

ICAEW: Changes to PII requirements

28 October 2024

Between October and December 2023, the ICAEW Regulatory Board considered proposed changes to the Professional indemnity insurance (PII) regime, which came into force on 1 September 2024.

Changes include general amendments to improve clarity and understanding, as well as specific amendments to Regulations 2, 3 and 5.

What was taken forward?

Changes were made mainly to Regulation 3:

- Firms will be required to have a £2m limit for any single claim and in the aggregate. (3.2)
- For firms with a turnover below £800k, the minimum limit will be equal to 2.5x its gross fee income with a minimum of £250k – this is an increase from £100k. (3.3)
- For firms required to put in place qualifying insurance, the maximum permitted aggregate excess will not exceed the higher of £3k or 3% of the firm's fee income. (3.7)
- Where a firm's gross fee income is over £50m, they will not be required to put in place qualifying insurance but will need to have in place appropriate arrangements to ensure they are able to meet claims arising from being in public practice. (New provision - 3.8 and 2.5)
- Firms insuring as part of a group arrangement can be treated as a single entity for the purposes of the PII Regulations providing that they meet a certain criterion. (New provision - 3.9)

Regulation 2 changed as follows:

- Members and firms must use 'all reasonable steps' to put in place run-off cover. Firms are still required to have cover for two years and must take all reasonable steps to ensure cover is in place for a further four years. (2.7 and 2.8)

Regulation 5 and Appendix B:

- The guidance relating to dispensations has been updated and a fee will be introduced for firms making an application. (5.3 and Appendix B)

What hasn't changed?

There will be no changes to the current arrangements which relate to run-off cover, aside from the removal of "best endeavours".

Insurers shall no longer be required to meet any unpaid excess. This proposal has been withdrawn because due to a lack of evidence that it was a pressing issue and because there is already a cap on the permissible excess.

The PII committee decided changes to flexibility of both defence costs and the excess were unnecessary because current arrangements work well. Firms are offered useful protection under the current regime.

Transition

The new requirements will apply to all firms from 1 September 2025 with a transitional period in place until then. New requirements, relating to excess and minimum limits, will only apply to new policies when a policy is renewed after 1 September 2024.

What are insurers saying?

ICAEW involved [insurers](#) during the consultation and feedback received suggests the changes are sensible and supported. ICAEW will continue to monitor the effects of these changes as firms work to implement them.

It will be interesting to see how the removal of the requirement for the largest firms to carrying qualifying insurance will impact the market. Will we start to see cover for such firms diverge for the traditionally strict approach applied by the minimum terms?

Contents

[The Word, October 2024](#) →

[Updates to the UK's Arbitration Bill](#) →

[ICAEW: Changes to PII requirements](#) →

[What does the Employment Rights Bill mean for employment practices liability insurance?](#) →

[Contractor insolvency: Peabody Trust v NHBC](#) →

[Ozempic: The rising costs and coverage issues of weight loss medication](#) →

[Insurability by design: Increased transparency for vehicle manufacturers and insurers](#) →

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