

# News release

## *SRA consults on changes to legal insurance and compensation rules*

23 March 2018

We have today published proposals designed to make sure users of legal services get the appropriate level of protection, and in turn benefit from a more competitive marketplace and increased choice. The proposed changes would see the removal of the current 'one-size-fits-all' rules on professional indemnity insurance (PII), meaning firms could take out cover that better reflects the work they do.

This could help reduce insurance costs for some firms, encourage new businesses to enter the legal sector and lead to lower prices for customers. Affording the high cost of PII insurance, designed to cover all possible legal activities, as well as high premiums for 'run-off' insurance, can be especially challenging for smaller or specialist firms.

This can prevent new business entering the market, while others cannot afford to close. The current rules mean that law firms must have a minimum cover of £2m for a single claim, rising to £3m for firms with certain structures.

However, analysis of 10 years of PII claims data reveals that 98 percent of claims are settled for less than the proposed £500,000 single claim limit. The data also shows that half of all claims relate to conveyancing matters.

The changes will give firms more flexibility to choose the right level of insurance to suit their business and clients, while making sure there are still appropriate protections for users of legal services. This includes:

- reducing the maximum single claim limit to £500,000 (£1 million for conveyancing)
- keeping the need for a six year run off period of insurance after a firm closes but capping the overall level of cover at £3m for firms that have done conveyancing work and £1.5m for other firms
- removing the need for compulsory insurance to include cover for large commercial clients

The changes would also be supported by a stronger enforcement approach for firms that did not pay insurance premiums or had misled their insurer. As well as changing its PII rules, we are also proposing to make changes to the Compensation Fund.

These include reducing claim limits to £500,000, simplifying when the hardship tests apply and tougher assessment criteria, all designed to make sure financial support is focussed on those in most need of help. The proposals will help to keep the Fund viable in the face of changing risks. For instance, high value claims linked to solicitors' involvement in large-scale dubious investment schemes.

**Paul Philip, SRA Chief Executive**, said: "Ten years of data shows our current one size fits all arrangements are too rigid. Our proposals will help firms - particularly small ones - make sure they are not paying more than they need to protect themselves and their clients. The public would still have an appropriate level of protection, while potentially benefiting from lower costs and more choice.

"We recognise this is a complex area, with no easy solutions. We are open to options, and keen to hear views on how we make sure we get the balance of protections right."

On the proposed changes to the Compensation Fund, **Paul Philip** said: “By changing our eligibility criteria, we will be able to focus better on the people most in need of our support, those who have been placed in genuine financial hardship by the dishonest actions of solicitors in who they placed their trust.”

In line with our wider reforms, rules governing these areas are also to be significantly simplified, making them easier to understand for firms and the public alike. Our ‘Protecting the users of legal services: balancing cost and access to legal services’ consultation runs until 15 June.

Read the consultation [[sra/consultations/consultation-listing/access-legal-services/](/sra/consultations/consultation-listing/access-legal-services/)]