (those with 11-25 partners) were the most likely to have sought to renew their cover – as many as 96% did so. This is an increase on 2010-11, when only 65% of firms sought to renew cover with their existing insurer. This is presumably due the largest insurer, Quinn, exiting the market after 2009-10 forcing their customers to look elsewhere for PII provision.
- 1.5 Almost one-fifth (18%) of law firms approached one or more insurers directly regarding their 2011-12 PII cover (in most cases just one insurer). This is a significantly higher proportion than was found for 2010-11 applications when 10% of firms approached insurers directly.
- 1.6 The vast majority of law firms (90%) applied to at least one broker for a compulsory quote. This is broadly in line with the levels found in previous years (93% for 2010-11 applications; 88% for 2009-10).
- 1.7 The largest firms, those with 11 to 25 partners, were significantly more likely to use at least one broker (no firms with 11-25 partners went about their PII applications without using a broker whereas 10% of smaller firms did not use a broker). However, these larger firms were more likely to apply to just one broker (73% applied to just one broker compared with 43% of firms with 10 partners or fewer).
- 1.8 As has been the case in previous years, the most commonly used broker for 2011-12 PII applications was AON (45% - in line with 2010-11 applications). Larger firms tended to approach more insurers via a broker than smaller firms: 15% of sole practitioners and 21% of 2-4 partner firms approached four or more insurers compared with 29% of firms with 5-10 partners and 41% of firms with 11-25 partners.
- 1.9 As has been the case in previous studies, a relatively high proportion (21%) of law firms did not know how many insurers their broker(s) had applied to.
- 1.10 Just as for the 2011-12 PII application process, XL were the most commonly approached insurer (31% of firms' applications via broker were to XL – broadly in line with the 32% found in 2010-11).
- 1.11 The majority (71%) of PII applications for cover in 2011-12 were submitted by the end of August and 93% by the end of September. This is consistent with the results of the 2009-10 and 2010-11 surveys.
- 1.12 The vast majority (90%) of responses to 2011-12 PII applications had been received by law firms by the end of September. This is broadly consistent with the results of the 2009-10 and 2010-11 PII surveys.



- 1.13 The average time between application submission and response was just over 24 days - a shorter average response time than for 2010-11 applications (33 days) and 2009-10 applications (31 days).
- 1.14 The vast majority of applications (90%) led to an offer of 2011-12 PII cover by one or more qualified insurers (91% of firms reported receiving at least one offer)¹.
- 1.15 Half of firms (50%) who received one or more offers reported receiving a time-limited offer.
- 1.16 One in fourteen applications (7%) was turned down by insurers – this equates to 5% of firms who received one or more refusals. One in seven of these refusals (14%) were received after mid-September.
- 1.17 Over half of firms reported finding the PII renewal process not very (22%) or not at all difficult (34%). One-third of firms reported finding the process quite (23%) or very difficult (11%). One in ten firms (11%) did not feel strongly either way. The likelihood of perceiving the process as difficult tended to increase with the number of brokers used.

PII cover in 2011-12

- 1.18 Over three in five firms (63%) chose to re-insure with their 2010-11 insurer. Larger firms were the most likely to remain with their existing insurer (81%).
- 1.19 The cost of premiums was by far the most influential factor on decisions about which insurer to use. Nearly all firms stated that this was important in their decision and two-thirds (68%) stated that it was the most influential factor.
- 1.20 The proportion of firms entering the Assigned Risks Pool was very small. Only 0.5% of firms were in the ARP at the time of the research. A further 2% had made an application to the ARP but had either not proceeded with their application or had exited by the time of the research. A decrease on previous years.
- 1.21 Over half of firms had accepted an offer by mid September (56% - the same proportion as for the previous year) and the vast majority (88%) had done so by the deadline of 1st October 2011.
- 1.22 Larger firms were the most likely to renew closer to the deadline. Half (50%) of firms with 11-25 partners effected their cover in late September compared with 46% of those with 5-10 partners, 33% of those with 2-4 partners and only 27% of sole practitioners.
- 1.23 The median annual premium in 2010-11 was £16,980 and in 2011-12 was £16,720 indicating that, across the market as a whole, premiums have remained relatively stable.
- 1.24 Across all sizes of firms, with the exception of those with 2-4 partners, median premiums were lower among those who had changed insurer than among those who had remained with their 2010-11 insurer.
- 1.25 Just over half of all firms (54%) experienced a decrease in the cost of their premiums between the two years while 35% experienced an increase and the remaining 11% saw their premiums remain at broadly the same level.

¹ Those who did not know which insurers were applied to on their behalf are excluded from this analysis.



- 1.26 Firms that remained with their existing insurer were less likely to experience decreases in the cost of their premiums and more likely to find that they remained at approximately the same level; 46% saw a decrease in premiums, 40% saw an increase and for 14% they remained broadly the same. By comparison, of those who changed insurer, 72% saw a decrease in premiums, 24% saw an increase and for 5% premiums remained at broadly the same level.
- 1.27 The differences in levels of excess payable were closely related to size of firm. One in five sole practitioners (19%) had no excess payable compared to only 1% of firms with 11-25 partners. By comparison, 40% of the larger firms (with 11-25 partners) had an excess of £30,000 or more compared with 6% of those with 5-10 partners and 1% of those with fewer than 5 partners.
- 1.28 One in five firms (19%) elected to purchase insurance cover above the minimum terms and conditions layer. Likelihood to invest in top-up cover varied considerably with size of firm from a small minority of sole practitioners (8%) to almost all of those with 11-25 partners (93%).

Risk Factors

- 1.29 Within the last 12 months, three in ten (30%) of law firms had notified their insurer of circumstances that might give rise to a claim against the firm, while one-fifth (20%) had actually had an insurance claim made against the firm. Other common 'risk factors' experienced by firms were an increase in the number of fee earners (19%) or a decrease in the number of fee earners (14%).
- 1.30 Firms that had a claims history paid higher premiums on average than firms who did not: The median premium firms with no claim in the last 12 months was £11,000, compared to £50,000 for firms with a claim.
- 1.31 Analysis² showed that the size of the firm (in terms of the number of partners and solicitors), the length of time the firm has been practising, whether the firm has had an insurance claim made against it in the last 12 months and/or whether the firm has notified their insurers of circumstances which might give rise to a claim were significant predictors of premium levels.

Conclusions

- 1.32 The findings from this survey appear to indicate:
- **The market has remained relatively stable between 2010 and 2011.** The market shares of individual insurers are very similar for 2011-12 renewals as they were for 2010-11. Premiums paid have also remained at a similar level as have the level of excesses charged on claims.
 - **The market continues to be dominated by one insurer.** The insurer with the largest proportion of firms' PII business accounts for almost a third of all firms PII cover. Their domination of the market is particularly marked for the smaller firms. A number of the insurers in the market appear to focus mainly on the larger firms.
 - **There is evidence of improvement in the response times of insurers.** The average time between application and response has improved considerably since 2010-11. In addition, it was relatively uncommon for firms applied to for PII cover not to provide a quotation.

² Tests for correlation were applied to measure the extent to which PII premiums move in the same direction as certain factors such as size of firm (partners and/or solicitors), number of offices, gross fee income, and potential risk factors. Multiple linear regression (stepwise method) and Chi-squared automatic interaction detector (CHAID) analysis were conducted to explain any variances in premium and detect for interaction between the various determining factors. A full description of the process is included in this report in the Appendix.



- **Firms are becoming more likely to shop around but could still make better use of the market.** The proportion of firms approaching one or more insurers directly increased from 2010-11 but the mean number of insurers approached (either via a broker or directly) remains quite low (particularly among smaller firms). Just under a quarter of all firms approached their 2010-11 insurer for 2011-12 cover only (and this was particularly likely to be the case among smaller firms).
- **There is some evidence to suggest that the process is becoming easier.** While the proportion stating that they found the process very or fairly difficult has remained broadly the same as in 2010-11, the proportion stating that they found it not at all difficult has increased.



2 Background and Methodology

Background to the research

- 2.1 Since the closure of the Law Society's Solicitors Indemnity Fund in 2000, firms must find alternative cover from qualifying insurers via the insurance market. Firms must hold Professional Indemnity Insurance (PII) cover by the 1st October deadline each year. The compulsory level of cover is £2million for partnerships and £3 million for Limited Liability Partnerships.
- 2.2 Firms unable to find the necessary cover are transferred to the Assigned Risk Pool (ARP), which offers insurance at higher than market rates. Firms in the ARP are inspected and monitored by the Solicitors Regulation Authority at their own expense.
- 2.3 During the past few renewal rounds, firms have contacted the Law Society complaining of increased premiums and of delays in insurers returning quotes and offering cover. As a result, since 2008, the Law Society has commissioned research to explore firms' experiences of the PII renewal process, to determine whether wider problems exist.
- 2.4 IFF were commissioned by the Law Society to conduct the 2011 research, to identify firms' experiences of the PII renewal process for the period 2011-12. These research findings are presented in this report

Aims of the research

- 2.5 The 2011 survey sought to expand upon the baseline data established in the 2008-2010 surveys – in particular looking at the following key research questions:
 - What have been the trends in the use of the insurance market to secure cover in 2011?
 - Has there been any change in the proportion of firms experiencing renewal problems?
 - Is any evidence to suggest differential treatment for particular types of firms and whether there is any indication that this has improved or deteriorated since 2010?

Research methodology and representativeness of the sample

- 2.6 A sample file of law firms in England and Wales was provided by the Law Society from their REGIS database containing a named contact for each firm, typically the owner or a director, senior partner or partner.
- 2.7 A letter introducing the research and pro-forma detailing the information sought in the interview were sent to the named contact at each firm in the supplied sample file in w/c 21st November 2011. The letter and pro-forma sent to firms is included in this report as Appendices A and B.
- 2.8 Interviews were conducted using computer assisted telephone interviewing (CATI) targeting the person in the firm best placed to respond regarding the PII application process.
- 2.9 600 interviews were achieved between 29th November 2011 and 24th January 2012.
- 2.10 In total, 1,026 firms were approached for an interview – a response rate of 58% (or 64% of the contacted sample). This breaks down as follows:



Table 2.1: 2011 PII survey response rate

Outcome	Number
Completed Interview	600
No outcome achieved	115
Unobtainable / wrong number	90
Refused to take part	221
Total	1,026

2.11 Within the target of 600, quotas were set according to the size of firm (based on the number of partners) in order to achieve robust bases for analysis among firms in the larger size bands (those with 5-10 and 11-25 partners). Firms with more than 25 partners were not eligible for the study – sample for firms known to have more than 25 partners was not supplied and any firms found to have more than 25 partners were screened out towards the beginning of the survey.

Table 2.2: 2011 PII survey quota targets

Number of partners	Number	% of overall target
1 (Sole practitioner)	175	29
2-4	175	29
5-10	150	25
11-25	100	17
Total	600	100



2.12 The achieved profile of interviews by size and region is shown below in Table 2.3

Table 2.3: Profile of achieved interviews by size and region

	1 (sole practitioner)	2 – 4 partners	5 – 10 partners	11 – 25 partners	Total n.	Total %
City of London	7	5	4	4	20	3.3
Rest of Central London	5	9	7	5	26	4.3
Greater London	25	35	13	4	77	12.8
South East	31	32	19	26	108	18.0
Eastern	24	15	16	12	67	11.2
South West	13	10	17	13	53	8.8
West Midlands	15	8	12	8	43	7.2
East Midlands	7	6	13	1	27	4.5
Yorks & Humber	12	18	11	7	48	8.0
North West	21	25	19	14	79	13.2
North East	5	4	5	3	17	2.8
Wales	10	8	14	3	35	5.8
Total number	175	175	150	100	600	
Total %	29.2	29.2	25.0	16.7		100

2.13 Data were weighted by size of firm (number of partners) and region to map to the Law Society's population figures for law firms across England and Wales using the figures shown in Table 2.4.

Table 2.4: Condensed population by size and region (used for weighting)

	1 (sole practitioner)	2 – 4 partners	5 – 10 partners	11 – 25 partners	Total n.	Total %
London (Greater, Central, City of)	1289	1085	193	113	2680	26.8
The South (SE, SW)	1020	822	183	72	2097	20.9
Midlands (WM, EM)	715	538	142	25	1420	14.2
The North (NE, NW, Y&H)	907	1063	250	72	2292	22.9
Eastern England	493	437	80	32	1042	10.4
Wales	175	253	47	9	484	4.8
Total number	4599	4199	895	323	10016	
Total %	45.9	41.9	8.9	3.2		100



3 The PII Renewal Process

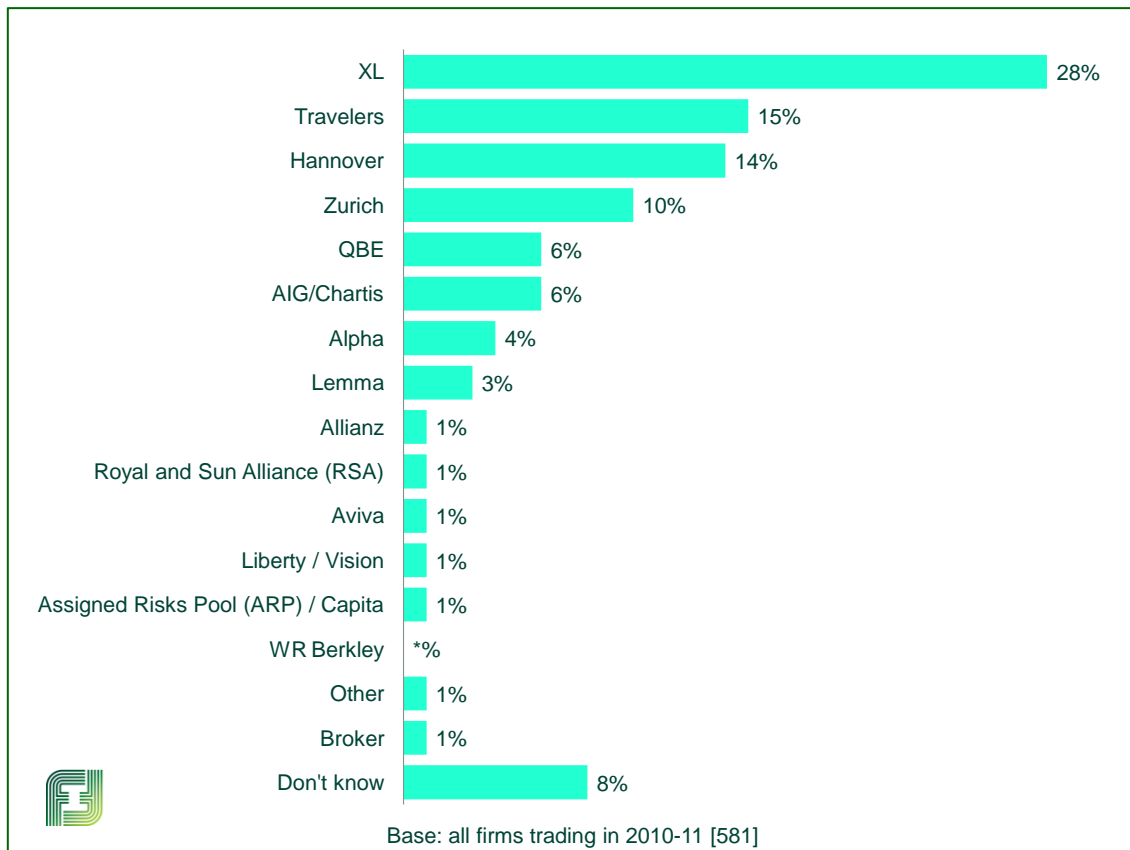
3.1 This chapter examines the application process for 2011-12 PII cover looking at the use of brokers, the number of insurers applied to (either directly or via a broker), the length of time taken to receive a response to PII applications and the numbers of applications leading to an offer of PII cover for 2011-12. First though, details of firms' PII is presented to set the scene for the 2011-12 application process.

PII cover for the 2010-11 period

3.2 For the 2010-11 period, XL was the most used provider of PII insurance for 2010-11 among the 2011 research sample, covering almost one in three (28%) of these firms. This follows the exit from the market of Quinn, who were the most common provider in 2009-10. As was the case in 2009-10, the top four providers of PII insurance (which in 2010-11 were XL, Travelers, Hannover and Zurich), together covered two thirds (67%) of all law firms trading in 2010-11.

3.3 A small minority of firms (1%) gave the name of a broker when asked to name their 2010-11 insurance provider, perhaps indicating that they were not aware of the insurer that their broker had used.

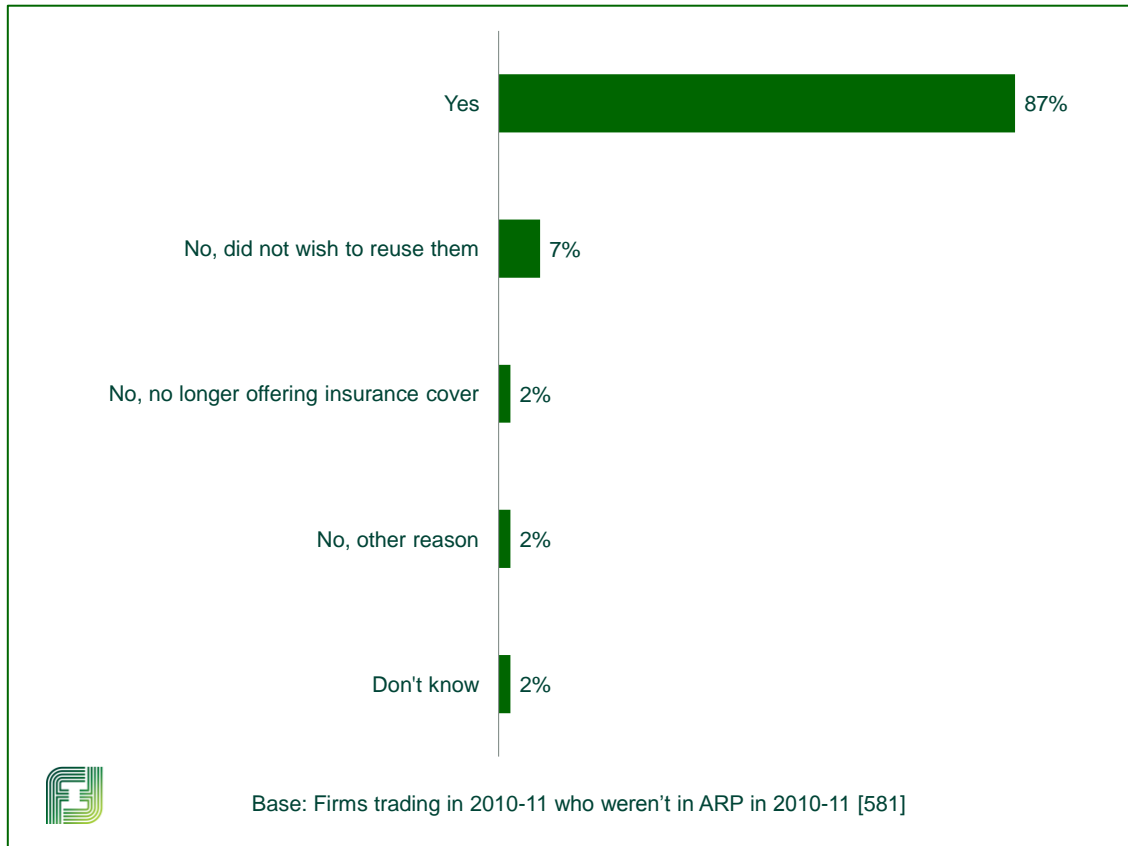
Figure 3.1: Insurers providing 2010-11 cover



Re-applying in 2011-12 to 2010-11 insurers

- 3.4 As shown in Figure 3.2 below, nearly nine in ten firms (87%) sought to renew cover with their 2010-11 insurer (among firms that were trading in 2010-11 and weren't in the ARP in 2010-11). The largest firms (those with 11-25 partners) were the most likely to have sought to renew their cover – as many as 96% did so.
- 3.5 At an overall level, this is an increase on 2010-11, when only 65% of firms sought to renew cover with their existing insurer. This is presumably due to the largest insurer, Quinn, exiting the market after 2009-10 forcing their customers to look elsewhere for PII provision.

