Specialty Lines in 2026

Navigating the New Risk Landscape

February 2026

Contents

Executive Summary

The insurance industry is entering a transformative era driven by a convergence of technological, economic, legal, and geopolitical factors. For specialty lines such as Professional Indemnity (PI), Directors & Officers (D&O), Financial Institutions (FI) and Cyber, the implications are profound. We must adapt to a landscape defined by AI disruption, insolvency pressures, litigation surges, escalating legal costs, and geopolitical fragmentation.

Market Overview

What are the issues affecting every line of business?

Artificial Intelligence: Opportunity & Exposure

AI is no longer a future consideration, it's a strategic necessity. Insurers are deploying generative and agentic AI to automate underwriting, accelerate claims processing, and enhance fraud detection. Whilst this improves the efficiency with which claims can be resolved, the same technology also introduces new risks for both us as Insurers and for our customers who are similarly deploying new technologies and ways of working.

In PI, AI hallucinations such as fabricated case citations have already triggered professional liability concerns in law firms. Solicitors relying on flawed AI-generated legal arguments have and will continue to face negligence claims.

In D&O, misrepresentation of AI capabilities ("AI washing") has led to securities litigation and regulatory scrutiny. Boards must oversee ethical AI use and ensure transparent disclosures, especially as global regulations like the EU AI Act and U.S. state-level AI governance frameworks gain traction.

Cyber faces a dual challenge, not only with how to defend against AI-powered threats but also how to adequately assess and quantify possible exposure to the rapid advancement in the nature of the threats. We've all seen reported details of deepfake CEO video calls and spoofed Teams messages leading to significant losses. The instances of these have escalated dramatically, in some cases involving eye-watering sums. We have also seen the impact of AI powered social engineering particularly felt by financial institutions.

Insolvency: Rising Tide of Financial Distress

As reported in our December 2025 article, Insolvency trends and implications for directors, economic volatility and high interest rates are pushing more businesses toward insolvency. As we reported, we've seen an increase in claims against directors of distressed companies exposed to allegations of wrongful trading, breach of fiduciary duty, and failure to disclose material risks.

Those sectors hit by supply chain disruption and regulatory change have also been particularly vulnerable to insolvency, most notably the construction industry which has seen several high-profile insolvencies. More to follow below on this topic below under "Construction".

We have seen a real surge in 2025 in employment claims, something we predict will continue into 2026 and which is expanded on further below. We are also seeing an increase in the severity of claims being brought against auditors by Liquidators and Administrators, with allegations that the Company could have avoided administration altogether or would have entered into administration earlier had the audit work not been deficient. Significant sums are being claimed in damages for the Company's alleged losses.

Class Actions: Litigation at Scale

Class actions driven by economic uncertainty and legal reform are gaining momentum globally. Concerns over financial hardship are mounting, with warnings of a potential market correction from major financial institutions. Historically, securities class actions rise during downturns, making this trend significant for insurers and our Insureds; these are expensive and complex claims.

On the legal front, collective redress mechanisms are expanding, illustrated by the FCA motor finance investigation. Recent changes to the UK framework have made class actions more accessible, though the UK still trails jurisdictions like the U.S. and Australia. Judicial and governmental initiatives aim to balance consumer protection with business certainty; a theme we examine in greater detail later in this article and one that is likely to shape the future legal landscape.

In August 2025, the UK government launched a review of the opt-out regime in the Competition Appeal Tribunal, citing cost and effectiveness concerns. This follows Civil Justice Council recommendations to reform litigation funding, including reversing the PACCAR decision, introducing "light-touch" regulation, and clarifying funding agreements. While not yet implemented, these proposals signal significant change.

Recent cases such as *Merricks v Mastercard* and *Le Patourel v BT* highlight concerns over fairness and proportionality, as settlements often fall far below pleaded claims. High defence costs and litigation funding pressures risk making large-scale claims anti-business.

The implications for Insured's and Insurers with this sort of litigation:

- Aggregation risk and sub-limit exhaustion.
- Increased scrutiny of policy triggers and exclusions.
- Rising defence costs impacting pricing and reserves.

Legal Costs: The Price of Protection

Defence costs are rising not only due to the scale of the claims but the increase in hourly rates. Solicitors' charge-out rates have risen in 2025 across the UK. Guideline Hourly Rates increased by about 3.6%, with London Grade A solicitors now at £566/hr for complex commercial work. Top tier and specialist firms charge far in excess of this amount, with partner rates for Magic Circle and US firms in London as high as £1,700 - £2,000/hr, and in the US over $2,100 -$2,600/hr.

These increases are driven by inflation, talent retention pressures, and competition from international firms (US firms in particular), significantly impacting defence costs and claims budgets.

Geopolitical Risk: Fragmentation & Volatility

The global insurance market is also being reshaped by geopolitical fragmentation, regulatory divergence, and rising nationalism.

Key trends include:

- **Regionalisation over globalisation:** Cross-border insurance arrangements are becoming more complex due to fragmented legal systems and protectionist policies.
- **Election outcomes:** The results of major elections, particularly in the U.S., are influencing regulatory direction, trade relations, and economic stability.
- **Policy shifts:** Donald Trump has brought aggressive deregulation and executive actions affecting financial and insurance markets. Executive orders tied to tariffs, trade restrictions, and regulatory rollbacks are creating volatility in many sectors, which can indirectly impact surplus lines carriers through increased claims costs and compliance complexity.
- **Supply chain issues:** Conflicts and sanctions are disrupting trade routes, driving inflation and contributing to insolvency.
- **Regulatory overreach:** Sudden state actions are increasing underwriting caution in political risk and D&O lines. For Cyber, diverging data privacy laws and AI regulations are creating compliance challenges.

