Clyde & Co

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Professional Indemnity Market Report 2024

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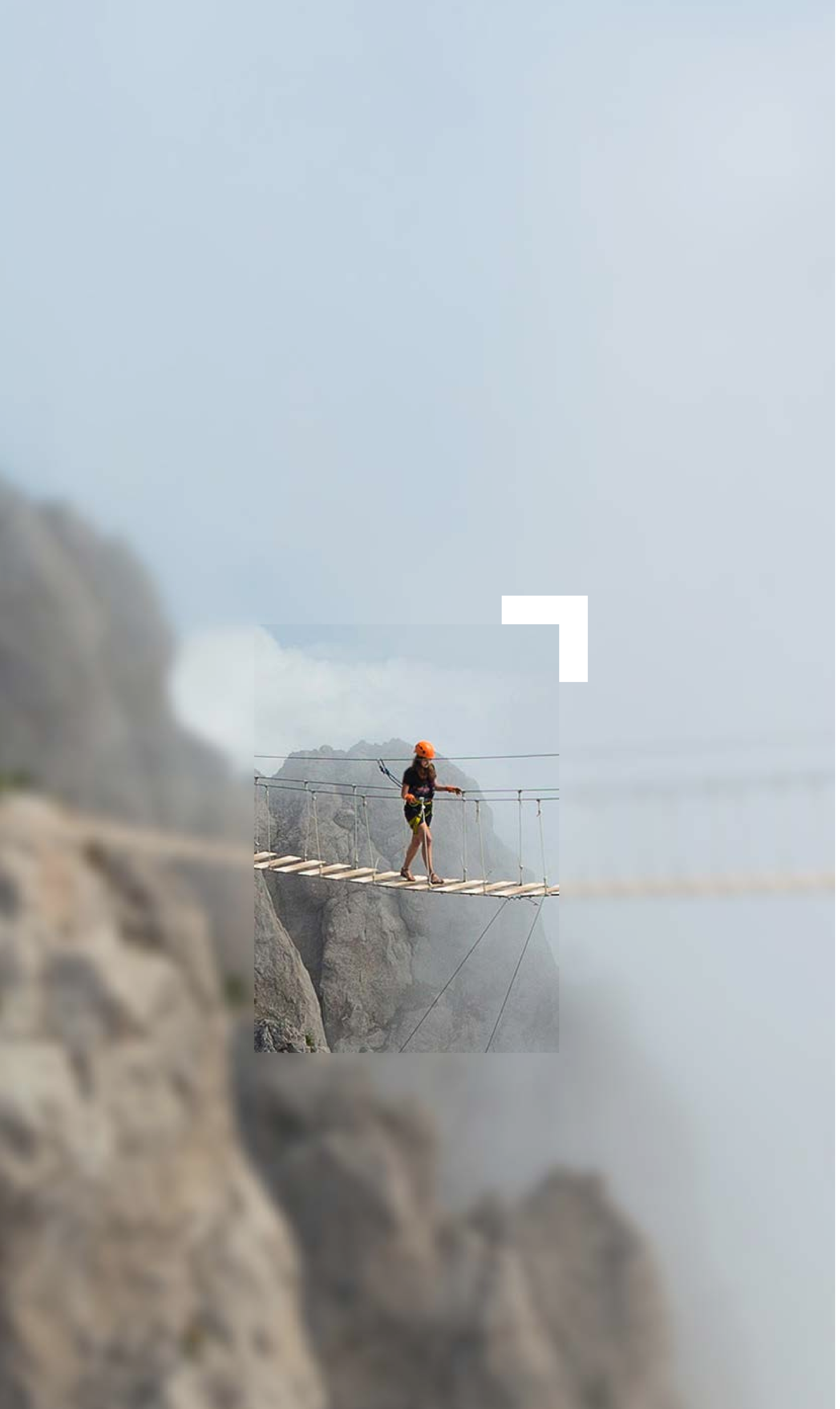

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Introduction

What a difference three months can make. When we completed the first stage of our annual barometer of the UK Professional Indemnity (PI) market in August, the consensus seemed to be that premium rates would continue to level off. Some optimists suggested a 10% increase was still achievable, but the general consensus was for a flat renewal being the most likely outcome for insureds. Yet, less than three months later, the mood appears to have changed. Rates are dropping, and the speed and depth of some of the cuts seem to have caught even seasoned market practitioners by surprise, with pricing still yet to reach its nadir. The market turned, faster than many expected, and its constituents are now operating in a different environment. This abrupt rating shift will dominate discussions and headlines. But there is much more to unpack in this dynamic and rapidly changing marketplace.

This is our fourth annual survey of the UK PI market. Since 2021, we have been collating the views of insurers and brokers across the UK, discussing how PI is changing, the factors underpinning this evolution and, increasingly, how the picture looks different depending on where you sit in the UK. In our report last year, we noted that stability had returned to the market. Until August, that narrative appeared to have continued.

Three months later and "stable" is unlikely to be the word that underwriters would use to describe market conditions.

Alongside the shift in the rating environment, we explore the changing macroeconomic landscape and how, after several years of riding the waves of inflation and geopolitical instability, the waters have calmed somewhat, and the market's course is now, according to our findings, in the hands of its practitioners, with capacity allocation and new market participants identified as the key drivers.

COVID-19 accelerated a marked shift. Hybrid working has facilitated a great migration, and we have seen regional hubs grow in strength. These hubs now represent distinct and critical markets with unique structural drivers and are the focus of growth strategies. From Belfast to Birmingham and Manchester, Bristol to Edinburgh, regional hubs have become highly competitive centres underpinned and supported by new technologies that have changed the face of the market. They now complement and compete with London, offering new centres for capacity and talent, with 50% of those surveyed expecting to see increased claims handling and underwriting in the North of England, with significant numbers also identifying the Midlands and the South of England as areas experiencing more activity.

"

The growth of claims handling and underwriting in UK regional markets has been on an upward trajectory since the pandemic. As regional expansion continues, the importance of offering on the ground, high-quality support at competitive rates grows with it. "

Naomi Campbell, Legal Director, Clyde & Co, Belfast

Introduction

Claims inflation continues to exert pressure on the market. For the third year in a row, this phenomenon, including the effects of social inflation, presents challenges for insurers and brokers alike. Yet, growing familiarity with the issue is also prompting new and evolved responses. Brokers are working with clients to reduce their exposures and insurers are pricing in the risk.

