



## UK Professional Indemnity Insurance Market 2021

January 21, 2022

### Use this report to:

- Understand the current and forecast size and growth of the UK professional indemnity insurance market, along with sector-specific drivers
- Gain insight into how the pandemic has impacted claims and product uptake
- See what impact the hard market has had on SME switching and renewal behaviors
- Benefit from GlobalData's UK SME Insurance and UK Commercial Insurance Broker Surveys, along with in-depth interviews with industry participants
- Get access to professional indemnity insurer SME market shares and understand broker preferences
- Understand professional indemnity insurance distribution trends

# Contents

<b>1. Executive Summary.....</b>	<b>2</b>
1.1 Market overview .....	2
1.2 Key findings.....	2
1.3 Critical success factors .....	2
<b>2. Market Dynamics.....</b>	<b>5</b>
2.1 Traditional professions account for 75–80% of GWP.....	5
2.2 Strong PII market growth continued in 2021 .....	5
2.3 Sector-specific forces are impacting different professions.....	7
2.4 COVID-19 is impacting the PII risk landscape.....	9
2.5 COVID-19 has impacted PII penetration in some SME sectors.....	11
<b>3. Competitive Landscape .....</b>	<b>15</b>
3.1 Capacity withdrawals have impacted the competitive landscape .....	15
3.2 AXA and Hiscox remain the market leaders for SME PII .....	15
3.3 Hiscox and Tokio Marine HCC are the most favored insurers for PII placement among brokers.....	17
<b>4. Product Distribution .....</b>	<b>19</b>
4.1 SME buying habits have been largely unaffected by the hard market .....	19
4.2 Switching has fallen and is driven by cost and cover levels .....	22
<b>5. Future of the Market .....</b>	<b>25</b>
5.1 UK PII market growth will slow to 2025.....	25
5.2 Economic uncertainties could have significant implications for the PII market.....	27
<b>6. Appendix .....</b>	<b>28</b>
6.1 Abbreviations and acronyms.....	28
6.2 Definitions .....	28
6.3 Methodology.....	28
6.4 Secondary sources.....	29
6.5 Further reading .....	30
<b>  About GlobalData .....</b>	<b>31</b>
<b>  Contact Us .....</b>	<b>32</b>

## Figures

Figure 1: UK PII GWP has grown significantly over the hard market.....	6
Figure 2: 5.9% of SMEs have made a successful PII claim as a result of the COVID-19 pandemic .....	10
Figure 3: PII penetration levels have shown signs of decline, particularly among micro enterprises and those not providing advice.....	12
Figure 4: SMEs have reconsidered PII as a result of the COVID-19 pandemic.....	13
Figure 5: Two thirds of SMEs that canceled PII due to COVID-19 needed to cut costs or were unhappy with the expected level of cover.....	14
Figure 6: AXA is the UK PII SME market leader, with a greater share among small and medium companies .....	16
Figure 7: Hiscox and Tokio Marine HCC lead the way for PII among commercial brokers .....	18
Figure 8: Brokers are the main channel used by SMEs to purchase PII .....	20
Figure 9: The internet is used by the majority of SMEs for PII .....	21
Figure 10: While shopping around has increased, switching has fallen among SMEs with PII.....	23
Figure 11: The level of cover and specialist expertise are increasingly important drivers of switching among SMEs .....	24
Figure 12: UK PII GWP growth will stabilize after 2022 .....	25

## Tables

Table 1: COVID-19 related concerns for PII insurers .....	10
Table 2: Impact of COVID-19 on the PII policyholding considerations of SMEs .....	13
Table 3: UK PII SME market shares by sector, 2021 .....	16
Table 4: Method most recently used by SMEs to purchase PII by size of SME, 2021.....	21
Table 5: PII switching levels and behavior at last renewal by size of SME, 2021.....	23
Table 6: UK PII GWP, 2017–25f.....	26
Table 7: Economic and regulatory indicators that will impact the future of the PII market .....	27

# 1. Market Dynamics

## 1.1 Traditional professions account for 75–80% of GWP

The PII market can broadly be split into two sectors: traditional professions and non-traditional or miscellaneous risks.