Figure 3.2: Whether sought to renew cover with 2010-11 insurer in 2011-12



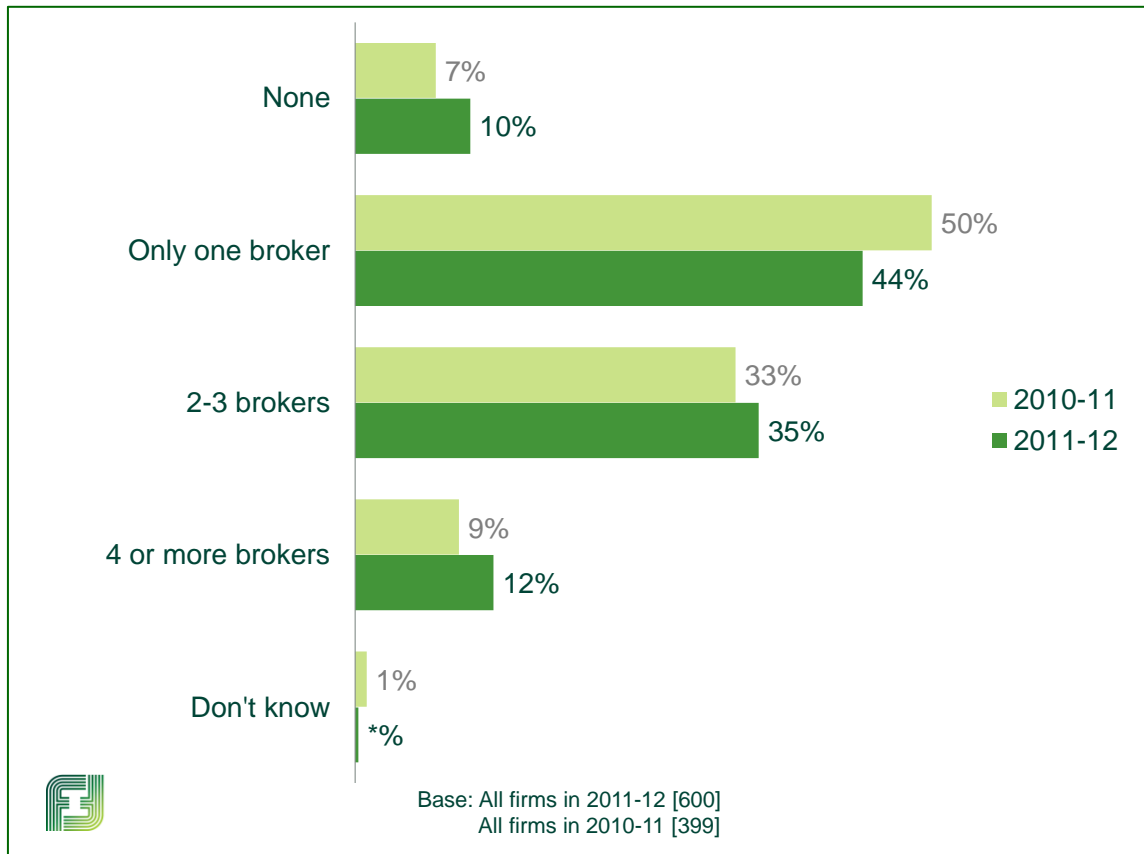
- 3.6 Of those who sought to renew cover with their 2010-11 insurer, 96% were made an offer; just 4% were declined - this was most commonly due to the insurer no longer offering PII cover.
- 3.7 Out of the firms who were made an offer for cover in 2011-12 by their 2010-11 insurer, four-fifths (81%) accepted the offer. Of the one-fifth who did not accept the offer, the majority stated that they had found a better quote elsewhere (a reason given by 60% of such firms), or were unhappy with the increase in premium since the last year (given by 48% of such firms). The smallest law firms (that re-applied to their 2010-11 insurer) were most likely to turn down the renewal offer due to increased premiums (63% of sole practitioners did so compared with 31% of 11-25 partner firms). Only 4% felt they had been given insufficient time to consider the quote.



PII application process for the 2011-12 period

- 3.8 In making their 2011-12 PII applications, the vast majority of law firms (90%) applied to at least one broker for a compulsory quote. This is broadly in line with the levels found in previous years (93% for 2010-11 applications; 88% for 2009-10).
- 3.9 As Figure 3.3 below shows, law firms most commonly applied to one broker for the purposes of obtaining PII (44%). Over a third (35%) applied to 2-3 brokers and around one in eight (12%) to 4 or more.

Figure 3.3: Number of brokers applied to for 2011-12 PII cover

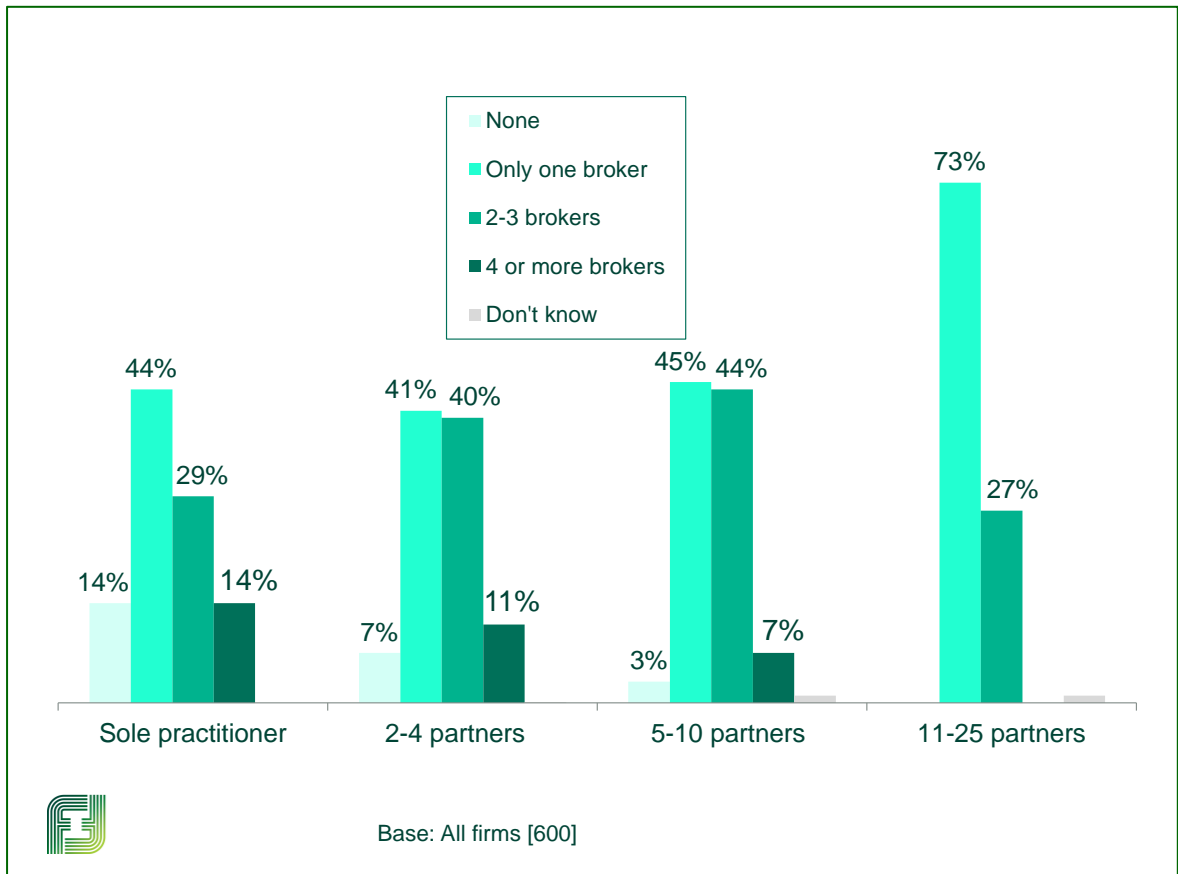


- 3.10 As was the case for the 2010-11 PII application process, there was a relationship between the number of brokers used to apply for PII cover and the number of partners in a firm. The largest firms, those with 11 to 25 partners, were significantly more likely to use **any** brokers (no firms with 11-25 partners went about their PII applications without using a broker whereas 10% of smaller firms did not use a broker).
- 3.11 However, these larger firms were more likely to apply to just one broker (73% applied to just one broker compared with 43% of firms with 10 partners or fewer). As hypothesised in 2010, it is likely that larger firms have built a relationship with their existing broker, while smaller firms are more likely to 'shop around' to find the most favourable PII offer.



- 3.12 Firms that sought to renew cover with their 2010-11 insurer were just as likely to shop around to find the most favourable PII offer: 89% of those who sought to renew with their 2010-11 insurer used broker services in their 2011-12 PII application – broadly in line with the 92% of those who did not seek to renew.
- 3.13 Sole Practitioners tended to be more varied in their approach to using brokers in their PII applications for 2011-12 – being collectively more likely than other firms both to not use a broker (14% compared with 6% of firms with two or more partners) and to use four or more brokers (14% compared with 10% of firms with two or more partners).

Figure 3.4: Number of brokers applied to for 2011-12 PII cover by number of partners

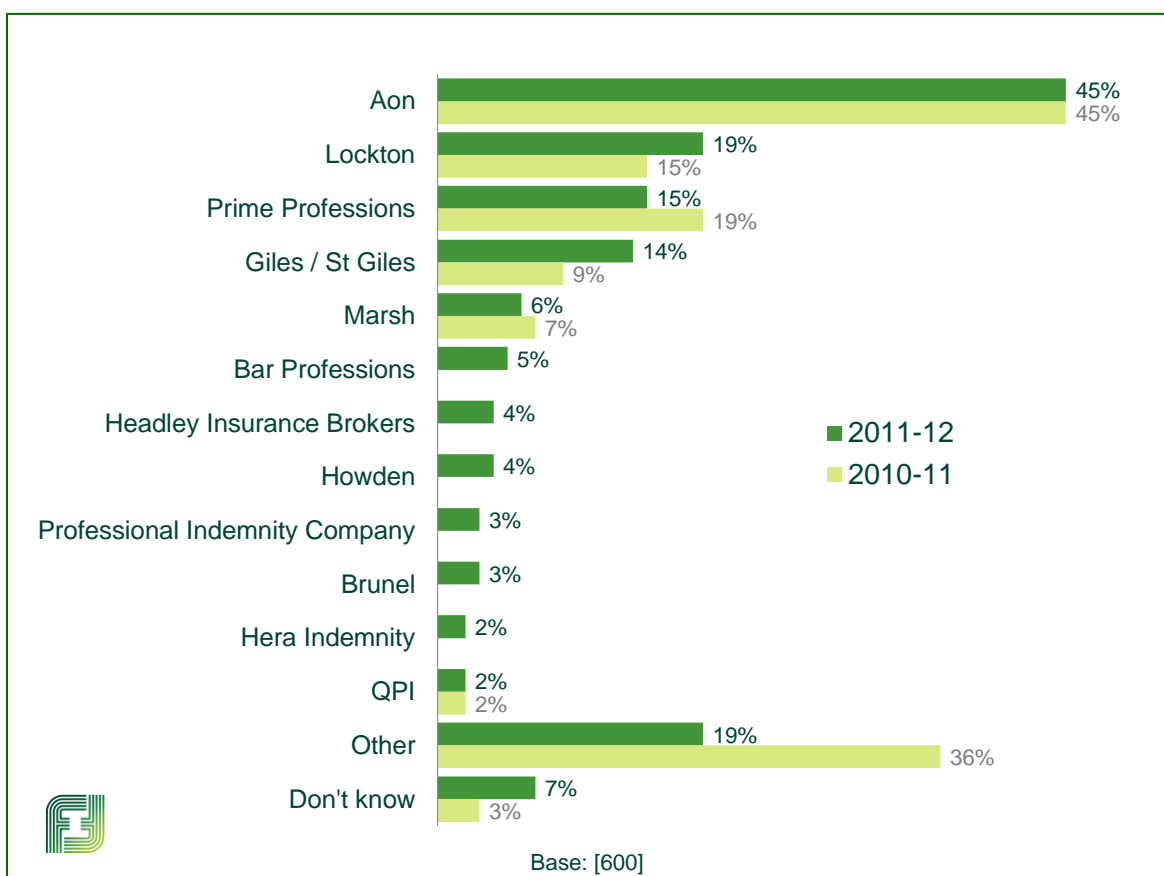


- 3.14 Fewer firms with five to ten partners used just one broker for their 2011-12 PII applications (45%) than in 2010-11 when close to three-quarters used just one broker (73%). In turn, more firms with five to ten partners used 2-3 brokers (44%) and 4 or more brokers (7%) in 2011-12 (compared with 20% and 0% respectively in 2010-11).
- 3.15 When approaching brokers for PII cover, the majority of law firms (65%) knew which insurers the broker uses for PII purposes. This is broadly in line with the 2010 survey (when 30% stated they did not know which insurers were used by the brokers they had applied to).
- 3.16 The likelihood of knowing which insurers are used by brokers increases with the size of law firms: 58% of sole practitioners, 68% of firms with 2-4 partners, 78% with 5-10 and 82% of firms with 11-25 partners knew which insurers were used by the brokers they applied to.



- 3.17 This reinforces the hypothesis that larger firms have an established relationship with their broker as they are more familiar with the broker’s working practice.
- 3.18 As has been the case in previous years, the most commonly used broker for 2011-12 PII applications was AON (45% - in line with 2010-11 applications).
- 3.19 Among the more major brokers, 2011-12 PII applications saw the greater use of Lockton (19% up from 15% for 2010-11 applications) and Giles/St Giles (14% up from 9% for 2010-11 applications).
- 3.20 Figure 3.5 below shows the most commonly used brokers (those mentioned by at least 2% of law firms). The survey responses revealed that an extremely wide range of brokers were used by law firms for their 2011-12 application – too many to show on one chart. Therefore a full listing of brokers used in 2011-12 is provided as an appendix to this report.

Figure 3.5: Brokers used to provide PII quotations for 2011-12 cover



2011-12 PII applications to insurers

- 3.21 As Figure 3.5 below shows, 18% of law firms approached one or more insurers directly regarding their 2011-12 PII cover (in most cases just one insurer). This is a significantly higher proportion than was found for 2010-11 applications when 10% of firms approached insurers directly.

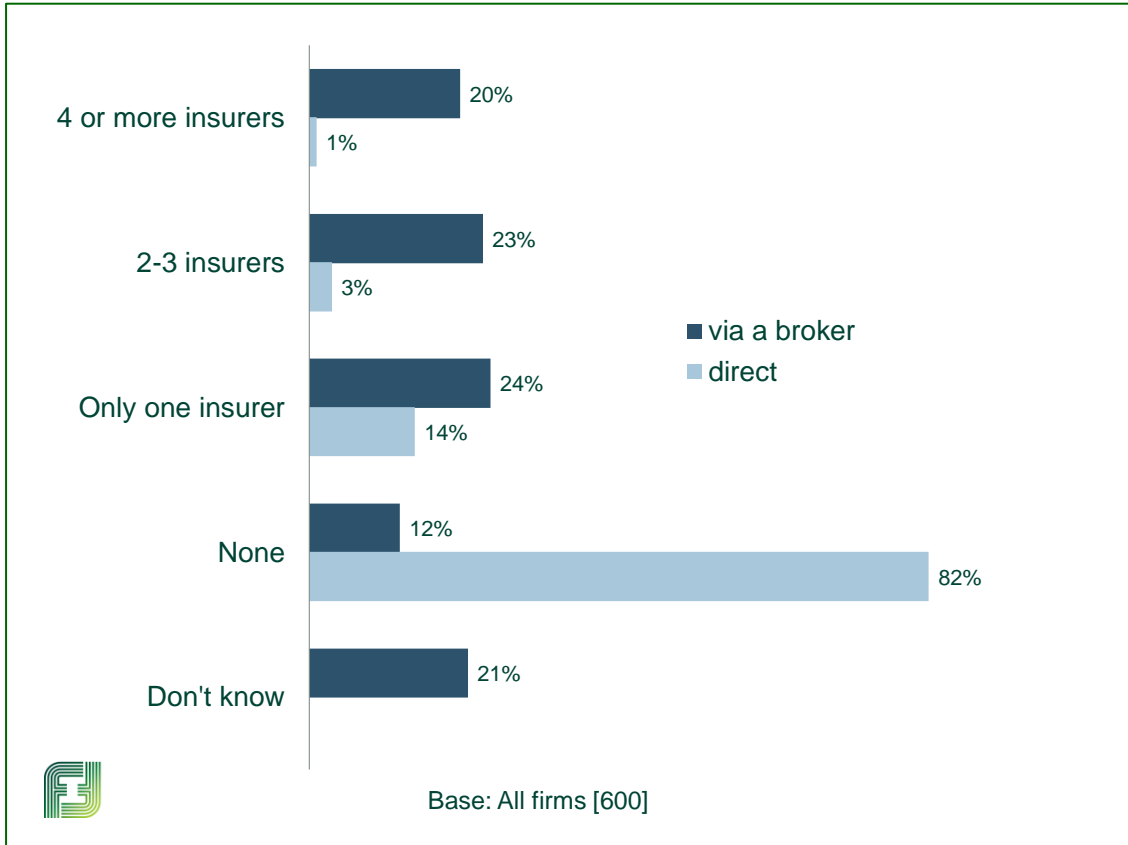


- 3.22 Around a quarter of firms indicated that their application had been sent to just one (24%) or 2-3 insurers (23%). A fifth (20%) indicated that their application had been sent to 4 or more insurers by their broker(s).
- 3.23 Larger firms tended to approach more insurers via a broker than smaller firms: 15% of sole practitioners and 21% of 2-4 partner firms approached four or more insurers compared with 29% of firms with 5-10 partners and 41% of firms with 11-25 partners.
- 3.24 Large firms however, were less likely to have approached any insurers directly: 23% of sole practitioners approached one or more insurers directly for 2011-12 PII cover, compared with 15% of firms with 2-4 partners, 11% of firms with 5-10 partners and just 4% of firms with 11-25 partners.
- 3.25 The mean number of insurers approached (either via a broker or directly) was 1.4 among sole practitioners and firms with 2-4 partners; 2.1 among firms with 5-10 partners and 2.3 among firms with 11-25 partners.³
- 3.26 A higher proportion of firms that sought to renew with their 2010-11 insurer applied to only one insurer either via a broker (26% vs 12% of firms not seeking to renew) or directly (14% vs 8% of firms not seeking to renew).
- 3.27 This means that just under a quarter of all firms (24%) approached their 2010-11 insurer for 2011-12 PII cover **only** (either via a broker or directly). As would be expected, given the trend discussed above in 3.24 and 3.25, smaller firms were more likely to have **only** approached their 2010-11 insurer: 28% of sole practitioners and 22% of firms with 2-4 partners had done so compared with 11% of firms with 5-10 partners and 14% of firms with 11-25 partners.
- 3.28 As has been the case in previous studies, a relatively high proportion (21%) of law firms did not know how many insurers their broker(s) had applied to; suggesting a lack of communication (welcome or otherwise) between the law firm and the broker regarding the process between the firm approaching the broker and the take-up of PII cover.

³ This mean data is calculated by adding the number of different insurers firms mentioned by name at question C6 in the 2011-12 survey. Please note that this data reflect the number of insurers applied to that firms **were aware of**; applications to insurers made by brokers that firms were not aware of are not included in this data.