For financial institutions, geopolitical instability is impacting investment portfolios, credit risk, and capital allocation.

We explore in detail below how the issues identified in our market overview and specific sector challenges impact our key speciality lines of business as we move into 2026.

Cyber

The year 2025 felt like a significant one for the cyber industry, with many widely-publicised incidents, major disruptions reported by global organisations, as well as an increasing public awareness of the importance of cyber insurance backing

Reflecting back on our beginning of 2025 article, Specialty: The Year in Review and What's Alive in '25, we posed the question: "What types of cyber-attacks do organisations need to be aware of in 2025?" and responded with five key areas which we predicted would be of biggest concern in the year ahead, including:

- Ransomware;
- Malware;
- Social Engineering;
- Threats against Data; and;
- Denial of Services.

Does our claims portfolio support these earlier projections?

Our claims data evidences that the largest proportion of cyber notifications received in 2025, reporting 31% of annual volumes, related to data breach incidents, followed in second by unauthorised system access with 16%, and in third by social engineering incidents with 8%.

31% of cyber notifications related to data breach incidents

Areas of note, according to our claims experience this year, include denial of service attacks as well as ongoing exposures arising out of supply chain events.

For the most part our claims data confirms our early 2025 predictions and further recognises how the cyber landscape continues to rapidly evolve year on year. It will be interesting to see what 2026 has in store.

What has been making headlines in 2025?

In the UK, 2025 has seen some worrying incidents involving well-known brands and which simply highlights that no organisation is impregnable to attack or vulnerability exploitation.

Cyber

These incidents have also highlighted both a possible change in motivation amongst threat actor groups and further development in the tactics employed. More specifically, there have been reports across the second half of 2025 suggesting some threat actors are motivated by profile-raising tactics as much as the potential financial rewards.

Further, there has been observation of a more uncommon tactic in which the ScatteredLapsus$Hunters collective apparently sought to launch a crowdsourced extortion campaign, offering rewards to anyone who pressure attack victims into paying. Interestingly, this collective group is reported to have been able to rebuild and operate through at least 16 public channels since the Summer, rebuilding them within hours of each site being taken down. This is a fast moving and ever-changing landscape which makes cyber risk management both increasingly challenging, but also an increasingly business critical, unavoidable task.

The ripple effects of cyber events

The costs of a cyber incident can be many and varied, in terms of IT restoration, legal costs, business interruption losses, damages from third-party claims and sometimes, where a ransom has been issued, an extortion payment to a threat actor.

However, despite the global rise in cyber attacks, there remains a real concern that businesses, across all sectors and industries, may still not be adequately assessing or realistically quantifying the true exposure they face arising out of potential cyber threats.

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The consequences of failing to insure, or to adequately insure, are potentially catastrophic for organisations which could find they need to bear most of the losses flowing from an extended period of downtime following an incident.

These issues can be further exacerbated in the face of third-party claims following data exfiltration, which can be wide-reaching in terms of allegations, costly to defend and result in significant damages awards. Under-insurance can also give rise to potential claims and regulatory actions against directors and officers.

On this latter point, please see the article we produced earlier this year in respect of the responsibilities of directors and officers relating to the management of cyber incidents, highlighting how cyber incidents can potentially affect several aspects of a business and create exposures across multiple lines of business at the same time (Directors and Officers Responsibilities: Vulnerabilities amid cyber threats).

Directors & Officers

UK Shareholder Litigation

The UK securities litigation landscape continues to evolve, with a notable rise in Section 90/90A claims, escalating costs, and landmark judicial decisions. This update highlights key trends, funding developments, industry impact, and reinforces the importance of Side C coverage in Directors & Officers (D&O) insurance.

The UK remains a more conservative jurisdiction than the US for securities litigation, but recent developments show that this is still very much an evolving area of law and that significant financial exposure is possible.

The first judgment on liability was handed down on 22 July 2025, in *ACL Netherlands B.V. v Michael Richard Lynch [2025] EWHC 1877 (Ch) ("Autonomy")*. In this matter, the buyer of Autonomy sued the former CEO of the company over allegedly false statements published regarding the company value. The Court awarded the Claimants just under £650 million for a breach of Section 90A/Schedule 10 FSMA 2000 as well as sums for deceit, mis-representation and direct loss. This is the first quantum determination in a section 90A claim to proceed to trial.

There were various underlying facts in this case, including the specific valuation methodology that was applied in respect of the target company, which influenced the decision on quantum. This is, therefore, by no means representative of all quantum decisions that could be handed down on s90A/90 matters, which will always be very fact-dependent. However, it does illustrate the scale of potential damages and the importance of having adequate protection in place to shift securities litigation risks off balance sheets, with defence costs themselves for such proceedings averaging between £20-25 million.