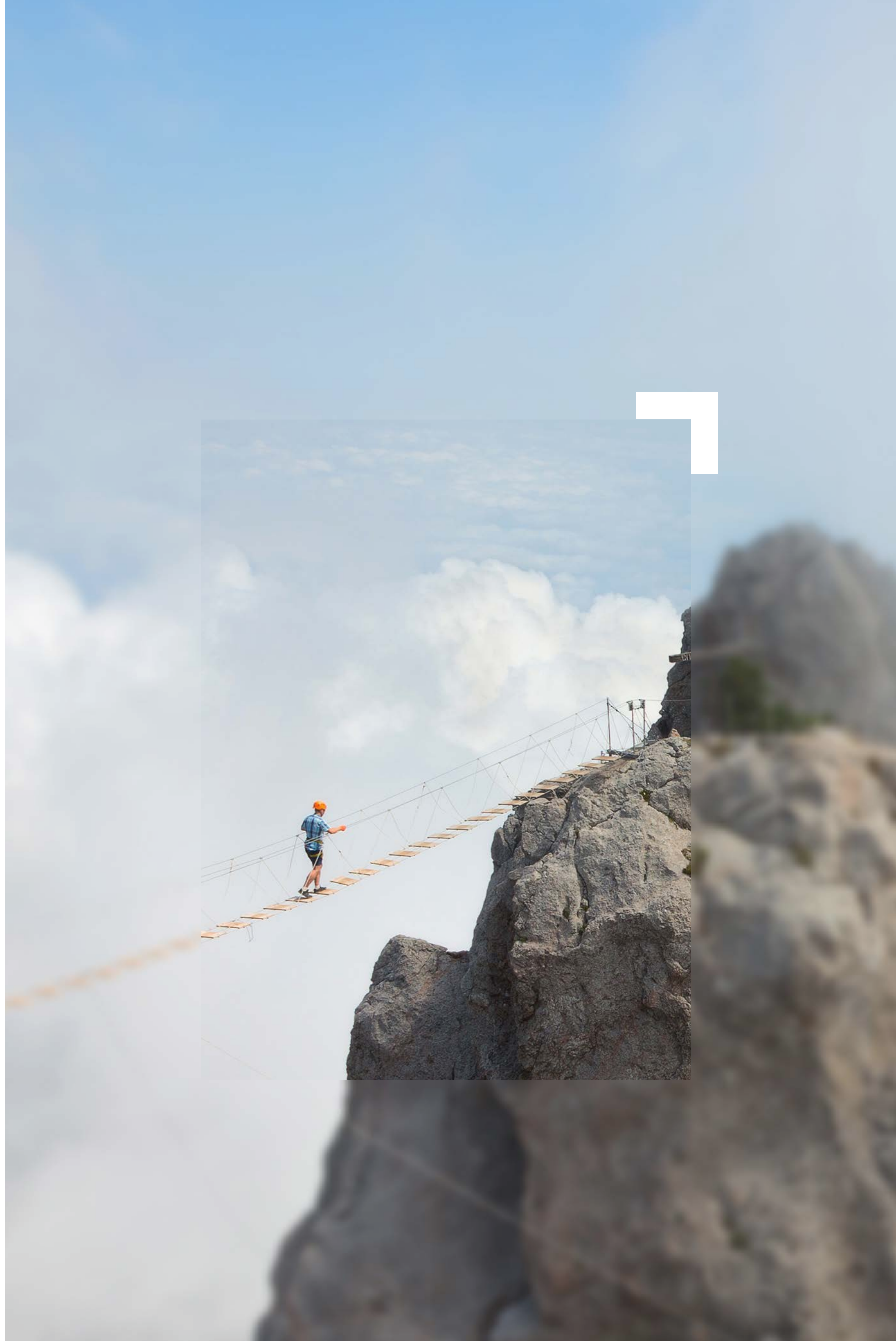
The UK PI market has always been dynamic. Products and wordings evolve regularly, with changes in coverage to reflect appetite or growth in market share a standard feature of this highly competitive class. Even within this environment, however, 2024 has been a standout year with 56% of survey respondents electing to revisit their PI insurance wordings.

Any market discussion would be incomplete without an analysis of Artificial Intelligence (AI). The potential of the technology is vast, the risks and rewards numerous. However, the impact will not be felt by every business to the same degree or at the same time. We have sought to unpick the hype from the reality and provide a clear picture of how this nascent technology is shaping operations and the market's approach to risk.

Client focus on Environmental, Social and Governance (ESG) and Diversity & Inclusion (D&I) has been maintained and deepened. These discussions and the positive effects are taking place across the market.

The PI market in the UK has demonstrated its resilience year after year. It is now being tested again. As external pressures subside, market forces prompt new and evolving challenges from claims inflation, the risks of AI, the growth and influence of regional presence and many more. It will be an interesting year ahead as we await the market's response to these new and frequent tests.

We would like to thank everyone who took part in the survey and all those who contributed to the report.



Key findings

Macro environment:

56%

The market was expected to stabilise, with 56% expecting there to be zero increase in rates in 2024; however, recent months have seen rates dropping.

71%

Regulatory burden has diminished with 71% ranking it as having the least impact on the PI insurance market over the next 3 years.

72%

The legacy of COVID-19 continues to impact the PI Market with 72% stating that new working practices have altered the risk profile of professional firms, increasing the threat of weakened supervision.

Market growth:

50%

Beyond London, 50% of respondents expect to see an uptick in PI underwriting and claims handling in the North of England.

31%

Increased market capacity has led to 31% of respondents expecting capital allocation to be the most important structural influence on the volume of PI business written over the next 12 months.

36%

36% have said they expect the volume of PI business written through MGAs, binders and delegated authorities to increase by up to 5% over the next two years.

64%

64% anticipate that insurance buyers will be able to maintain existing aggregate PI policy limits over the next 12 months.

Cyber & AI:

61%

Cyber & technology (including AI) is highlighted by 61% of respondents as the sector which will drive demand for PI cover.

72%

There are clearly substantial concerns over the risks involved with AI, with 72% suggesting that the growth in the use of AI in delivering professional services is increasing the risks of practice.

82%

Following this, 82% said inaccuracy and false information caused by AI is the biggest concern.

Claims severity:

74%

There is a strong consensus that the severity of PI claims will continue to increase over the next 2 years, with 74% expecting this.

The rating cycle

2024 was forecast as another year of stabilisation. Markets would remain flat, with some potential for uplifts. These expectations appeared reasonable. After a decade-long soft market, the rating environment had tracked upwards over 2022 and 2023. There are various reasons for this. Inflation, borne first and heaviest by the construction sector, has impacted professions across the UK. Claims are more expensive. This was driven and compounded by COVID-19, and further exacerbated by the Russian invasion of Ukraine and the ripple effects on the global economy.