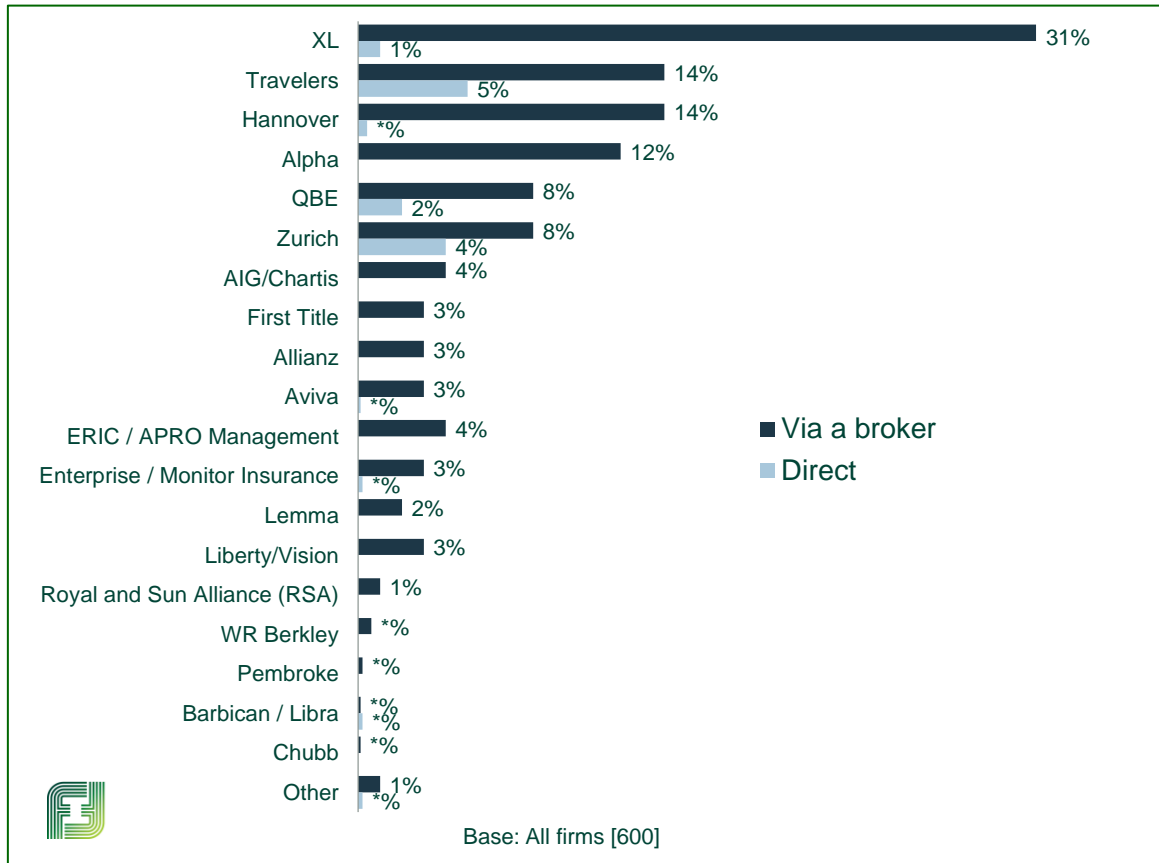
Figure 3.6: Number of insurers approached for 2011-12 PII cover (directly or via a broker)



3.29 Just as for the 2010-11 PII application process, XL were the most commonly approached insurer (31% of firms' applications via broker were to XL – broadly in line with the 32% found in 2010-11).

3.30 Among the 18% of law firms that approached insurers directly the most commonly approached were, as in 2010-11, Travelers (approached directly by 5% of firms) and Zurich (approached directly by 4% of firms).



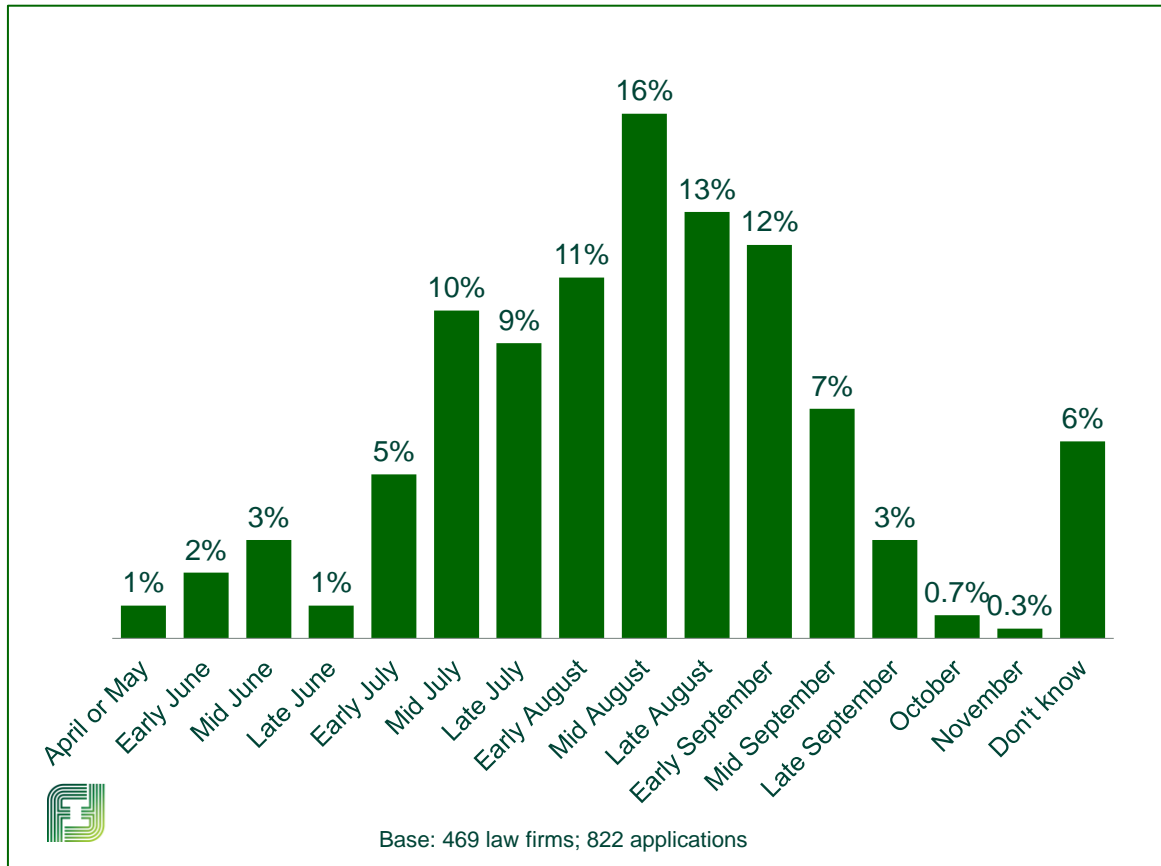
Figure 3.7: Insurers approached to provide PII quotes (directly or via a broker)

Timings of 2011-12 PII application submissions

- 3.31 The majority (71%) of PII applications for cover in 2011-12 were submitted by the end of August. This is consistent with the results of the 2009-10 and 2010-11 surveys.⁴
- 3.32 Figure 3.8 below shows that 90% of all PII applications were made by mid-September and 93% by the end of September. This leaves a small minority of firms who reported submitting their PII applications in October (0.7%) or November 2011 (0.3%) – after the deadline for taking out PII for the 2011-12 period.

⁴ The 2010 report states that 73% of applications for 2009-10 and 76% for 2010-11 were submitted by the end of August. These findings excluded 'don't know' responses (i.e. where the survey respondent was unaware of the submission date). The 2011-12 survey includes 'don't know' responses so direct comparisons are not recommended.



Figure 3.8: Date of submitting PII applications for 2011-12

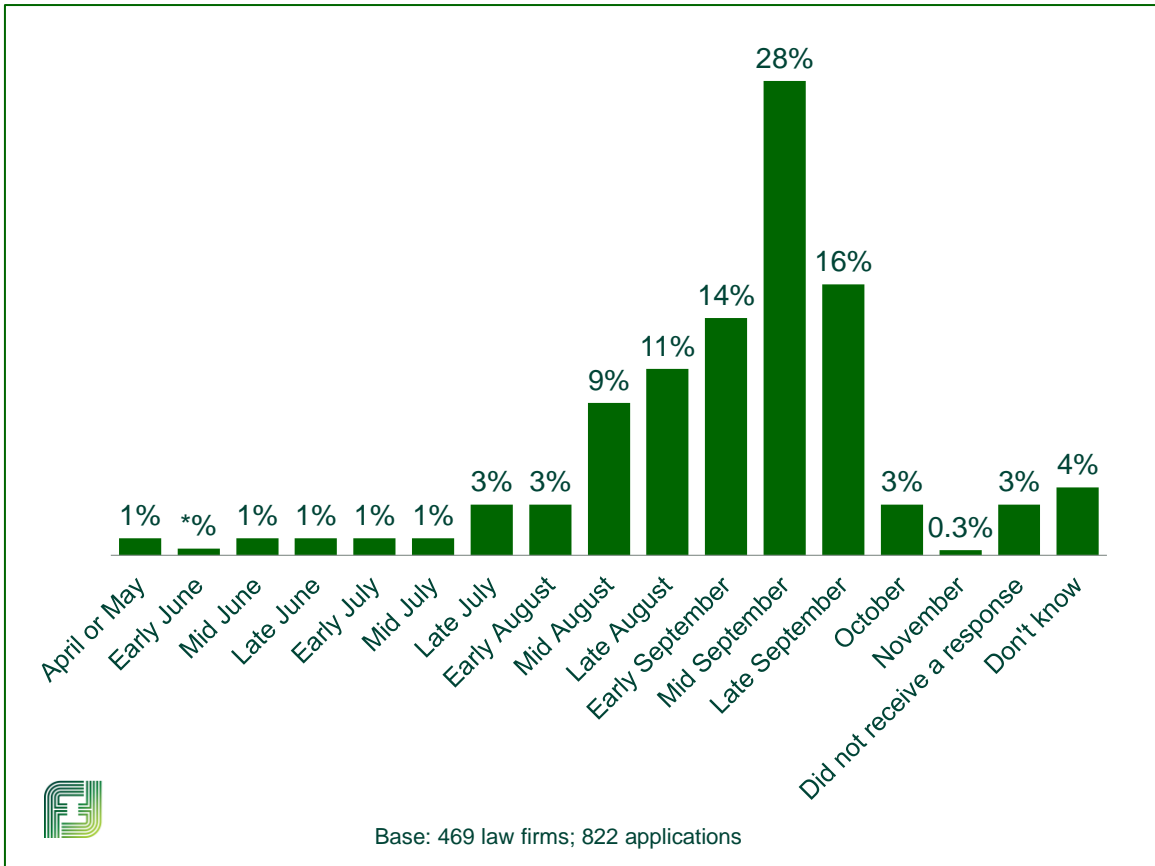
Timings of 2011-12 PII application responses

- 3.33 The vast majority (90%) of responses to 2011-12 PII applications had been received by law firms by the end of September. This is broadly consistent with the results of the 2009-10 and 2010-11 PII surveys.⁵
- 3.34 Only a minority of 2011-12 PII applications received a late response, that is a response after October 1st 2011 – just 3.4% of all responses were late. Again, this is broadly consistent with previous years.
- 3.35 Just under half of all late responses were to applications made before mid September (1.5% of all responses/applications).

⁵ The 2010 report states that 88% of responses for 2009-10 and 97% for 2010-11 were received by the end of September. These findings excluded 'don't know' responses (i.e. where the survey respondent was unaware of the response date). The 2011-12 survey includes 'don't know' responses so direct comparisons are not recommended.



Figure 3.9: Date of receiving a response to 2011-12 PII applications



3.36 The average time between application submission and response was just over 24 days - a shorter average response time than for 2010-11 applications (33 days) and 2009-10 applications (31 days).

[Redacted text block]

[Redacted text line]

[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]



- 3.38 There does not appear to be any particular benefit for firms applying for PII cover early in terms of the speed of response – indeed, the opposite appears to be true. The average response time for applications decreases the closer they are made to the deadline of October 1st: Applications made by the end of July have an average response time of 37 days – whereas applications made in August average 22 days, September applications average 11 days and those made after the deadline has passed average 10 days response time.
- 3.39 Table 3.2 shows the broad time taken for law firms to receive a response to their applications for 2011-12 PII cover. Two-fifths of all applications (38%) were responded to within two weeks of submission – a higher proportion than was found in the 2010-11 application process when 31% of applications were responded to within two weeks of submission. Three quarters of applications were responded to within a month of submission.
- 3.40 A minority of responses took longer than two months to come through (5%). None took longer than four months (the longest time taken to respond was 115 days).

Table 3.2: Response time for PII applications in 2011-12

Time taken for a response		
<i>Base (all firms who received a response)</i>	<i>437 firms; 717 applications</i>	<i>437 firms; 717 applications</i>
	%	Cumulative %
Within 7 days	14	14
Up to 2 weeks	25	38
2 weeks to a month	37	75
More than a month up to 2 months	20	95
More than 2 months up to 4 months	5	100

Outcomes of 2011-12 PII applications

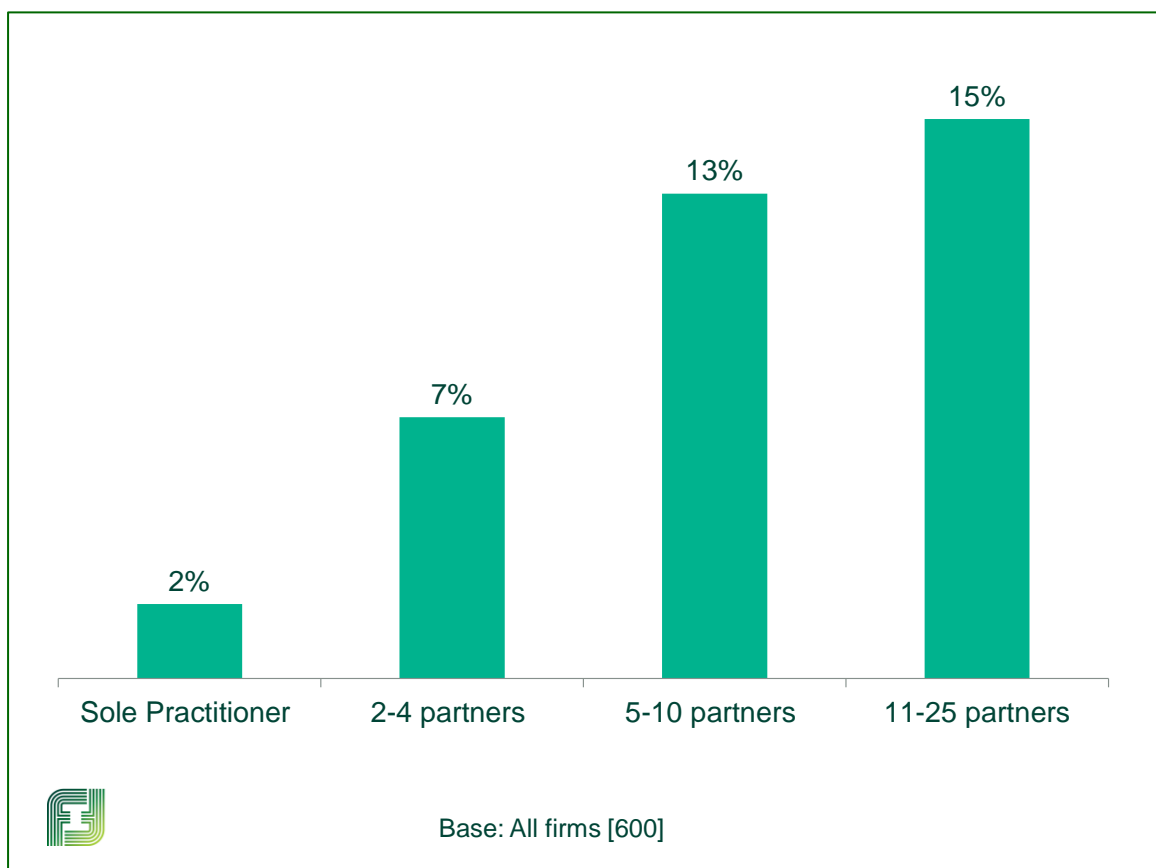
- 3.41 The vast majority of applications (90%) led to an offer of 2011-12 PII cover by one or more qualified insurers (91% of firms reported receiving at least one offer)⁶.
- 3.42 Half of firms (50%) who received one or more offers reported receiving a time-limited offer. Virtually all insurers made time-limited offers (all qualifying insurers were mentioned by respondents except ██████████, but this reflects the low numbers of firms who applied to these insurers rather than the insurers' policies regarding limited offers).
- 3.43 These time-limited offers tended to require a response within 7 or 14 days – a handful of insurers, ██████████, made time-limited offers of c. 30 days but only in a minority of instances.
- 3.44 One in fourteen applications (7%) were turned down by insurers – this equates to 5% of firms who received one or more refusals. One in seven of these refusals (14%) were received after mid-September.
- 3.45 As Figure 3.10 shows, the likelihood of having an offer turned down increased with size of firm – just 2% of sole practitioners received a refusal compared with 7% of firms with 2-4 partners, 13% of firms with 5-10 partners and 15% of firms with 11-25 partners.

⁶ Those who did not know which insurers were applied to on their behalf are excluded from this analysis.



- 3.46 A higher proportion of sole practitioners did not know which insurers their broker approached for PII cover (40% compared with 30% of firms with 2-4 partners, 19% of firms with 5-10 partners and 16% of firms with 11-25 partners). This is likely to drive down the proportion of sole practitioners reporting a refusal as they are (as a group) less likely to be aware of individual applications to insurers. Larger firms on the other hand are known to have closer relationships with their broker and are therefore more likely to be informed of the outcome of an application (hence more likely to report a refusal).
- 3.47 A further explanation could be that the number of insurers approached increases as the size of firm increase (as discussed earlier in this chapter, 15% of sole practitioners applied to four or more insurers via a broker compared with 41% of firms with 11-25 partners): a greater number of applications means a greater likelihood of receiving at least one refusal.

Figure 3.10: Proportion of firms receiving one or more refusals



- 3.48 Just 3% of applications for 2011-12 PII cover did not receive any response from the insurer applied to (lower than the 6% found in 2010-11).



