



PROFESSIONAL INDEMNITY (NON-US) A REVIEW OF THE MARKET

PROFESSIONAL INDEMNITY FORUM CONFERENCE
OXFORD UNIVERSITY
7TH – 9TH JULY 2015

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Directorate
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AGENDA

- ▶ Introduction
 - Why a Review
 - Aim of the Review

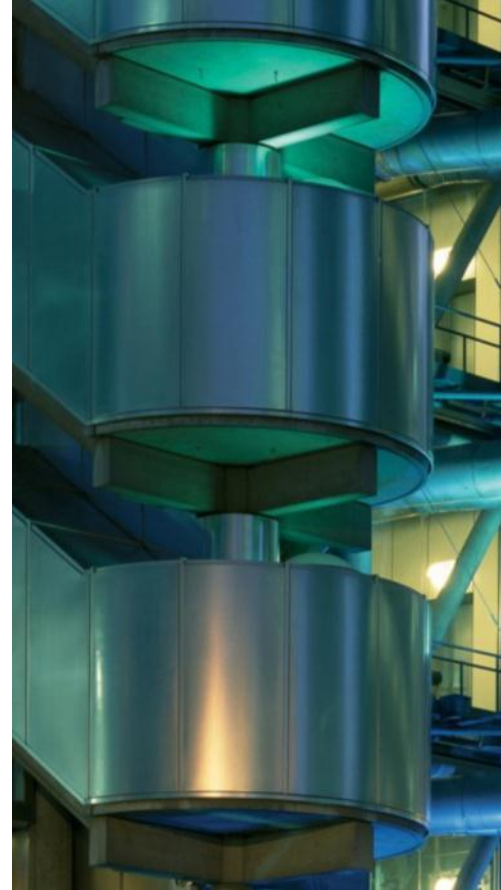
- ▶ Data Analysis
 - Market Share & Distribution
 - Acquisition Costs
 - Performance
 - Growth
 - Pricing

- ▶ Findings
 - Economic Correlation
 - Class Specific
 - Historic development

- ▶ Conclusion

- ▶ 2016 Business Planning





INTRODUCTION

- WHY A REVIEW
- AIMS OF REVIEW

WHY A REVIEW ?



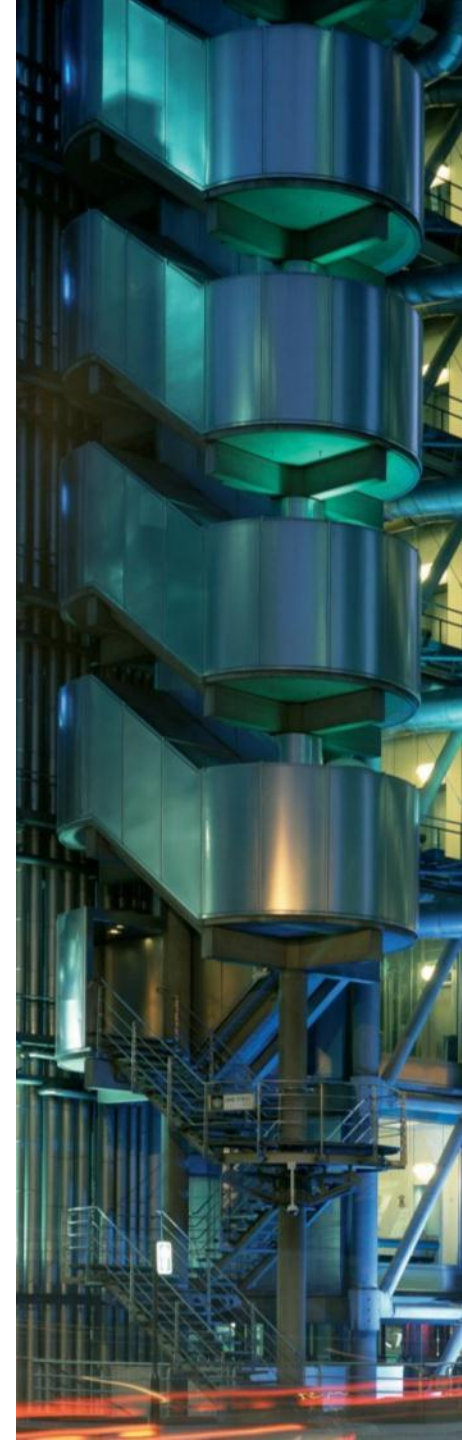
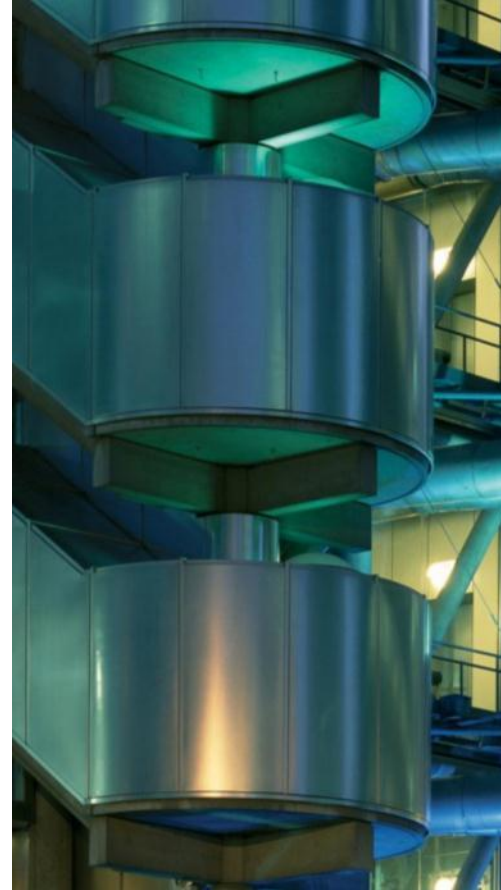
- ▶ 6 out of last 10 years the class failed to meet plan
- ▶ 5 out of last 10 years have been loss making, after expenses
- ▶ The market has grown by both premium income and number of syndicates every year for the last 7 years
- ▶ Proposed 2015 £670m GNP
- ▶ Rates have fallen over the 10 years



AIMS OF THE REVIEW

- ▶ Thematic
 - Type of business written
 - Identify causes for underperformance
 - Discuss market dynamics affecting the class in general
 - Discuss remedial action taken
 - Market conditions, competition and outlook
 - Risk selection strategy
- ▶ Minimum Underwriting Standards (MUS) Compliance
 - Price and Rate Monitoring