Traditional professions are often required to have PII by their professional bodies or regulators. Examples include solicitors, accountants, architects, chartered surveyors, financial advisors, and some healthcare professionals. They are estimated to account for 75-80% of gross written premiums (GWP).

Non-traditional PII covers a very broad spectrum of sectors. The list of professions buying PII is claimed to encompass over 500 different occupation types, including IT and technology firms, advertising agencies, management consultancies, and estate agents.

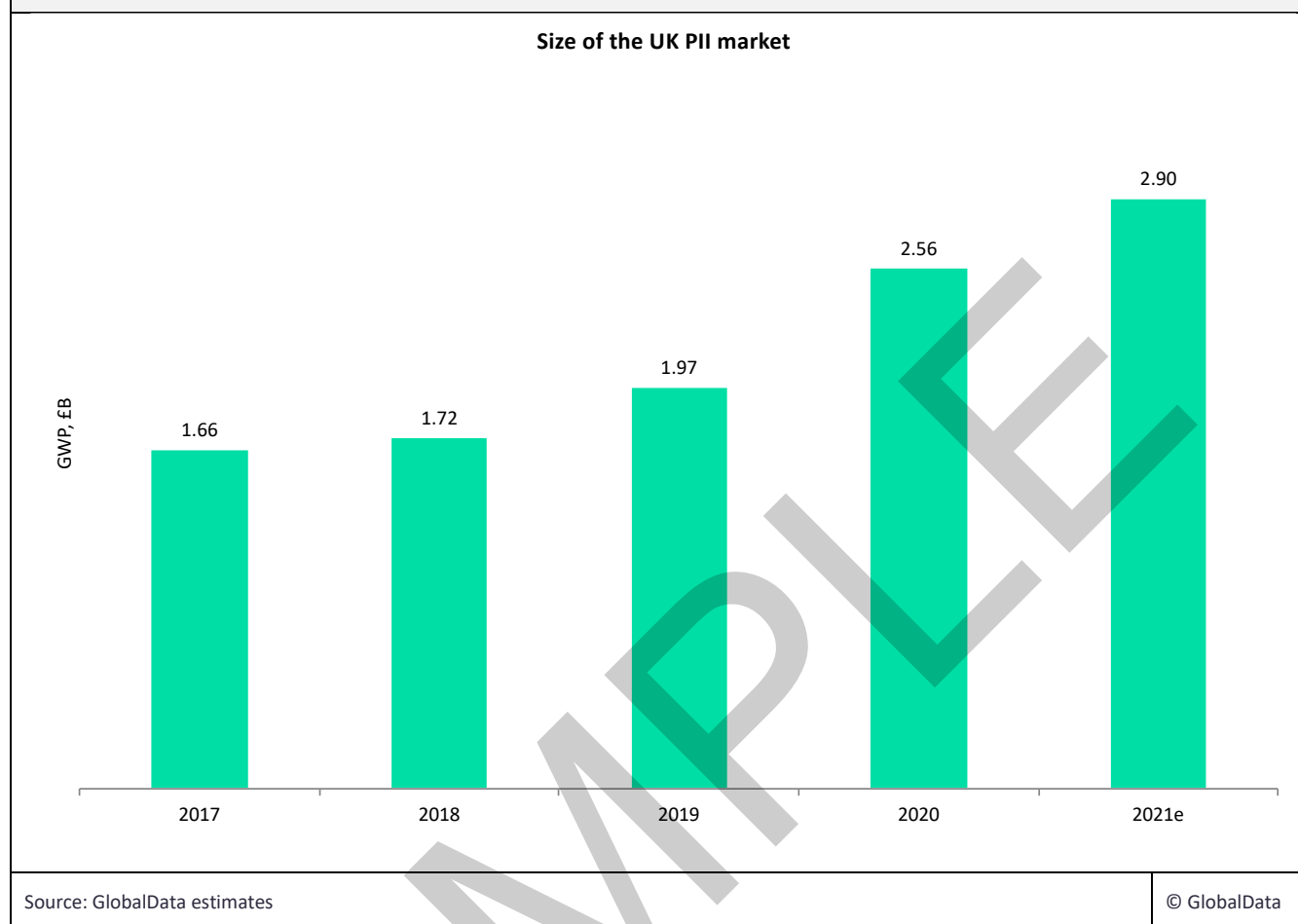
PII market dynamics vary considerably by profession, with different forces affecting profitability and growth. With insurers specializing or choosing to write business in different sectors of the market, the levels of competition and the different players involved also vary.