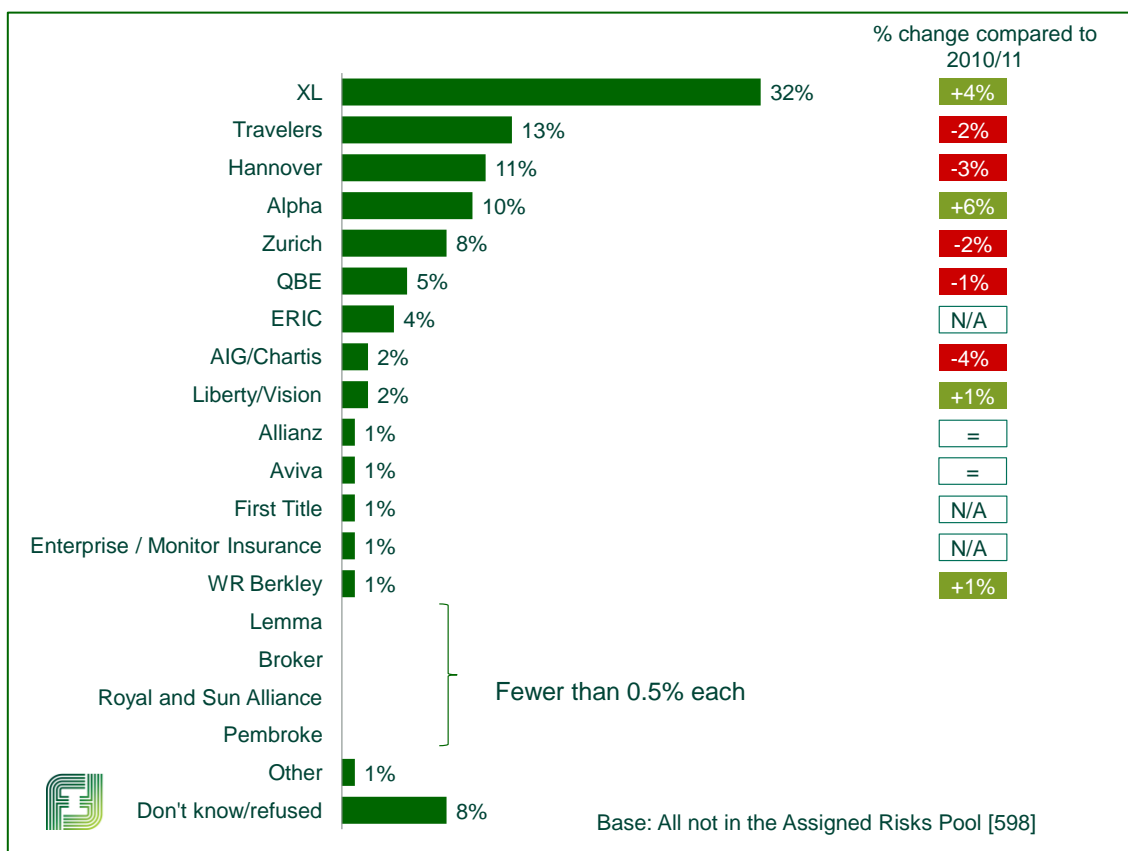
4 Current PII Cover for 2011-12

4.1 This chapter looks at insurers selected for PII cover for 2011-12 and then the reasons for selecting them. It also reports on the point in the renewal cycle at which firms accepted policies. It then goes on to look at the cost of premiums, level of excess on policies and the purchase of top-up cover.

2011/12 Insurers

4.2 Figure 4.1 below shows the insurers that law firms purchased their PII cover from for 2011-12. The boxes along the right hand side of the figure shows the variation in proportion of firms with each insurer for 2011-12 compared with 2010-11. Alpha's market share has increased (from 4% to 10%) while that of AIG/Chartis has fallen slightly (from 6% to 2%) although at an overall level the profile of insurers used for PII cover in 2011-12 is broadly in line with 2010-11. XL continues to be the most commonly used firm insuring a third of law firms for 2011-12. Between them the top insurers account for provision to two-thirds of all firms.

Figure 4.11: Insurers used for PII in 2011-12



4.3 There is a distinction in the profile of insurers used by smaller and larger firms. Some of the insurers that account for a relatively small proportion of the market overall account for a relatively large share of the larger firms market. For example, AIG/Chartis insure 16% of firms with 11-25 partners, Allianz insure 11% of this group, QBE 18% and Zurich 15%. By comparison, XL insure 7% of firms with 11-25 partners.

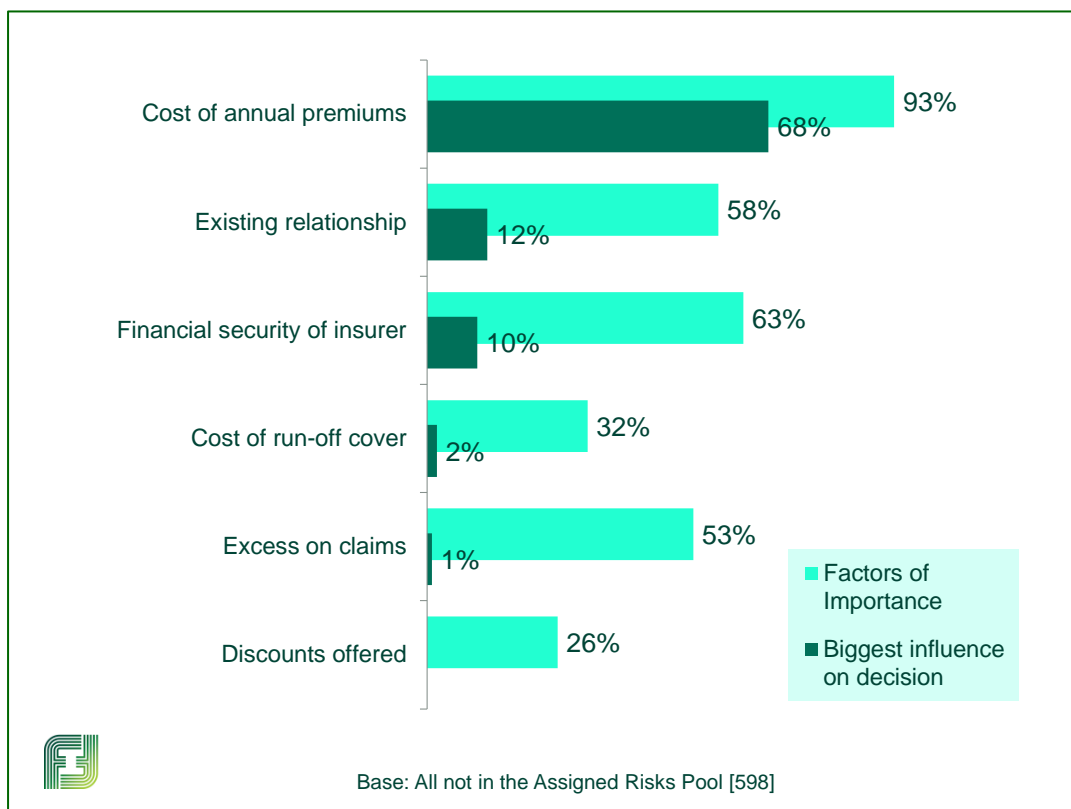


4.4 Almost two-thirds of firms (63%) chose to re-insure with their 2010-11 insurer. Larger firms were the most likely to remain with their existing insurer (81%). Sole practitioners were more likely to re-insure (68%) than mid-size firms (58% of those with 2-4 partners and 60% of those with 5-10 partners). On average, firms choosing to remain with their existing insurer had been using that insurer for 3.4 years prior to the 2011-12 renewal.

Reasons for selecting 2011-12 insurer

4.5 Firms were asked which of a range of factors were important in their decision of which insurer to use in 2011-12. They were also asked which of the factors that were important had the most influence on their final decision. Figure 4.2 below shows both the proportions of firms stating each reason was important (the lighter coloured bars) and the proportion stating that each factor was 'most influential' (the darker coloured bars).

Figure 4.12: Reasons for decision



4.6 As the Figure shows, the cost of premiums was by far the most influential factor on decisions about which insurer to use. Nearly all firms stated that this was important in their decision and two-thirds (68%) stated that it was the most influential factor. For comparatively small numbers, the strength of their existing relationship with the insurer and their perception of the financial security of the insurer had the largest influence on their decision (although both were important to large proportions of firms). The level of excess incurred on claims was an important factor for over half of firms but it was extremely rare for this to have the biggest influence on which insurer was selected.



- 4.7 There was some variation in the reasons for decisions by size of firm. The most noticeable was that larger firms (those with five or more partners) were more likely to give the strength of their existing relationship with an insurer as the factor with the biggest influence on their decision (which reflects the fact that they were more likely to remain with their existing insurer). Of firms with 11-25 partners, 25% gave their existing relationship as the biggest influence on their decision compared with 19% of firms with 5-10 partners, 11% of firms with 2-4 partners and 12% of sole practitioners.

Entering the Assigned Risks Pool

- 4.8 The proportion of firms entering the Assigned Risks Pool was very small. Only 0.5% of firms were in the ARP at the time of the research. A further 2% had made an application to the ARP but either not proceeded with their application or had exited by the time of the research. These findings indicate a decrease from previous years in applications to the ARP. In both 2009 and 2010, the proportion of firms applying to the ARP stood at around 5%. In 2010, 3% of firms were in the ARP at the time of the research.

Point at which cover effected

- 4.9 Table 4.1 below shows the point in the renewal cycle when firms effected their PII cover. The pattern of dates when PII offers were accepted for 2011-12 is very similar to that for 2010-11. Over half of firms had accepted an offer by mid September (56% - the same proportion as for the previous year) and the vast majority (88%) had done so by the deadline of 1st October 2011.
- 4.10 Larger firms were the most likely to renew closer to the deadline. Half (50%) of firms with 11-25 partners effected their cover in late September compared with 46% of those with 5-10 partners, 33% of those with 2-4 partners and only 27% of sole practitioners. In fact the vast majority of larger firms accepted their PII offer in mid or late September (84%).

Table 4.1: Point at which offer accepted

Point at which offer accepted	
<i>Base: All firms not In the Assigned Risks Pool</i>	<i>(598)</i>
	%
May	1
June	2
July	4
Early August	3
Mid August	5
Late August	8
August (unsure of date)	* ⁷
Early September	12
Mid September	21
Late September	32
September (unsure of date)	1
October	5
Unsure	4

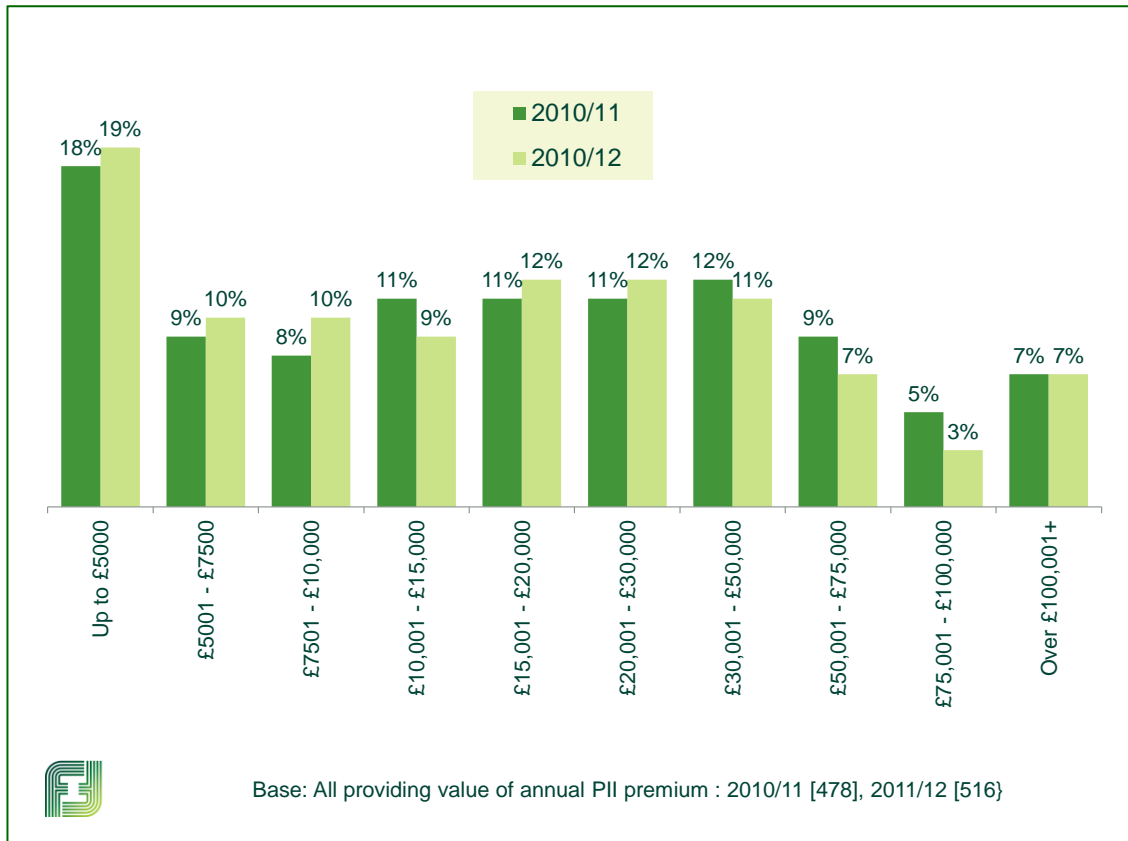
⁷ The use of * indicates a percentage greater than zero but less than 0.5%



Cost of premiums

4.11 Figure 4.3 shows the spread of cost of annual premiums that firms experienced in both 2010-11 and 2011-12. The premiums quoted include Insurance Premium Tax (IPT). The information on premiums for both years was collected in the 2011 survey so the premiums shown are taken from figures provided by the same set of firms.

Figure 4.13: Cost of premiums



4.12 At an overall level, the distribution of annual premium costs has remained relatively stable between 2010-11 and 2011-12. In both years, around a fifth of firms paid less than £5,000 for their PII cover and just under half paid less than £15,000. The median annual premium in 2010-11 was £16,980 and in 2011-12 was £16,720 indicating that across the market as a whole premiums have remained relatively stable.

4.13 As the table below shows median premiums are closely related to the number of partners in a firm. Comparing median premiums for 2010-11 and 2011-12 indicates slight reductions in premiums for smaller firms and slight increases for larger firms (with 5 or more partners).



Table 4.2: Median premiums by size of firm

	Median 2010-11 Premium	Median 2011-12 Premium
All firms	£16,980	£16,720
Sole practitioners	£8,000	£7,630
2-4 partners	£24,000	£21,530
5-10 partners	£65,100	£67,000
11-25 partners	very small base size	very small base size

4.15 Across the market as a whole, there is some suggestion that firms remaining with their 2010-11 insurer secured lower premiums for PII cover in 2011-12. However, across all sizes of firms with the exception of those with 2-4 partners, median premiums were lower among those who had changed insurer than among those who had remained with their 2010-11 insurer. Comparison of median premiums for those remaining with their existing insurer and those changing insurer are shown in Table 4.3 below.

Table 4.3: Median premiums by size of firm

	Median 2011-12 Premium <i>Those remaining with existing insurer</i>	Median 2011-12 Premium <i>Those changing insurer</i>
All firms	£16,380	£19,250
Sole practitioners	£8,000	£7,580
2-4 partners	£20,700	£23,000
5-10 partners	£69,300	£52,000
11-25 partners	very small base size	very small base size

4.16 The overall picture of relative stability in the costs of premiums between 2010-11 and 2011-12 masks some variation at the level of individual firms. Just over half of all firms (54%) experienced a decrease in the cost of their premiums between the two years while 35% experienced an increase and the remaining 11% saw their premiums remain at broadly the same level. For the purposes of this analysis, inflation has been applied to the 2010-11 premium at a rate of 4% before the two premiums have been compared. Where the difference between the two premiums equated to +/- 2.5% of the 2010-11 premium then premiums have been classified as remaining 'broadly the same'. Changes outside of this band have been classified as either increases or decreases.



- 4.17 Table 4.4 shows the variation in premium costs by size of firm. This shows that the largest firms (with 11-25 partners) were the most likely to have experienced increases in the costs of premiums.

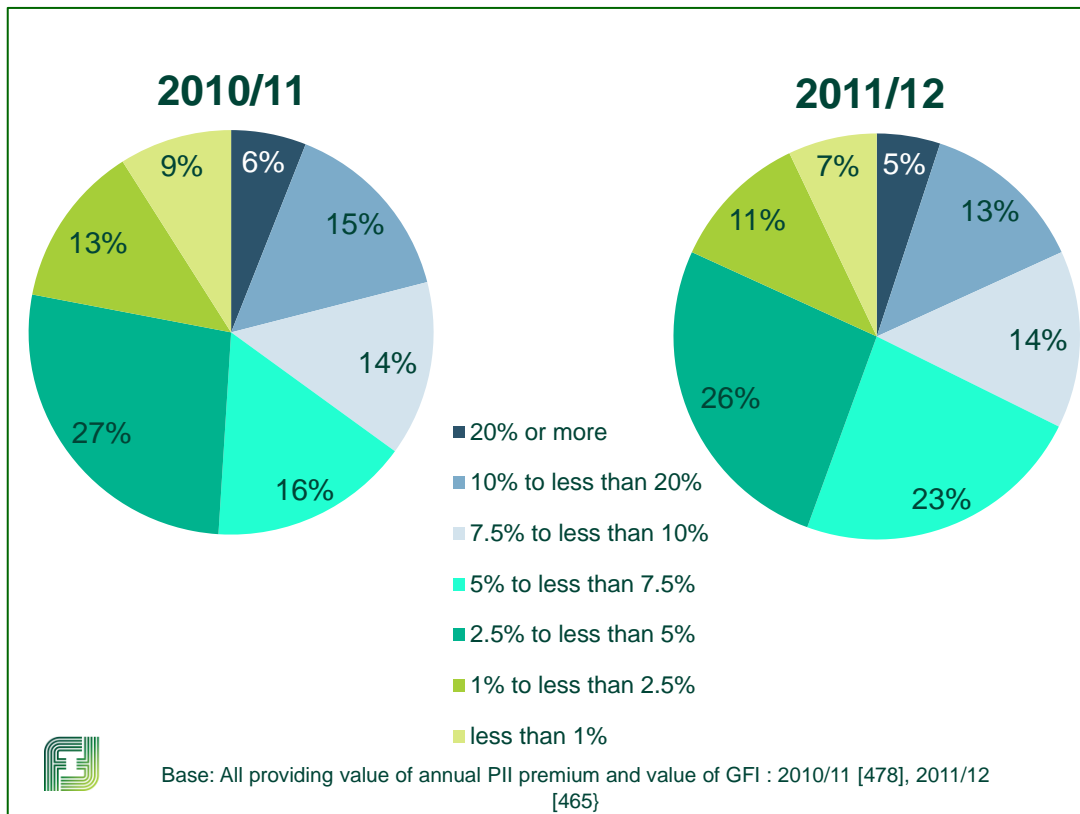
Table 4.4: Comparison between this year's and last year's premium

	All	Sole practitioner	2-4 Partners	5-10 Partners	11-25 Partners
<i>Base: All providing figures for both years</i>	(462)	(136)	(137)	(113)	(76)
	%	%	%	%	%
Decreased compared to last year	54	51	59	50	43
Broadly the same as last year	11	12	9	15	14
Increased compared to last year	35	36	33	35	43

- 4.18 There was some variation in changes in premiums experienced by whether firms remained with their 2010-11 insurer. Those who remained with their existing insurer were less likely to experience decreases in the cost of their premiums and more likely to find that they remained at approximately the same level; 46% saw a decrease in premiums, 40% saw an increase and for 14% they remained broadly the same. By comparison, of those who changed insurer, 72% saw a decrease in premiums, 24% saw an increase and for 5% premiums remained at broadly the same level.
- 4.19 Figure 4.14 shows the cost of PII premiums as a percentage of firm gross fee income for both 2010-11 and 2011-12 (note that the 2010-11 figures for this analysis are taken from the 2010 survey). Again this shows a relatively stable picture at the overall level. In both years, around two-thirds of firms paid premiums equating to up to 7.5% of their gross fee income and about a fifth paid premiums equivalent to in excess of 10% of their gross fee income.
- 4.20 The median per cent of gross fee income spent on PII cover for 2011-12 was 5.4% (broadly in line with the 5.1% found in 2010). There is evidence to suggest that PII premiums present a greater burden for smaller firms, with sole practitioners paying a median 6.4% of gross fee income on their PII premium, 2-4 partner firms paying 5.2%, 5-10 partner firms 3.2% and 11-25 partner firms just 2.1%.



