



The Law Society

2014-15 PII survey

A survey of solicitors' experiences of the 2014-15 professional indemnity insurance renewal

Law Society response

9 April 2015



The Law Society response to the 2014-15 annual PII renewal survey

1. This document summarises the results of the most recent annual survey into the solicitors' professional indemnity insurance (PII) renewal process and sets out the Society's preliminary response. The research was conducted at the request of the Law Society by an external provider, IFF Research. It surveyed 498 law firms ranging in size from sole practitioners to firms with up to 25 partners about their experiences and perceptions of the 2014-15 PII renewal process. The analysis is representative of the Law Society's member population by size (number of partners) and region. An equivalent survey has been conducted annually since 2008.¹
2. As in previous years, this year's survey sought to gauge how effectively the PII market has operated. The survey this year also explored the take-up and impact of variable length policies, including policy durations and start and end dates. Further, in view of the uncertainty about how the Minimum Terms and Conditions (MTC) might be changed following the SRA's consultation on proposals for changes to the client financial protections and hence when the SRA might publish the new Participating Insurer Agreement, the survey sought to establish how well firms were prepared and the effectiveness of the Law Society's advice and guidance to firms in the run-up to renewal.

State of supply and the renewal process

3. Despite the uncertainties about regulatory change, this year's renewal process went smoothly, in contrast to the 2013-14 renewal when the unplanned exit of the unrated insurer Balva and the decrease in PII capacity offered by XL had left many smaller firms struggling to renew their insurance by 1 October 2013. The survey has found that in 2014, most firms renewed their policies in good time. This might have been accounted for in part by many firms renewing with their existing insurer (see below).
4. The Society had started reminding firms from May 2014 not to delay the preparation of their proposal forms and to begin to research which insurers were in the market. The survey confirmed that three quarters of firms had carried out preparations between May and August and only 8 per cent had left it to September. Nearly a third of firms had agreed to take out new policies throughout June, July and August. 50 per cent did so during September.
5. A very small percentage of firms reported entering the extended indemnity period (EIP) and none the Cessation Period (CP). These figures mirror the SRA's recent report that 39 firms had entered the EIP, in contrast to 287 which had done so in 2013. The SRA stated that most of the 39 firms were in the process of orderly closure, merger or acquisition, while a handful had successfully obtained cover; it was investigating only two firms which did not appear to have valid insurance.²

¹ Full versions of survey reports are available at: www.lawsociety.org.uk/pii

² <http://www.sra.org.uk/sra/news/press/firms-investigated-epp-pii-2014.page>

6. The capacity situation for smaller firms in this renewal was considerably better than last year, with three new entrants offering policies to smaller firms. Amtrust strengthened its position, ranking second after Travelers among the surveyed firms this year, followed by QBE as third (by number of firms insured).

Premium levels

7. The survey found that premiums paid have remained broadly consistent between 2013-14 and 2014-15, with only minor fluctuations in levels when by factors such as premium paid bands or number of partners are analysed.

Use of unrated insurers

8. Unrated insurers, upon which small firms have been particularly reliant when capacity has been tight, lost share in the number of firms they sold policies to in this renewal. Unrated insurers' market share fell by 6% to 17 % of policies sold. Rated insurers' share of supply increased to 83%, in contrast to 77% in 2013-14.
9. When asked which was the most important factor in selecting their 2014-15 insurer, smaller firms were more likely to say that the insurer being rated had the biggest influence on their decision; 24% of sole practitioners and 28% of 2-4 partner firms listed this as their main reason. Across all firms, there was a significant decrease in the proportion which said that the cost of premium was the most important factor, falling from 58% in the previous year to 29% this year.
10. Although the increase in rated capacity and in the number of policies sold by rated insurers is a positive development, reflecting in part the Society's regular reminders of the risks historically associated with unrated insurers, the Law Society is cautious about whether this indicates a continued upturn in this trend for the future. This has been a relatively calm market this year but shocks to the insurance market or developments to the wider economy might affect rated supply in the future. It also remains to be seen to what extent the influence of Solvency II, which will be fully implemented in January 2016, will be positive for the stability of unrated insurers and the stability of supply in the solicitors' PII market generally.
11. Of the firms relying on unrated insurers, the survey found that it is not only firms that reported finding the PII renewal process difficult to do so. 13% of firms with one or more partners approaching retirement reported being more likely to use an unrated insurer. A sudden exit of an unrated insurer which provides run-off cover, as has happened in the recent past, could leave the retired solicitors vulnerable to no cover in the event of future claims arising. Firms where more than half the partners belonged to a black or minority ethnic group were also identified by the survey as being more reliant on unrated insurers.
12. The risks associated with reliance upon unrated insurers will remain an area of concern and one which the Law Society will continue to keep under its scrutiny. The Law Society's advice to firms will for the foreseeable future remain one of caution in relation to use of unrated insurers.