Another notable decision was the High Court's refusal to strike out or grant reverse summary judgment in respect of claims from "passive" investors in March 2025, which will now continue to trial, in *Various Claimants v Standard Chartered PLC [2025] EWHC 698 (Ch)*. This relates to a claim worth approximately £1.45 billion in relation to alleged untrue and misleading statements in three prospectuses and 45 other items of published information.

In the High Court's interim decision, they declined to follow the Court's approach in *Allianz v Barclays*. Previously, in the Barclays case, the Court struck out claims from investors who were unable to prove they had relied upon the Insured's published information when making their investment decisions. This decision is under appeal in the Court of Appeal. The High Court's refusal to follow this approach in the Standard Chartered case, with trial date set for October 2026, leaves the door open to reliance discussions in the future.

Directors & Officers

The rise of litigation in the securities litigation space and increased judicial commentary is likely to lead to greater financial exposure for companies and directors, increased scrutiny of valuation methodologies, and a heightened need for robust Directors & Officers (D&O) insurance coverage.

It will be important to closely monitor how UK securities litigation develops over the next few years. Evolving judicial approaches - such as the refusal to strike out claims from passive investors - suggest that reliance discussions and quantum determinations will remain highly fact-dependent, reinforcing the necessity for adequate protection and proactive risk management.

AI Risks

In 2025, Zurich released an article jointly with DACB, The rise of AI: Implications for D&O insurance wordings. We noted that technology presents potential risks to the directors themselves, who may be held accountable for management failings directly linked to how AI is implemented and overseen.

Increasingly autonomous AI programmes could end up manipulating markets and intentionally creating crisis in order to boost profits for the bank and traders they work for, the Bank of England have warned. Whilst such fully autonomous systems work without intervention or supervision by a human, these AI systems are not currently used in the UK.

However, artificial intelligence's potential ability to "exploit profit-making opportunities" was among a wide range of risks cited in a report by the Bank's Financial Policy Committee (FPC), which has been monitoring the City's growing use of burgeoning technology.

The FPC said it was concerned that advanced AI models might learn that periods of extreme volatility were beneficial for firms they serve, "identifying and exploiting weaknesses" to trigger or amplify big moves in bond prices and stock markets. For example, models may learn that stress events increase their opportunity to make profit and so take actions to actively increase the likelihood of such events, the FPC report said.

From management's perspective, key risk areas will clearly need to be adequately addressed by implementing comprehensive oversight of technological advancements such as AI. It will be important to ensure robust cyber security measures and maintain sound governance practices to mitigate potential liabilities arising from both human error and increasing regulatory scrutiny.

Wherever human intervention is required, such as for Generative AI systems, there is the possibility of human error that could result in losses for customers. Whilst this liability more squarely fits with professional indemnity, if the human error can be attributed to management oversights, a D&O claim could follow.

We review both the potential for D&O claims in the AI-space and the adequacy of D&O wordings to address AI risk in our article (linked on the left). Defining AI in a D&O policy is unlikely to be needed for policyholders to be covered for financial loss arising from claims brought against them, but the exact wording of the policy and policyholders' needs are key.

Directors & Officers

Cyber Responsibilities

Noting the recent uplift in cyber-attacks targeting retailers, it is now more important than ever for directors and board members to manage cyber incidents effectively by arranging adequate protection against losses arising from cyber events.

Effective insurance solutions will play a large part in de-risking companies from cyber losses evolving in frequency and severity. These losses may arise from the cyber incidents themselves and related director liability for financial losses sustained by companies.

We released an article examining Directors and Officers responsibilities: Vulnerabilities amid cyber threats, which noted an increasing amount of regulatory scrutiny globally on directors and members of the board for companies who neglect their obligations in managing cyber incidents efficiently, with post-cyber breach litigation becoming increasingly common.

We noted this is also driven by the development of case law in this area globally across APAC, the US and Europe and recapped the relevant case law in the aforementioned article.

Having seen some of the wide-ranging and catastrophic effects of cyber losses, including incident response costs incurred by the UK retail industry, it is more critical than ever for directors to comply with legal responsibilities and obligations to their companies across relevant jurisdictions.

ESG & Greenwashing

The drive to combat global warming hit a bit of a stumbling block this year with many countries rowing back on their green initiatives to decarbonise in accordance with the parameters set out in the 2015 Paris Agreement. No country stands out more in this respect than the US under the Trump administration.

Donald Trump's campaign to "drill baby, drill" and most recently, his opinion aired at the United Nations conference in Washington that global warming was a hoax and the rest of the world needs to wake up to the "global warming scam" have not helped the situation.

However, while Trump has signed Executive Orders which aim to reduce or remove the requirement to disclose a company's green credentials, this is merely seen as an attempt to kick the can down the road under the current administration leaving companies with the headache of how they account for their activities if/when a new administration is elected in.

These issues and the challenging balancing act Directors and Officers face were addressed in the Financial Lines EMEA team's biannual paper, together with the steps Boards can take to mitigate these sustainability-related exposures.

Directors & Officers

Despite the turbulent conditions in the US, and other industrial powerhouses such as India and China not attending November's Cooperation of the Parties (COP30) climate change conference in Brazil, regulatory momentum is growing globally with detailed laws, stricter penalties, private enforcement, and multi-agency oversight becoming standard.

These changes require organisations to ensure all environmental credentials are clear, specific, evidence-backed, and substantiated under recognised methodologies. Those organisations found in breach of these rules are being held accountable for their disclosure of false or misleading information regarding the company's ESG credentials (Greenwashing).