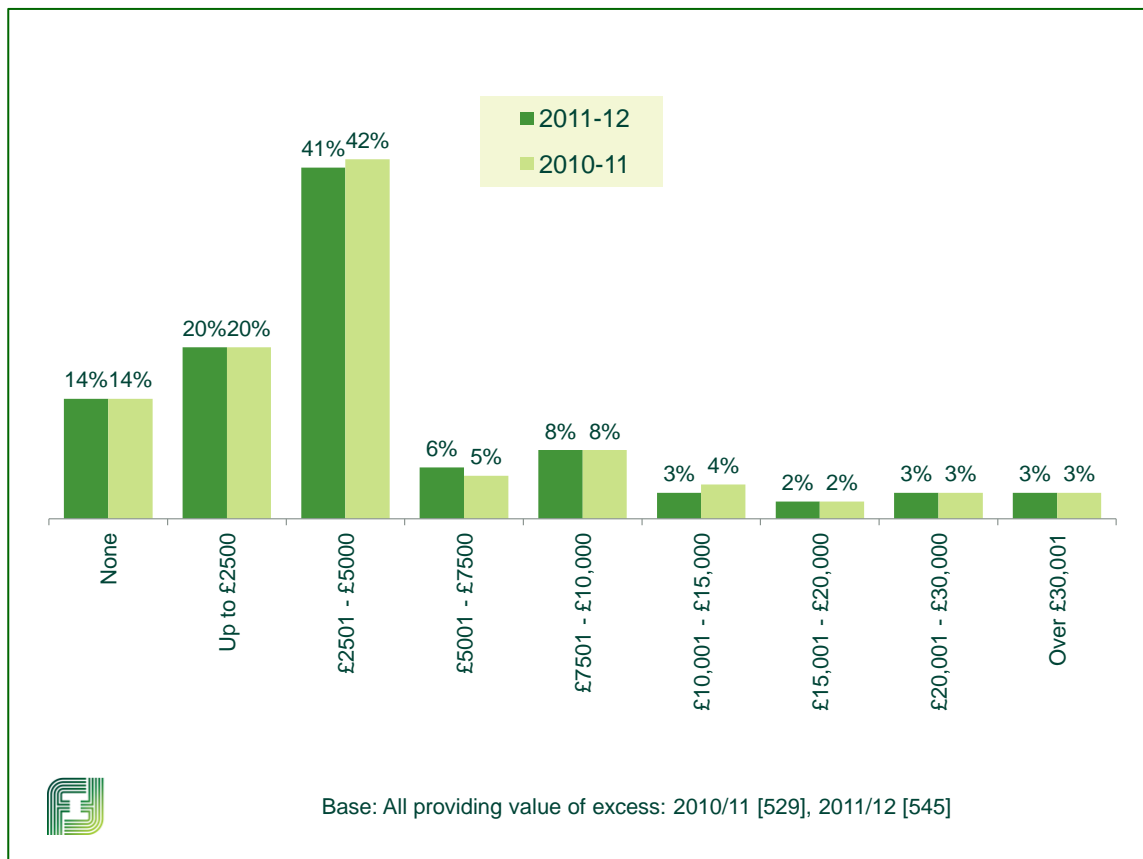
Figure 4.14: PII premiums as a percentage of gross fee income



Excess

- 4.21 Figure 4.15 shows the level of excess payable on claims under firms PII policies comparing excesses in both 2010-11 and 2011-12. Both sets of figures are taken from data collected in the 2011 survey. In both years, one in seven firms did not have any excess payable. A further three in five had an excess of up to £5,000.
- 4.22 The differences in levels of excess payable were closely related to size of firm. One in five sole practitioners (20%) had no excess payable compared to only 1% of firms with 11-25 partners. By comparison, 40% of the larger firms (with 11-25 partners) had an excess of £30,000 or more compared with 6% of those with 5-10 partners and 1% of those with fewer than 5 partners.



Figure 4.15: Excess payable on claims

4.23 Firms were also asked whether they purchased top-up cover (i.e. insurance cover above the minimum terms and conditions layer). One in five firms (19%) elected to take top-up cover. Likelihood to invest in top-up cover varied considerably with size of firm from a small minority of sole practitioners (8%) to almost all of those with 11-25 partners (93%). The comparable figures for those with 2-4 partners and 5-10 partners were 15% and 70% respectively.

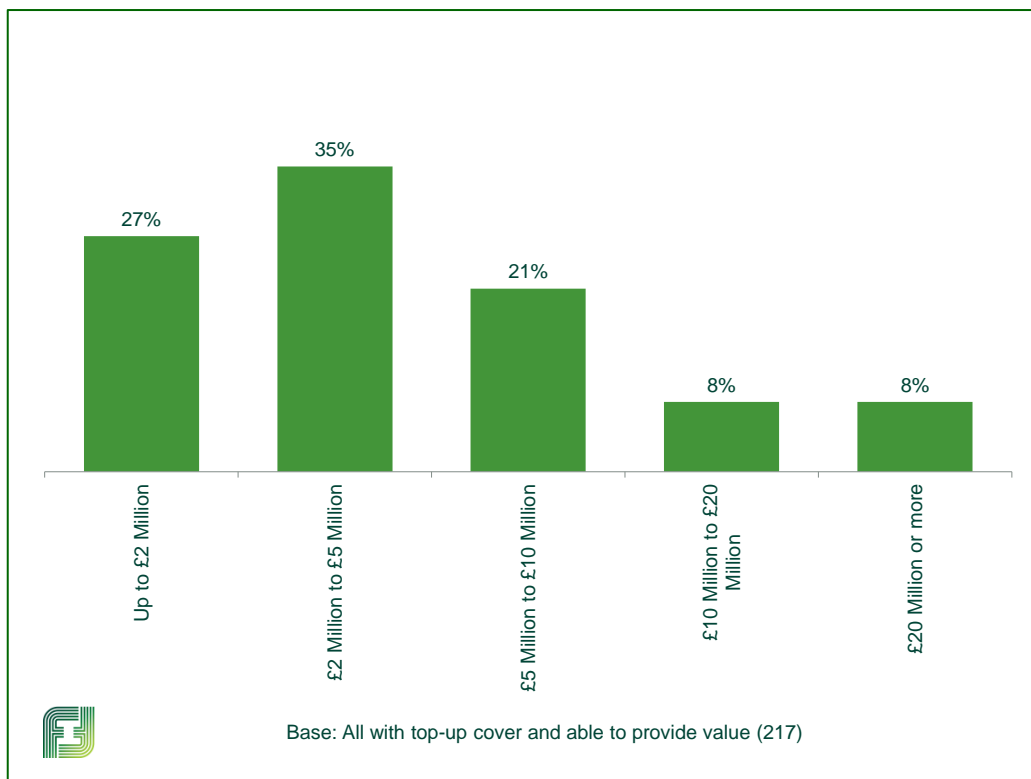
4.24 The value of top-up cover purchased over and above the minimum layer cover is shown in Figure 4.16 below. A quarter of those investing in top-up cover (27%) purchased cover of up to £2 million. In total three in five (62%) purchased cover of under £5 million. The median value of top up cover purchased was £4 million. Median levels of cover purchased ranged from £2 million for sole practitioners to £3 million for those with 2-4 partners to £7 million for firms with 5-10 partners and £13 million for firms with 11-25 partners.

4.25 The type of work undertaken by firms was found to have an impact on the amount of top-up cover purchased. Firms that had undertaken the following types of work were more likely to have purchased top-up cover of £10 million or more than those that had not:

- Welfare, benefits and social security rights (47% had purchased top-up cover of £10 million or more compared with 15% of firms not working in this area of the law)
- Personal financial management (37% compared with 14% not working in this area of the law)
- Employment law (21% compared with no firms not working in this area of the law)
- Commercial property (20% compared with 5% not working in this area of the law).



Figure 4.16: Value of top-up cover purchased



5 Restructuring and run-off cover

Successor Practice Rules in a recent merger

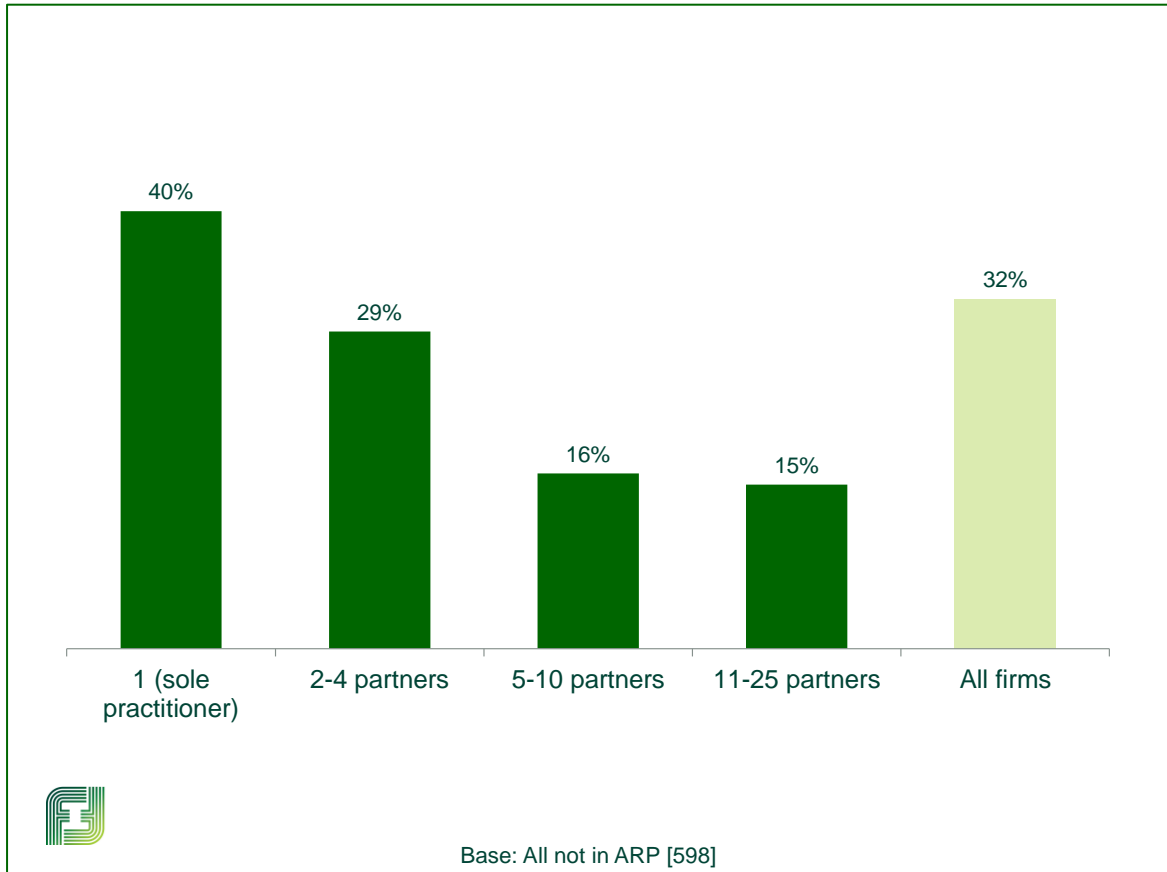
- 5.1 The new successor practice rules introduced in 2010 were designed to be more flexible by allowing successor practices to run off the ceased practice, whereas previously the insurer of the successor practice would become responsible for covering any claims made relating to the ceased practice.
- 5.2 Respondents were asked if they had used the successor practice rules to merge with another firm in the last twelve months, and the majority (97%) said no, a small number of firms reported that they had done so (3%). Larger firms were more likely to have used the successor practice rules to merge with another firm, with nearly one in ten (8%) of 11-25 partner firms and 7 per cent of 5-10 partner firms having done so.
- 5.3 Of those who had used the new successor practice rules, around a quarter had elected to run off the ceased practice. And of these, half had used the sale of the business to fund the run-off premium.⁸

Potential impact of run-off

- 5.4 Respondents were asked if they were aware of the cost of run-off cover under their current policy. Overall, nearly two-fifths (37%) stated that they were aware of cost. Smaller firms were more likely to be aware: half of sole practitioners (48%) stated that they were aware, compared to just one-fifth of 5-10 partner (21%) and 11-25 partner firms (18%).
- 5.5 Firms were asked for their reasons for accepting the offer of cover from their current (2011-12) insurer. A third of all firms (32%) stated that run-off costs were an important factor in their decision to accept an offer of PII cover. Figure 5.1 shows the proportion of firms for which the cost of run-off was an important factor in accepting a PII offer (split by size of firm).

⁸ These results should be taken as indicative only due to low numbers of firms answering these questions. Only 28 firms interviewed had used the successor practice rules in the last 12 months.



Figure 5.17: Run-off cost as a factor by size of firm

- 5.6 Clearly, the cost of run-off is more important to sole practitioners, two-fifths (40%) finding run-off costs an important factor, compared with only 15% of 11-25 partner firms.
- 5.7 Sole practitioners and 2-4 partner firms were also asked if, upon retiring, they would need to either sell their practice or enter into run-off. Over half of these respondents (53%) stated that they would need to, with sole practitioners being the most likely (60%, compared to 46% of 2-4 partner firms). Of those who would need sell their practice or enter into run-off, two-thirds (64%) did not have a succession plan in place, and nearly a fifth (18%) reported that they could not afford the cost of run-off under their current policy.
- 5.8 Half (49%) of those who will need to sell their practice or enter run-off when they retire felt that the run-off costs would affect their ability to retire. When asked for the reasons why, more than half (55%) said, quite simply, that it was due to high costs. Other responses were also to do with finances, as 14% stated that they would need to sell their business to fund the run-off, and 12% said that they would need to plan in order to save the necessary money.

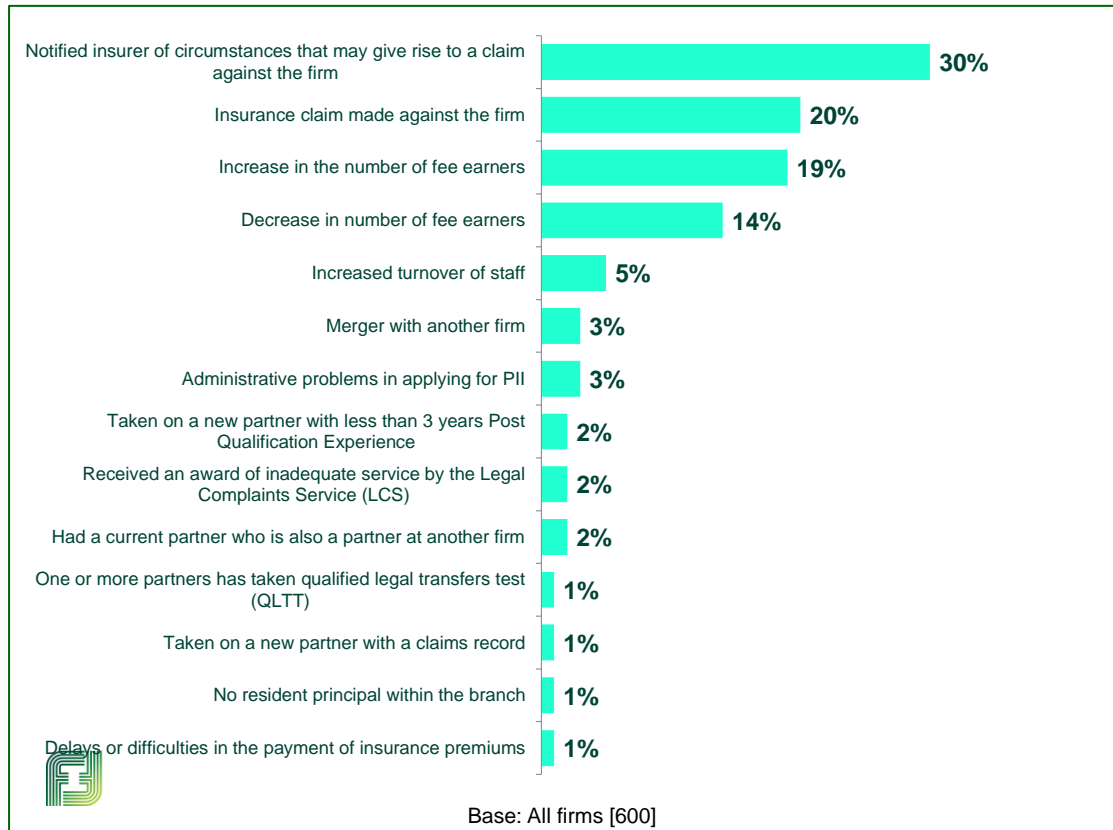


6 Risk factors associated with PII premiums

- 6.1 Firms were asked whether they had experienced certain events in the last 12 months that could have an impact on their PII premiums, as shown in Figure 6.1.
- 6.2 Within the last 12 months, three in ten (30%) of law firms had notified their insurer of circumstances that might give rise to a claim against the firm, while one-fifth (20%) had actually had an insurance claim made against the firm. Other common 'risk factors' experienced by firms were an increase in the number of fee earners (19%) or a decrease in the number of fee earners (14%). These findings are all broadly in line with 2010-11 (when 31% had notified their insurer of circumstances giving rise to a claim, 19% had a claim made against the firm, 19% had experienced an increase in fee earners, and 18% a decrease).
- 6.3 The likelihood of having had an insurance claim made against the firm increased with size of firm (just 8% of sole practitioners had had a claim made against them compared with 22% of 2-4 partner firms, 50% of 5-10 partner firms and 75% of 11-25 partner firms). More established firms were more likely to have had a claim made against them in the last twelve months than newer firms (28% of firms practising for ten years or more, compared with 1% of firms practising for less than five years).
- 6.4 Similarly, the likelihood of having notified an insurer of circumstances that could give rise to a claim increased with size of firm (15% of sole practitioners had done so compared with 32% of 2-4 partner firms, 78% of 5-10 partner firms and 91% of 11-25 partner firms). More established firms were also more likely to have notified their insurer of such circumstances (40% of firms practising for 10 years or more, compared with 7% of firms practising for less than five years)⁹.

⁹ While some claims made against firms come about very soon after the alleged error or omission because the mistake is immediate and obvious to the client; in other cases it may take longer before a problem is identified - about 40% of claims are made more than three years after the alleged error or omission. This may explain why more newly established firms do not have the same extent of claims history.



Figure 6.1: Risk factors experienced in last 12 months

6.5 Table 6.1 below shows the median PII premium 2011-12 paid by firms who had no claim in the last 12 months compared to firms who did, by size of firm. Across all sizes of firms, firms who had a claims history paid higher premiums on average than firms who did not by a considerable margin.