Burden on firms

13. Reported ease of renewal levels remained broadly the same as last year, with just over three-fifths (62%) of firms reporting that the 2014-15 renewal was either 'not very difficult' or 'not at all difficult'. This might in part have been due to the fact that the majority of firms (over 70%) reported renewing with their existing insurer, a process which tends to be less bureaucratic than shopping around and filling in multiple proposal forms.
14. Despite the increase in capacity, around a fifth (21%) of firms reported that they found the renewal process 'very difficult' or 'quite difficult'. The most common reason for difficulty, given by two-thirds of firms finding the process difficult (67%), was that the renewal process was time consuming. Half (50%) of all firms spent up to a month between starting preparing proposal forms and agreeing to take out a policy. A further quarter (26%) took two months to do so. Around a quarter (24%) of firms found the process stressful / tedious and 14% mentioned delays in getting quotes.
15. The Society has begun talks with the SRA and the insurance industry to explore how the administrative burden of form filling might be eased for firms in the future. The Society is also looking at how our advice and guidance might be improved to help firms better to demonstrate to insurers and brokers their management of risks.

Use of brokers

16. As in previous years, the vast majority of law firms (91%) applied to at least one broker for a quote. The proportion doing so was significantly higher than in previous year's research. As in previous years, Aon was the most frequently used broker, though its overall market share fell slightly.
17. A quarter (25%) of firms reported that no level of service was agreed with their broker, two-thirds (66%) had agreed a level of service and a further one in ten (9%) were unsure what level of service was agreed. Disclosure by brokers of commission remains disappointingly low. Just over two-fifths (44%) of firms reported that the broker used to secure the policy did not disclose their commission at all. Another two-fifths (41%) of firms reported that the broker had disclosed their commission; 36% reported that the commission was proactively given and 5% had asked the broker to provide this information. Larger firms were more likely to report that commission had been disclosed: 63% of 11-25 partner firms compared with 44% of 2-4 partner firms and 34% of sole practitioners.
18. The Law Society will review its advice and guidance for firms on use of brokers to see whether it needs to be strengthened, in view of the survey's findings.

Take-up of variable renewal date policies

19. As anticipated by the Law Society when variable renewal policies were introduced in 2013, take up of these has been gradual. In this last renewal, 19% of firms surveyed reported having taken out a policy outside the traditional 12 month duration. The majority of these policies were for periods of longer than 12 months (18%). October remains the most common month

for renewals, though the starts of the next policy renewals are expected to occur on an almost monthly basis going forward.

20. In the light of the increasing diversification of start and end dates of policies, the Society will consider whether and how it should continue with its annual PII surveys.

Retirement plans

21. Around a tenth (11%) of firms reported having considered putting their firm into run-off. Sole practitioners were more likely to do so (14%), compared with only 2% of 5-10 partner firms. As found in last year's survey, the cost of run-off premium was given as a reason for not doing so.
22. The costs and barriers to retirement including the cost of cessation cover, remain a policy area that the Law Society is examining as a priority.

Helpfulness of Law Society advice and guidance during in the PII renewal process

23. Last year, in response to the previous survey, the Law Society reviewed and strengthened its PII advice and guidance.
24. The Law Society's support services during the renewal process continue to be reported as useful. Half of all firms (50%) reported having used at least one of the services. Smaller firms were more likely to have found at least one of the services useful (49% of sole practitioners and 52% of 2-4 partner firms compared with 33% of 11-25 partner firms).
25. Just over a third of firms (35%) stated that they found the Law Society website guidance on PII useful; another 30% identified the Professional Update status reports on the progress of the SRA proposals for changes to the PII MTC were useful, with a similar proportion (28%) saying they found the Professional Update renewal reminders helpful.
26. A small proportion of firms (4%) reported that they found the PII helpline useful, no doubt reflecting the considerable decrease this year over last in renewing PII.
27. One in three firms (29%) said they had referred to the Law Society's Insurers Guide to see which insurers were in the market and how to approach them.