In 2025 we have seen fines ranging from 10s of millions to 100s of millions in Europe across a wide range of industries from airlines and car manufacturers to investment banks.

Fines of lesser amounts have been issued by the UK FCA and Australian Regulators. For the organisations involved, the announcement of fines in the public domain will inevitably lead to significant negative publicity and the potential for a drop in share value. As such and arising from these issues, the threat of derivative actions against directors and officers by shareholders or activist investors together with shareholder class actions are areas for concern.

Failure to Prevent Fraud

The Failure to Prevent Fraud Offence came into force on 1 September 2025. It is a strict liability offence which is intended to hold large organisations to account if they profit from fraud committed by an employee, agent or other associated person.

The practical implication for the 'large organisations' impacted is ensuring that it has reasonable fraud prevention measures in place. Demonstration of these measures will be their only defence to any charges.

Home Office guidance provides that the fraud prevention framework should be informed by 6 principles:

1) top level commitment;
2) risk assessment;
3) proportionate procedures;
4) due diligence;
5) communication (including training);
6) monitoring and review.

Potential exposure to the changes is not limited to UK companies. For instance, an overseas company could be exposed if a fraud is committed in the UK or there is a UK-based victim.

All companies that fit the criteria of a 'large organisation' for the purpose of the offence therefore need to be aware of the requirements and ensure appropriate fraud prevention frameworks in place by reference to the 6 principles.

We are anticipating that, similarly to the Bribery Act, vigorous investigations will take place if a fraud is uncovered. We may therefore start to see potential notifications filtering through next year which will inform the extent to which fraud prevention measures are found to be robust enough.

Directors & Officers

Employment Claims

As we anticipated, 2025 was a busy year for UK employment claims and this is expected to continue into 2026 and beyond. Under our Executive Risk Solutions policy, we deal with UK employment tribunal claims as the policy includes cover for employment claims against the company as well as employment claims against directors.

Through our claims tracking we have seen over the last couple of years a marked increase in the number of employment claims being pursued. This trend continued into 2025 and we've seen a total increase of around 40% across the year when we compare 2024 and 2025.

The employment claims we are seeing are arising following on from restructuring/ redundancy processes, alleged unfair dismissals (as a result of failures to fair procedures), discrimination, whistleblowing and pay inequality.

Employment claims have seen a total increase of around 40% across the year when comparing 2024 and 2025.

It will be of no surprise to hear that the increase in employment tribunal claims will continue on this upward trajectory in 2026. As the impact of the Employment Rights Bill takes effect, millions more will have the ability to present claims for unfair dismissal, as a result of the proposal to reduce the qualifying period for unfair dismissal claims from 24 months to 6 months.

As a claimant does not need to be legally represented at the Employment Tribunal, claims can become more costly and be pursued in any environment where a claimant has little or nothing to lose in pursuing a claim, bearing in mind that it is rare for costs to be awarded against a claimant by the Employment Tribunal.

The effect for customers is that an already stretched Employment Tribunal administrative system in which some regions already list claims well into late 2026 and into 2027 will be under even more pressure. This will result in the claims period becoming more elongated as a result with the claims process extending from 6-8 months to 24 months and in some areas extending even longer. The practical impact of longer running claim is that during this period some customers could face insolvency, key witnesses may leave and be unwilling to provide evidence at the final hearing and the average defence costs spend will increase as the claims become longer-running or more protracted.

Directors & Officers

A report from the University of Warwick has assessed the annual costs of employment litigation at c. £800m (which is split between management time, legal representation costs and payments to employees) in 2023, with c.£260m each year being incurred for legal representation and with UK employers paying out c.£225m in settlements and compensation.

The Government had forecast (as noted in the Employment Rights Bill Economic Analysis paper) that the Employment Rights Bill will cause about a 15% further increase in total volume and in our view is likely to be higher.

However, even a 15% increase would mean an extra 15,000 early conciliation notifications to ACAS, 4,750 more ET1 cases and 875 additional cases which require judicial time, such as a full hearing. The Employment Rights Bill Economic Analysis paper also noted that the policies covered within the Bill are expected to impose a direct cost on business of between £0.9 billion and £5 billion annually.

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Employment Rights Bill will cause a 15% further increase in claims, adding 15,000 ACAS notifications, 4,750 ET1 cases, and 875 full hearings.

This includes both monetised and non-monetised costs that result from delivering the benefits to workers, employers familiarising themselves with new legislation, admin and compliance costs, as well as other costs such as the loss of flexibility for employers who use variable hours contracts to manage variable demand. It should be noted that this analysis was compiled when it was anticipated that a "day one" right to bring an unfair dismissal would be implemented.

Following the budget announcement in November 2025, it has become apparent that there will not be a "day one" right to bring an unfair dismissal claim but, as stated above, the qualifying period has reduced from 24 months to 6 months, which will still result in immense financial implications.

The rise of employment claims and the policies in the Employment Rights Bill will cost not only the insurance market but also individual companies in both time and the costs of implementing changes within their companies.

Financial Institutions

The financial services sector has seen a series of significant legal and regulatory developments in 2025, reshaping expectations for lenders, investors, and insurers alike. From the Supreme Court's clarification of motor finance obligations to renewed focus on fiduciary duties in private equity structures, and the rapid escalation of AI enabled social engineering attacks, institutions are facing heightened scrutiny and increasingly complex risk landscapes. This update highlights the key rulings, regulatory responses, and emerging threats shaping the year so far - and the practical implications for firms navigating these shifts.