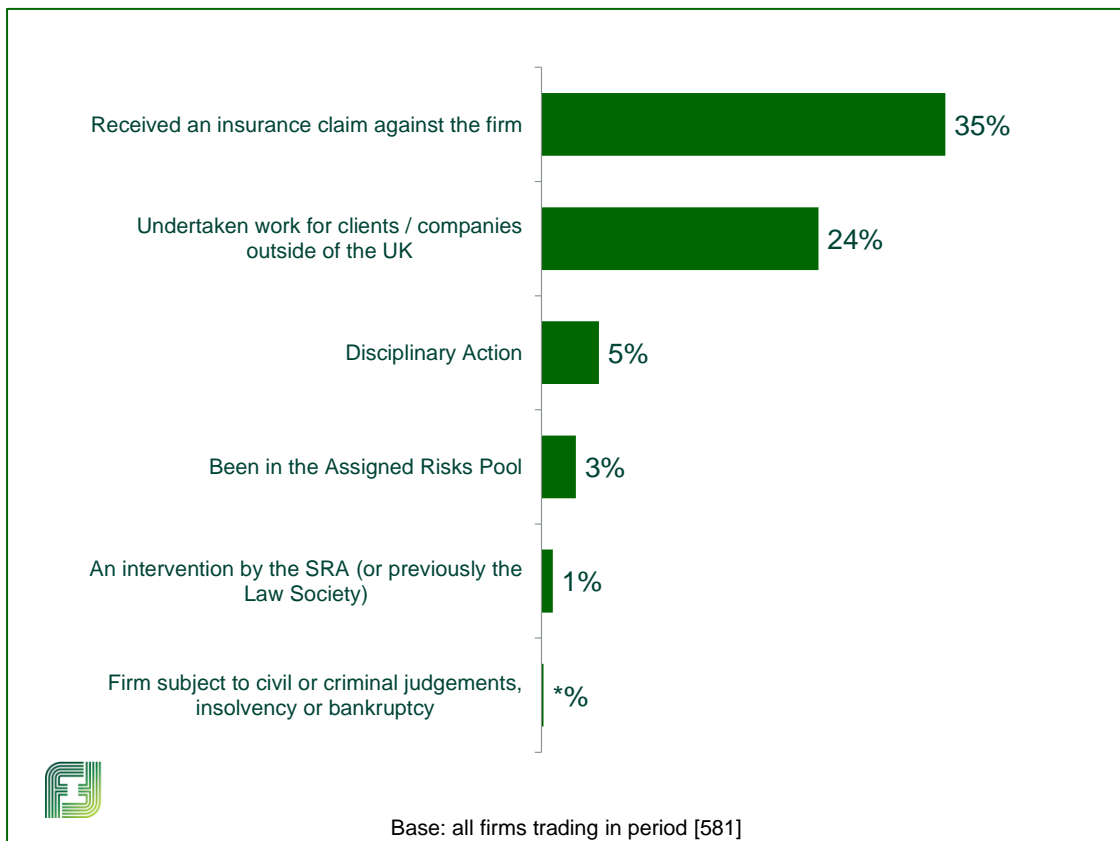
Table 6.1: Median PII premiums by size of firm and claims in last 12 months

	Median 2011-12 Premium <i>No claim in last 12 months</i>	Median 2011-12 Premium <i>Claim in last 12 months</i>
All firms trading longer than 12 months	£11,000	£50,000
Sole practitioners	£7,414	£26,700
2-4 partners	£19,000	£34,850
5-10 partners	£49,400	£85,500
11-25 partners	very small base size	very small base size



- 6.6 Firms were also asked if they had experienced various risk factors in the last five years, as shown in Figure 6.2. Within this time period, a third of firms (35%) had experienced a claim; again, larger firms were significantly more likely to report a claim (15% of sole practitioners had experienced a claim compared with 44% of 2-4 partner firms, 70% of 5-10 partner firms and 81% of 11-25 partner firms). A quarter of law firms (24%) had also undertaken work for clients or companies outside of the UK. Once more, this was more likely among larger firms, with just over two-fifths (42%) of firms with 5 or more partners having undertaken work outside the UK, double the proportion of firms with fewer than five partners (21%).
- 6.7 Firms that had undertaken work outside the UK in the last five years tended to have higher PII premiums than those that had not (the median premium among firms that had undertaken work outside the UK in the last five years was £20,700 compared with £16,000 among those that had not). However this difference is driven by the fact that larger firms, which have higher PII premiums in general, are more likely to undertake work outside the UK. Indeed, correlation and regression analysis did not find that working for clients or companies outside the UK in the last five years was a predictor of PII premiums.

Figure 6.2: Risk factors experienced in last 5 years



Relationship between risk factors and PII premiums

6.8 Statistical analysis of the data on PII premiums paid was conducted to explore the factors with greatest influence on the level of premium paid. Both regression and CHAID analysis indicated that the factors with the greatest influence on premiums paid are:

- Number of solicitors: Higher premiums were associated with firms with more solicitors.
- Whether notified insurers of circumstances which may give rise to claim: Higher premiums were associated with firms having notified their insurers of circumstance which may give rise to a claim,
- How long firm has been practising: An association was found between premiums and the number of years the firm had been practising
- Number of partners. Similar to above, higher premiums were associated with firms with more partners
- Whether an insurance claim against firm in last 12 months. Higher premiums were found amongst firms that had experienced an insurance claim in the last 12 months. Number of offices that a firm has, the more offices a firm had, the higher the reported premiums.

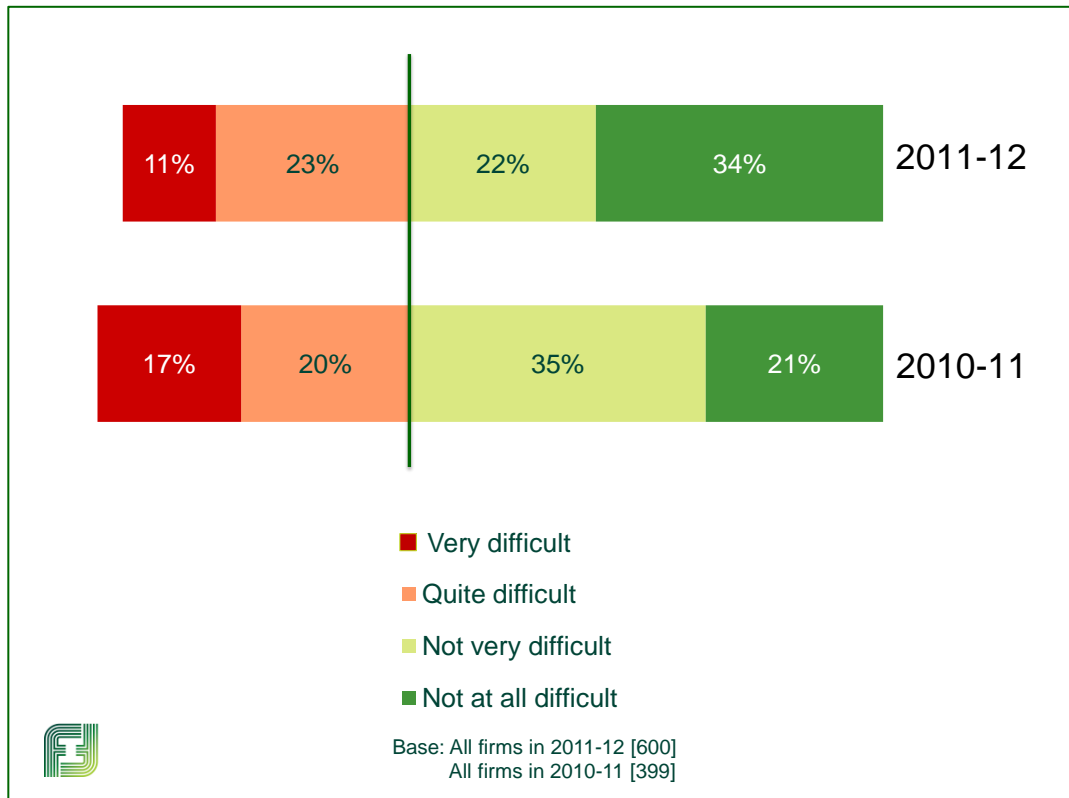
6.9 Technical details of the analysis conducted are given in Appendix A.

How difficult was the PII renewal process (and why)?

- 6.10 Over half of firms reported finding the PII renewal process not very (22%) or not at all difficult (34%). One-third of firms reported finding the process quite (23%) or very difficult (11%). One in ten firms (11%) did not feel strongly either way. The largest firms (with 11 to 25 partners) were the least likely to report that they found the process difficult; 68% of these firms stated that they found the process not very or not at all difficult.
- 6.11 There is some evidence to suggest that the process of renewing PII cover is becoming easier for firms. While the proportion stating that they found the process very or fairly difficult has remained broadly the same as in 2010-11, the proportion stating that they found it not at all difficult has increased from 21% for the 2010-11 renewal process to 34% for the 2011-12 process.
- 6.12 The likelihood of perceiving the process as difficult tended to increase with the number of brokers used. Nearly two-thirds (63%) of firms who had used four or more brokers found the renewal process difficult, along with nearly half (45%) of firms who used two or three brokers. On the other hand, only one-fifth (20%) of firms who had used a single broker reported difficulty, and only one-tenth (10%) of those who hadn't use a broker at all. It is possible both that using more brokers made the process more difficult and also that firms elected to use more brokers because they expected to encounter difficulties.



Figure 6.3: Difficulty of PII renewal process

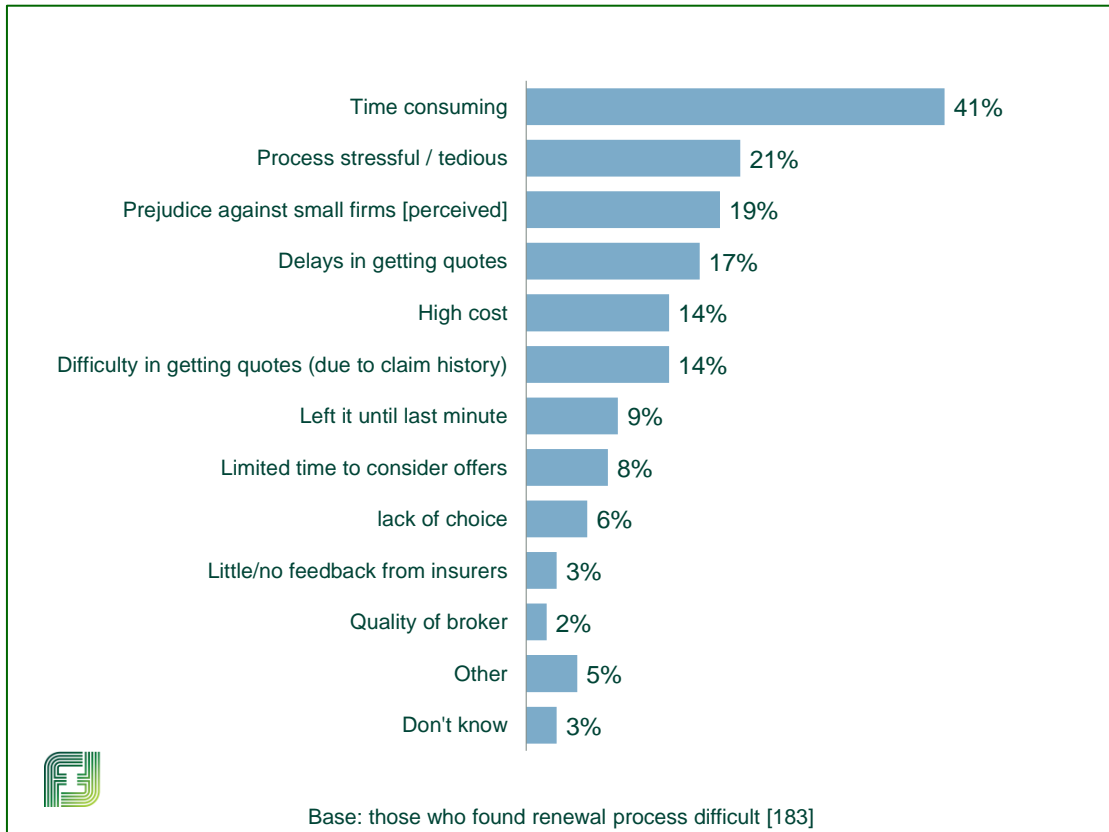


Why was the process difficult?

- 6.13 Those who reported finding the process very or quite difficult were asked to give their reasons why. The most common reason, given by two-fifths of respondents (41%), was that the process was too time consuming, involved too many forms, or forms that were too long. One-fifth of firms (21%) stated that they found the process stressful or tedious. Smaller firms were likely to perceive prejudice against small firms as a reason for difficulty (19% of all firms, made up of 26% of sole practitioners and 16% of 2-4 partner firms).
- 6.14 Other key reasons mentioned included delays in getting quotes (17%), high cost (14%) and difficulty in getting quotes due to claim history (14%). Half (51%) of firms who had undergone a merger in the last 12 months mentioned the latter as a reason for difficulty.



Figure 6.4: Reasons for difficulty



7 Conclusions

7.1 The findings from this survey appear to indicate:

- **The market has remained relatively stable between 2010 and 2011.** The market shares of individual insurers are very similar for 2011-12 renewals as they were for 2010-11 (one or two insurers have increased or decreased their market share by a few percentage points but for the most part these changes are not statistically significant). On average, premiums paid have also remained at a similar level as have the level of excesses charged on claims. The median premium paid was £16,980 in 2010-11 and £16,720 for 2011-12.
- **The market continues to be dominated by one insurer.** The insurer with the largest proportion of firms' PII business accounts for almost a third of all firms PII cover. Their domination of the market is particularly marked for the smaller firms. A number of the insurers in the market appear to focus mainly on the larger firms.
- **There is evidence of improvement in the response times of insurers.** For the 2011-12 renewal process, the average time between application submission and response was just over 24 days which represents a considerable improvement from both 2010-11 (33 days) and 2009-10 (31 days). In addition, it was relatively uncommon for insurers applied to for PII cover not to provide a quotation (only 7% of applications were turned down by insurers).
- **Firms are becoming more likely to shop around but could still make better use of the market.** The proportion of firms approaching one or more insurers directly had increased from 2010-11 from 10% to 18%. However, the mean number of insurers approached (either via a broker or directly) was only 1.4 among firms with fewer than 5 partners, 2.1 among firms with 5-10 partners and 2.3 among firms with 11-25 partners. Just under a quarter of all firms approached their 2010-11 insurer for 2011-12 cover only (and this was particularly likely to be the case among smaller firms).
- **There is some evidence to suggest that the process is becoming easier.** While the proportion stating that they found the process very or fairly difficult has remained broadly the same as in 2010-11, the proportion stating that they found it not at all difficult has increased from 21% for the 2010-11 renewal process to 34% for the 2011-12 process.



8 Appendices

- Appendix A: Details of statistical analysis
- Appendix B: Advance letter to sampled law firms
- Appendix C: Pro Forma sent to sampled law firms
- Appendix D: Survey Questionnaire
- Appendix E: List of brokers used by law firms in 2011-12 PII applications



Appendix A : Details of statistical analysis

- 8.1 In order to assess the relationship between the level of PII premiums (the dependent variable) and a series of potential explanatory variables (independent variables) a variety of methods of statistical analysis were undertaken.
- 8.2 Examining the distribution of PII premiums in the data set it is important to state that the data is highly skewed (85% + of firms experienced PII premiums below the mean or arithmetic average, and within the above average group, premiums are highly variable. In addition the data contained a small number of extreme outliers with very high premiums. These have been excluded from statistical analysis because of the extreme influence they would otherwise have on means, standard deviations and hence survey correlations. However the data still remains highly skewed and without transformation unsuitable for conventional modelling techniques such as correlation and regression. Consequently the dependent variable (premiums paid) was transformed into deciles for the purpose of conducting secondary analysis, creating a banded ordinal variable more suitable for correlation and regression techniques. The unbanded data was modelled using CHAID which is better suited to handling skewed data.
- 8.3 The statistical techniques used to look at the factors influencing PII premiums were:
- a) Correlation: which measures the extent to which two variables move in the same direction. Variables X and Y are positively correlated if X tends to be above its mean when Y is, and when X is below its mean Y tends to be.
 - b) Multiple regression: a modelling technique based on correlation. It attempts to find a line of best fit which best predicts a dependent variable in terms of a series of explanatory variables. The particular form of regression used here is stepwise regression.
 - c) Chi-squared automatic interaction detector (CHAID). CHAID attempts to partition the data into clusters of respondents such that the means of the dependent variable within the clusters are maximally different. As with stepwise regression, it proceeds in a one step at a time basis. At stage 1 the predictor variable with maximal differentiation as defined by a chi-squared statistical test enters the model, and two or more clusters are formed, producing branches of a statistical tree. At stage 2 each branch is examined separately and the process of partitioning continues, until the chi-squared test produces non significant results.



Results

1) Correlation Analysis

The highest correlations with the level of PII premiums (banded into deciles) are shown below ranked in order of significance. These results show that, for example, there is a correlation between higher numbers of solicitors in a firm and higher PII premiums and lower numbers of solicitors in a firm and lower PII premiums.

Variable	Correlation
Number of solicitors	0.6
Insurance claim against firm in last 5 years	0.58
Number of partners	0.58
Notified insurer of circumstances which may give rise to claim	0.55
Insurance claim against firm in last 12 months	0.45
How long firm has been practising	0.44
Number of offices	0.37
Quality marks held	0.3
Proportion of non solicitor fee earners	0.29
% gross income derived from individuals not legally aided	0.20

2) Regression analysis of banded PII premium data

The regression model produced shows that PII premiums can to some extent be predicted by five variables. The model explains 50% of variations in PII premium values (meaning that there are other factors in the PII application process not listed, and perhaps not assessed, which affect 50% of variations in PII premium values). The five variables shown to be significant drivers of PII premiums (i.e. predictors) are:

- Number of solicitors (0.82)
- Notified insurers of circumstances which may give rise to claim (1.53)
- How long firm has been practising (0.47)
- Number of partners (0.77)
- Insurance claim against firm in last 12 months (0.63)

The bracketed figures are the regression coefficients and represent the multiplying factor for each variable within the regression equation¹⁰ (and do not imply a hierarchy of importance between coefficients).

For reference purposes, the regression output is shown in the table overleaf.

¹⁰ The regression equation is as follows: ((Number of solicitors (banded) * 0.82) + (Whether notified an insurer giving rise to a claim in last 12 months (yes/no) * 1.53) + (length of time practicing (banded) * 0.47) + (Number of partners in firm * 0.77) + (Whether insurance claim made against the firm in last 12 months (yes/no) * 0.63) + Constant (.33))



Independent Variables	Unstandardised Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.33	0.39		0.86	0.39
Number of solicitors(BANDED)	0.82	0.17	0.26	4.84	0.00
Whether notified insurer of circumstances that might lead to a claim in the last 12 months	1.53	0.26	0.24	5.93	0.00
Number of years practising (BANDED)	0.47	0.10	0.15	4.64	0.00
Number of partners in firm (BANDED)	0.77	0.21	0.20	3.74	0.00
Whether a claim made against the firm in the last 12 months	0.63	0.29	0.09	2.20	0.03

3) CHAID Analysis of unbanded PII premium data

The CHAID model produced backs up the findings of the regression and correlation analysis. It shows that main driver of PII premiums is a claim made against the firm within the last 12 months and then:

- Among firms that have had a claim made against them in the last 12 months, the number of solicitors in the firm is the next (and only further) significant driver of PII premiums;
- Among firms that have not had a claim made against them in the last 12 months, having notified insurers of circumstances leading to a claim is the second most significant driver of PII premiums;
- Among firms that have neither had a claim made against them nor notified insurers of circumstances leading to a claim the number of solicitors in the firm is the third most significant driver of PII premiums;
- And among firms that have neither had a claim made against them nor notified insurers of circumstances leading to a claim and have more than one solicitor in the firm, the number of offices the firm has is the fourth (and final) significant driver of PII premiums.

The following table shows the average (mean) premiums produced by the CHAID model for each scenario found to be a predictor of premiums. All firms fit into one of these scenarios. The results particularly illustrates the significance of having made an insurance claim in the last 12 months and the number of solicitors in the firm.