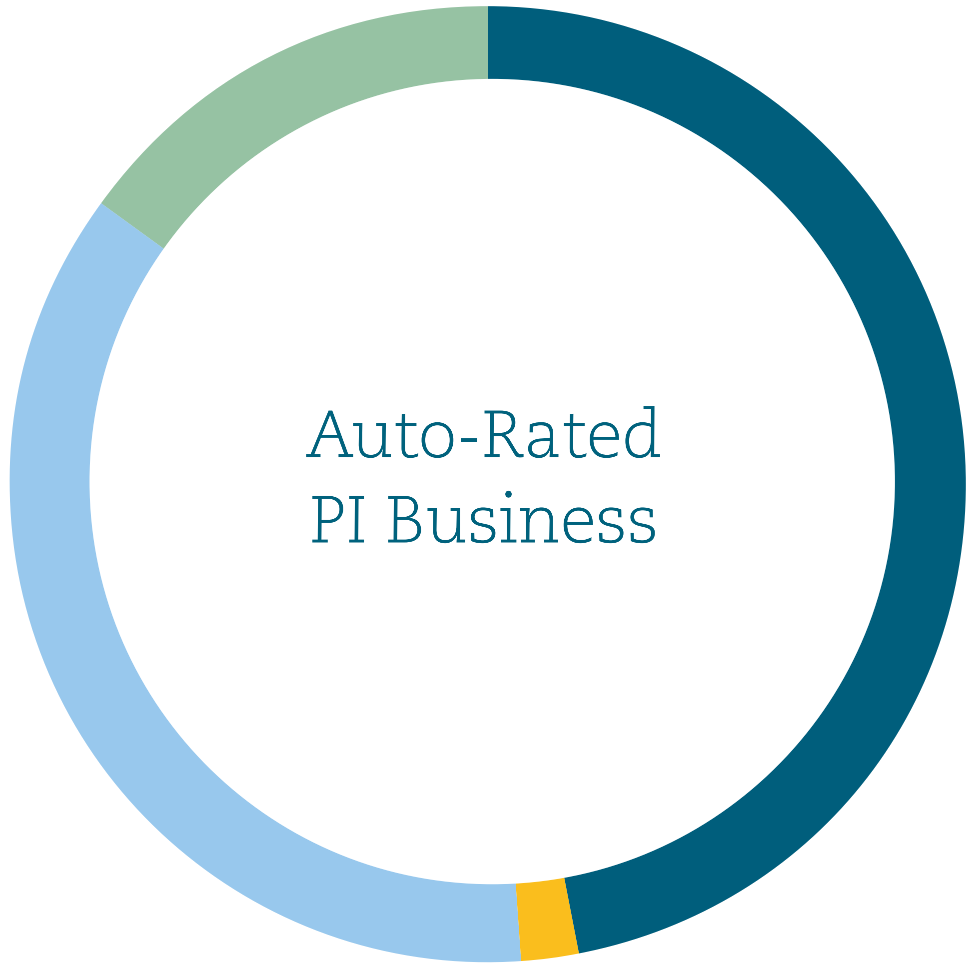
Underwriters could be forgiven for viewing flat rates or even further rate increases, combined with a relatively stabilising economic landscape, as a reasonable return given the claims environment, and the losses endured. By mid-year, the predictions appeared prescient. Rates remained relatively stable.

However, the conditions were also present for opportunists. New carrier or MGA capacity, untrammelled by legacy books and the need to recoup prior year losses, could carve out market shares by offering rate reductions.

Double-digit discounts were proffered, increasingly. Incumbents responded. Insurers who had spent years honing their portfolios were unwilling to relinquish good business easily. This dynamic has played out in the PI market since its inception. The portents were that the hard market was over. The market was softening and, over a period of two to three years, would reach a new equilibrium. However, what happened next would surprise even the most experienced PI underwriters. Rates were dropping, but at a speed which often defied precedent and experience.

10 percent was becoming 20 over days and weeks rather than months and years. While different across professions, the direction of travel was only one way, and it was fast - now beyond any one capacity provider to correct. Underwriters and brokers admit they will be working twice as hard for half as much. Yet, what comes down must go up. If the last soft market lasted 10 years, then perhaps this will last 10 months. The speed of the drop may be matched by an equally white-knuckle ascent. Time will tell.

The rating cycle



- **47%** Stay the same
- **2%** Decrease
- **36%** Increase by 5%
- **15%** Increase by 10% or more

- **56%** Zero Increase
- **21%** Over 5%
- **17%** Over 10%
- **3%** Over 15%
- **3%** Over 20%

“From our conversations with interviewees, their general message is that it’s a buyer’s market. Following the hard market experienced during and after the pandemic, capacity is increasing, and rates are becoming more competitive.”

Beverley Atkinson, Legal Director, Edinburgh

Macroeconomic factors subside – a capacity-driven market

The macroeconomic context is a pivotal factor that has shaped market dynamics in recent years. Under the stewardship of a new Labour government, the UK market is navigating through a period of economic recalibration. The once rampant inflation rates are beginning to level off, providing a semblance of stability across insurance. This macroeconomic steadying is a welcome respite for insurers and insureds alike, who have been contending with the unpredictability that inflation introduces to risk assessment and premium setting.

What is primarily governing the market at this juncture is capacity - that is, the amount of capital available to underwrite risks. This focus on capacity over external factors marks a significant shift in the market's modus operandi. It suggests that insurers are looking inward, assessing their own financial robustness and appetite for risk, rather than being swayed by the broader economic climate.

This inward focus is not without reason. The PI market has been on a veritable rollercoaster, with rates that were once predicted to level off or rise modestly now dropping faster than anticipated.

The Labour government's economic policies will undoubtedly have an impact on the PI market.

However, for the time being, the market is less concerned with political manoeuvring and more focused on the immediate realities of underwriting capacity. This is not to say that macroeconomic factors are irrelevant – far from it. The broader economic environment provides the backdrop against which all market activity takes place. But in the current climate, it is the internal dynamics of the insurance market that are most important.

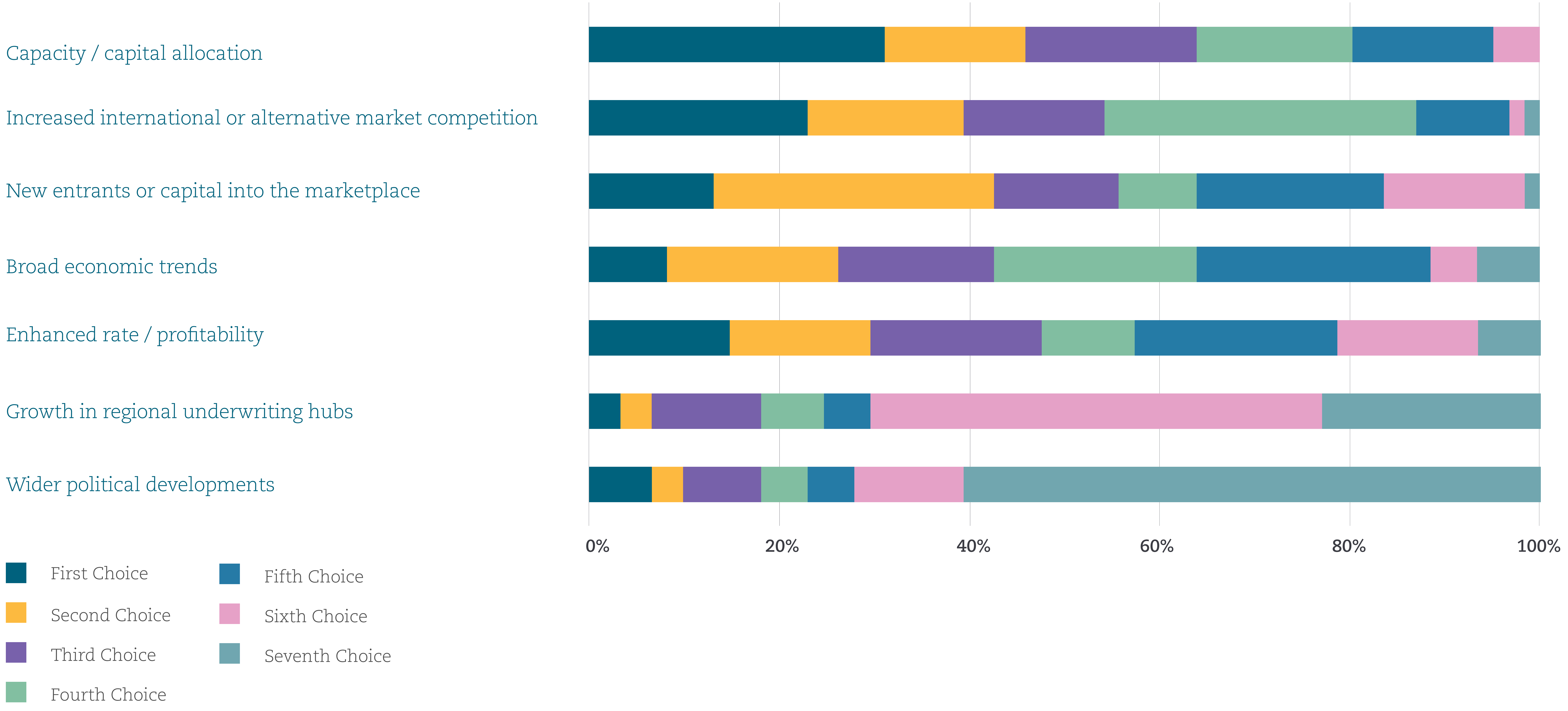
As the market adjusts to this new reality, it is imperative for insurers and brokers to remain vigilant. A capacity-driven market offers opportunities for growth and competitive pricing, but it also requires a keen understanding of risk management. Insurers must balance the desire to capture market share with the need to maintain financial solvency and prudence.