## 1.2 Strong PII market growth continued in 2021

- **Growth in the PII market was driven by continued hard market conditions**

We estimate that the UK PII market was worth £2.9 billion in 2021 – up 13.3% compared to 2020. This growth has been driven by continued premium rate increases and capacity constraints in most sectors of the market, including construction, solicitors, insurance brokers, and independent financial advisors (IFAs).

Figure 1: UK PII GWP has grown significantly over the hard market



### - Significant capacity withdrawal paved the way for market correction

The PII sector has gone through an intense period of market correction. Following the perennially soft market conditions and widespread overcapacity that had come to characterize the sector, several factors converged in 2018 – leading to a significant gear change in premium rates. Deteriorating claims performance and large losses in many market sectors, including the impact of Grenfell within the construction market, meant that unsustainable levels of unprofitability finally came to a head.

The actions of the Lloyd's Performance Management Directorate and its Decile 10 initiative catalyzed a significant withdrawal in capacity. Many players exited the market in 2018, particularly impacting the construction and solicitor markets. The resulting lack of competition and concerted efforts by the remaining insurers to restore profitability have driven significant rate increases over the last few years, with substantial and sometimes shocking uplifts across many professions. Capacity has continued to withdraw and hard market conditions spread from a few specific professions across the whole market. Many insurers have focused on their renewal portfolio and have not been writing new business, or doing so with drastically reduced capacity – further deterred by the “claims made” nature of PII policies.

All of the traditional professions have seen substantial and ongoing reductions in cover limits, increased excesses, and the introduction of significant policy restrictions and exclusions. Some of these are impacting the ability of businesses in these sectors to undertake work in their respective fields, such as fire safety advice or defined benefit pension transfer advice, for example. It can be very difficult for businesses to find cover that goes beyond the minimum terms and conditions set by the regulatory bodies of certain professions.



## - COVID-19 has led to further premium increases, but there are signs of stabilization

The outbreak of COVID-19 at the end of 2019 occurred during a hard market, at a time when the sector was already grappling with the impact of Brexit and profession-specific drivers were leading to significant rate correction. Extreme uncertainty over the economic impacts of COVID-19 and issues such as the impact of remote working on risk management practices have added to the continued imperative for PII insurers to push for profitability. Premium rates have continued to rise as a result.

There are signs that rate rises are now easing slightly, particularly in Q4 2021. While increases are being put through and are still substantial, the peak of rate rises has likely passed. Existing insurers are starting to show more willingness to write new business in their SME and mid-market regional portfolios, while competition is also starting to return to the London Market. However, there are undoubtedly sectors such as primary layer solicitors and insurance brokers that remain very constrained.

As a whole, during 2021 the PII market still experienced volatile conditions across the majority of professions. The rating environment has been very sector-specific over the last 12–18 months. For example, portfolio underwritten non-traditional micro enterprise business will typically have only seen modest rate increases, with single- or early double-digit rises. Meanwhile, traditional professions and larger risks have experienced much more substantial rate rises and restrictions. Each of the different professions are facing their own specific challenges, some of which are examined in more detail below.

## 1.3 Sector-specific forces are impacting different professions

### - Spotlight on solicitors

Legal services are among the biggest buyers of PII. Estimates place the size of the primary or compulsory layer of the solicitor professional indemnity market at around £340m, with a healthy excess layer or top-up market, particularly among larger firms. This market continues to harden, with recent renewal seasons in October 2020 and April 2021 being described by brokers as “the most challenging renewal season ever” and “the hardest PII market for 20 years” respectively.

In the first half of 2021, primary layer rates increased by around 20% on renewals. Insurance broker Miller reported an average 20% increase, even for companies with unchanged risks and clean claims records, while Lockton reported premiums increased by almost 23% for claims-free practices. The average overall increase seen by Lockton was 27.3% across all solicitor firms, up from 21.4% in October 2020.