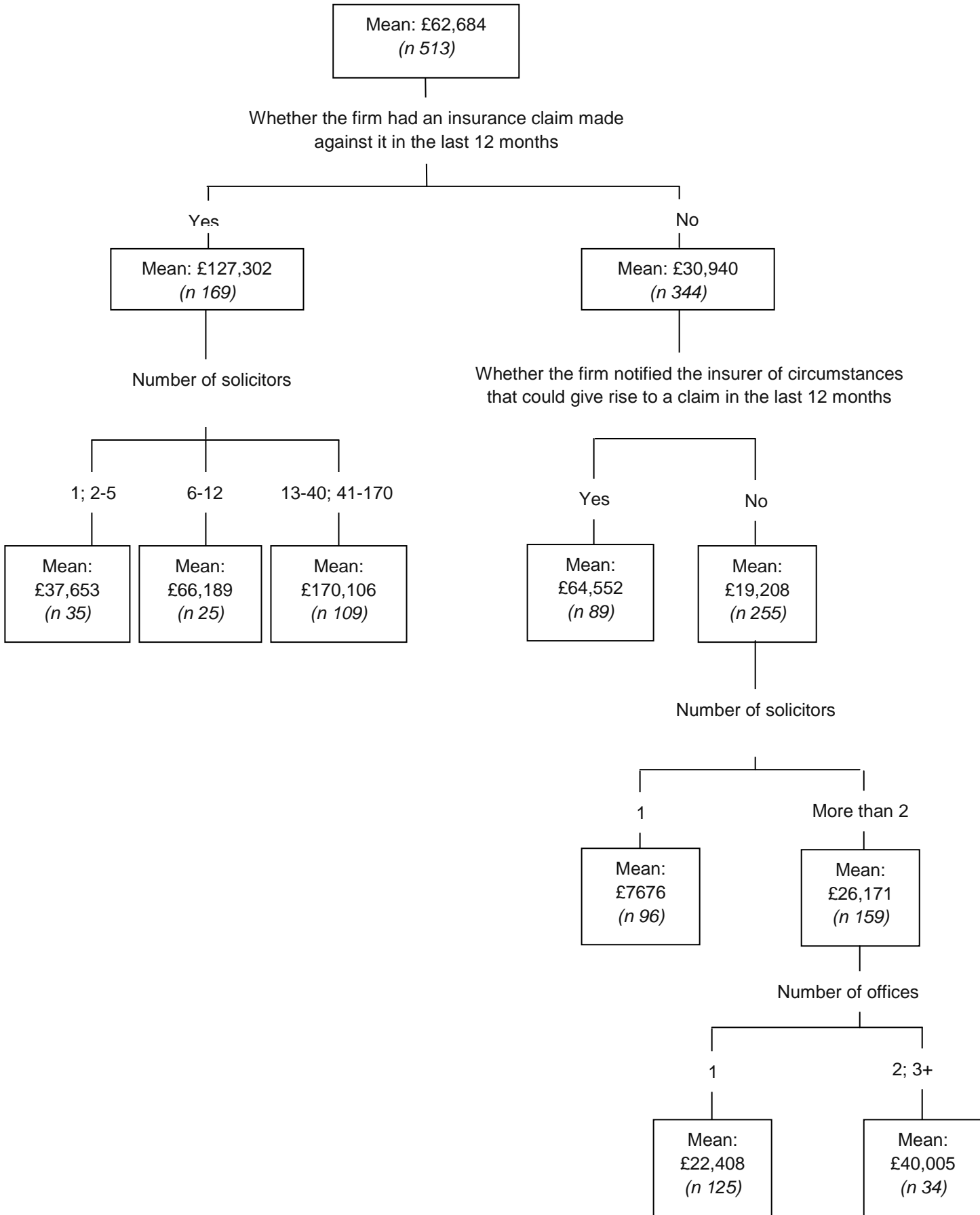
Definition	Average Premium
Insurance claim in last 12 months – 13 or more solicitors	£170,106
Insurance claim in the last 12 months – 6-12 solicitors	£66,189
Insurance claim in the last 12 months – 1-5 solicitors	£37,652
No claim in last 12 months but notified claim likely	£64,552
No experience of claims or notification of potential claims – 1 solicitor in company	£7,676
No experience of claims or notification of potential claims – 2+ solicitors and only one office	£22,408
No experience of claims or notification of potential claims – 2+ solicitors and 2+ offices	£40,005



The diagram overleaf shows the CHAID tree in detail. Starting from the mean PII premium among all firms (£62,684) the tree shows the mean PII premium for each scenario that firms fit into.



PII Premium



Appendix B: Advance letter sent to law firms

From the President Professional Indemnity Insurance survey 2011

The Law Society conducts an annual research study amongst members to understand the extent to which firms experience problems with obtaining PII at an economically viable price, or indeed, at all. This research has previously helped us to address key concerns through educational/support programmes and to engage closely with brokers, insurers and their respective professional bodies to help improve practices. The research findings are also used to lobby the Solicitors Regulation Authority to make changes in the interests of the profession; for example, in our response to the SRA's review of client financial protection arrangements.

This year we have commissioned IFF Research to undertake the survey to explore your experiences of the 2011–12 PII renewal process. Your firm has been selected in a random sample and you may be invited to participate in a telephone interview lasting for approximately 20 minutes. We very much hope that you will be able to participate.

Over the next few weeks, IFF Research may contact you to arrange an interview. If you do not want to participate, please call IFF Research on free phone 0800 054 2377. If you are not the most appropriate person to participate, please let IFF know the name of an alternative colleague by calling Jessica Huntley Hewitt on 0207 2503035 or by email at Jessica.HuntleyHewitt@IFFResearch.com. Alternatively, you can tell IFF when they call you for an interview.

To help you when taking part in the interview, it would be useful if you had reference to the following information about your firm:

- The brokers/providers approached for a quote, timings and outcome of application
- The cost of your compulsory PII cover for 2011-12 and how this compares to the 2010-11 premium

So that we can understand how different types of organisations are affected, we would also ask that you have the following information ready prior to the interview:

- Your gross fee income for 2010–11 and how it compares to the 2009–10
- The approximate proportion of gross fee income derived through client types

We have provided a pro-forma which shows the information we are seeking to find out.

The information that you provide will be analysed collectively with that from the other participating firms and the results will be provided to the Law Society in an anonymised and aggregated form so that participating individuals and firms cannot be identified. The results will not be used for any marketing purposes. IFF Research is a full member of the Market Research Society and strictly abides by the Society's Code of Conduct.

If you have any queries please call Joanne Cox at the Law Society on 020 7320 5892 or email joanne.cox@lawsociety.org.uk.

Yours sincerely



John Wotton
President



Appendix C: Pro-forma sent to law firms

Professional Indemnity Survey 2011 PRO-FORMA

This document outlines a number of key pieces of information IFF will be gathering in the telephone interview that may require looking-up in advance. Having this information ready to hand will make the interview process much quicker. Please do not post or email this pro-forma back to IFF or the Law Society.

Firm details

Firms gross fee income for 2009–10	
Firms gross fee income for 2010–11	

Type of clients during 2010-11

Client type	Approximate % of gross fee income derived from client type
Private individuals who are not legally aided	
Legally-aided private individuals	
Private sector firms or companies	
Public sector bodies (e.g. central or local government, CPS, NHS etc)	
Overseas clients	
Other clients (e.g. charities, trade unions, etc)	
	Total =100%

Type of work during 2010-11

Area of law	Approximate % of gross fee income derived from area of law
Business and commercial affairs	
Consumer problems	
Crime	
Employment law	
Family law (including matrimonial and child care law)	
Personal bankruptcy, personal insolvency, and debt	
Personal financial management and advice	
Personal injury, accident, medical negligence	
Probate, wills and trusts	
Residential conveyancing	
Immigration	
Welfare benefits and social security rights	
Other	
	Total =100%



Insurers applied to in the 2011-12 renewals

Name of insurer applied to	Date application submitted*	Date response Received*	Outcome Offer / refused / no response

*Please give full dates where possible (dd/mm/yy) as this information is used to calculate how long firms are being made to wait for a response by insurers.

PII details

Cost of compulsory level of PII for 2010-11 excluding VAT (not including Excess or top-up cover)	
Cost of compulsory level of PII for 2011-12 excluding VAT (not including Excess or top-up cover)	
Excess on claims of PII for 2010-11	
Excess on claims of PII for 2011-12	



Appendix D: 2011 survey questionnaire

S Screener

ASK TELEPHONIST

- S1 **Good morning / afternoon, my name is _____ from IFF RESEARCH, an independent market research company based in London. We are currently conducting a project on behalf of the Law Society. Please can I speak to [NAMED INDIVIDUAL]**

Transferred	1	CONTINUE
Hard appointment	2	MAKE APPOINTMENT
Soft Appointment	3	
Refusal	4	CLOSE
Refusal – company policy	5	
Refusal – Taken part in recent survey	6	
Nobody at site able to answer questions	7	
Not available in deadline	8	
Engaged	9	
Fax Line	10	
No reply / Answer phone	11	
Residential Number	12	
Dead line	13	
Company closed	14	

ASK ALL

- S2 **Good morning / afternoon, my name is _____ from IFF RESEARCH, an independent market research company based in London. We are currently conducting a project on behalf of the Law Society which looks to understand the extent to which firms experience problems obtaining Professional Indemnity Insurance at an economically viable price. The research findings are also used to lobby the Solicitors Regulation Authority to make changes in the interests of the profession.**

Can I just check that you have received the letter from John Wotton, president of the Law Society, and the pro-forma which details some of the key information we are trying to capture in the interview that may require looking-up in advance.

ADD AS NECESSARY: Having this information ready to hand will make the interview process much quicker.



IF RESPONDENT HAS NOT RECEIVED THE LETTER AND PRO-FORMA – ARRANGE AN APPOINTMENT AND GIVE KEY NUMBER, NAME AND EMAIL TO PROJ CON

IF RESPONDENT HAS RECEIVED LETTER BUT NOT READ OR FILLED OUT PRO-FORMA ARRANGE AN APPOINTMENT FOR A TIME WHEN THEY HAVE READ AND FILLED OUT THE PRO-FORMA

The interview will take about 20 minutes to complete depending on your answers and will be conducted in accordance with the Market Research Society Code of Conduct, which guarantees confidentiality and anonymity.

Continue	1	CONTINUE
Referred to someone else at establishment NAME _____ JOB TITLE _____	2	TRANSFER AND RE-INTRODUCE
Hard appointment	3	MAKE APPOINTMENT
Soft appointment	4	
Refusal	5	THANK AND CLOSE
Refusal – company policy	6	
Refusal – taken part in recent survey	7	
Not available in deadline	8	

REASSURANCES TO USE IF NECESSARY

The interview will take around 20 minutes to complete.

Please note that all data will be reported in aggregate form and your answers will not be reported to our client in any way that would allow you to be identified.

If respondent wishes to confirm validity of survey or get more information about aims and objectives, they can call:

- **MRS: Market Research Society on 0500396999**
- **IFF: Jessica Huntley Hewitt or Peter Hall: 0207 250 3035**
- **Law Society: Joanne Cox: 0207 320 5892**



A Background

A1 Which of the following would best describe your position within the firm?

READ OUT AND CODE ONE ONLY

Sole practitioner	1	<i>Code as sole practitioner at A4</i>
Equity partner	2	
Salaried partner	3	
Director	4	
Senior partner	5	
Managing partner	6	
Assistant or associate solicitor	7	<i>If 5 or more partners from sample ask: Can I just check you are the most appropriate person in the firm to discuss PII? If NO get contact details</i>
Consultant	8	
Other (write in)	9	

IF NOT A SOLE PRACTITIONER (A1=NOT 1)

A2 Can I just check that there are still [NUMBER OF PARTNERS FROM REGIS] partners / partner equivalents in your firm?

Yes	9	
No	10	
Don't know	11	

ASK IF NOT CORRECT NUMBER OF PARTNERS (A2=2)

A3 Can you tell me how many partners / partner equivalents there are in your firm?

WRITE IN NUMBER

DK



ASK IF DON'T KNOW NUMBER (A3=DK)

A3A Can you tell me approximately how many partners / partner equivalents there are in your firm?

READ OUT

1 (sole practitioner)	1
2 – 4 partners	2
5 – 10 partners	3
11 – 25 partners	4
26 or more [THANK AND CLOSE]	5

DP SET PARTNERS DUMMY VARIABLE

(NUMBER OF PARTNERS FROM REGIS=1 & A2=1) OR (A3 OR A3A=1) A1=1	1 (sole practitioner)	1
(REGIS = 2-4 & A2=1) OR (A3 =2-4 OR A3A=2)	2 – 4 partners	2
(REGIS= 5-10 & A2=1) OR (A3=5-10 OR A3A=3)	5 – 10 partners	3
(REGIS= 11-25 & A2=1) OR (A3=11-25 OR A3A=4)	11 – 25 partners	4

ASK IF 2 OR MORE PARTNERS (PARTNERS=NOT 1)

A4 And how many of these have been qualified for less than five years?

WRITE IN NUMBER

DP ALLOW RESPONSES FROM 0 TO UPPER LIMIT AS PER A3 OR A3A

DK

ASK IF DON'T KNOW NUMBER (A4=DK)

A4A Can you tell me approximately how many have been qualified for less than five years?

READ OUT

None	1
1	2
2 – 4	3
5 – 10	4
11 – 25	5
26 or more	6

ASK IF SOLE PRACTITIONER (PARTNER=1)

A5 Have you been qualified for less than five years?

Yes	1
No	2
DO NOT READ OUT: Don't know	3

ASK ALL

A6 **Is your firm a new business, established within the last 12 months?**

Yes	1	GO TO A8
No	2	ASK A7

IF NOT A NEW BUSINESS (A6=2)

A7 **How long has your firm been practicing?**
RECORD NUMBER OF YEARS

--

DK

IF DON'T KNOW NUMBER OF YEARS PRACTICING (A7=DK)

A7A **Is it...**
READ OUT. SINGLE CODE.

Less than five years	1
Five to ten years	2
Ten years or more	3
DO NOT READ OUT: Don't know	4



ASK ALL

- A8 **Approximately, what was your firm's gross fee income for the past twelve months (i.e. 2010-11) for the purposes of your 2011-12 PII application?**

ADD IF NECESSARY: Responses are used to identify any PII issues by type of firm. Answers to all questions are anonymous, confidential and are presented to the Law Society at an aggregated level.

£ (write in)	1
Don't know	2
Refused	3
No gross income in time period	4

ASK IF NOT 'NO GROSS INCOME IN TIME PERIOD' (A8=1/2/3)

- A9 **And approximately, what was your firm's gross fee income in the previous twelve months (i.e. 2009-10) for the purpose of your 2010-11 PII application?**

£ (write in)	1
Don't know	2
Refused	3
No gross income in time period	4

IF DON'T KNOW 2010-11 GROSS FEE INCOME OR REFUSE TO ANSWER (A9=2/3)

- A10 **Was it higher or lower in 2010-11 than in 2011-12? Or was it broadly the same?**

Higher	1
Lower	2
Broadly the same	3
Don't know	4
Refused	5

IF GROSS FEE INCOME HIGHER OR LOWER IN 2010-11 (A10=1/2)

- A13 **And roughly what was the percentage [A10=1: increase] [A10=2: decrease]?**

RECORD NUMBER

DK



B Provider of Professional Indemnity Insurance used in Previous year 2010-11

ASK IF NOT NEW FIRM (A6= 2)

B1 Has your firm ever been in the Assigned Risk Pool (ARP)?

READ OUT. SINGLE CODE.

Yes – More than once	1
Yes – just once	2
No	3
Don't know	4

ASK IF NOT NEW FIRM A6=2

B2 Which company insured your firm for PII cover in 2010-11?

PROMPT IF NECESSARY

Assigned Risks Pool (ARP) / Capita	1	GO TO C1
AIG/Chartis	2	ASK B3
ACE European	3	
Allianz	4	
Alpha	5	
Aspen	6	
Aviva	7	
Chubb	8	
Hannover	9	
Lemma	10	
Liberty/Vision	11	
QBE	12	
Pembroke	13	
Royal and Sun Alliance (RSA)	14	
Travelers	15	
WR Berkley	16	
XL	17	
Zurich	18	
Other (write in)	19	
Don't know	20	



ASK IF NOT NEW FIRM OR WERE IN ARP IN 2010-11 (A6= 2 & B2=NOT 1)

**B3 For how many years has your firm been insured by [NAME OF INSURER AT B2]?
WRITE IN NUMBER OF COMPLETE YEARS**

WRITE IN

DK

B4 Did your firm seek to renew PII cover with [NAME OF INSURER AT B2] for this current year (2011-2012)?
SINGLE CODE. PROMPT IF NECESSARY. INTERVIEWER PROBE AROUND 'NO' RESPONSES TO GATHER REASON WHY.

Yes	1	ASK B5
No, did not wish to reuse them	2	GO TO C1
No, no longer offering insurance cover	3	
No, other reason (write in)	4	
Don't know	5	

ASK IF SOUGHT TO RENEW COVER WITH 2010-11 INSURER (B4=1)

B5 Did [NAME OF INSURER AT B2] offer your firm PII cover in 2011-2012?
CODE ONE

Yes	12	GO TO B7
No	13	ASK B6
Don't know	14	GO TO C1

ASK IF 2010-11 INSURER DID NOT OFFER COVER IN 2011-12 (B5=2)

B6 What was the reason given for [NAME OF INSURER AT B2] not offering your firm PII cover in 2011-2012?
SINGLE CODE. PROMPT IF NECESSARY.

No longer offering PII cover (to my type of firm or at all)	1
No reason given	2
No reply received to application	3
Other (write in)	4
Don't know	5

ASK IF 2010-11 INSURER DID OFFER COVER FOR 2011-12 (B5=1)

B7 Did your firm take up the offer of PII cover for 2011-2012 with [NAME OF INSURER AT B2]?



Yes	1	Go to C1
No	2	ASK B8
Don't know	3	GOT TO C1

ASK IF DID NOT TAKE UP OFFER (B7=2)

B8 **What was the reason for your firm declining the offer of PII cover for 2011-2012 with [NAME OF INSURER AT B2]?**

DO NOT READ OUT. CODE ALL THAT APPLY.

Premiums increased over last year	1
Better offer found with other provider	2
Insufficient time to consider the quote	3
Other (write in)	4
Don't know	5



C Application for Professional Indemnity Insurance cover in 2011-2012

ASK ALL

C1 **Thinking about the current year (2011-2012), how many brokers did you apply to for PII cover for 2011-2012?**

NOTE ASKING HOW MANY APPLIED FOR, NOT HOW MANY QUOTES RECEIVED

WRITE IN

DK

IF C1=DK

C1A **Was it roughly...?**

PROMPT IF NECESSARY. SINGLE CODE.

None	1
Only one broker	2
2-3 brokers	3
4 or more brokers	4
Don't know	5

ASK IF USED A BROKER / BROKERS (C1>=1 OR C1A=2-5)

C2 **When approaching the broker(s), did you know which insurers they use for PII?**

Yes	1
No	2
Don't know	3



C3 Which BROKERS did your firm contact for PII cover in 2011-2012?*PROMPT IF NECESSARY. CODE ALL THAT APPLY.*

Aon	1
Giles / St Giles	2
HSBC	3
Lockton	4
Marsh	5
Prime Professions	6
QPI	7
Hera Indemnity	8
Bar Professions	9
United Insurance Brokers	10
Headley Insurance Brokers	11
Brunel	12
Other (write in)	13
Don't know	14

C4 How many INSURERS did you apply to for PII cover for 2011-12 via a broker?

WRITE IN

DK

IF C4=DK

C4A Was it roughly...?*PROMPT IF NECESSARY. SINGLE CODE.*

None	1
Only one insurer	2
2-3 insurers	3
4 or more insurers	4
Don't know	5



ASK ALL

C5 How many INSURERS did you apply to for PII cover for 2011-12 directly?

WRITE IN

DK

IF C5=DK

C5A Was it roughly...?

PROMPT IF NECESSARY. SINGLE CODE.

None	1
Only one insurer	2
2-3 insurers	3
4 or more insurers	4
Don't know	5

ASK ALL

C6 Which INSURERS did your firm apply to for PII cover in 2011-12 [IF USED A BROKER / BROKERS C1>=1 OR C1A=2-5] either directly or via your broker? [IF DIDN'T USE A BROKER C1=0 OR C1A=1] directly?

CODE ALL THAT APPLY. IF THEY REAPPLIED FOR PII COVER WITH INSURER USED IN 2010/11 IN SECTION B REMEMBER TO ASK FOR THIS INSURER.

AIG/Chartis	1
ACE European	2
Allianz	3
Alpha	4
Aspen	5
Aviva	6
Barbican / LIBRA	7
Chubb	8
European Risk Insurance Company (ERIC) / APRO Management	9
Enterprise / Monitor Insurance	10
First Title	11
Hannover	12
Lemma	13
Liberty/Vision	14
QBE	15



Pembroke	16
Royal and Sun Alliance (RSA)	17
Travelers	18
WR Berkley	19
XL	20
Zurich	21
Other (write in)	22
Don't know	23

I'm now going to ask you a handful of questions about each insurer you contacted for PII cover in turn...