> “The recent consensus was that the success or failure of the PI market would be determined by external factors. Whereas now, our thesis is that it's in the insurance industry's hands.”
>
> Managing Director of a leading UK PI broker

> “Our research for this report reveals that there is a confident and positive outlook within the professional indemnity market. Insurers are prepared to put more capital behind certain sectors leading to an increase in capacity.”
>
> Anthony Brown, Partner, Clyde & Co, Manchester

Macroeconomic factors subside – a capacity-driven market

In the next 12 months what will be the most important structural influences on the volume of PI business written in the Insurance Market in the UK?



UK regions establish distinct identities

"It's quite clear from the findings that each UK regional hub plays a distinct role in the wider functionality of the UK insurance market, but all work together to strengthen the UK Professional Indemnity Market."

Toby Rouse, Legal Director,
Clyde & Co, Bristol

The PI insurance market in the UK is undergoing a period of regional transformation, with each area exhibiting distinct characteristics and trends. Burgeoning regional underwriting and broking hubs are seeing growth in PI claims handling and underwriting for businesses outside of London. Our survey sheds light on this evolving landscape, revealing insights into the current state and future expectations of the market.

29% of respondents said they expected to see growth in the next 12 months in PI claims handling and underwriting in the South of England outside the financial and professional services hub of London. The North of England is also marked by a strong sense of optimism, with 50% of respondents expecting to see a growth in PI claims handling and/or underwriting.

Manchester, in particular, appears primed for significant development. The city's urban growth and construction projects have reshaped its skyline, appealing to young professionals seeking affordable living and promising career prospects.

This is echoed in Liverpool and across the North East, where the professional sector is expanding at a significant rate, with the demand for risk transfer solutions growing in tandem.

The Midlands, and Birmingham in particular, is capitalising on the digital revolution, with technology start-ups finding ground for innovation. This region was ranked third by respondents as the area where PI claims handling and underwriting are expected to experience significant growth, as businesses mature, and their awareness of and focus on their insurance requirements are likely to increase.

In Scotland, the tech scene is also active, with gaming companies leveraging the cooler climate for cost-effective server maintenance. However, the growth of claims handling and underwriting units in Scotland is expected to be muted.

Political instability and regulatory uncertainty, particularly surrounding the SNP's leadership and the independence debate, has overshadowed business ambitions, with some young professionals now looking beyond Scotland for opportunities.

Wales and Northern Ireland present a complex picture, influenced by the intricacies of devolved governance. The insurance market in these regions is experiencing a softening with just 2% of survey respondents expecting to see an uptick in claims handling and underwriting.

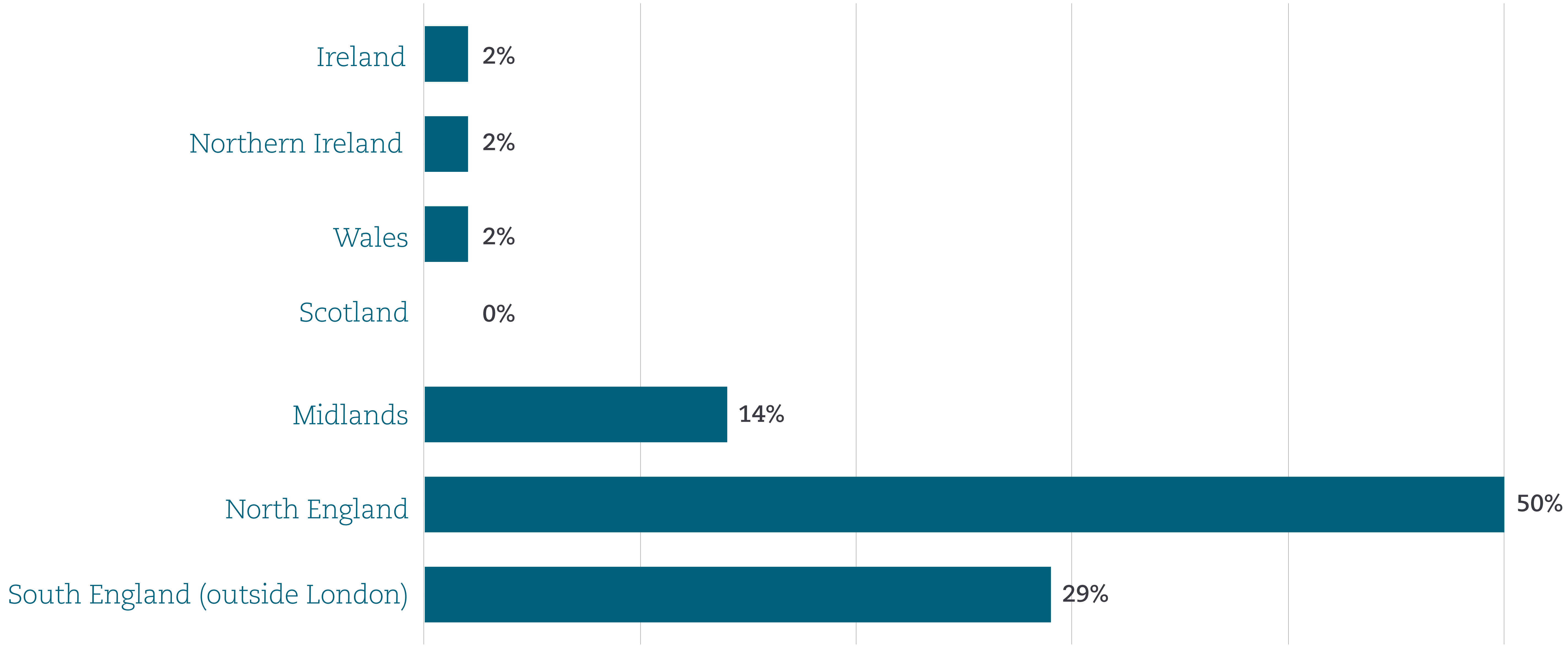
As these regional markets continue to evolve, the PI insurance industry must remain agile, ready to respond to the changing needs and conditions across the UK.