Increasing claims severity has led to an ever-growing number of claims breaching the compulsory primary layer of cover and impacting the first excess layer of up to £10m indemnity. With insurers seeing more frequent incidences of claims, this “working” layer has been particularly impacted by the capacity withdrawal. Significant rate increases have been applied since October 2018 by the remaining insurers writing business in this sector. In the first half of 2021, excess layer rates were reported to have increased by 20–30%, with Miller reporting some increases of as much as 50–60%.

While a picture for the October 2021 renewal season is only just beginning to emerge, rates continued to increase across both primary and excess layers. Towergate stated that insurers were projecting average rate increases of 20–30% on both primary and excess business, while Lockton reported an average increase in premiums of between 15% to 20%. Rate increases have been driven by solicitor profiles, including practice areas, claims history, size, risk management approach, and client base.

Insurers remain highly selective over the type of firm they want to insure, requiring large volumes of information at renewal. Good claims performance is no longer sufficient; insurers are increasingly keen to understand solicitors’ responses to the pandemic, how firms are actively managing risks, and their financial stability and outlook, given the obligation to offer six-years of run-off cover if a firm enters administration.

## 2. Appendix

### 2.1 Abbreviations and acronyms

FCA – Financial Conduct Authority

GWP – gross written premiums

IFA – independent financial advisor

PII – professional indemnity insurance

pp – percentage point

RIBA – Royal Institute of British Architects

### 2.2 Definitions

#### - SME

The Companies Act of 1985 states that a company is “small” if it satisfies at least two of the following criteria: turnover of not more than £5.6m; a balance sheet total of not more than £2.8m; or not more than 50 employees. A medium-sized company must satisfy at least two of the following criteria: turnover of not more than £22.8m; a balance sheet total of not more than £11.4m; or not more than 250 employees.

For the purposes of this report, the following definitions have been used:

- **Sole traders** have no employees
- **Micro enterprises (excluding sole traders)** are businesses with one to nine employees
- **Small enterprises** have 10 to 49 employees
- **Medium enterprises** have 50 to 249 employees
- **Large enterprises** have 250 or more employees

### 2.3 Methodology

This report has been written drawing on a wide range of primary and secondary sources. Our analysis of market trends is supported by in-depth primary interviews with industry experts, which also feed heavily into our proprietary market sizing and forecasting models. These models draw in data from a variety of sources, including economic data and secondary research, as well as our UK SME Insurance and UK Commercial Insurance Broker Surveys.

#### - GlobalData’s UK SME Insurance Surveys

Our annual UK SME Insurance Survey explores SME behaviors, purchasing preferences, and attitudes across commercial insurance products including general insurance and employee benefits. It also explores emerging risks, relationships with brokers, and SMEs’ service expectations. Every company involved in the survey fits the Department for Business, Energy and Industrial Strategy’s definition of an SME as a business with fewer than 250 employees. Respondents are recruited via an online panel, with 2,001 businesses surveyed in 2021.

In order to capture significant responses within each category of SME, the survey did not set a representative quota for the make-up of the UK SME population as a whole. Instead, responses for “All SMEs” have subsequently been weighted based on the actual number of businesses within each category to more accurately represent the overall make-up of the UK SME population. This naturally provides more weight to sole traders and micro businesses due to the greater number of firms in these categories.

Due to the sample size, it is not possible to weight the survey responses by both the number of businesses and industry sector. The range provided for the penetration of PII within SMEs is based on separately weighting survey responses for business size and for industry.

In certain instances, where it is felt more interesting or relevant to weight responses based on actual total turnover of the different categories of SME this has been highlighted. This may provide a better indication of GWP rather than policy numbers.

## - GlobalData's UK Commercial Insurance Broker Survey

Our UK Commercial Insurance Broker Survey explores broker behaviors and business strategy in the UK. The most recent survey was carried out in January and February 2021 and reached 250 respondents (our 2016, 2017, 2018, 2019, and 2020 iterations were conducted within the first quarter of their respective years). Questions were asked through FWD's Broking Now Omnibus telephone panel. Representative quotas for size and regional spread were used. The following definitions are applicable:

- **Provincial brokers:** Brokers that generate less than £15m in GWP.
- **Superregional brokers:** Brokers that write £15m+ but less than £50m in GWP. These brokers typically have total GWP in line with national brokers but generate less GWP at a branch level.
- **National brokers:** Brokers that generate £50m+ in GWP. Most national brokers surveyed generate more than £100m in GWP.

