

Hard Market

Part One

Factors behind the Professional Indemnity Insurance (PII) shift

For many years, premium rates for small accountancy firms have remained stable. The static market has been favourable for policyholders, with costs staying low and plenty of competition making arranging competitive cover relatively straightforward. Growth has continued, despite a lack of overall profitability for PII insurers.

Practitioners may have noticed, however, that the market has hardened in the last 18 months, with premiums rising on average between 5%-10% (but in some cases by as much as 300%). In more extreme cases insurers are declining to offer terms altogether.

This has led to complications for some businesses in securing cover and doing so at affordable prices.

Market: Context

How, then, did this market shift come about?

A catalyst of late has been the intervention of Lloyd's of London who initiated a market-wide profitability review in 2018. This drew attention to the lowered financial performance of PII underwriting, in part due to increased claim payments and the higher costs in defending those claims, with non-US PII shown to be the second least profitable class of insurance at Lloyd's.

Further general factors, such as the tragic events of Grenfell Tower, global natural disasters and the withdrawal of certain Managing General Agents (MGAs) from the market, have reduced capacity and encouraged insurers to scrutinise their liabilities.

The consequence? Less PII business is being written as loss ratios are addressed.

This can be bad news for those firms who have poor claims experience or that insurers perceive to carry out higher risk activities such as corporate finance, tax mitigation or overseas work.

Brexit impact

Certain types of business have always been preferable for insurers. It is common knowledge that many insurers prefer UK based business, typically being wary of overseas operations.

Unsurprisingly, with Brexit looming on the horizon, insurers have taken note. A post-Brexit situation involves higher risk for insurers, with the defence of claims for overseas clients involving different tax laws that may require the support of hired legal specialists.

The road ahead

Practitioners may rightfully be contemplating what proactive steps they can take to avoid complications in securing PII and managing their policies and ways of working.

In our next article, we will address this subject in full. Increased attention to activities, such as the improvement of renewal presentations to provide insight into their practices, will help firms to navigate the hardening market and to acquire the insurance they require at rates they can afford

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