UK regions establish distinct identities

> The effect of political impetus on the regions outside of London cannot be stressed enough. Areas recipient of Levelling Up investment, such as in the North, have seen new infrastructure and housing projects emerge. Construction firms facilitating this development are increasingly met with risks they were not previously exposed to and therefore in need of PI underwriting services."

Claims Manager at a global specialty insurer

UK PI underwriting & claims handling growth forecast: the next 12 months



More frequent and severe claims

10% No change

44% Increase by 5%

34% Increase by 10%

12% Increase by 15% or more

74% Increase

2% Decrease

24% Stay broadly the same

More frequent and severe claims

90% of respondents believe the number of PI claims will increase in the next two years. The severity of the claims will also be increased in the same period according to 74% of survey participants. It would seem that a perfect storm may be on the horizon. When combined with a softening rating environment, the picture looks challenging.

While new capacity continues to challenge incumbents' books, insurers may be reluctant to pull on the traditional levers of coverage restrictions and higher premiums. Risk management will become increasingly important. Insureds which have taken clear and quantifiable steps to reduce their exposures and stay abreast of developing regulations and risks will be increasingly sought after.

"Sadly, we have seen some firms go into administration recently and expect that more may go that way in the next couple of quarters, and some negligence claims will undoubtedly arise from this. With new housing and construction regulation coming into effect in 2025, I can see there being some challenges down the track for the construction industry, which could see some claims spikes and therefore rate increases. Although in the here and now, rates are competitive and there is plenty of available capacity."

Managing Director of a leading UK PI broker

Coverage and Wordings

With ongoing geopolitical and economic upheaval impacting all industries, the likelihood of a significant incident hitting the headlines and precipitating immediate policy wording revisions is a real possibility. While this reactive nature is emblematic of the insurance sector, the market remains vigilant, ready to adapt to the ever-evolving landscape of risk, following a spate of regulatory changes and market shifts.

In the wake of the Grenfell Tower tragedy, it has become increasingly necessary for insurers to scrutinise their policy wordings. The objective is clear – to assimilate the lessons of the previous year and forge policies that are not only more stringent but also offer coverage that is responsive and dynamic.

Amendments to the Building Safety Act 2022, which took effect in 2024, catalysed a significant uptick in cladding-related notifications. Insurers have responded with policy wordings that are notably restrictive, coupled with elevated retentions for each claim. This strategic approach has effectively shielded insurers from even more severe financial ramifications from the claims arising. A mere 25% of industry respondents envisage their PI programmes remaining unchanged. The prevailing sentiment is one of anticipation for more circumscribed coverage, particularly for specific risks such as cyber threats and legal expenses.

This trend towards limitation is indicative of a market in flux, seeking to balance risk with resilience. The pandemic era witnessed a dramatic shift in policy wordings, as insurers vied to make their offerings as attractive and generous as possible in a harder market. However, the past year has seen a significant proportion – 56% – of respondents revisiting their PI insurance wordings and proposal forms with a critical eye, underscoring the necessity for constant vigilance and adaptation.

Yet, professionals and sophisticated clients continue to be drawn by the quality of the product and the extent of coverage, rather than pricing. The market is now witnessing a shift towards brokers, on behalf of their client, crafting their own policy wordings, asserting their terms and expecting insurers to acquiesce. The quest for a middle ground has never been more pressing.

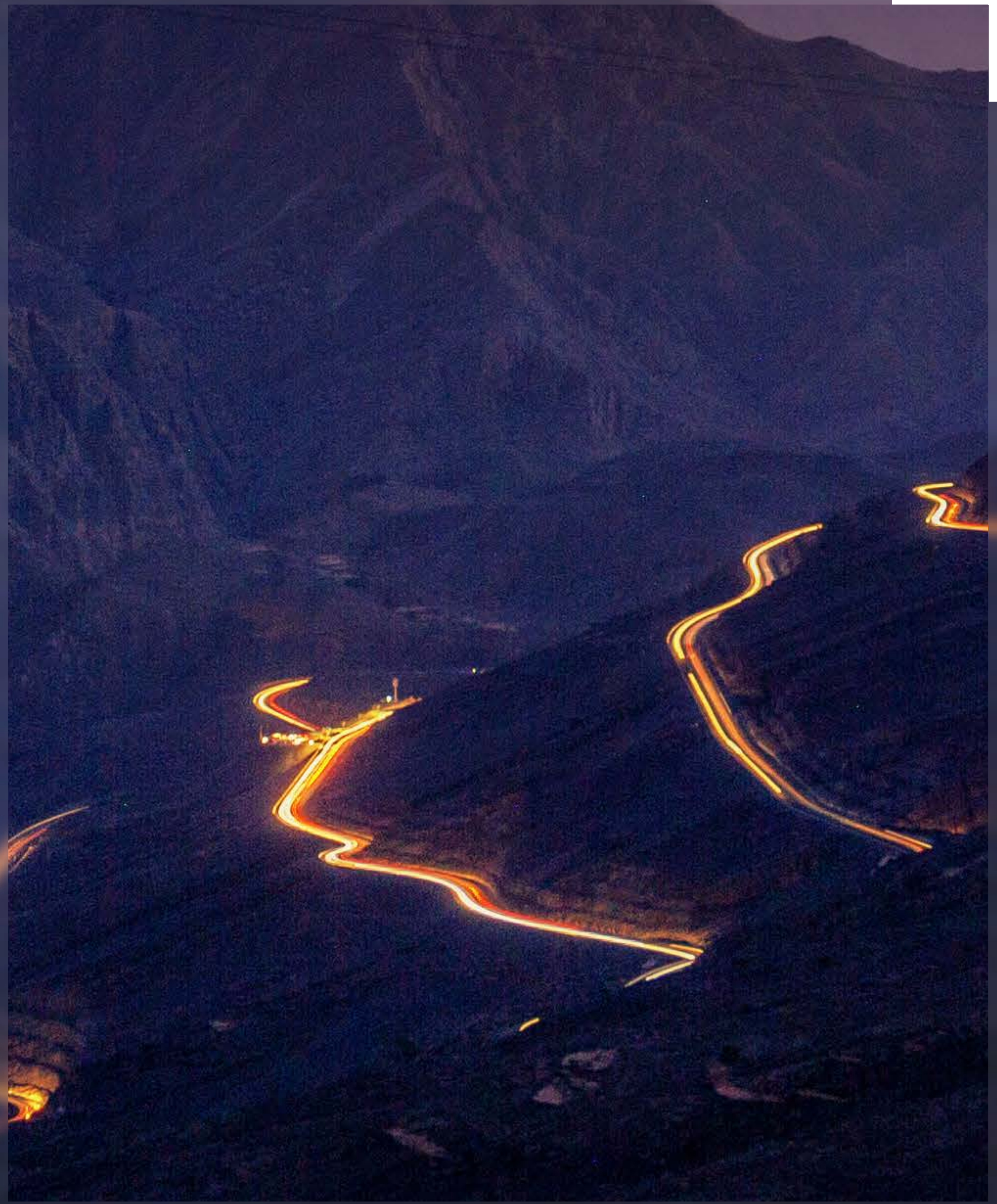
Clients are increasingly pursuing comprehensive coverage from a single source, with larger companies often keen to eschew the ambiguities that can arise from disparate policies. Over a quarter of respondents anticipate a greater reliance on package policies, which might amalgamate PI, cyber and Directors & Officers (D&O) coverage.