ASK C7 TO C14 IN A LOOP FOR ALL MENTIONED AT C6

ASK C7 IF USED A BROKER (C1>=1 OR C1A=2-5)

C7 Did you contact <C6 CODE> directly or via your broker?
SINGLE CODE.

Directly	1
Via broker	2
Not sure	3

ASK ALL IN LOOP

C8 In which month did your firm submit an application for PII cover for 2011-12 with <C6 CODE>?
DO NOT READ OUT. PROMPT IF NECESSARY. SINGLE CODE

May 2011	1	ASK C9
June 2011	2	
July 2011	3	
August 2011	4	
September 2011	5	
DO NOT READ OUT: Other (SPECIFY)	6	
DO NOT READ OUT: Don't know	7	GO TO C11



- IF MONTH NOT UNKNOWN (C8=NOT 6)
 C9 **What day in <C8 MONTH> was that?**
 RECORD DAY.

WRITE IN

DK

- IF DAY UNKNOWN (C9=DK)
 C10 **Was it roughly...?**
 READ OUT. SINGLE CODE.

Early in the month	1
Mid-month	2
Late in the month	3
DO NOT READ OUT: Not sure	4

- ASK ALL IN LOOP
 C11 **In which month did your firm receive a response regarding your application for PII cover with <C6 CODE>?**
 DO NOT READ OUT. PROMPT IF NECESSARY. SINGLE CODE
 DP REMOVE MONTHS PRIOR TO SELECTION AT C8

May 2011	1
June 2011	2
July 2011	3
August 2011	4
September 2011	5
DO NOT READ OUT: Other (SPECIFY)	6
DID NOT RECEIVE A RESPONSE	7
DO NOT READ OUT: Don't know	8

- IF MONTH NOT UNKNOWN AND RECEIVED A RESPONSE (C11=NOT 6 OR 7)
 C12 **What day in <C11 MONTH> was that?**
 RECORD DAY.

WRITE IN

DK



IF DAY UNKNOWN (C12=DK)

C13 **Was it roughly...?**

READ OUT. SINGLE CODE.

Early in the month	1
Mid-month	2
Late in the month	3
DO NOT READ OUT: Not sure	4

IF RECEIVED A RESPONSE (C11 NOT 6)

C14 **What was the outcome of your application for PII cover with <C6 CODE>? Were you...?**

READ OUT. SINGLE CODE.

Made an offer	1
Refused cover	2
Or was there some other outcome (SPECIFY)	3
DO NOT READ OUT: Not sure	4

END OF LOOP

IF ANY OFFERS MADE TO FIRM (ANY C14=1)

C15 **Did you receive any offers that were stated to be open for a limited period of time and would not be able to be accepted after a certain date?**

Yes	1	ASK C16
No	2	GO TO D1
Don't know	3	



ASK IF DID RECEIVE TIME LIMITED OFFER(S) (C15=1)

C16 Which insurers made you a time limited offer?

READ OUT. CODE ALL THAT APPLY.

DP SHOW LIST OF ALL C6 CODES WHERE C14=1 (ALL INSURERS WHO MADE AN OFFER)

AIG/Chartis	1
ACE European	2
Allianz	3
Alpha	4
Aspen	5
Aviva	6
Barbican / LIBRA	7
Chubb	8
European Risk Insurance Company (ERIC) / APRO Management	9
Enterprise / Monitor Insurance	10
First Title	11
Hannover	12
Lemma	13
Liberty/Vision	14
QBE	15
Pembroke	16
Royal and Sun Alliance (RSA)	17
Travelers	18
WR Berkley	19
XL	20
Zurich	21

FOR ALL SELECTED AT C16

C17 How many days did <C16 CODE> give you to consider their offer?

WRITE IN

DK



D Current Professional Indemnity Insurance cover in 2011-2012

ASK ALL

D1 **Did your firm request an application to enter the Assigned Risks Pool (ARP) for cover in 2011-2012?**

DO NOT READ OUT. SINGLE CODE.

INTERVIEWER NOTE: IF YES – PROBE TO SEE IF ENTERED ARP AND/OR STAYED IN ARP.

Yes, and have remained in ARP	1	GO TO D9
Yes, but did not proceed with application	2	ASK D2
Yes, but exited ARP within 30 days	3	
Yes, but exited ARP after 30 days	4	
No, did not apply to ARP	5	
Don't know	6	

IF NOT IN THE ASSIGNED RISK POOL (D1= NOT 1) AND NOT USING SAME INSURER AS 2010-11 (B7=NOT 1)

DP NOTE: IF B7=1 SET D2 RESPONSE AS B2

D2 **Which company is insuring your firm for PII compulsory cover in 2011-2012?**

PROMPT IF NECESSARY. SINGLE CODE.

AIG/Chartis	1
ACE European	2
Allianz	3
Alpha	4
Aspen	5
Aviva	6
Barbican / LIBRA	7
Chubb	8
European Risk Insurance Company (ERIC) / APRO Management	9
Enterprise / Monitor Insurance	10
First Title	11
Hannover	12



Lemma	13
Liberty/Vision	14
QBE	15
Pembroke	16
Royal and Sun Alliance (RSA)	17
Travellers	18
WR Berkley	19
XL	20
Zurich	21
Other (write in)	22
Don't know	23

IF NOT IN THE ASSIGNED RISK POOL (D1=NOT 1)

- D3 **Which of the following factors were important to you in making the decision to accept the offer from [insert insurer from D2]?**
 READ OUT. CODE ALL THAT APPLY.

The cost of annual premium	1
The cost of run-off cover	2
The existing relationship	3
Discounts offered	4
The financial security of the insurer (insurer's credit rating)	5
Excess on claims	6
Other (SPECIFY)	7



ASK IF MORE THAN ONE RESPONSE GIVEN FOR D3

D4 Which would you say had the biggest influence on your decision?

READ OUT. SINGLE CODE.

DP SHOW CODES SELECTED AT D3

The cost of annual premium	1
The cost of run-off cover	2
The existing relationship	3
Discounts offered	4
The financial security of the insurer (insurer's credit rating)	5
Excess on claims	6
[Other]	7

IF NOT IN THE ASSIGNED RISK POOL (D1=NOT 1)

D5 In which month did your firm accept the offer from <D2 RESPONSE> for PII cover in 2011-12?

DO NOT READ OUT. PROMPT IF NECESSARY. SINGLE CODE

May 2011	1
June 2011	2
July 2011	3
August 2011	4
September 2011	5
DO NOT READ OUT: Other (SPECIFY)	6
DO NOT READ OUT: Don't know	7

IF MONTH NOT UNKNOWN (D5=NOT 6)

D6 What day in <D5 MONTH> was that?

RECORD DAY.

WRITE IN

DK



IF DAY UNKNOWN (D6=DK)

D7 **Was it roughly...?**

READ OUT. SINGLE CODE.

Early in the month	1
Mid-month	2
Late in the month	3
DO NOT READ OUT: Not sure	4

IF NOT IN ARP (D1=NOT 1)

D8 **What is the excess on claims in your PII policy for this current year (2011-2012)?**

WRITE IN AMOUNT AS A NUMBER

Excess per claim	£
Don't know	1
Refused	2

ASK ALL

D9 **What was the excess on claims in your PII policy last year (2010-2011)?**

WRITE IN AMOUNT AS A NUMBER

Excess per claim	£
Not applicable (not trading)	1
Don't know	2
Refused	3

IF NOT A NEW BUSINESS (A6=2)

D10 **What was the annual cost excluding VAT of your firm's compulsory level of PII for last year (2010-2011)?**

WRITE IN AMOUNT AS A NUMBER

AMOUNT SHOULD NOT INCLUDE COST OF EXCESS / TOP UP COVER

Cost (write in)	£
Not applicable (not trading)	1
Don't know	2
Refused	3

ASK IF GAVE AMOUNT FOR D10



D11 Does that include 5% insurance premium tax (IPT)?

Yes	1
No	2
Don't know	3

ASK IF NOT IN ARP (D1= NOT 1)

D12 And what was the annual cost excluding VAT of your firm's compulsory level of PII for this current year (2011-2012)?

WRITE IN AMOUNT AS A NUMBER

AMOUNT SHOULD NOT INCLUDE COST OF EXCESS / TOP UP COVER

Cost (write in)	£
Not applicable (not trading)	1
Don't know	2
Refused	3

ASK IF GAVE AMOUNT FOR D12

D13 Does that include insurance premium tax (IPT)?

Yes	1
No	2
Don't know	3

IF NOT IN ARP (D1=NOT 1)

D14 Did your firm purchase top-up cover (i.e. insurance cover above minimum terms and conditions (MTC) layer) in 2011-2012?

Yes	1
No	2
Don't know	3



ASK IF DID PURCHASE TOP-UP COVER (D14=1)

D15 **How many £ in excess of the minimum terms and conditions (MTC) is your top-up cover (if multiple policies purchased just record the total)?**

WRITE IN

DK



E Risk factors associated with changes in PII premiums

ASK ALL

E1 In the last 12 months, has your firm experienced any of the following?

READ OUT. SINGLE CODE.

	Yes	No	Don't know
1. Insurance claim made against the firm	1	2	3
2. Notified insurer of circumstances that may give rise to a claim against the firm	1	2	3
3. Increase in the number of fee earners	1	2	3
4. Decrease in the number of fee earners	1	2	3
5. Merger with another firm	1	2	3
6. Taken on a new partner with a claims record	1	2	3
7. Taken on a new partner with less than three years Post Qualification Experience	1	2	3
8. Has one or more partners taken the qualified legal transfers test (QLTT)	1	2	3
9. Had a current partner who is also a partner at another firm	1	2	3
10. Received an award of inadequate service by the Legal Complaints Service (LCS)	1	2	3
11. Administrative problems in applying for PII	1	2	3
12. Increased turnover of staff	1	2	3
13. No resident Principal within the branch	1	2	3
14. Delays or difficulties in the payment of insurance premiums	1	2	3



ASK IF NOT A NEW FIRM (A6=2)

E2 **Has your firm (or previous practices if applicable) experienced any of the following in the past five years?***READ OUT. SINGLE CODE.*

	Yes	No	Don't know
1. An Intervention by the SRA, (or previously the Law Society)	1	2	3
2. Disciplinary Action	1	2	3
3. Firm subject to civil or criminal judgements, insolvency or bankruptcy	1	2	3
4. [IF NOT E1_1=1] Received an insurance claim(s) against the firm	1	2	3
5. [IF NOT B1=3] Been in the Assigned Risks Pool	1	2	3
6. Undertaken work for clients/companies outside of the UK	1	2	3



F Difficulties in the PII application process

ASK ALL

F1 In your view, how difficult was the process for your firm when trying to renew your PII this year? Was it...

READ OUT. SINGLE CODE.

Very difficult	1	ASK F2
Quite difficult	2	
Neither	3	GO TO G1
Not very difficult	4	
Not at all difficult	5	
DO NOT READ OUT: Don't know	6	

IF RENEWAL PROCESS WAS DIFFICULT (F1=1/2)

F2 Why do you think this was the case?

PROBE FULLY.

High cost	1
Delays in getting quotes	2
Difficulty in getting quotes (due to claim history)	3
Limited time to consider offers	4
Little/no feedback from insurers	5
Prejudice against small firms [perceived]	6
Left it until the last minute	7
Process stressful / tedious	8
Time consuming (too many forms / forms too long)	9
Other (write in)	10



G Restructuring the firm / run-off cover

- G1 **Has your firm used the Successor Practice Rules to merge with another firm in the last twelve months?**

Yes	1	ASK G2
No	2	GO TO G4
Don't know	3	GO TO G4

ASK IF FIRM HAS USED SPR IN A MERGER IN LAST TWELVE MONTHS (G1=1)

- G2 **Did you elect to run-off the predecessor practice?**

Yes	1	
No	2	
Don't know	3	

ASK IF DID RUN-OFF PREDECESSOR PRACTICE (G2=1)

- G3 **Was the sale of the business used to fund the run-off premium?**

Yes	1
No	2
Don't know	3

ASK ALL

- G4 **Are you aware of what the cost of run-off is in your current policy?**

Yes	1	ASK G5
No	2	GO TO G6
Don't know	3	

ASK IF AWARE OF RUN-OFF COST (G4=1)

- G5 **What is the cost of run-off cover under your 2011-12 policy as a percentage of your annual premium?**

IF PROMPTING REQUIRED: THIS IS TYPICALLY BETWEEN 200-300%

% of annual premium

DK



ASK IF SOLE PRACTITIONER / 2-4 PARTNER FIRM (PARTNERS=1/2)

G6 **When you retire, will you need to either sell your practice or enter into run-off?**

Yes	1	ASK G7
No	2	GO TO H1
Don't know	3	

ASK IF WILL NEED TO SELL PRACTICE / ENTER RUN-OFF (G6=1)

G7 **How long before you will retire from practice?**

WRITE IN NUMBER OF YEARS

DK/REF

G8 **Do you have a retirement / succession plan?**

Yes	1
No	2
Don't know	3

G9 **Can you afford the cost of run-off under your current policy?**

Yes	1
No	2
Don't know	3

G10 **Do you think run-off costs will affect your ability to retire?**

Yes	1	
No	2	
Don't know	3	

IF THINK RUN OFF COSTS WILL AFFECT ABILITY TO RETIRE (G10=1)

G11 **Why is that?**

WRITE IN

DK

IF DON'T THINK RUN OFF COSTS WILL AFFECT ABILITY TO RETIRE (G10=2)

G12 **Why is that?**



WRITE IN

DK



H Demographics

ASK ALL

- H1 **[IF REGIS NUMBER= 1: Is it correct that your firm has one solicitor?] [IF REGIS NUMBER=NOT 1: Is it correct that your firm has [NUMBER FROM REGIS] solicitors, including partners?]**

Yes	1	GO TO H3
No	2	ASK H2
Don't know	3	GO TO H3

IF REGIS NUMBER NOT CORRECT (H1=2)

- H2 **Can you tell me how many solicitors your firm has, including partners?**

DK

ASK ALL

- H3 **Excluding solicitors and partners, how many other fee earners does your firm have (for example, paralegals, ILEX)?**

RECORD NUMBER

DK

- H4 **And can I just confirm that your firm is a [CLASSIFICATION FROM REGIS]?**

SINGLE CODE ONLY

Sole practice or partnership	1	
Body corporate	2	
Don't know	3	

- H5 **Is it correct that your firm has <NUMBER OF OFFICES FROM REGIS> offices?**

Yes	1	GO TO H7
No	2	ASK H6
Don't know	3	GO TO H7



IF NOT CORRECT NUMBER OF OFFICES (H5=2)

H6 **How many offices do you have?**

RECORD NUMBER

--

DK

H7 **[IF PARTNER= NOT 1] Are more than half the firm's partners from Black or Minority Ethnic groups? [IF PARTNER =1] Would you describe yourself as being from a Black or Minority ethnic group?**

SINGLE CODE ONLY

Yes	1
No	2
Don't know	3

ASK ALL

H8 **Which of the following types of work has your firm undertaken in the last 12 months?**

READ OUT AND MULTI CODE

INTERVIEWER – IF RESPONDENT MENTIONS LITIGATION, PLEASE PROBE TO ESTABLISH WHAT TYPE(S) OF LITIGATION THEY MEAN.

PLEASE THEN CODE ALL MENTIONS OF LITIGATION INTO THE AREA(S) OF LAW THEY SIT WITHIN (E.G. 'EMPLOYMENT LAW LITIGATION' SHOULD BE CODED AS 'EMPLOYMENT LAW')

ANY MENTIONS OF LITIGATION THAT DO NOT FIT IN THIS WAY, TO BE ENTERED AS 'OTHER'

Business and commercial affairs	1
Commercial property	2
Crime	3
Employment law	4
Family law (including matrimonial and child care law)	5
Personal bankruptcy, personal insolvency, and debt	6
Personal financial management and advice	7
Personal injury, accident, medical negligence	8
Probate, wills and trusts	9
Residential conveyancing	10
Immigration	11
Welfare benefits and social security rights	12
Other	13
No work undertaken in last 12 months [DP: SINGLE CODE]	14

ASK IF HAVE UNDERTAKEN WORK IN LAST 12 MONTHS H8 1-13



H9 And still thinking about the last 12 months, what proportion of your firm's total gross fee income was derived from these areas of law...?

READ OUT ALL CODES MENTIONED AT A10 – MULTI CODE

Business and commercial affairs	WRITE IN PROPORTION (0-100%). ALLOW DK
Commercial property	WRITE IN PROPORTION (0-100%). ALLOW DK
Crime	WRITE IN PROPORTION (0-100%). ALLOW DK
Employment law	WRITE IN PROPORTION (0-100%). ALLOW DK
Family law (including matrimonial and child care law)	WRITE IN PROPORTION (0-100%). ALLOW DK
Personal injury	WRITE IN PROPORTION (0-100%). ALLOW DK
Probate wills and trusts	WRITE IN PROPORTION (0-100%). ALLOW DK
Residential conveyancing	WRITE IN PROPORTION (0-100%). ALLOW DK
Social welfare law (e.g. consumer problems, housing, personal bankruptcy, personal finance, welfare benefits, social security rights)	WRITE IN PROPORTION (0-100%). ALLOW DK
[OTHER 1 TEXT FROM H8]	WRITE IN PROPORTION (0-100%). ALLOW DK

CATI CHECK – ENSURE THAT H9 SUMS TO 100%

IF FAIL CATI CHECK, PROMPT RESPONDENT WITH....'The breakdown you have provided me with sums to [INSERT SUM OF H7] rather than 100%. Can I just re-check the figures with you?' **THEN RE-ASK H9.**

H10 And which of the following types of clients has the firm worked with in the last 12 months...?

READ OUT AND MULTI CODE

Private individuals who are not legally aided	1
Legally-aided private individuals	2
Private sector firms or companies	3
Public sector bodies (e.g. central or local government, CPS, NHS etc.)	4
Overseas clients	5
Other clients (e.g. charities, trade unions, etc.)	6
DO NOT READ OUT: Not applicable – do not work with clients	7

IF HAVE WORKED WITH CLIENTS (H10=NOT 7)

H11 And thinking about the last 12 months, what proportion of your firm's total gross fee income was derived from these types of client...?



READ OUT ALL CODES MENTIONED AT H10

Private individuals who are not legally aided	WRITE IN PROPORTION (0-100%). ALLOW DK
Legally-aided private individuals	WRITE IN PROPORTION (0-100%). ALLOW DK
Private sector firms or companies	WRITE IN PROPORTION (0-100%). ALLOW DK
Public sector bodies (e.g. central or local government, CPS, NHS, etc.)	WRITE IN PROPORTION (0-100%). ALLOW DK
Overseas clients	WRITE IN PROPORTION (0-100%). ALLOW DK
Other clients (e.g. charities, trade unions, etc.)	WRITE IN PROPORTION (0-100%). ALLOW DK

CATI CHECK – ENSURE THAT H11 SUMS TO 100%

IF FAIL CATI CHECK, PROMPT RESPONDENT WITH....'The breakdown you have provided me with sums to [INSERT SUM OF H11] rather than 100%. Can I just re-check the figures with you?' THEN RE-ASK H11

ASK ALL

H12 **Does your firm hold any of the following quality marks?**

READ OUT. CODE ALL THAT APPLY

LEXCEL	1
Conveyancing Quality Scheme (CQS)	2
Charter mark	3
Community Legal Services Quality Mark (CLSQM)	4
ISO9000	5
ISO9001	6
Investors in People (IIP)	7
Law Society Panel Membership	8
Other (Please specify)	9
No quality marks held	10
Don't know	11

THANK RESPONDENT AND CLOSE INTERVIEW

Finally I would just like to confirm that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct. Thank you very much for your help today.