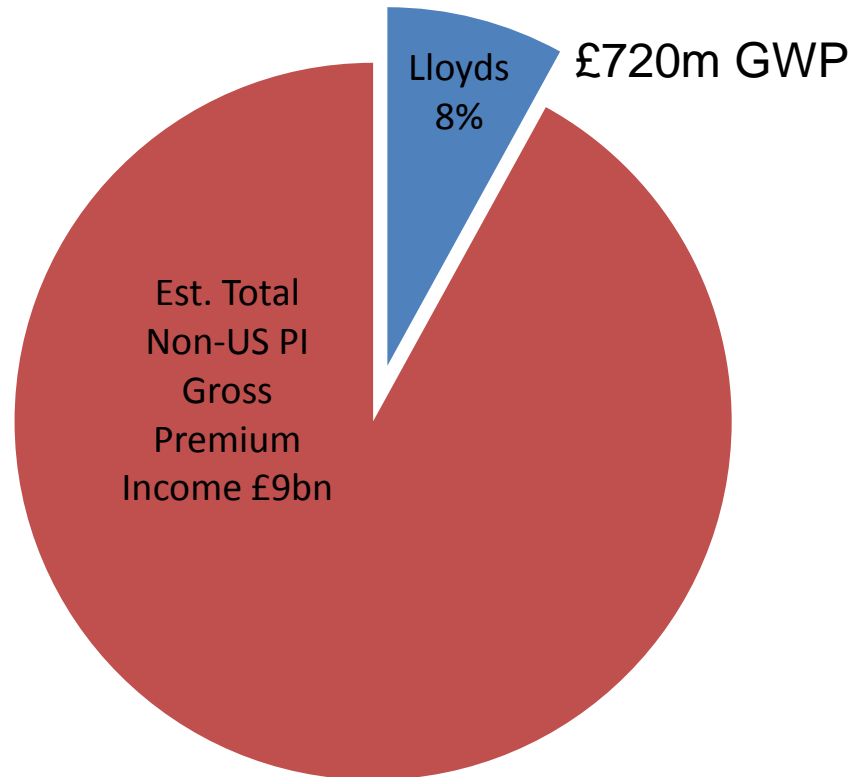




DATA ANALYSIS

- MARKET SHARE & DISTRIBUTION
- ACQUISITION COSTS
- PERFORMANCE
- GROWTH
- PRICING

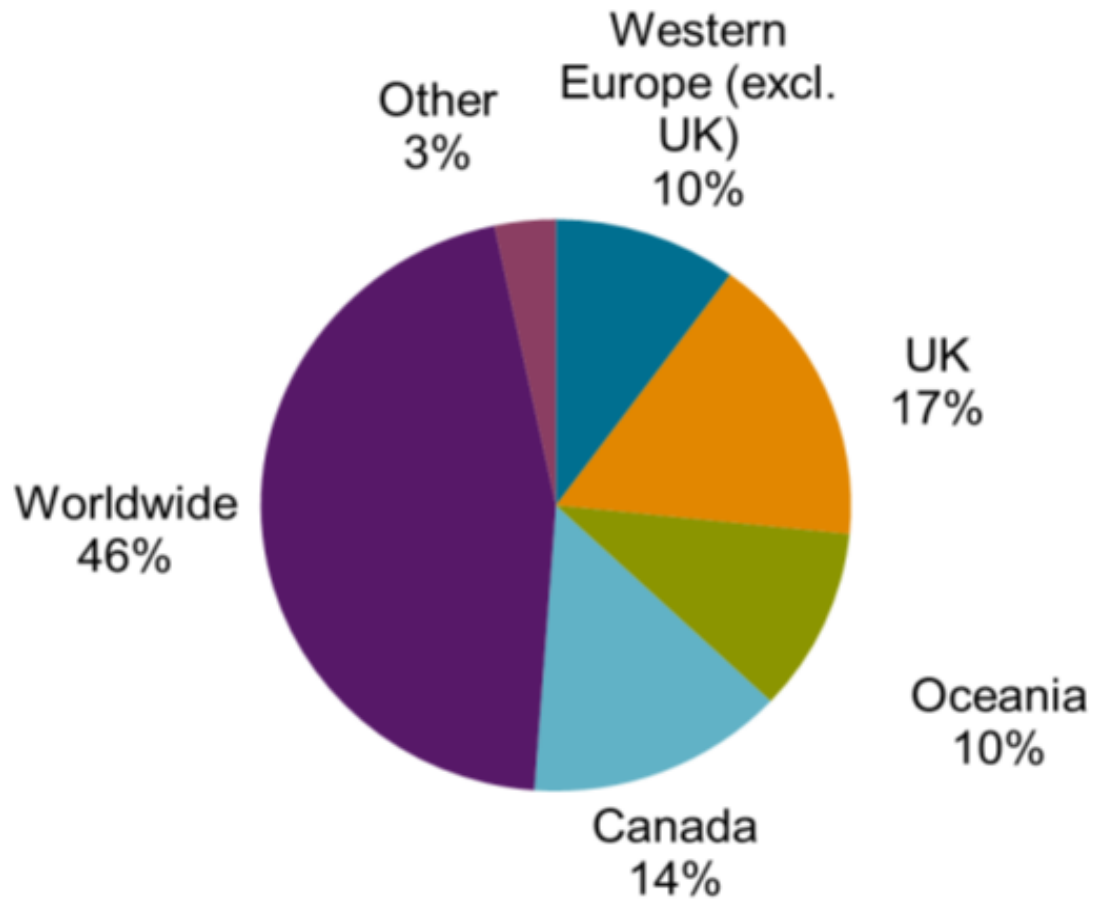
MARKET SHARE