In a market that is as dynamic as it is competitive, the ability to offer airtight wordings could well be the differentiator that sets an insurer apart.

> “When there is a big market moving event, like Grenfell, the industry has no choice but to react rapidly. What we often see is underwriters responding to these events, and the regulatory scrutiny that ensues, by adjusting wording and putting endorsements on policies to restrict the cover.”
>
> Claims Manager at a global specialty insurer

“Underwriters and insurers have two variables to consider when it comes to winning and retaining businesses, price and cover. And if they don’t want to give one, then given the current market competitiveness they’ll have to give the other, or perhaps even both! Ultimately, it is supply and demand and we are seeing insurers agreeing to brokers’ own wordings or making some amendments to their own.”

Managing Director of a leading UK PI broker



AI - Separating hype from reality

The PI market, like every sector, is a sector abuzz with discussions about the potential impact of AI but, amidst these sometimes conflicting conversations, there is a need to distinguish between the hype and the tangible effects AI is having on the industry.

AI promises to revolutionise many aspects of PI, such as how it is being integrated into client systems and decision-making protocols as well as how insurers themselves can drive operational efficiencies and data digestion. However, respondents are increasingly concerned about the impact it will have on PI exposures and the risk landscape, with 72% now believing that it will increase the risks of practice. Nonetheless, it is crucial to unpick the sensationalism from the practical realities and its true influence on risk and pricing.

The excitement surrounding AI's capabilities is leading to inflated expectations in some quarters. Insurers are tasked with the challenge of discerning which aspects of AI will genuinely affect PI and to what extent.

The industry must navigate through a landscape where the enthusiasm for AI's potential often outpaces the current applications and proven outcomes within the PI market.

Insurers are beginning to have frank discussions with clients about the realistic risks associated with AI. This involves a careful examination of how AI is currently being used in various professions, the actual risks these uses present, and the likelihood of these risks materialising into claims.

It is a complex task that requires a grounded approach to avoid being swayed by the hyperbolic narratives that can sometimes accompany AI discussions.

As the PI insurance market continues to engage with the phenomenon of AI, it is becoming increasingly important to focus on evidence-based assessments of how AI is changing the risk landscape.

Insurers must remain vigilant, basing their strategies and pricing not on the sensationalised aspects of AI but on a clear-eyed view of its practical implications.

By doing so, insurers can ensure that their discussions with clients about AI risks are grounded, and that their pricing strategies accurately reflect the true impact of AI.

"

I think the adoption of AI will be much quicker than people perceive. Cybernetics would be the main area to watch out for, in particular robotics."

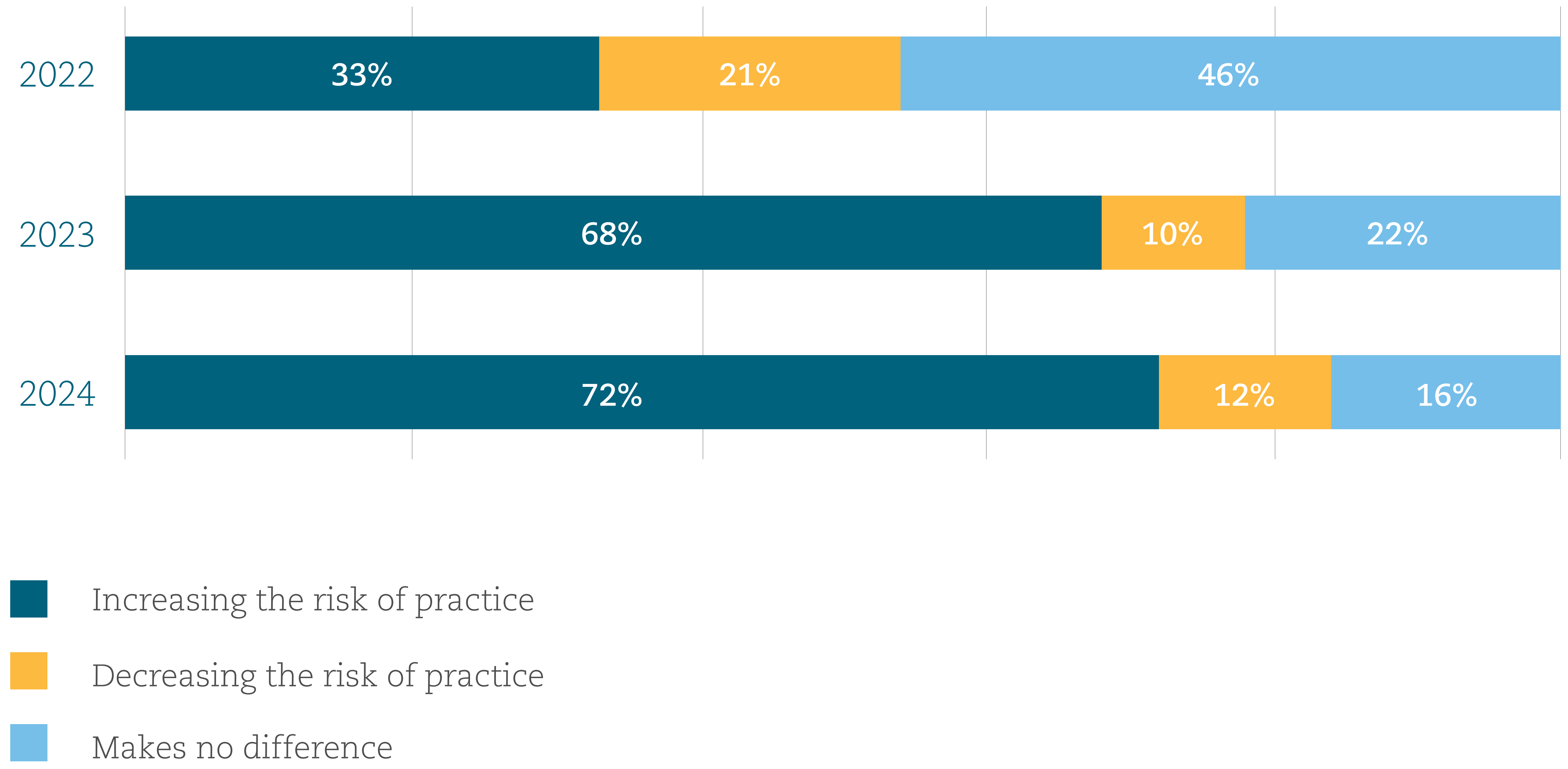
Director of Financial Lines at a leading UK broker

AI - Separating hype from reality

"AI can be very useful. However, its success is still heavily reliant on the human input; so, the level of detail included in a prompt or question, as without proper direction these tools lack context and can produce inaccurate results."