Motor Finance Ruling

In August the UK Supreme Court delivered a landmark ruling clarifying that car dealers do not owe fiduciary duties to their customers, overturning a previous Court of Appeal decision.

Claims in equity and bribery brought by consumers were dismissed and appeals by banks in the Hopcraft (Close Brothers) and Wrench (FirstRand) cases were upheld. However, in a notable exception, Mr Johnson's claim against FirstRand succeeded and he was awarded the full commission amount plus interest.

The Court found that his motor finance agreement was unfair under the Consumer Credit Act 1974, due to:

- A high commission rate (55% of the loan charge),
- Non-disclosure of the commission arrangement,
- Mr Johnson's lack of commercial sophistication.

In response, the Financial Conduct Authority (FCA) announced plans to consult on an industry-wide compensation scheme for motor finance customers. The scheme is proposed to apply to motor finance agreements made between 6th April 2007 and 1st November 2024 where commission was paid by the lender to the broker. Compensation is proposed to be awarded if the borrower was not informed about at least one of the following:

1. Discretionary Commission Arrangement (DCA): Where brokers could adjust interest rates to increase their commission.

2. High Commission Arrangement: Where commission exceeded 35% of the total cost of credit or 10% of the loan.

3. Exclusive Broker-Lender Relationship: Where brokers had contractual ties giving lenders near exclusive access to customers.

If disclosure cannot be proven, the lender must assume it didn't happen.

The FCA will oversee compliance, and the Financial Ombudsman Service will handle disputes. Consumers can still choose to go to court, but the FCA scheme is designed to be simpler, faster, and free. In terms of next steps and actions, our advice for lenders is to

- Prepare to proactively contact complainants.
- Ensure systems are in place to review cases fairly.
- Comply with FCA rules and respond to FCA oversight and Ombudsman decisions.

Financial Institutions

Private Equity

According to a recent report issued by KPMG, the UK recorded US$36.8 billion in private equity investment during the second quarter of 2025 - an increase of US$12 billion compared to Q1 2025.

Private equity firms generally target the participation to sophisticated, high-net-worth, or institutional investors in order take advantage of less cumbersome regulatory oversight, which is required in the retail consumer space. This allows them to operate with greater flexibility, but not without risk of future disputes arising.

Private equity funds are typically structured as Limited Partnerships, where the General Partner (GP) manages the fund and makes investment decisions. The GP will also generally appoint the Investment Manager. Limited Partners (LPs) contribute the capital but do not participate in day-to-day management.

The GP is responsible for managing the Limited Partnership in accordance with the terms of the Limited Partnership Agreement (LPA). As the agent of the partnership, the GP has the authority to bind the Limited Partnership. Any debt or liability incurred by the GP while conducting the partnership's business will be considered a debt or liability of the Limited Partnership itself. The GP is required to act in good faith and, subject to any express provisions to the contrary in the LPA, in the best interests of the Limited Partnership.

We continue to see claims brought by LPs against GPs and with the significant increase in 2025 in private equity investment in the UK we predict we will see an increase in claims in this area. These claims range from conflicts of interest - particularly in the appointment of the Investment Manager - to issues involving fee structures and allegations of fund mismanagement. While many of these disputes are resolved before going before a court or tribunal, the costs of resolution have increased across jurisdictions, with legal fees alone far exceeding the policy retentions.

The terms of the LPA are critical. Courts will assess alleged breaches of fiduciary duty by the GP against the backdrop of the LPA. If the GP's conduct falls within the scope of its contractual authority and is carried out in good faith, a claim for breach of fiduciary duty may be difficult to sustain. Much of this hinges on the drafting of the LPA. The scope of fiduciary duties owed by the GP to LPs can be significantly limited through careful drafting, potentially reducing the risk of future disputes.

Looking ahead, with the continued growth of private equity, the risk of claims in this space remains. We therefore recommend that LPs undertake a thorough review of the LPA, ensuring that any potential conflicts - particularly regarding the appointment and control of the Investment.

Financial Institutions

Social Engineering and Crime

Financial institutions face a growing convergence of traditional fraud tactics and AI-powered attacks, creating new challenges for risk management and insurance coverage.

Social engineering exploits trust rather than technology. Attacks such as phishing, business email compromise, and impersonation aim to deceive individuals into authorising fraudulent transactions. These incidents often fall under conventional crime insurance policies, although cyber policies may provide limited coverage.

Crime claims remain significant, our own internal analysis shows that the industry hardest hit is banking, which is unsurprising and accounts for most of our crime notifications in 2025. A point to note is that many social engineering losses are misclassified under cyber policies, likely obscuring true exposure.

AI accelerates social engineering by automating and personalising attacks:

• Phishing: AI adjusts campaigns dynamically based on user responses.

• Business Email Compromise: AI mimics executive writing styles for convincing fraud.

• Spear Phishing: AI collects data and crafts highly targeted messages.

• Deepfakes: Minimal audio/video samples enable realistic impersonations, making detection difficult.

Recent advances in machine learning have made deepfakes nearly indistinguishable from authentic content, causing major financial losses for global firms. Attackers can now launch thousands of personalised calls or emails simultaneously, increasing success rates dramatically.

