

News release

Research into what drives PII premiums published

14 September 2023

We and the Legal Services Board (LSB) have published [joint research \[https://higher-rights.sra.org.uk/sra/research-publications/professional-indemnity-insurance-market-law-firms/\]](https://higher-rights.sra.org.uk/sra/research-publications/professional-indemnity-insurance-market-law-firms/) looking into the cost of professional indemnity insurance (PII) for law firms, and what factors drive differences in premium levels.

Recent developments in the insurance market have led to increases in PII costs for professional services firms, including providers of legal services. The hardening market followed a previous period of lower PII costs.

The research found that the average PII premium is now equivalent to 5% of a law firm's annual turnover, but one fifth of firms are paying premiums equivalent to 10% or more. Of those paying more than 10%, the majority (90%) are small firms.

The areas of law a firm operates in was found to be a key factor in the differences in premium levels. The more work a firm did in property, the higher their premium would typically be, with analysis suggesting such work attracts premiums of 8-12% of turnover.

In contrast work in areas such as divorce services would attract lower premiums, with work on uncontested divorces estimated to have premiums between 2-7%.

Wider factors which may contribute to a firm being charged a higher premium rate included:

- Firms holding more or variable amounts of client money
- Any history of regulatory findings
- A higher ratio of fee earners and qualified fee earner compared to turnover

Discussions with insurers suggested that although the pressures on PII costs from a hardening market cycle might begin to ease, costs are not expected to fall in the near term. This raises concerns that law firms might either pass on costs to their clients, be unable to obtain cover or go out of business, which could reduce access to justice and hinder competition and innovation. This could reduce public trust and confidence in the sector.

We and the LSB have committed to work with stakeholders across the legal services and professional sectors to consider the findings of this

research and establish what else can be done to further understand and support the dynamics of the market and support consumers.