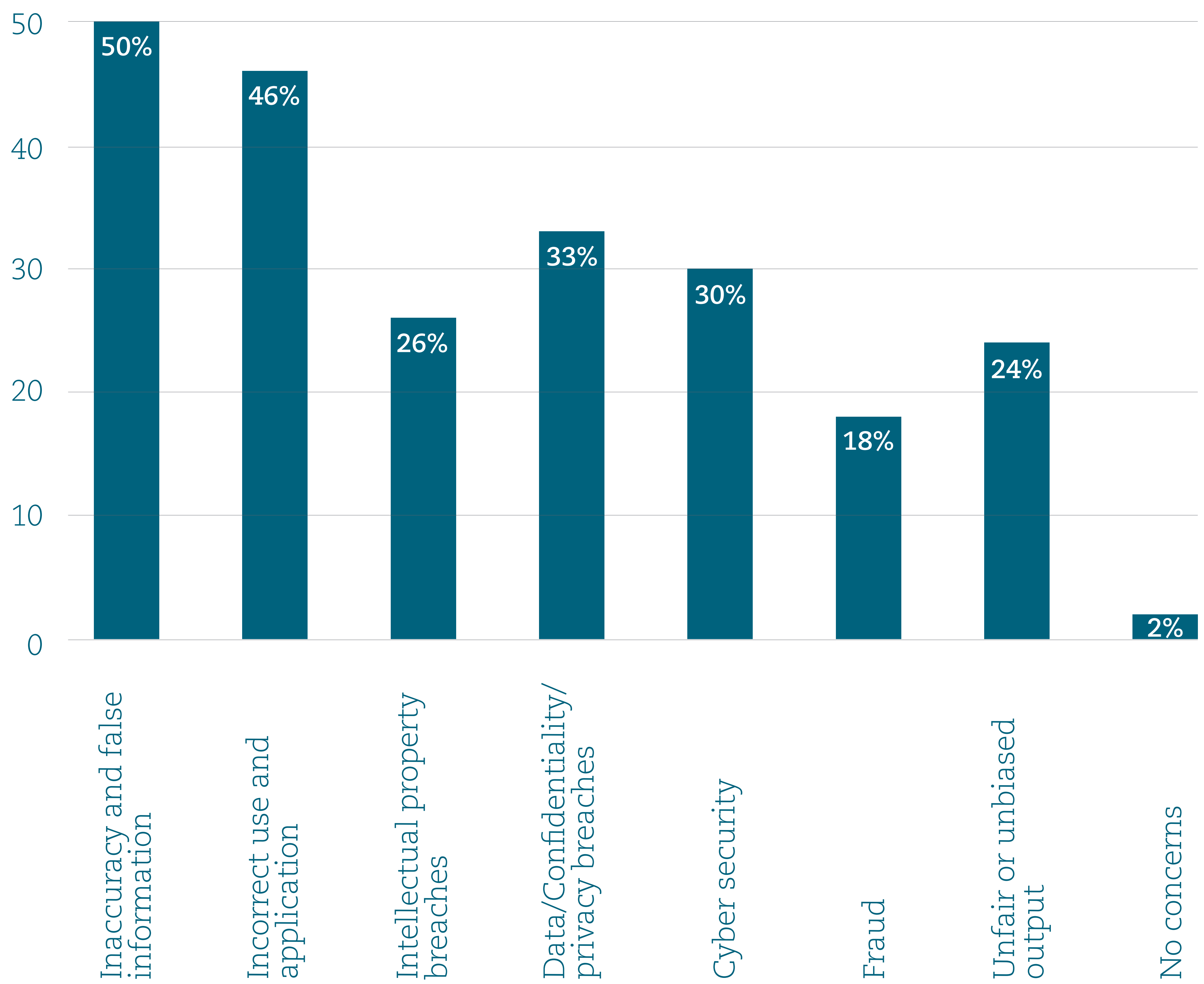
Claims Director at a regional broker

2022-2024 Comparison of how growth in the use of AI in the delivery of professional services will affect risk



AI - Separating hype from reality

Risk concerns from the use of AI in the delivery of professional services 2024



ESG in underwriting

ESG considerations, alongside D&I, are increasingly becoming focal points within the PI insurance market. Reflecting on a series of interviews conducted with industry professionals, it is evident that ESG is perceived as a positive movement, essential for firms to integrate into their business practices. The sentiment is that ESG is not simply a buzz phrase, but a reflection of a growing consciousness within the professional services sector about its responsibility to the environment and society at large.

There is some regional variation across the UK, where cities like Bristol are witnessing a surge in the B Corp movement (companies verified by B Lab to meet high standards of social and environmental performance, transparency and accountability), signifying a commitment to creating more sustainable business models that are having a verifiable impact.

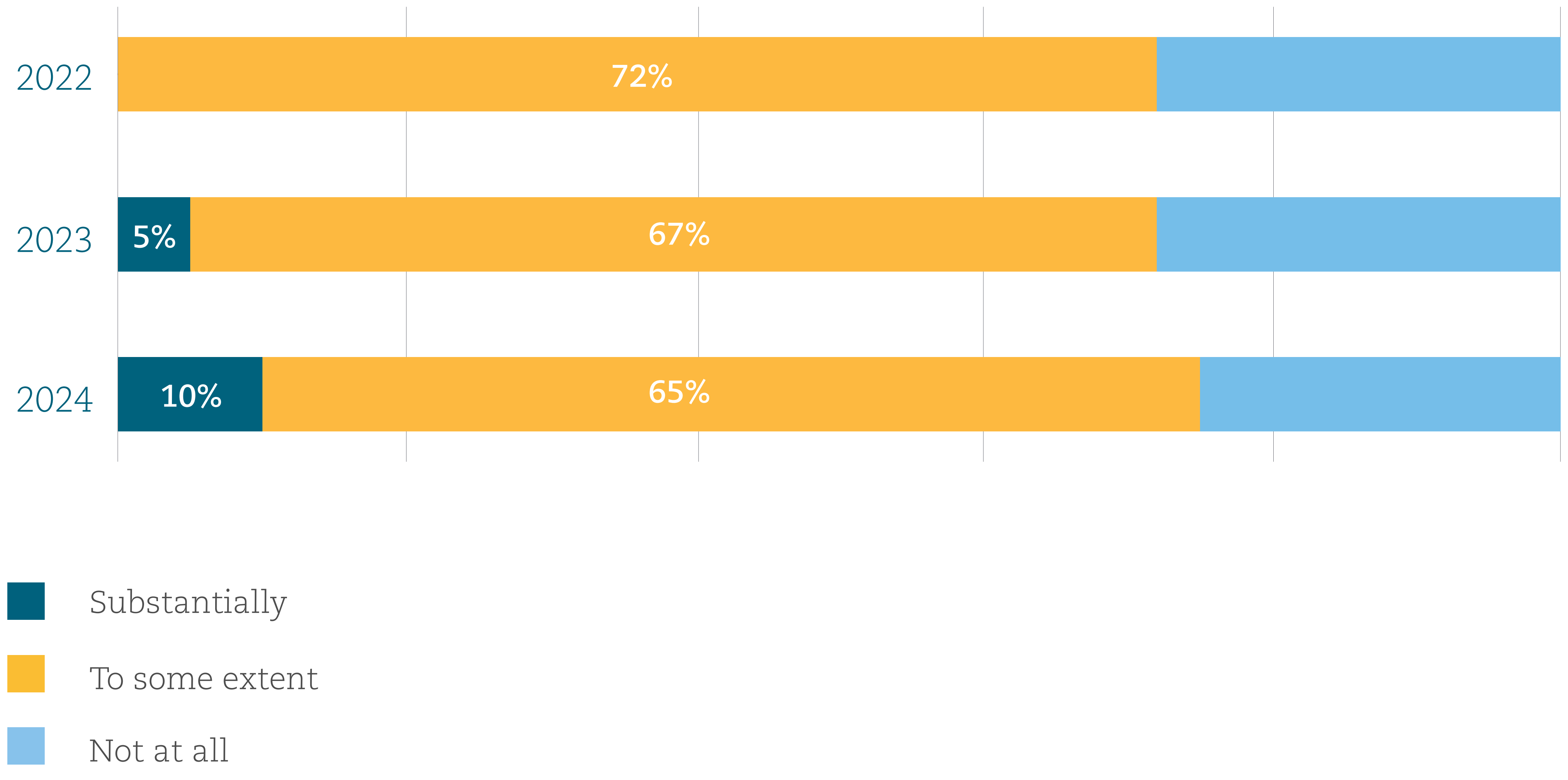
The insurance market is responding to this shift, with anticipation of more proposal forms and insurer question sets focusing on a firm's approach to ESG.