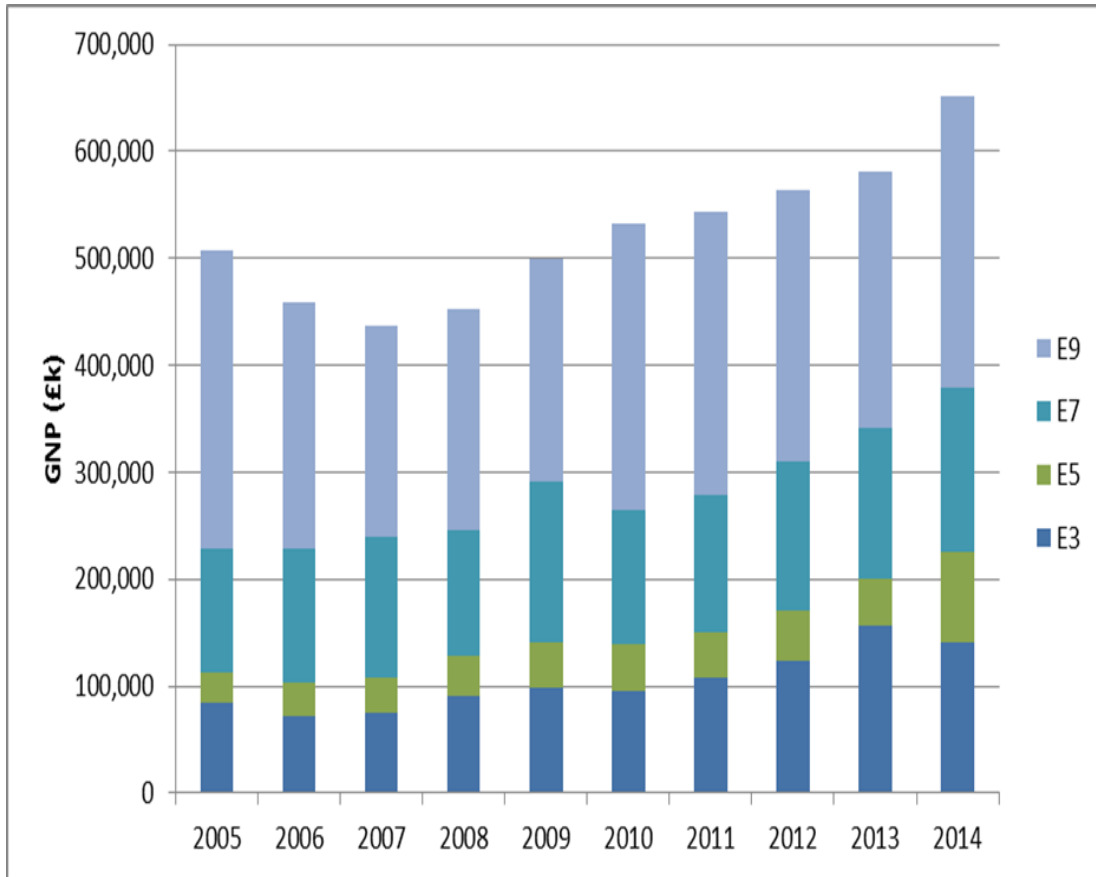
UK – £1.5Bn
Mainland Europe – £4.6Bn
Canada - £1.Bn
Australia - £0.9Bn
Other - £1Bn



DISTRIBUTION – BY TERRITORY



DISTRIBUTION - BY CLASS CODE

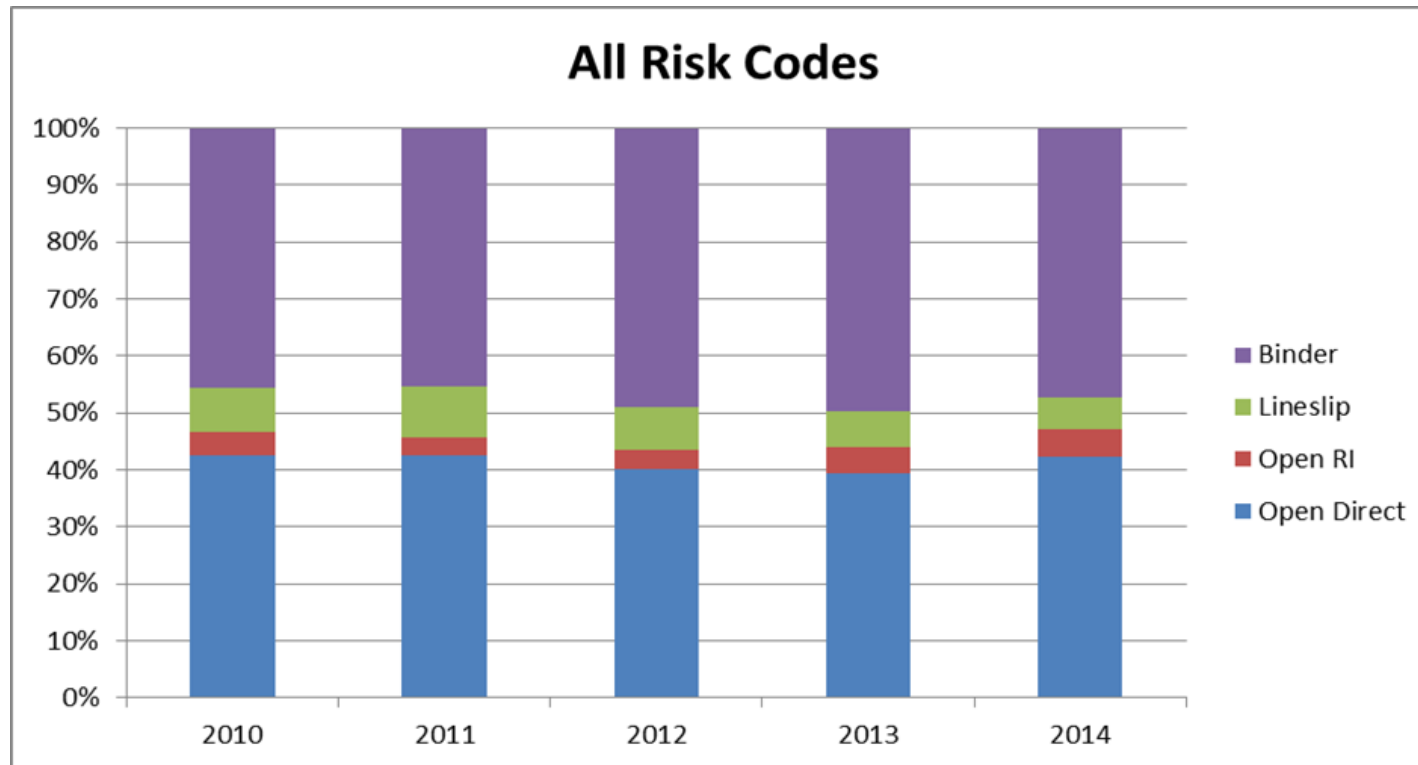


Class:

