

## Finally, some reasons to be optimistic about Professional Indemnity Insurance



**As we rapidly approach the summer and the halfway point in the 2023 calendar year, I am pleased to advise that there is cause for optimism with regards to PII market conditions as we look ahead to the October renewal season.**

The vast majority of leading participating insurers have an appetite to actively grow their respective portfolios with the addition of new business. Furthermore, new capacity is set to enter the marketplace before October, meaning firms with a desirable profile are going to have even more insurer options available to them at this year's renewal.

If we reflect briefly on what happened in the now well-populated recent spring renewal season, although a proportion of insurers did wish to increase rates – albeit more modestly than they have in recent seasons – the majority of insurers' rates plateaued. This is a reflection of the positive dynamics within the PII marketplace, with more active competition for business. Extended policy periods also returned to availability, albeit in limited number. Nonetheless, this signals a sea change to recent years.

The one slight frustration of the spring renewal season was premium financing, with costs of borrowing increasing throughout the period, largely as a result of macroeconomic factors. Finance providers were also strengthening their due diligence processes, adversely impacting the speed of decision-making and processing of loans. We anticipate that the due diligence process will become even more stringent as we move into the October renewal.

With the likelihood of the emergence of new insurer capacity on the immediate horizon, coupled with an increased appetite among insurers already active in the market, well-run practices can expect a softening in the rates charged come October. What is not yet known, is how diluted rates will become. We also expect extended policy periods to become more readily available, with insurers once again offering the choice of up to 18 months for a portion of their portfolios.

Without wishing to dampen the positive tone of this PII update, the one caveat to give is that the dilution of rates doesn't necessarily mean that there's set to be a dramatic reduction of premiums. For many firms, rising inflation has fuelled an increase in fee income, which will naturally have an impact on the premium charged by insurers. It does mean, however, that for well-run and successful practices, the cost of PII premiums should not erode profit margins further, as it may well have done at recent renewal periods.

It will be of no surprise that the softening of rates may not positively impact the entire legal profession of England and Wales. This is particularly true of practices that have experienced an adverse claims position, and those that are heavily involved in perceived higher-risk practice areas. Practices should not be complacent, regardless of their profile, and cannot expect premiums to fall without any effort on their part. I cannot stress the importance in providing your chosen representative(s) with the appropriate evidence to share with the underwriters, in order to justify applying positive price corrections.

To capitalise on the improving insurance market conditions, our recommendation to you would be to commence the renewal process early. In terms of timescales, we recommend providing the presentation at least six, but preferably eight weeks in advance of your renewal date. Begin exploring finance options much earlier in the process than you have done so previously, given that the process is longer, and you may need to shop around to get the most favourable terms.

Most importantly, take the time to prepare a quality presentation that provides a positive reflection of your practice. Remember that approximately two-thirds of the legal profession of England and Wales renew at the end of September, so you will be vying for the attention of the underwriting teams along with a substantial number of your peers. Whilst many insurers will have an increased appetite for business, their underwriting teams will only have a finite amount of time to undertake their risk assessments, and will not wish to receive your information piecemeal. No underwriter wishes to read your entire office manual, but they will be keen to learn more about your practice if they are to have the confidence and, importantly, the required evidence, to deploy their company's capital. Your renewal presentation is effectively your shop window to insurers, so it is imperative that you use it effectively.

With that in mind, we encourage you to make sure your practice stands out from the crowd. Should you have experienced claims, provide a narrative of the situation, along with detail of what measures you have implemented to prevent their repeat. Simply stating that the fee earner responsible for the claims is no longer with your firm is not necessarily what insurers are looking for.

Importantly, I encourage you to use this opportunity to help your chosen representative(s) to educate insurers about your firm, what you do, and how you do it. Consider the fact that specialist underwriters are not solicitors, and although they will understand risk and the ramifications of any mistakes, they may not understand the intricacies of your specialism entirely. At the same time, no two practices are identical, so articulate why you are better. As they say, perception is not always the reality – an underwriter could always form an opinion which is incorrect. And once opinions are formed, they are much harder to change.

Choose your representative(s) wisely, acknowledging the fact that it would not be advantageous to scatter your presentation across the marketplace using too many sources, as this may dilute the good work that you have done to present your practice in a positive light. It is important to know that many leading insurers operate a limited-panel basis. Therefore, there is a possibility that your representative may not be able to reach all of the active participating insurers directly, which may well result in you not being able to achieve the optimum solution possible for your practice. You will not truly benefit from an improving PII marketplace, should you inadvertently exclude half of the active participating insurers.

Before selecting your chosen representative(s), we would recommend establishing which insurers that they can approach directly on your behalf. Whilst doing so, seek confirmation from your representative(s) that these insurers also have an appetite for a practice of your specific size and profile. Direct access will also ensure that your message does not get diluted or lost in translation due to there being unnecessary links in the chain between you and the insurers.

Lockton would welcome the opportunity to canvass the PII market on your behalf. We have direct access to more active participating insurers than many of our peers, along with exclusive insurer solutions that no other representative can provide.

I do hope that you are interested in following up with Lockton specifically to discuss maximising the benefit of an improving PII marketplace. We look forward to hearing from you in due course.

**Brian Boehmer**

Partner

**T.** +44 (0)20 7933 2083**M.** +44 (0)781 401 4655**E.** [brian.boehmer@lockton.com](mailto:brian.boehmer@lockton.com)