RENEWAL DATE GUIDANCE

Pros and cons of moving the renewal date

RENEWAL DATE GUIDANCE

Pros and cons of moving the renewal date

Since October 2013 solicitors have no longer been tied to a 1st October PII renewal date. After a slow start, a small but growing percentage (at the last count, it was estimated that somewhere under 10%) of firms have now taken the opportunity to move to an alternative renewal date. The majority of these have moved to March/April renewal dates. We are often asked to advise on what the advantages of moving renewal date are, or whether we recommend it to our clients. Inevitably, there are both advantages and disadvantages – and while changing renewal date may suit some firms, it is certainly not beneficial in all cases.

FACTORS TO CONSIDER:

Your Financial Year End Date

Consider what you are trying to achieve by changing your firm's renewal date. Is it to align, or indeed to stagger, your PII renewal and Year End? There is no right answer here. Some firms like to coordinate their Financial Year End and their Renewal Cycle. For many others, this simply adds too much pressure at a stressful time. It also makes it difficult to provide full latest accounts for the renewal. We often suggest that the renewal date would ideally fall 2-3 months following Year End.

Market Maturity

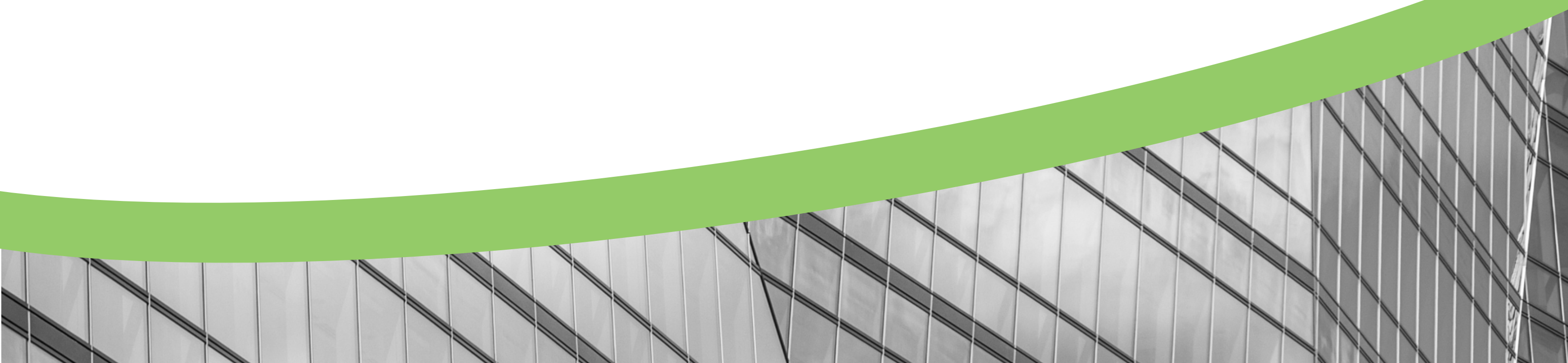
The Solicitors PII Insurance market has evolved round an annual renewal cycle on 1st October. The majority of established insurers remain geared up to that renewal cycle – both in terms of systems, processes and resources. Insurers tend to identify a target market-share/premium level, and evaluate how their book of business is performing prior to the next renewal cycle. While the market is adjusting to variable renewal dates, there is a risk that some insurers may be less willing to quote outside the traditional renewal season.

Changing Insurer or Staying Put

Allied to the above point, you need to consider the appetite of your current insurer/any prospective insurers for providing a policy term that coincides with your preferred renewal date.

Firm Profile

If your firm is a 'top 100' legal practice with healthy financials, or it is otherwise a very attractive risk for insurers (low risk profile work, zero/minimal claims for a sustained period, or a high end niche practice) insurers are likely to take the time to review your PII submission whether it is in their primary renewal season or not. For other firms there is a potential advantage in choosing a 'quiet time' for underwriters, in order that they can properly consider your submission, and not simply apply a technical rating. If your practice focusses on traditionally 'higher risk' work types but you are confident that you can differentiate your practice effectively, it is certainly good to get in front of underwriters 'out of season'. However, this can still be done, and the preparatory work undertaken, without necessarily moving your renewal date.



