PI COVER WHEN A FIRM BECOMES INSOLVENT

Reviewed by Matthew Bartlett, Director · Last reviewed 2026-06-22

TWO DIFFERENT INSOLVENCIES

PI policies generally exclude claims arising from the insolvency of the insured's client — see insolvency exclusion. The harder question is what happens when the insured firm itself enters insolvency. The policy does not vanish, but the practical mechanics of running it change.

HOW A PI CLAIM BEHAVES DURING ADMINISTRATION

When a firm enters administration under the Insolvency Act 1986, the administrator takes control of the firm's assets and the firm's contractual obligations. Live PI claims do not stop. The administrator usually liaises with the insurer to maintain notification, allow defence solicitors to continue, and ensure premium and excess obligations are met from the estate where possible. Claims notified before administration remain claims against the policy; new claims notified during administration may also fall within cover, depending on whether the policy remained in force.

RUN-OFF FUNDING

If the firm is to be wound down, the PI policy needs to be put into run-off. Run-off premium is typically two to three times the active annual premium, charged as a single up-front payment for the run-off term. Where the firm has no liquid funds, the administrator may negotiate a discounted or instalment-based run-off; some insurers will quote, others will decline. The position is often worse for smaller firms because the insurer's underwriting margin on a single run-off policy does not justify the work. For solicitors, the SRA's six-year MTC run-off is mandatory regardless of the firm's financial state; the funding question is who pays.

THE ASSIGNED RISKS POOL FOR SOLICITORS

The SRA Assigned Risks Pool is the backstop where qualifying insurers will not offer terms to a solicitors' firm — typically because the firm has a poor claims record, has entered insolvency, or is otherwise uninsurable on the open market. Entry requires demonstrating that the open market has refused cover. ARP cover is more expensive and is reviewed annually; firms in ARP usually have a limited window to demonstrate they can return to the open market or wind down. Other professions have no equivalent pool — an insolvent accountancy practice, surveying firm or consulting engineer that cannot secure run-off has to rely on the administrator's commercial settlement of outstanding claims.

THIRD-PARTY RIGHTS AGAINST INSURERS

A claimant whose claim is unpaid because the defendant firm is insolvent may have a direct right against the firm's PI insurer under the Third Parties (Rights against Insurers) Act 2010. The Act allows the claimant to step into the insolvent firm's shoes for the purposes of the insurance, but it does not improve the cover — defence costs, excess and policy conditions still apply,

and any breach of the policy by the insolvent insured (such as failure to notify) can be raised against the third party. The Act has the most practical effect where the firm's insurer accepted the claim before insolvency but had not paid.

CLAIMS EMERGING AFTER CLOSURE

If a firm closes without run-off, claims emerging later are largely uninsured. Partners may face personal liability where the firm was a partnership; directors may face claims under directors' and officers' liability if the conduct alleged was theirs personally rather than the firm's. For architects and other long-tail professions, the gap is particularly painful given the extended limitation now running under BSA section 135.

THE APEX APPROACH

Apex Insurance Brokers reviews insolvency exposure at every renewal — checking that the firm's run-off cost is understood, that funding routes are identified, and that the trigger events for ARP entry (where relevant) are clear. Planning for insolvency does not mean expecting it, but a firm that has documented the position is materially better placed if the position turns.

RELATED PROFESSIONAL INDEMNITY GUIDES

- Solicitors PI
- Engineers PI
- Architects PI
- Accountants PI