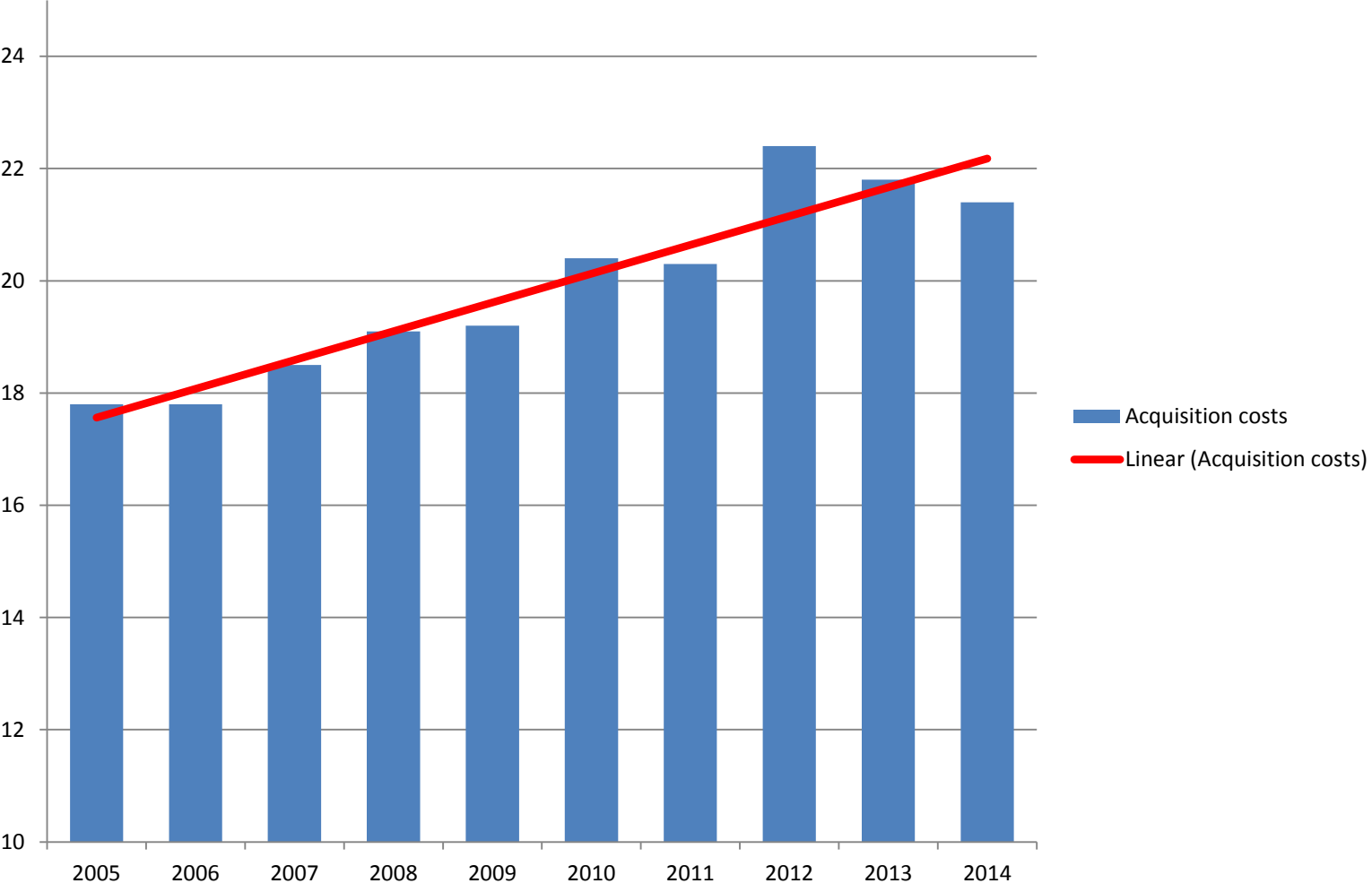
- ▶ E9 - Miscellaneous
- ▶ E7 - Architects & Engineers
- ▶ E5 - Accountants
- ▶ E3 - Lawyers



