

# PII SURVEY REVEALS AVERAGE COST INCREASE OF 56%

The shortage of time to consider PII quotes, more competition in the market, standardised forms, and new timing practices are the main issues identified in a recent PII survey of members. John O'Mahony reports



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Recent research on professional indemnity insurance indicates that the average cost increase for PII among firms in the past 12 months is 56%. Furthermore, the findings suggest that there has been a fundamental shift in the way that insurers are calculating PII premiums for those firms with a claims history.

This research was conducted on behalf of the Law Society by Behaviour & Attitudes in January 2011 and took the form of a census of firms, with all firms being given the opportunity to reply to the survey by post or online. In total, 770 firms replied to the survey, which constitutes an excellent response rate for a self-completion survey and indicates the level of engagement with the survey's subject matter.

Responding firms were strikingly representative of the profession as a whole in relation to:

- Number of partners in firm,
- Areas where firm has offices, and
- Current insurer for PII cover.



The market for PII cover appears particularly consolidated, with two insurers, XL Insurance and the SMDF, accounting for over 65% of the cover provided. This level of concentration is naturally, in part, a function of key insurers RSA and Quinn leaving the market for PII cover in the last 12 months.

The switching of insurers for PII was very high in the latest renewal process, with 43% of firms changing their insurer – this figure rises to over half for younger/newer firms.

The PII application process clearly presents a range of difficulties for solicitor practices. Over two-thirds (66%) of firms were notified by their insurer of its decision on PII after 18 November 2010, with this rising to 73% of firms with a recent claims history on their PII cover.

The consequent shortage of time given to firms to consider quotes is a

key factor, causing them difficulty in renewing their PII. However, there does appear to be an opportunity for firms to facilitate a smoothing of this process, as 50% of firms submitted their application to insurers after 1 November.

This apparent delay in applying may be due to delays in receiving proposal forms from insurers – and, indeed, those proposal forms proving difficult to complete. There also appears to be considerable variation in the proposal forms from the different insurers.

Not receiving a response from an insurer is also a consistent issue in the application process: firms on average approached three insurers for PII cover, but only received an average of two offers back.

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## Cost

While the average increase in the cost of PII across all firms in the survey is 56%, the year-on-year increase varies considerably – with the rate of increase much higher among larger practices.

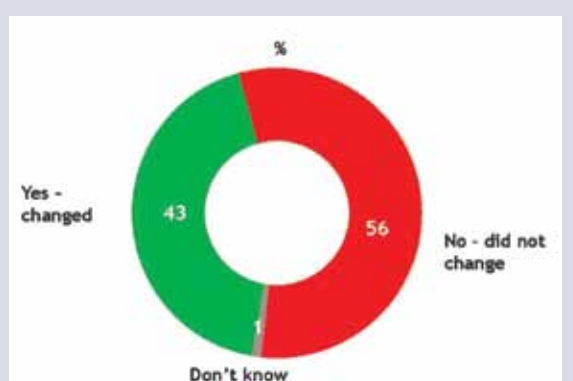
Vitality, the cost of PII appears especially influenced by a firm's claims history. While this is, of course,

likely to have always been the case up to a point, the relationship between past claims and the cost of PII appears to have fundamentally altered in the past 12 months.

The survey indicates that, in previous years, firms with a PII claims history were paying one-and-a-half times more for their premium, on average, than those without a claims history.

For the most recent PII renewal

## CHANGE FOR PII COVER FOR 2010/11



B5 Did your firm change its insurer for compulsory PII cover for 2010/2011?

period (2010/2011), it appears that firms with a claims history are now paying a PII premium three times that of firms without a claims history. The year-on-year increase in the cost of PII insurance for firms with a claims history is, on average, +132% for 2010/2011.

**Who's making claims?**

Overall, one in five firms has made a claim on their PII policy in the past five years – larger firms are much more likely to have made a claim. Firms with a claims history are also considerably more likely to have made notifications on their policy in the same time period.

All the indications suggest that insurers have begun to take a more negative view of a firm's broad claims-related performance on PII. Unfortunately, the survey findings also suggest that insurers are less impressed by the range of risk-management procedures and activities that are being initiated by firms.

Firms with a PII claims history have typically been much more proactive in adopting risk-management procedures and activities in recent years. In all, 90% of such firms have adopted formal risk-management procedures, and over one-third hold risk-management accreditations. More than one-third of these firms also have had a risk-management audit – compared with 24% of firms in total.