## 2.4 Secondary sources

Airmic (2021) [\*The Harsh Market: D&O and Renewals Focus\*](#) [accessed December 2021]

Clyde & Co (2021) [\*London Market Professional Indemnity Report\*](#) [accessed December 2021]

Construction Leadership Council (2021) [\*Professional Indemnity Insurance Restrictions Harming Industry\*](#) [accessed December 2021]

FCA (2021) [\*The retail intermediary market 2020\*](#) [accessed December 2021]

Gallagher (2021) [\*UK Architects and Engineers/ Design and Construct Market Update\*](#) [accessed December 2021]

GOV.UK (2021) [\*Forecast for the UK economy November 2021\*](#) [accessed December 2021]

Legal Futures (2021) [\*Law firms faced major premium rises in spring PII renewal season\*](#) [accessed December 2021]

Miller (2021) [\*Solicitors' Professional Indemnity Insurance Market Update\*](#) [accessed December 2021]

NextWealth (2021) [\*Aegon Managing Lifetime Wealth: retirement planning in the UK\*](#) [accessed December 2021]

Office for National Statistics (2021) [\*Housing affordability in England and Wales: 2020\*](#) [accessed December 2021]

Professional Indemnity Insurance Brokers (2021) [\*Professional Indemnity Insurance Market Facts and Figures\*](#) [accessed December 2021]

RIBA (2021) [\*PII is failing architects, say RIBA members\*](#) [accessed December 2021]

Royal Institute of Chartered Surveyors (2021) [\*UK Residential Market Survey November 2021\*](#) [accessed December 2021]

Towergate (2021) [\*UK Insurance Market Conditions 2021 Update\*](#) [accessed December 2021]

Willis Towers Watson (2021) [\*Solicitors' Professional Indemnity \(PI\) market update\*](#) [accessed December 2021]



## 2.5 Further reading

GlobalData, *UK Directors and Officers Insurance Market 2021*, upcoming

GlobalData, *UK Employers' Liability Insurance: Market Dynamics and Opportunities 2021*, upcoming

GlobalData, *UK SME Insurance: COVID-19 Analytics 2021*, December 2021

GlobalData, *UK SME Insurance Purchasing Journey Analytics 2021*, November 2021

GlobalData, *UK SME Insurance: Provider Selection and Loyalty Analytics 2021*, November 2021

GlobalData, *UK SME Insurance Competitor Analytics 2021*, November 2021

GlobalData, *UK Commercial Insurance Distribution 2021*, March 2021

SAMPLE



## | About GlobalData

**GlobalData is a leading provider of data, analytics, and insights on the world's largest industries.**

In an increasingly fast-moving, complex, and uncertain world, it has never been harder for organizations and decision makers to predict and navigate the future. This is why GlobalData's mission is to help our clients to decode the future and profit from faster, more informed decisions. As a leading information services company, thousands of clients rely on GlobalData for trusted, timely, and actionable intelligence. Our solutions are designed to provide a daily edge to professionals within corporations, financial institutions, professional services, and government agencies.

### **Unique Data**

We continuously update and enrich 50+ terabytes of unique data to provide an unbiased, authoritative view of the sectors, markets, and companies offering growth opportunities across the world's largest industries.

### **Expert Analysis**

We leverage the collective expertise of over 2,000 in-house industry analysts, data scientists, and journalists, as well as a global community of industry professionals, to provide decision-makers with timely, actionable insight.

### **Innovative Solutions**

We help you work smarter and faster by giving you access to powerful analytics and customizable workflow tools tailored to your role, alongside direct access to our expert community of analysts.

### **One Platform**

We have a single taxonomy across all of our data assets and integrate our capabilities into a single platform – giving you easy access to a complete, dynamic, and comparable view of the world's largest industries.



## | Contact Us

If you have any more questions regarding our research, please contact us:

**Insurance IC Customer Success Team**

[customersuccess.insurance@globaldata.com](mailto:customersuccess.insurance@globaldata.com)

---

**Disclaimer:** All Rights Reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher, GlobalData. The facts of this report are believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings, conclusions and recommendations that GlobalData delivers will be based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. As such, GlobalData can accept no liability whatsoever for actions taken based on any information that may subsequently prove to be incorrect.