DISTRIBUTION - BY PLACEMENT METHOD

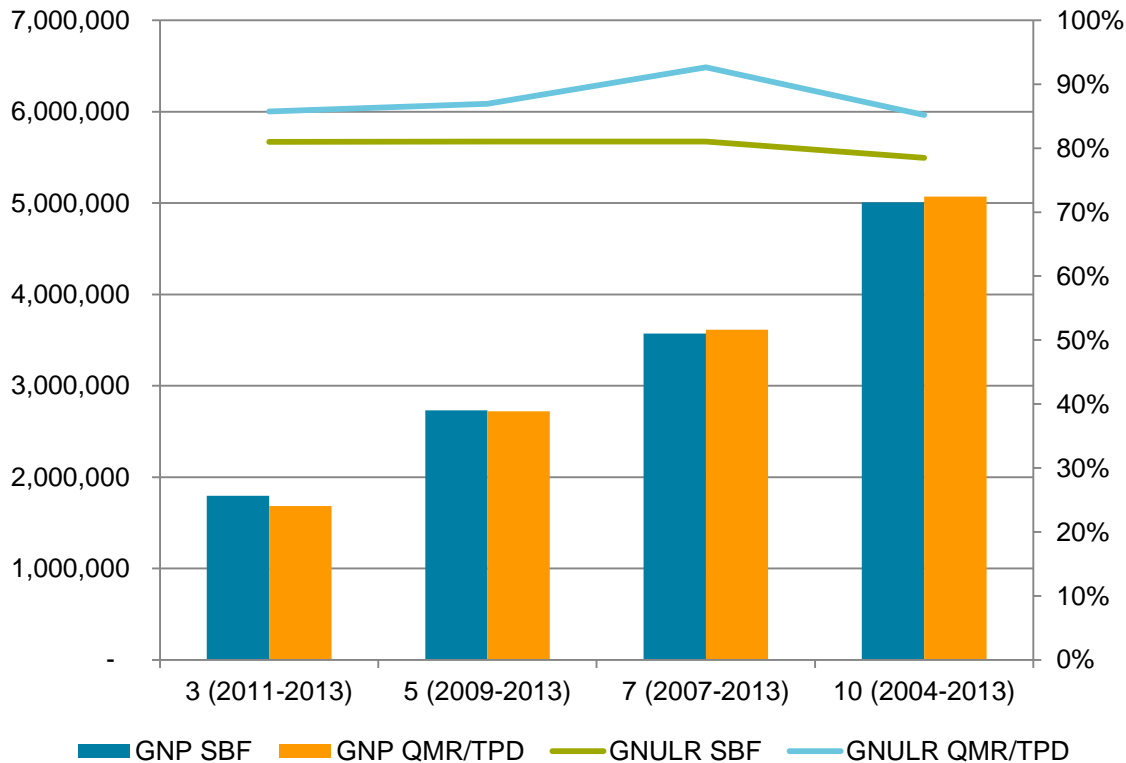


ACQUISITION COSTS



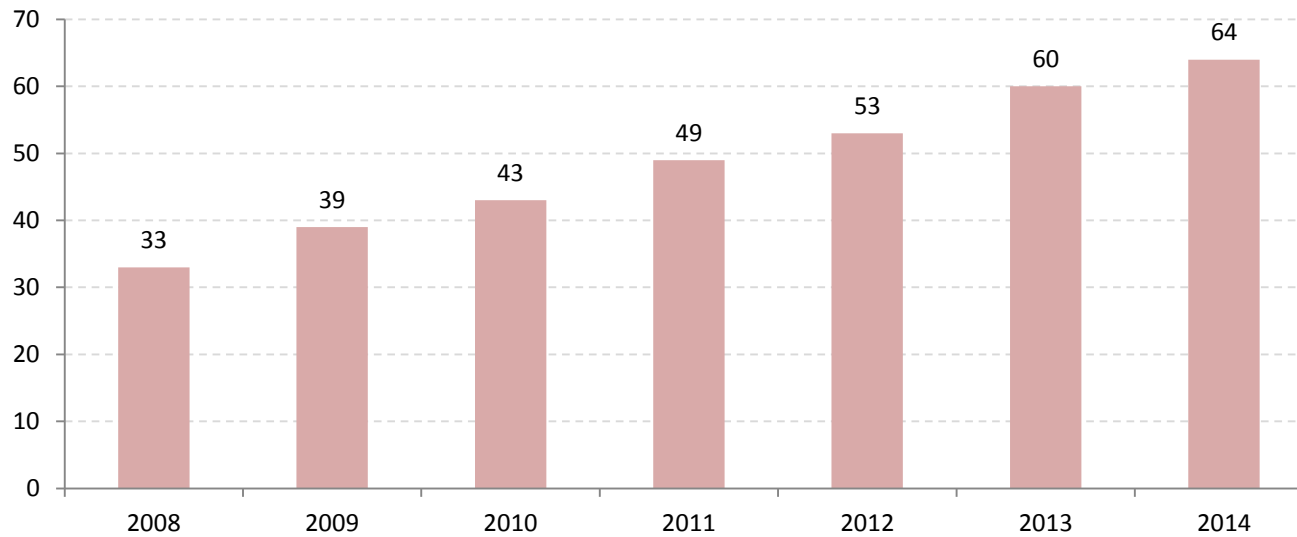
PERFORMANCE - AVERAGED OVER TIMESCALES

- ▶ Market performance against plan over various timescales.