The review of the risk-management audit is somewhat equivocal, with only half of firms who have undergone an audit describing it as either 'good value' or 'a benefit to the firm' in the renewal process for PII. The survey findings suggest that, on this latter point, the firms

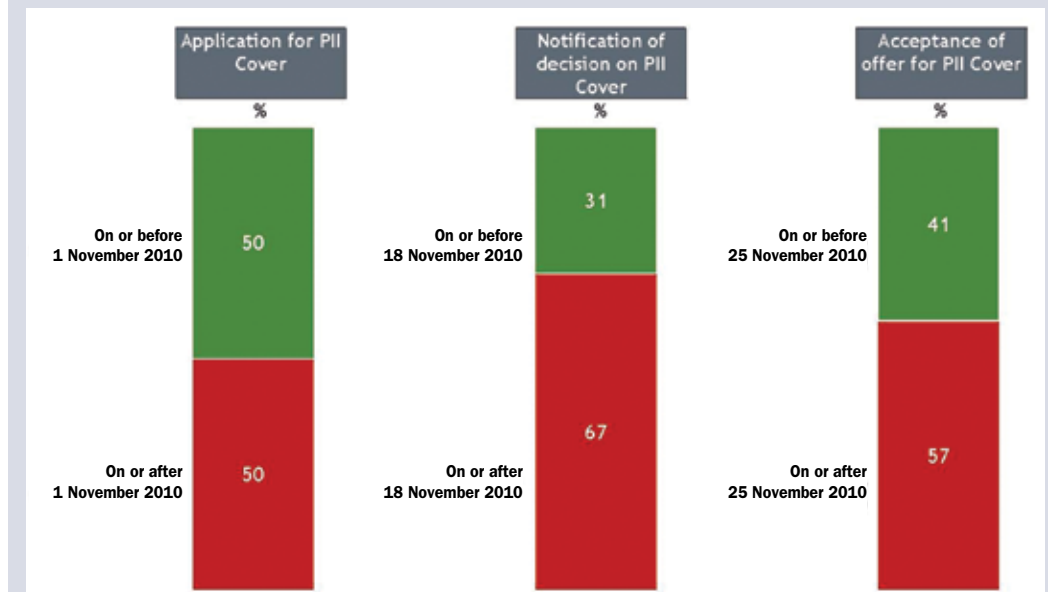
***“Insurers are less impressed by the range of risk-management procedures and activities that are being initiated by member firms”***

are probably correct. Firms that have claimed also appear to suffer extra delays in relation to the application process: they are typically notified later of an insurer's decision on PII cover, and are more likely to accept offers of PII cover later than other firms.

**Challenging experiences**

This is not to suggest that firms without a claims history have not had challenging experiences with the PII process for 2010/2011. These firms have, on average, seen a rise in the cost of PII insurance of 26% in the past 12 months. Two-thirds of firms without a claims history were also notified of insurers' decisions on PII cover after 18 November 2010.

**PII COVER APPLICATION PROCESS – KEY DATES**



FIRMS WITH CLAIMS HISTORY MOST LIKELY TO BE NOTIFIED OF DECISION AND TO ACCEPT OFFER AFTER SPECIFIED DATES

**B2 Did your firm submit its application to your insurer on or before 1 November 2010, or after 1 November 2010?**

**B3 Did your insurer notify you of its decision on or before 18 November 2010, or after 18 November 2010?**

**B4 Did your firm accept the offer from your insurer for cover for 2010/2011 on or before 25 November 2010, or after 25 November 2010?**

**COST OF PII INSURANCE FOR 2009/2010 VS 2010/2011**

	2009/2010	2010/2011	Shift
Average Costs	€	€	
Total All Firms	24,695	38,416	+56%
PII Claim - Past 5 Years			
Yes	34,752	80,691	+132%
No	22,356	27,863	+26%

Ultimately, there is considerable agreement among solicitors in relation to how the PII renewal process could be improved:

- More competition in the market is required,
- Proposal and renewal forms need to be standardised and simplified,
- New practices in relation to timing should be applied to the application process –

renewals dates should not be confined to 1 December, and

- Insurers should be obliged to quote within a specified short time limit.

Given its compulsory nature, the general survey findings indicate clearly the extent to which the cost and processes around PII insurances have increasingly become rife with challenges for solicitor firms in Ireland. **G**