There is an expectation that strong ESG credentials could potentially yield underwriting benefits, as they are indicative of a firm's serious approach to risk management. However, it is still emerging as an underwriting consideration, with 65% of those surveyed saying that ESG considerations only impact the underwriting of PI risk to some extent, but not substantially.

> I anticipate seeing more proposal forms and insurer question sets around a firm's approach to ESG and what they currently adopt and what they plan to adopt in the future."

Managing Director of a leading UK PI broker

2022-2024 Comparison of how ESG considerations impact the underwriting of PI risks



D&I progress in PI insurance

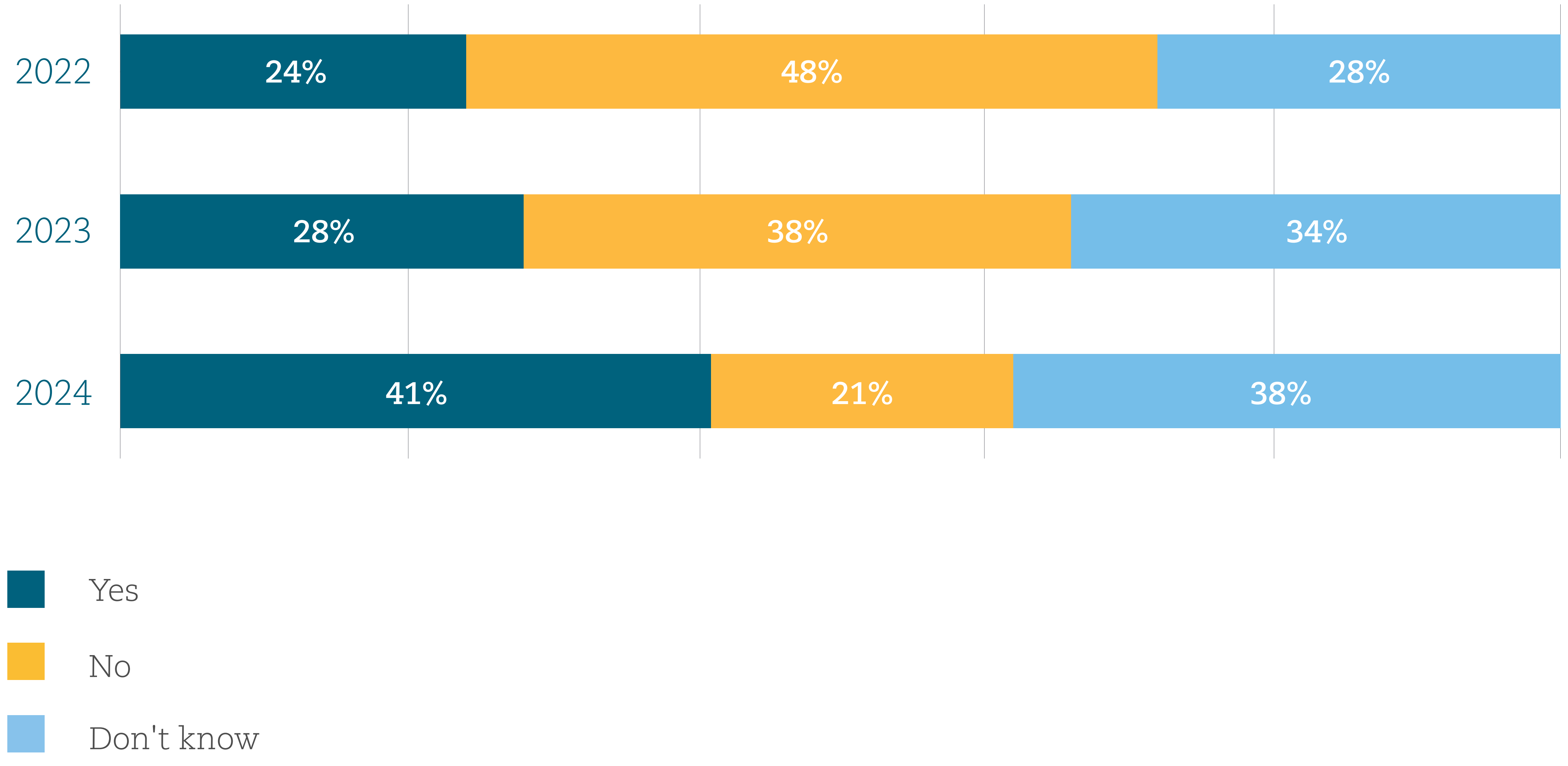
Looking more broadly at D&I in the industry, market participants appear more introspective. 41% believe that the PI insurance market in the UK invests adequately in diversity and social mobility. However, the interviews reveal a consensus that, despite improvements, the pace of change towards a more diverse and inclusive industry is not as rapid as it should be. The image of the insurance sector as too often dominated by a homogeneous demographic persists, although there are signs of progress with more women and individuals from ethnic minorities taking on leadership roles.

The industry must embrace diversity to reflect the society it serves and in order to foster innovation and growth. While there are pioneering figures at the head of some of the UK's largest insurers, leading the charge for change, the consensus is that more needs to be done to shake off the legacy of an industry perceived as exclusionary.

As the industry evolves, those who integrate ESG and D&I into their core operations will be better positioned for the future. The challenge now is to translate this understanding into tangible actions that will drive the industry towards a more sustainable and inclusive future.

> "Those 40% [who believe they're doing enough in diversity and inclusion] need to go away and revisit their own values."
>
> Claims Director at a regional broker

Does the PI Insurance market in the UK invest adequately in D&I? Comparison 2022-2024



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"The PI market continues to show resilience despite the ever-changing nature of the industry and the internal and external influences it is subject to. We will watch with interest how the market evolves in 2025, and whether the risks and expectations identified in this report materialise. However, whether the soft market persists, regional presences continue to assert themselves, or if the impact of AI on professional services will ever live up to the hype, what is clear is that the ability of the market, and those of us operating within it, to identify and adapt to the changing landscape will be pivotal to continued success."

Sam Godding, Legal Director, Clyde & Co, Manchester

490

Partners

2,400

Lawyers

3,200

Legal professionals

5,500

Total staff

60+

Offices worldwide*

clydeco.com

*includes associated offices

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