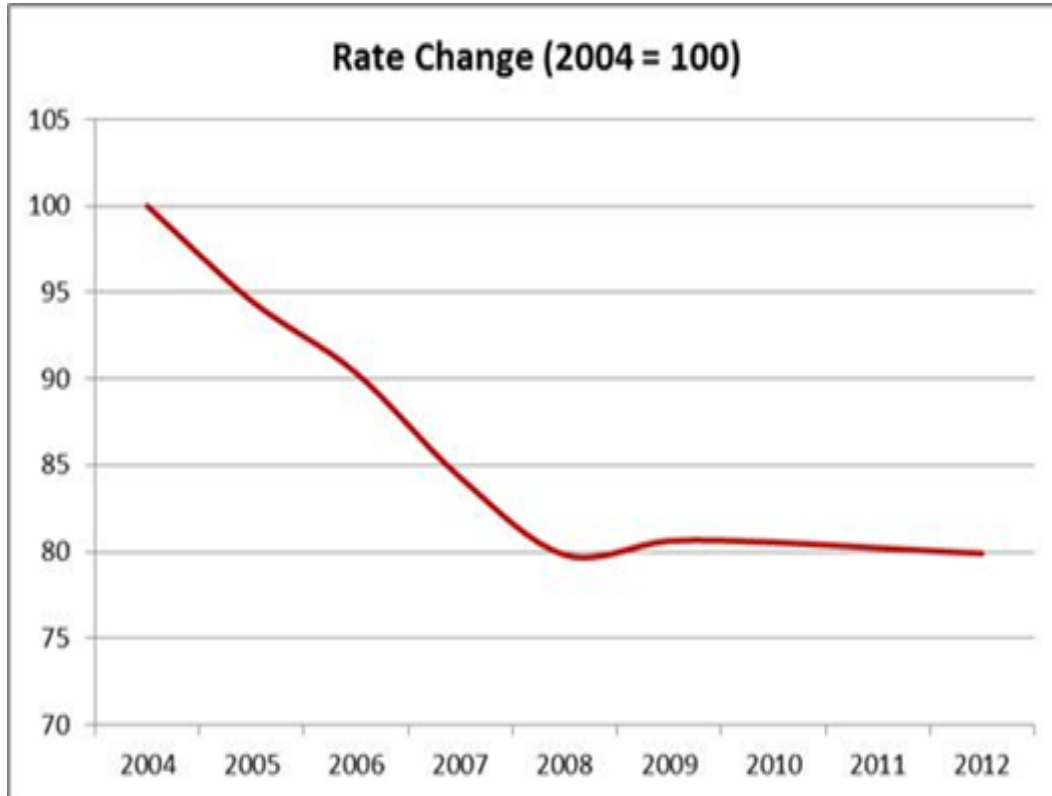


GROWTH

Syndicate Count Professional Indemnity non US

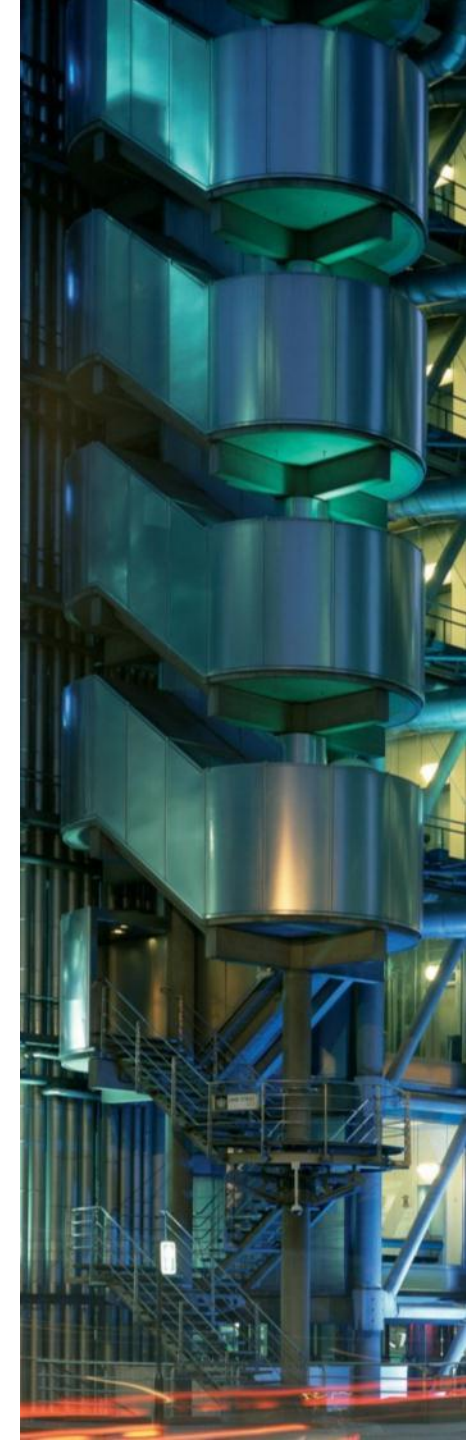
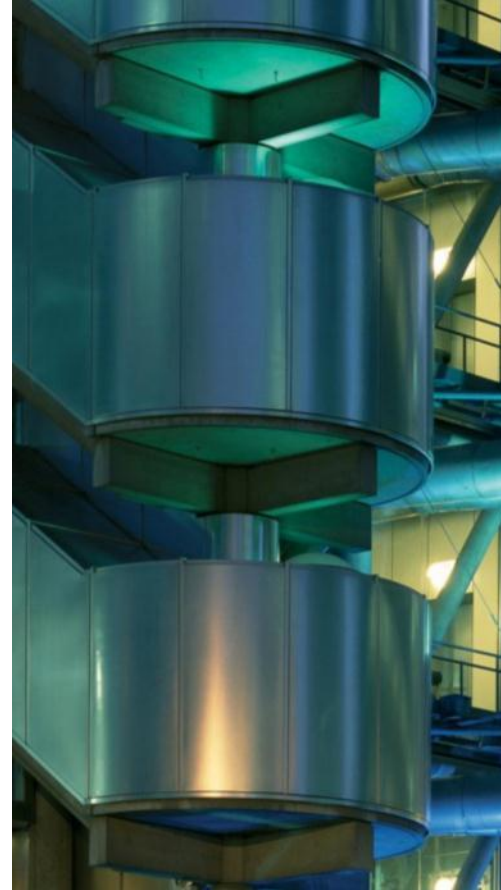


PRICING



- Only 20% fall from the peak?
- Churn not recorded !
- Rate Increases only on troubled classes ?
- Indicative of a deterioration in risk selection criteria?





FINDINGS

- ECONOMIC CORRELATION
- CLASS SPECIFIC OBSERVATIONS
- HISTORIC DEVELOPMENT

CORRELATION TO THE ECONOMIC CYCLE?



“You only find out who’s swimming naked when the tide goes out”

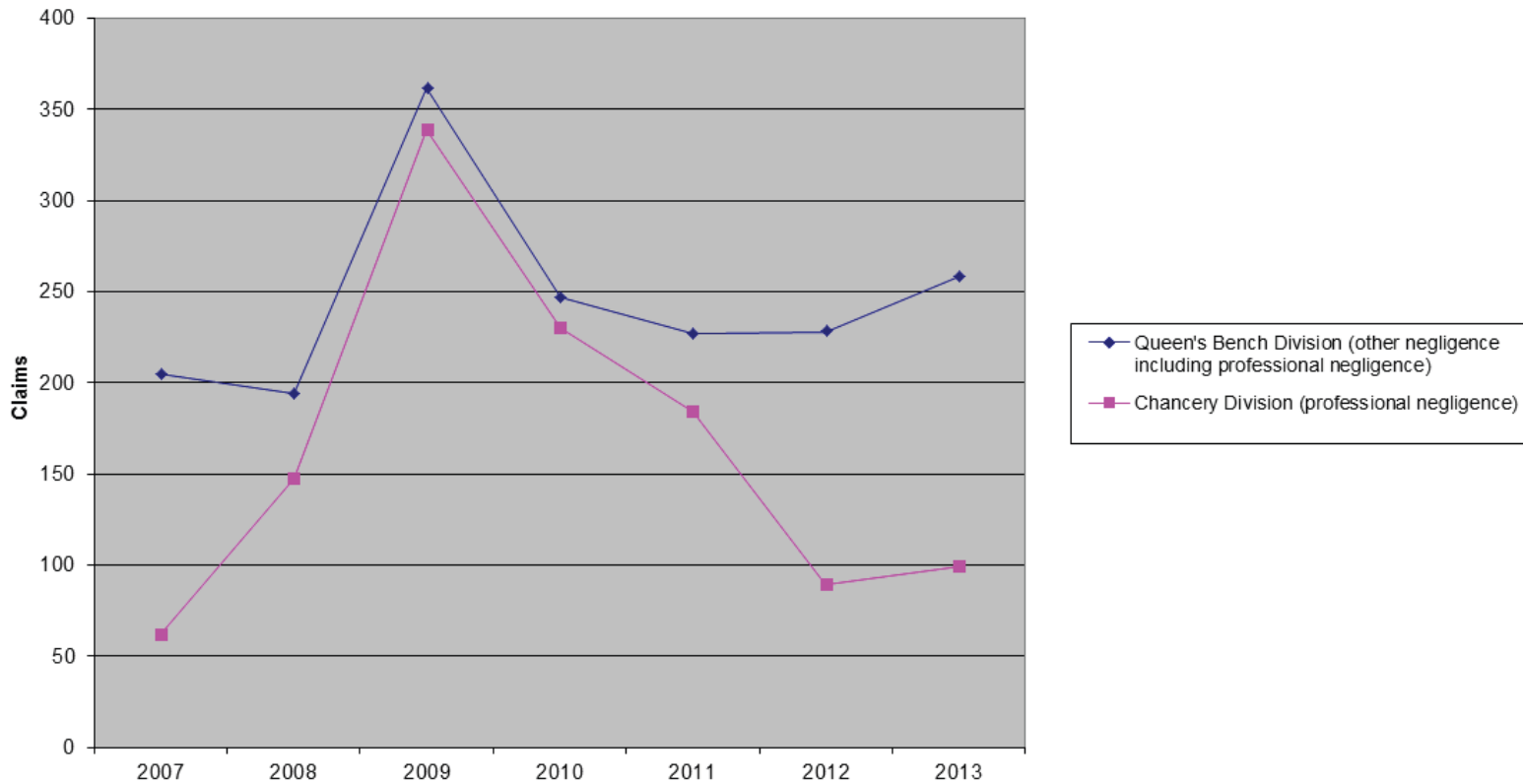
Warren Buffett

- ▶ Receding tide of prosperity, reveals and causes wrongdoing
- ▶ Falling asset values
- ▶ Systemic Claims
- ▶ Legislative and Regulatory changes

