



The Law Society

## **Professional indemnity insurance survey**

Summary of 2011-12 renewal experiences

April 2012



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## **Key findings**

1. This document summarises the results of a survey conducted at the request of the Law Society by an external provider, IFF Research, and also sets out the Society's preliminary response. The research study surveyed 600 law firms - ranging in size from sole practitioners to firms with 25 partners - about their experiences and perceptions of the 2011-12 professional indemnity insurance (PII) renewal process. The analysis is representative of the Law Society's member population by size (number of partner) and region. An equivalent survey has been conducted annually since 2008.
2. This year's survey focuses on providing an overview of members' experiences of the PII market. The Law Society's aim in publishing this survey is to reduce the information asymmetry that exists between insurers/brokers and solicitors. It is concerning that some of the survey results indicate that our members require further information and understanding about PII providers and processes. We hope that publication of a representative market snapshot will provide solicitors with a benchmark on which to assess their individual renewal experience and create greater transparency within this sector. We will use this to better target our guidance in the future.

## **State of market & premium levels**

3. The survey indicates that the solicitors' PII market has remained relatively stable between 2010 and 2011. The market share of individual insurers remains similar. Premiums have also remained at a similar level. The median annual premium was £16,980 in 2010-11, consistent with £16,720 in 2011-12. Comparing median premiums for 2010-11 and 2011-12, there were slight reductions in premiums for smaller firms and slight increases for larger firms (with 5 or more partners).
4. For both years, the cost that PII represents as a percentage of gross fee income that firms paid in premium was similar. The average percentage of gross fee income spent on PII was 5.4%. Around two-thirds of firms paid premiums equating up to 7.5% of their gross fees, and a fifth of firms paid premiums in excess of 10%. There is evidence to suggest that PII premiums present a greater burden for small firms, with sole practitioners paying an average of 6.4% of gross fees in premium, compared to 5.2% for 2-4 partner firms, 3.2% for 5-10 partner firms and 2.1% for 11-25 partner firms.
5. One in five firms (19%) elected to purchase insurance cover above the mandatory layer. Whether or not a firm was likely to invest in 'top-up' cover related to the type of work undertaken by the firm and firm size.

## **Use of market & factors affecting premium**

6. The survey suggests that firms are starting to become more likely to 'shop around' for quotations but could still make better use of the available market. A significantly higher proportion of firms approached insurers directly (i.e. without a broker) this renewal (18%) than last year (10%). However, the

average number of insurers approached (either via broker or direct) remains quite low, especially amongst smaller firms. Almost a quarter of all firms (24%) approached **only** their existing insurer for cover, and this practice was particularly prevalent amongst smaller firms. 28% of sole practitioners and 22% of firms with 2-4 partners approached only their existing insurer, compared with 11% of firms with 5-10 partners and 14% of firms with 11-25 partners.

7. Firms that remained with their existing insurer were less likely to experience a decrease in the cost of their premium and more likely to find that their premium stayed at the same level. With the exception of 2-4 partners firms, median premiums were lower amongst those that changed insurer compared to those that stayed with their 2010-11 insurer. Just over half of all firms (54%) experienced a decrease in the cost of their premiums over the two-year period, while 35% experienced an increase and the remaining 11% had similar premiums to the previous year. The cost of premiums was reported to be the most influential factor in a firm's decision-making. Nearly all firms considered it to be a factor, and two-thirds (68%) felt it was the most significant factor.
8. Firms that had a claims history (i.e. had an insurance claim made against it and/or notified circumstances in the last 12 months) paid higher premiums on average than firms that did not. Analysis also showed that the larger the size of firm (in terms of the number of partners and solicitors rather than gross fees), and whether it had multiple offices, were also significant predictors of higher premium levels.

## **Renewal experience**

9. There is some evidence to suggest that the renewal process is becoming easier for the profession. During the surveyed period, it was relatively uncommon for firms not to receive a quotation, and the proportion of firms entering the assigned risks pool (ARP) was very small, amounting to only 0.5% of firms, which was a decrease on previous years. There is also evidence that firms experienced an improvement in average response times. The average time between application, submission and response reported by firms was just over 24 days, compared to 33 days in 2010-11 and 31 days in 2009-10.
10. While the proportion of law firms stating that that they found the process to be very difficult (11%) or fairly difficult (23%) was broadly the same as during the 2010-11 renewal, the proportion stating that they found it not at all difficult has increased. Over half of firms reported the process to be not very (22%) or not at all difficult (34%), and one in ten firms (11%) did not feel strongly either way. Larger firms (11-25 partners) were least likely to report that they found the process difficult. The likelihood of perceiving the process as difficult tended to increase with the number of brokers used.

## **Restructuring and run-off costs**

11. Respondents were asked if they were aware of run-off costs under their current policy. Nearly two-fifths (37%) were aware of the costs and small firms were more likely to be aware than larger firms. A third of all firms (32%) stated that run-off costs were an important factor in their decision to accept a PII offer.

12. The cost of run-off cover is important to sole practitioners and firms with 2-4 partners. According to our survey, over half of these respondents (53%) considered that they would need to either sell their practice or enter into run-off on retirement. Of these respondents, two-thirds (64%) did not have a succession plan in place, half (49%) felt that run-off costs would affect their ability to retire, and nearly a fifth (18%) reported that they could not afford the cost of run-off under their current policy.

## Law Society's response

13. The Law Society is concerned that half of firms received time-limited offers. The firms surveyed reported time limits of between 7 and 14 days, although the survey does not indicate at what stage of the renewal process these were given. We appreciate that these limits may be appropriate close to the renewal date; however, the Society is concerned that acceptance periods (particularly early in the renewal process) may place undue pressure on solicitors. We have lobbied the Solicitors Regulation Authority to consider the introduction of a minimum acceptance period of 21 days for quotations.
14. The Society will shortly publish guidance encouraging solicitors to use the open market effectively. We are concerned that, as in previous years, a relatively high proportion (21%) of surveyed firms did not know how many insurers their broker had applied to, which points to a lack of communication between firms and brokers regarding the broking process. We encourage solicitors to develop relationships with their broker and seek greater transparency around these arrangements.
15. We also consider that the changes in the PII regime may result in greater competition between insurers for the 2012-13 renewal, and may encourage firms to 'shop around' instead of simply approaching their existing insurer for quotation. While the results from this year's survey seem to suggest that a firm may be able to get 'a better deal' by approaching all insurers in their available market for a quotation, the level of premium should not be a firm's sole consideration. There are other factors to consider, such as insurers' financial stability and credit rating, maintaining a relationship with insurers and the benefits that insurance continuity can provide with respect to claims handling and avoiding coverage disputes. The Society's revised guidance will seek to set out [factors](#) that should be considered when assessing competing renewal offers. Follow us on twitter at LSRegAffairs to see when the guidance is updated.
16. Another factor that small firms consider when selecting their PII is the cost of run-off cover. The Society has published information about [run-off cover](#) and a [practice note](#) on the regulatory requirements of ceasing to practice. We are, however, concerned about lack of succession planning reported by firms who will have to run-off or restructure to facilitate solicitors' retirement plans. We are considering ways to assist our members and will use the survey results to inform our policy in this area.