Insurers are introducing combined products and developing underwriting around fraud, cyber threats, and reputational risks. Meanwhile, organisations deploy AI-driven detection tools, but the battle remains a “cat-and-mouse” game requiring continuous investment in employee training, advanced fraud detection and tailored insurance coverage.

AI-powered social engineering is not a future risk - it’s here. Financial institutions must adapt quickly to safeguard assets, maintain trust, and ensure insurance programs align with evolving threats.

AI-powered social engineering is not a future risk - it’s here.

Professional Indemnity

2025 has been a year of consolidation with professions embedding new ways of working whether that be by adapting business processes to incorporate AI related operations or by strengthening an organisation's culture so that the organisation's values and behaviours align with regulators' expectations. Ensuring professionals behave ethically remains a key focus for regulators to bring stability to the economy and help protect the public from economic harm.

Many historic fire safety and cladding claims are reaching a conclusion but are settling for far higher sums because of the uplift in construction costs and periods of delay which we have seen both in investigating and remediating defective work. In addition, with remedial works underway we've seen, and are continuing to see, additional design issues being identified and further claims being made. Lots of contractors are finding themselves exposed to large liabilities through historic fire safety and cladding claims endorsements, imposed by insurers after the Grenfell fire tragedy, which we think puts a heavy financial burden on contractors and increases the risk of insolvency.

War and policy change has created vulnerability within the building industry this year, with the geopolitical environment causing instability within the construction industry and the risk of insolvency generally remaining steady in 2025.

We have seen an increase in claims under the Third Party (Rights Against Insurers) Act 2010 which we expect to continue, and which brings into sharp focus policy wording and the notification obligations under a policy.

We consider the key to mitigating risk is a strong and healthy partnership with insurers so that together we can navigate the choppy times which undoubtedly lie ahead.

Construction

The key trends which we saw impact the industry in 2025 will continue to be present as we enter 2026, one of those being insolvencies. The UK construction section continues to experience the highest number of any industry, with this sector alone seeing almost 4,000 insolvencies over the past year. Construction firms accounted for 15.2% of all insolvencies in England and Wales in July 2025, according to the Insolvency Service.

The UK construction sector continues to experience the highest number of insolvencies in any industry.

There have been some high-profile insolvencies in 2025 which include Ardmore Construction Ltd. Parent company, the Ardmore Group, announced the administration of their construction branch in August to draw a line under the cost of their fire remediation works.

Professional Indemnity

The changes to cladding under the Building Safety Act has led to several issues with several major housebuilders that the contract company worked with. This included Barratt's main trading arm, BDW Trading and Bellway.

We anticipate that in 2026 we will see implications arising from the ongoing delays in connection with the Gateway regime, introduced by the Building Safety Act on higher-risk buildings (those over 7 stories or 18 metres in height and contain at least 2 residential units). Gateway 2 is the building control approval stage which requires a demonstration as to how the proposed works will comply with the requirements of the building regulations. The original estimated timeframe for approval for this stage was 12 weeks for new high-risk buildings, but extended delays are now resulting in delays of up to 25-40 weeks.

There is an inevitability that these delays will cause project delays, therefore, what can our customers do to manage the consequences of any Gateway delays? There will be an increased onus on the Principal Designer and Principal Contractor to ensure the applications are submitted in a way that prevents any criticism from the Building Safety Regulator. The parties will need to be pragmatic in relation to timing and costs to avoid any possible insolvencies within the contracting chain arising from these delays. Again, our customers need to do the appropriate due diligence when entering into these contracts and understanding who they are contracting with. They also need to ensure that there is sufficient flexibility in the contracts to allow for any potential delay.

Principal Designers

The role of Principal Designer has taken on a new look in recent years. The Building Safety Act 2022 ('BSA') ushered in wide ranging reforms to the legal landscape relating to building work in England. As the dust continues to settle on this significant piece of legislation and its connected regulatory amendments, there has been much discussion around the new dutyholder regime, and especially the role of Principal Designer.

The 'new' Principal Designer fulfils a different and much wider function than under CDM Regulations: one that is concerned with ensuring compliance of construction designs with Building Regulations. Claims against construction professionals regularly involve issues relating to compliance with Building Regulations, which can be highly technical and involve fundamental issues of safety. The Building Regulations Principal Designer ("BR Principal Designer") therefore has a more extensive role, and carries a greater risk profile, than its forerunner under the CDM Regulations.

For the role of the BR Principal Designer, the person or organisation must meet the competence and capability levels required to undertake this role. They must have the relevant behaviours and understanding of the regulations and standards that need to be met.

Principal Designers must show stronger competence and accountability due to greater fire, structure, and safety risks.

Professional Indemnity

Lawyers

The number of claims against solicitors has remained steady. However, we have not seen any recurring trends compared to previous years where we have seen multiple claims arising from similar circumstances. However, there has been some claims inflation in that the claims are generally of a higher value.

We have yet to see exactly how firms will adjust their business strategies to accommodate AI. A lot of firms approach the use of AI with caution, unsure yet about the likely approach the Courts will take to the use of AI. The current feeling is perhaps one of 'damned if you do, and damned if you don't' with the expectation by the Courts that firms will embrace the use of AI. This is countered by the risk of a severe reprimand as we have seen if AI is misused, demonstrated by practitioners who have fatally relied on 'hallucinations'.