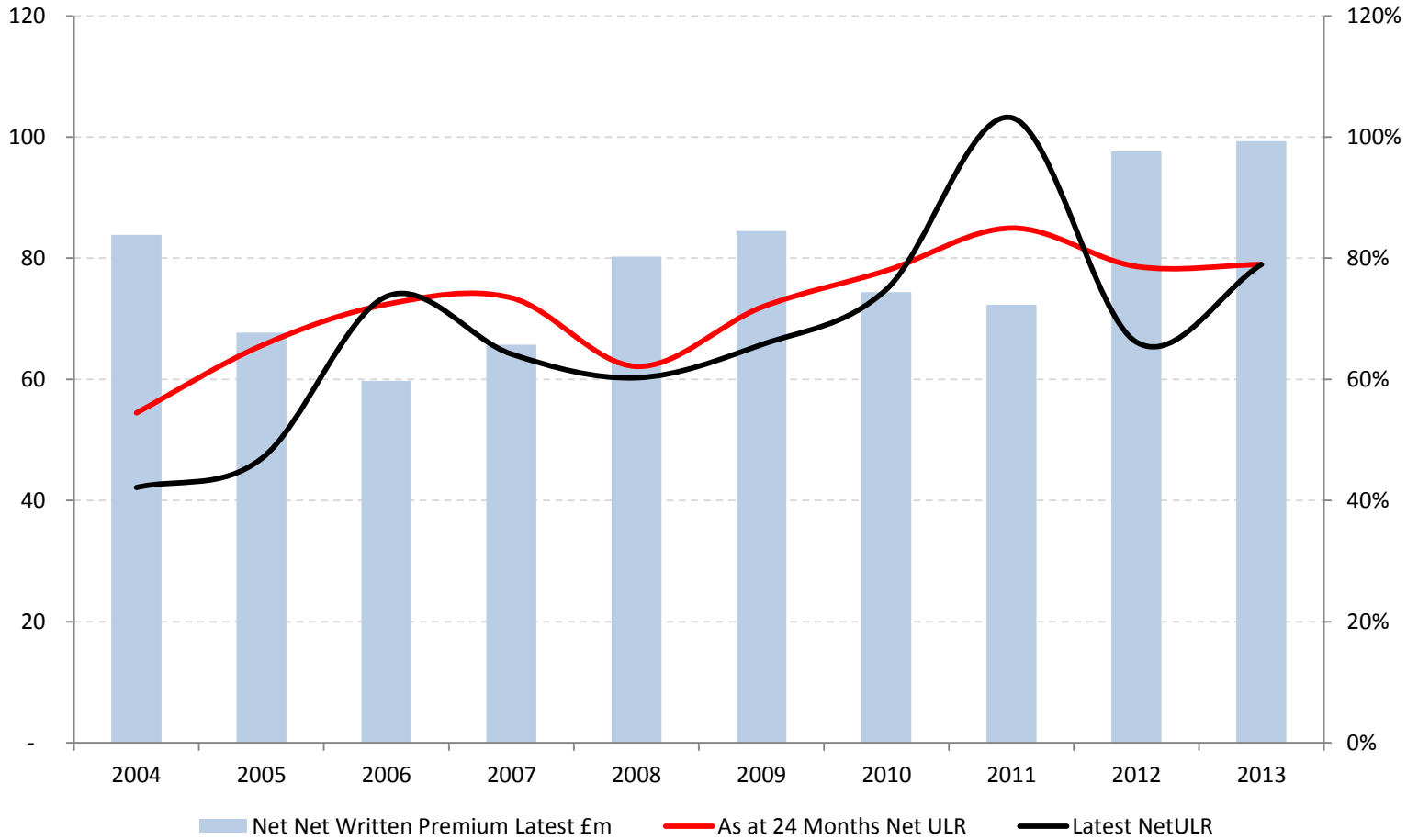


CORRELATION TO THE ECONOMIC CYCLE

Professional negligence claims in the Chancery and Queen's Bench Divisions, Royal Courts of Justice London



