A solicitors' market update

While the claims environment has improved, Steve Holland advises firms to consider longer-term policies to avoid any potential volatility in pricing

Steve Holland is a senior vice president at Global Professional and Financial Risks at Lockton Companies

@Lockton_Sols
www.locktonsolicitors.co.uk

The professional indemnity insurance market for solicitors has been very stable for the first six months of this year and is lining up to be very competitive for 1 October renewals, when around two-thirds of firms in England and Wales will renew their policies.

The good news is that there is plenty of capacity from both insurance companies and Lloyd's of London, with 30-plus participating insurers. There is increased appetite from existing participating insurers coupled with two new entrants this year, with China Re and Lockton's MGA Omnyy adding to the competition as they both seek to gain a foothold in the market.

Each insurer has its own preferred risk criteria, which means insurers are selective in their choice of which law firms they wish to cover. While some specialist firms could have up to a dozen insurer options, the vast majority of firms will have fewer choices, perhaps half a dozen, and some, depending upon their profile and attitude to risk, may have even fewer still. To think it was only five or so years ago that larger practices had more options than smaller firms; we have now seen these roles reversed in recent times.

Insurers will continue to refine their risk appetite, which is largely determined by the claims experience of each portfolio. Property-related claims continue to dominate, both in terms of frequency and severity. It appears that property claims arising from work carried out at the time of the financial crisis are beginning to recede. As a result, we may see insurers positively reviewing how much exposure they are prepared to accept from firms which have a high percentage of property-related work, whether domestic or commercial.

While the claims environment has improved since the recession, there are concerns this may be short-lived. Frequency may be down but the severity of losses, especially from commercial work, is on the rise. Furthermore, with the emergence of cyber-related claims, which crystallise much sooner than a traditional negligence claim, the savings we are experiencing this year may prove to be temporary. Therefore, it may well be prudent to consider long-term policies and extended policy periods to remove any potential volatility in pricing.

A number of firms have entered into a long-term agreement (LTA) with their primary insurer. In summary, the insurer provides a 12-month policy with a fixed agreement to renew for a further 12 months at the same rate (or even premium), provided:

- Fees have not increased by more than a given percentage (typically 5 to 10 per cent);
- Work profile remains similar;
- The firm does not merge or acquire another practice; and
- Claims do not exceed an agreed amount.

Alternatively, extended policy periods – generally up to 18 months, but sometimes up to 24 months – have become popular. This allows firms to 'lock' into an underwriting rate and premium for a longer period than normal, thereby providing greater certainty for an extended period. An additional benefit is a little less paperwork as the renewal process comes around just twice every three years.

An important consideration for the buyers of insurance is to select an appropriate intermediary with direct access to the leading insurers: this should not only speed up the process in obtaining terms but should help maximise the potential benefits available from the commercial market. We always recommend asking your broker who they can access directly prior to making any decision on who you wish to represent your practice with insurers.

Overall, our view is that firms, regardless of size or profile, will find cover available, with premiums continuing to be driven by their claims' records, financial strength, and approach to risk management.