AI has certainly been embraced by Claimants, particularly Litigants in Person who are relying ever more on AI to present increasingly verbose Letters of Claim which require a lengthy amount of analysis before responding.

The decision in the case of *Julia Mazur & Ors v [Law Firm] [2025] EWHC 2341 (KB)* has left firms having to revisit their policies and processes to ensure that anyone who might be said to be involved in the "conduct of litigation" is suitably qualified, made all the more difficult where there is potentially some uncertainty about what does and does not amount to conducting litigation.

Similarly, we expect new regulatory risks, such as, the offence of failure to prevent fraud and AML compliance, which is moving to the FCA, to mean that firms will have to manage closely the way in which they do business.

When something does go wrong, a firm's retainer is central to determining the scope of the solicitor's duty of care and therefore, we recommend that firms look carefully at retainers and, if the scope of the retainer is amended or changed, that this is properly recorded so that the firm and the client are clear on what it is agreed the solicitor is advising on.

Proper training, supervision and clear expectations around value driven behaviours remain key to good risk management. The shift away from assessing risk based solely on different work types within a firm continues with law firms needing to take a more holistic approach to risk and ensuring they have in place proper systems and processes around training and supervision to ensure that it is fit for purpose and provides future professionals with the skill set necessary to navigate an increasingly complex regulatory environment.

US Lawyers

In its second term, the Trump Administration has signed more Executive Orders already than the total signed in the Administration's first term. We are expecting to continue to see a rise in notifications in relation to these Executive Orders, especially to those against US Law Firms as they remain in the firing line and under investigation. Further, the announcement that the US Department of Justice will be "aggressively investigating" DEI practices within companies referred, importantly, not just to the US Law firms, but to other industries too. This means that many companies will face vulnerable times as their conduct and governance at work is interrogated.

Professional Indemnity

Accountants

In October 2024, we saw the first labour budget in 14 years. The budget made various changes to the tax landscape which could potentially increase the risk for any professional advisors in tax planning. We are still to see the impact filter through to our notifications but are likely to see pressure on small businesses because of the increase in Employer's National Insurance Contributions which impact insolvencies and potentially expose any professional advisors acting immediately before the insolvency to risk.

There has been a significant uptick in Accountancy firms turning to Private Equity to support their business' and, as reported above, the UK has seen a significant increase in private equity investment in 2025. The ICAEW have picked up on this and feel that there is a real risk surrounding this move and how it could shape Accountancy as a profession and the risks involved. It appears to be impacting the mid-tier firms, where 86% of the surveys received by the ICAEW see it as a top three trend currently in the profession, and 25% are expressing interest in exploring this pathway in the next 3 years.

Whilst the key concerns in the industry were around the impact it would have on company culture, retention of people and the impact it would have on talent pipeline to Partner; it also highlights the potential change in attitude some firms may have towards Risk, and the breadth of work they take on.

Fee growth and up scaling the business seems to be a key driver in this push for private equity, which may potentially result in a wider and more lax review of the types of clients they take on and scope of advice they offer which then ultimately may result in an increase in PI (and potentially D&O) claims. It is important that accountancy firms keep an eye out on their expansion through private equity and ensure that this change doesn't result in errors arising in tax and audit failures, or risk of misrepresentation in scope of services.

Now, more than ever, it is important to have a strong management of talent pipeline, and ensure firms maintain their company governance and compliance throughout these types of transformations in order to avoid any errors in work or inappropriate advice.

Professional Indemnity

Surveyors & Valuers and Property Managers

We have yet to see what impact the government's recent announcement of a surcharge, dubbed a 'mansion tax' which is set to apply from April 2028 on properties worth over £2million will have on the property market. However, we anticipate that Surveyors may face significant exposure because values are expected to be determined by the Valuation Office Agency (VOA) using desktop methods as opposed to physical inspections.

High-net-worth properties are at particular risk of being overvalued by tens of thousands of pounds, and reliance on these models could result in valuations being challenged triggering costly appeals, reputational harm, and potential legal claims if a client's property is incorrectly assessed. This in turn could result in new buyers wishing to keep prices depressed potentially leading to allegations that historic valuations were over inflated. Moreover, as comparable evidence for unique luxury properties is often scarce, even Chartered Surveyors may struggle to produce reliable valuations, increasing the likelihood of disputes.

Following changes to the 2024 RICS Minimum Approved Wording, the enhanced fire safety cover, available from 1 July 2024, hints at a degree of optimism surrounding future fire safety exposures for Surveyors and Valuers.

However, Part 4 of the Building Safety Act has introduced a new system for managing safety in occupied higher risk buildings through the creation of a new statutory duty holder for such buildings. The Building Safety Act imposes several statutory obligations on the Accountable/Principal Accountable Person – in some instances, a breach will be a criminal offence – which are intended to strengthen practices around building safety. This includes an obligation to prepare a Safety Case Report which is crucial in reducing the risk to life safety in the buildings.

A Building Safety Case Report outlines the potential risks to fire safety and how structural integrity are identified, managed, and mitigated. The main aim of the Safety Case Report is to show that the accountable persons have assessed any major fire and structural hazard/risks and created strategies to manage and mitigate these risks.