Soft & Hard Markets

In a soft market where there is strong competition amongst insurers, the single renewal date can help to keep premiums down as the insurers, uncertain of what market share they may secure, are more likely to chase or cut their premiums as the single renewal date approaches.

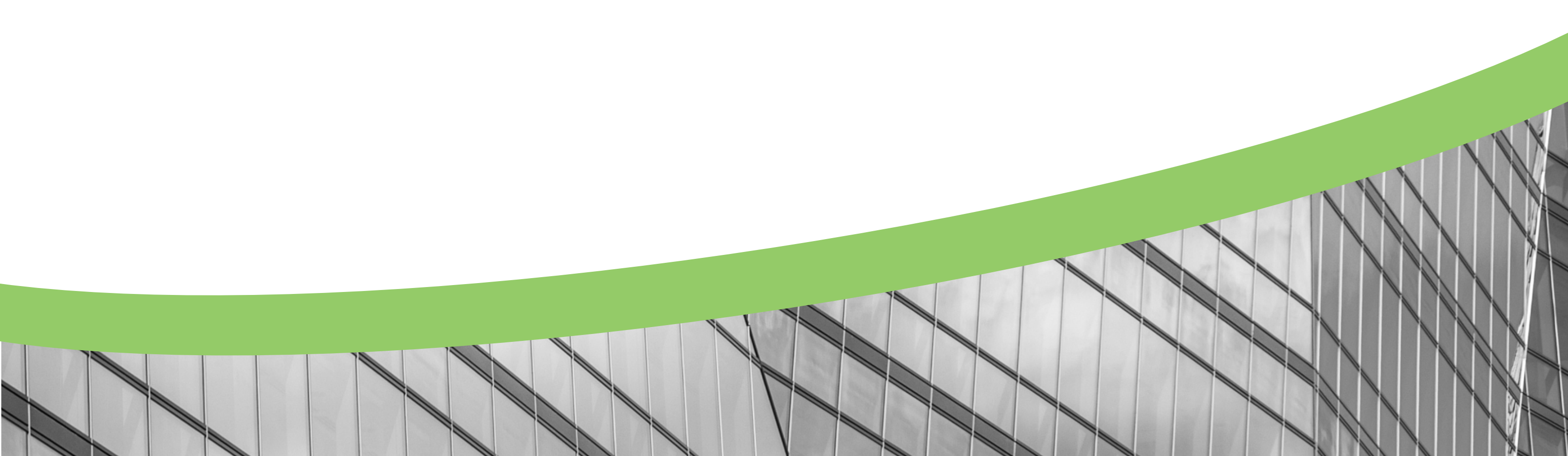
In a hard market where there is a lack of capacity, the single renewal date means that firms can be left with little choice and are forced to accept whatever they are quoted, as we experienced in 2002 and 2005. Moving the renewal date may be of most benefit in a hard market for those firms that on the face of it do not have a great risk profile, because of either their claims history, or the type of work they carry out. An underwriter will be able to spend more time understanding the risk profile of a firm, which he/she may have previously dismissed due to lack of time. This will help some firms to gain cover at a more affordable level. However, we do not believe that changing the renewal date should be seen as a solution to all problems bearing in mind the underlying trend in insurance market cycles does favour the insured: soft markets tend to be prolonged over many renewals, whereas hard markets are short and sharp.

Extended Periods

Insurers are typically able to offer up to an 18 month extended period. This can be advantageous to lock into a preferential premium rate for guaranteed additional 6-months. This may be particularly attractive if fees are growing, as the primary premium is rated off a much lower year-end fee income figure than it would be in 12-months time. The downside of an 18 month period is of course the unbudgeted cash funding, however it may be possible to agree special payment terms on both the primary and excess layers.

Conclusion

You must be confident that moving renewal date is advantageous for your firm, both administratively, and in terms of premium achieved – and not just in the short term. Particularly if the change in renewal date is insurer-led rather than initiated by you, speak to your Lockton contact regarding any potential negative consequences in terms of market competition at future renewals.



OUR MISSION
To be the worldwide value and service leader in insurance brokerage and risk management

OUR GOAL
To be the best place to do business and to work

LOCKTON®

Lockton Companies LLP.
Authorised and regulated by the Financial Conduct Authority. A Lloyd's broker.
Registered in England & Wales at The St Botolph Building, 138 Houndsditch,
London, EC3A 7AG. Company No. OC353198.

www.lockton.com