Gallagher

Overinsured in the Wrong Places

Why Law Firm Insurance Programs Drift Out of Alignment

Most law firms renew their insurance programs the same way each year. The broker circulates applications, leadership reviews the premium and coverage limits are adjusted incrementally. Sometimes they increase, occasionally they decrease and the program moves forward largely unchanged.

This is not a criticism. It reflects how institutional inertia operates. Even sophisticated organizations are subject to it. The renewal cycle creates its own momentum, and absent a forcing event, such as a significant claim, a major shift in practice areas or new leadership asking different questions, most programs continue on a familiar path.

The issue is that law firms do not stand still. They grow, merge, exit practice areas, add laterals, expand into new markets and take on new client risk profiles. The firm that exists today is often materially different from the firm that placed its insurance program several years ago.

When the insurance program does not evolve alongside the firm, misalignment emerges. Coverage begins to reflect historical assumptions rather than current exposures. The result is often both overinsurance in some areas and underinsurance in others, sometimes within adjacent lines of coverage.

This misalignment creates cost in two ways. First, firms pay unnecessary premium for coverage that exceeds their needs. Second, and more significantly, they face uncovered exposure when a claim tests a gap that a current-state review would have identified.

How Insurance Misalignment Develops

Insurance misalignment rarely occurs all at once. It is typically the result of a series of incremental decisions, each reasonable in isolation.

Limits are set by precedent, not exposure

Initial professional liability limits are often based on broker guidance, peer benchmarking and leadership judgment. Those limits then become the benchmark for future renewals. Adjustments are typically modest and rarely involve a full reassessment of whether the original assumptions still hold or whether the firm's exposure profile has materially changed.

Coverage is added reactively

A cyber incident prompts the purchase of cyber insurance. An employment issue leads to EPLI coverage. A client requirement triggers additional policies. Each decision is justified, but over time the program becomes a collection of reactive purchases. The result can include overlapping coverages in some areas and gaps in others.

Retentions are used as a premium lever

Retention levels are often negotiated to manage premium. Higher retentions reduce cost, but that trade-off only works when aligned with the firm's financial capacity and risk tolerance. Retentions set during strong financial periods are often not reassessed when conditions change.

The program reflects a prior version of the firm

Firms that grow through mergers, expand into higher-risk practices or increase operational complexity often retain coverage structures designed for a smaller and less complex organization. Limits, structure and retentions can all become outdated relative to current realities.

Common Insurance Misalignments in Law Firms

Certain patterns arise consistently across law firm insurance programs.

Professional liability limits that do not reflect matter size

Professional liability remains the most critical coverage decision. Many firms anchor limits to historical levels rather than current exposure. Firms handling large transactions or high-stakes litigation may be carrying limits designed for a lower-risk profile. A single large claim can quickly expose this gap.

Cyber coverage that is redundant or insufficient

Cyber insurance has evolved significantly. Many legacy policies have not. Firms may either carry overlapping coverage with crime policies or maintain limits that are insufficient for their operational scale, data exposure and transaction value.

Crime coverage with inadequate sublimits

Social engineering and funds transfer fraud sublimits often do not reflect the size of transactions firms handle. A firm managing multi-million dollar transactions with a $250,000 sublimit is not meaningfully protected.

Employment practices liability that has not kept pace with firm growth

Employment practices liability exposure increases with headcount, geographic footprint and organizational complexity. Firms that grow rapidly may retain limits appropriate for a smaller workforce, increasing their exposure to employment-related claims.

Management liability that is not coordinated with the firm's governance structure

Directors and officers coverage is often purchased without close coordination with partnership structures, indemnification provisions and governance risks. This can create uncertainty regarding how coverage responds under stress.

General liability limits that have not been inflation-adjusted

General liability is often overlooked due to lower claim frequency. However, inflation, expanded office footprints and evolving workplace models can erode the adequacy of existing limits over time.

The Retention Gap: A Frequent Source of Mispricing

Retention levels sit at the intersection of cost management and risk strategy, and they are often misaligned.

A retention that is too low relative to claims history can result in unnecessary premium spend for losses the firm could reasonably absorb. A retention that is too high can create unplanned self-insurance exposure without sufficient reserves or infrastructure to support it.

Determining the appropriate retention requires analysis of claims frequency, severity, financial capacity and available premium savings. Most firms have not conducted this analysis explicitly.

Why Insurance Alignment Is a Leadership Issue

Insurance program design is often treated as a technical function. In practice, it is a leadership responsibility.

Misalignment reflects a governance gap

When coverage does not reflect current exposure, it indicates insufficient oversight of risk management. Leadership does not need to manage policy details, but it must ensure the right questions are being asked and answered.

The financial impact sits with the firm

Coverage gaps result in direct financial consequences, including uncovered losses, increased premiums and operational disruption. These are balance sheet issues, not abstract risks.

Insurance strategy should follow business strategy

Strategic decisions such as mergers, new practice areas and market expansion all carry insurance implications. Addressing those implications at renewal, rather than at the time of decision-making, creates lag and exposure.

The broker relationship should drive insight

A strong broker relationship should challenge assumptions and prompt reassessment. If renewal occurs without meaningful analysis, firms should examine whether they are receiving the level of strategic guidance they need.

Questions for Law Firm Leadership

Limits and exposure alignment

- When were our limits last evaluated against the size and nature of matters we handle?
- Do current limits reflect realistic worst-case scenarios or historical claims?
- Have we introduced new practice areas or client types with different risk profiles?

Retention strategy

- Do we fully understand the financial exposure associated with our retention levels?
- Were retention decisions based on analysis or primarily on premium considerations?

Coverage structure

- Have we evaluated overlaps and gaps between cyber and crime policies?
- Does our EPLI reflect current headcount, geography and structure?
- When did we last ask for a gap analysis rather than a renewal proposal?

Program governance

- Is there a clear owner of insurance strategy within the firm?
- Are insurance decisions integrated into strategic planning discussions?

Six Key Takeaways for Law Firm Insurance Strategy

1. **Insurance programs drift while risk profiles evolve.** A genuine review requires stepping back from the renewal cycle and asking whether the program still fits.
2. **Limits set by habit often miss current exposure.** Coverage decisions should be based on present-day risk, not historical precedent.
3. **Sublimits require the same scrutiny as primary limits.** They are often where the most significant gaps exist.
4. **Retention decisions should be analytical.** They represent a material financial choice that requires data-driven evaluation.
5. **Insurance strategy should align with business strategy.** Coverage should evolve alongside firm growth and strategic direction.
6. **Broker relationships should provide challenge and perspective.** Firms should expect proactive insights, not just renewal execution.

The Cost of Inertia

The greatest risk is the absence of decision-making. Programs that renew unchanged while the organization evolves will inevitably fall out of alignment.

The impact is often subtle at first. Premium may be slightly higher than necessary in some areas and insufficient in others. Sublimits may appear adequate until tested. Gaps may go unnoticed until a claim reveals them.

Addressing the issue requires a disciplined, current-state review of the firm's risk profile and a willingness to align coverage with how the firm operates today.