The government has provided guidance on preparing a Building Safety Case Report but no specific examples of what the report should look like. This potentially poses a risk to anyone responsible for preparing a Building Safety Case Report and they should be familiar with the requirements of the Report which will include a description of the building, for example, the height, number of floors and staircases, information about who will live in the building, and the building risks which have been identified and how these are being managed. This means having a familiarity with the building which is the subject of the Report and ensuring that the Report is kept updated. The Building Safety Case Report is a critical document in the on-going statutory obligation to keep people safe.

We anticipate that Property Managers will be asked to agree to act as the Accountable/Principal Accountable Person which may present a risk if those individuals have not had the requisite training and experience so moving into new areas needs to be undertaken with caution and clarity around the scope of duties assumed.

The property management sector has undergone huge changes in recent years largely due to changes in legislation and regulation. We anticipate a rise in claims in this sector in 2026.

Professional Indemnity

Claims against property managers are varied but typically include allegations that the property manager failed to protect the deposit, the inappropriate use of client account funds and failures in relation to utility contracts and changes.

The UK Renters' Rights Bill is expected to come into force in mid 2026, and we anticipate it will drive an increase in claims throughout this year. The Bill represents the biggest reform of the private rental sector since the Housing Act, introducing significant operational, legal, and administrative pressures. With all evictions now requiring court orders under Section 8, landlords will face greater compliance and documentation demands, as well as the need to adapt strategically to the end of fixed term tenancies.

AI and Professional Services Firms

As highlighted throughout this article, the benefit of AI is recognised by many firms across different industry sectors. Examples of its use can be found in the financial sector in the management of equity funds and fraud detection; in the legal sector to assist with disclosure and the preparation of trial bundles; the property sector to streamline processes and connect with clients through better targeted marketing; architects to predict energy consumption/ sustainability indicators under different design scenarios; and in many other ways.

AI can analyse vast amounts of data, streamline operational tasks, save huge amounts of time and therefore cost.

If used correctly, removing laborious data review and document heavy tasks allows organisations across all sectors to focus on the more human and creative elements of its specialism leading to an enhanced customer (and employee) experience. In theory you would think this would minimise risk as so many of the claims we see, and handle arise from simple human error. However, with all the benefits of AI also come challenges and risks that need to be carefully managed throughout the AI cycle.

The liabilities arising from the use of AI will impact organisations differently depending on the nature of the business. To prevent the sort of liabilities that could arise from using AI organisations will need to invest time and money at each stage of the AI cycle.

Although most organisations will only ever use AI as part of a licensed, third-party product they should still have appropriately skilled teams in place to ensure that potential liabilities that could arise at the early input stage are identified, understood, appropriately managed, and documented.

Some organisations will have the technical resources available to do this internally and some will need to rely on third parties (such as legal advisors).

The importance of organisations investing time and seeking appropriate technical legal advice in the early stage of AI deployment cannot be understated when it comes to managing AI risks. Organisations that tackle the issues head on, have clear user policies in place and offer good training to its stakeholders will be best placed to prevent exposure to costly claims and enjoy its benefits. In addition, businesses need to actively engage with their customers around their AI use and be clear as to where it's being utilised as well as remembering the importance of human interaction and engagement to the customer experience.

The use of AI across all professions will continue in 2026 and we are likely to see new risks emerge if the proper checks and balances are not in place, particularly where human oversight has been removed from a task.

Strategic Imperatives for 2026

Insurers and our customers face this multifaceted risk landscape, several strategic imperatives emerge:

- **AI responsibly:** understand the models, audit for bias, and ensure human oversight in high-impact and technical decisions.
- **Monitor insolvency trends:** Consider customer's supply chains where appropriate, adjust underwriting appetite and claims protocols to reflect rising financial distress.
- **Prepare for class actions:** Review aggregation clauses, sub limits, and defence cost coverage.
- **Manage legal spend:** Negotiate panel rates, explore alternative legal service providers, and track cost drivers.
- **Adapt to geopolitical volatility:** Invest in compliance frameworks.

For PI, D&O, FI, and Cyber, 2026 will be a year of recalibration. Those who act decisively balancing innovation with governance will be best positioned to thrive.

Further reading:

For more insight into some of the key topics that we have been tracking, please see:

- Insolvency trends and implications for directors
- To notify or not to notify: Key considerations for Professionals
- The rise of AI: implications for D&O insurance wordings
- Restrictive Covenants on Title: Key considerations
- Data: A powerful tool for managing risk
- Over 4,500 employees steal from workplace in past year
- Directors and Officers Responsibilities: Vulnerabilities amid cyber threats
- The importance of organisational values and behaviours and their impact on risk culture
- Specialty: The year in review and what's alive in '25

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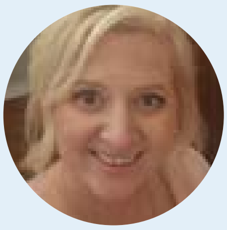

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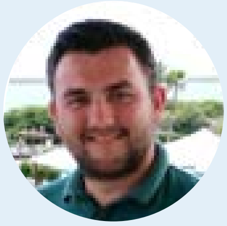

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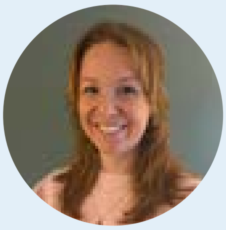

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