LAWYERS - E3



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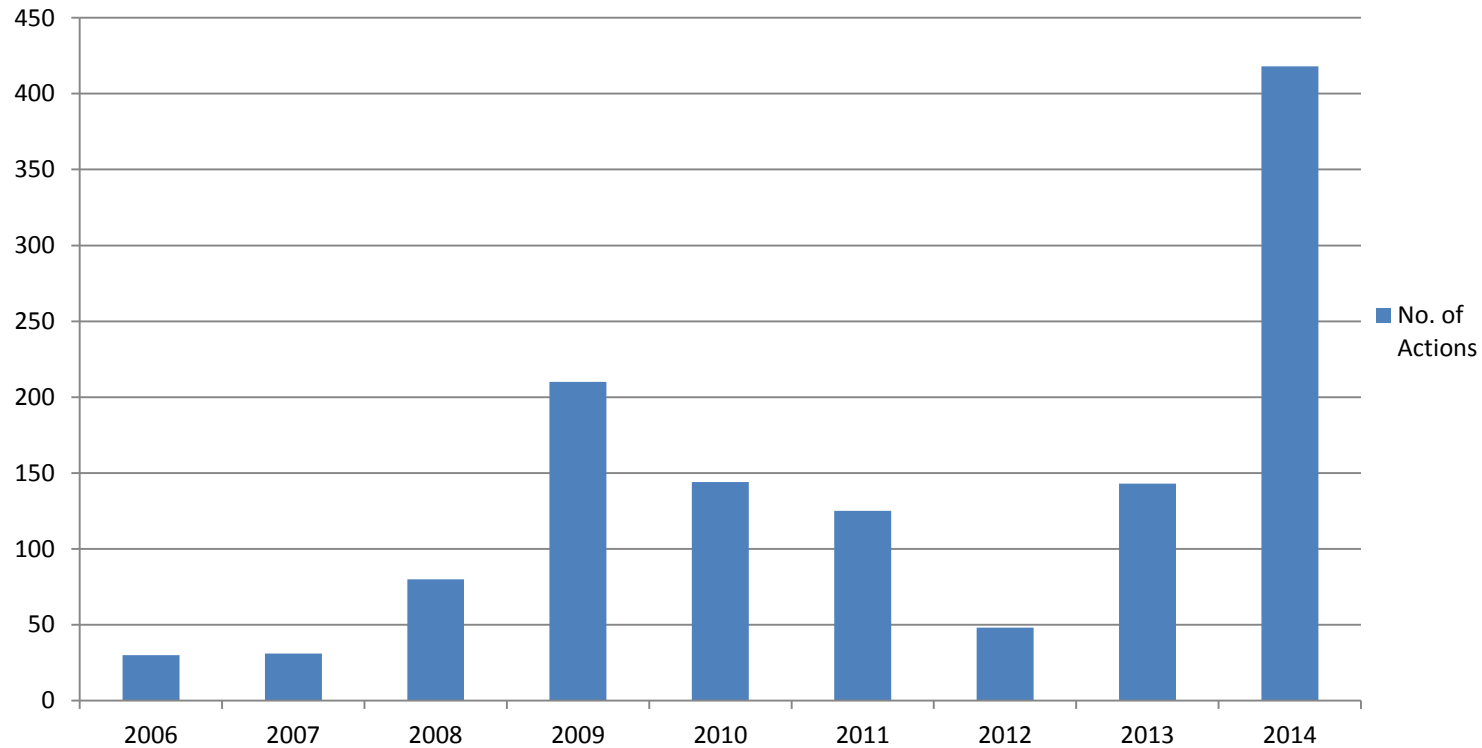
- ▶ International profile dominated by UK and Commonwealth territories
- ▶ Offshore Corporate Service Providers
- ▶ Significant participation on Top 100 firms, < 10 ptrn firms not widely written
- ▶ Increased recession related claims :
 - Fraud
 - Commercial transactions
 - Conveyancing
- ▶ Law firm insolvencies and Consolidation of Firms
- ▶ Increased interest in UK Solicitors as a result of abolition of ARP and common renewal date



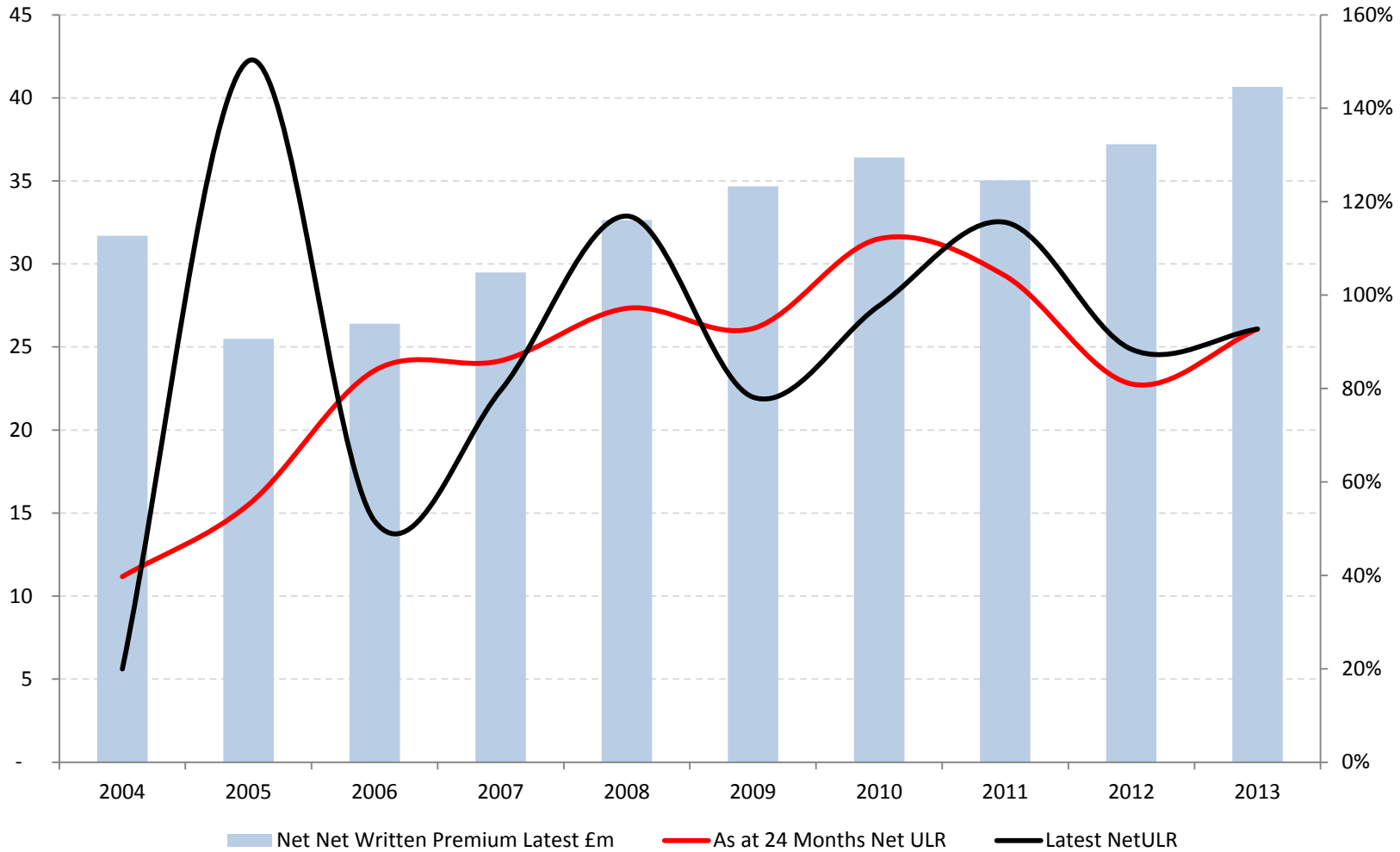
LAWYERS - E3



UK High Court Actions Against Solicitors



ACCOUNTANTS – E5



ACCOUNTANTS – E5



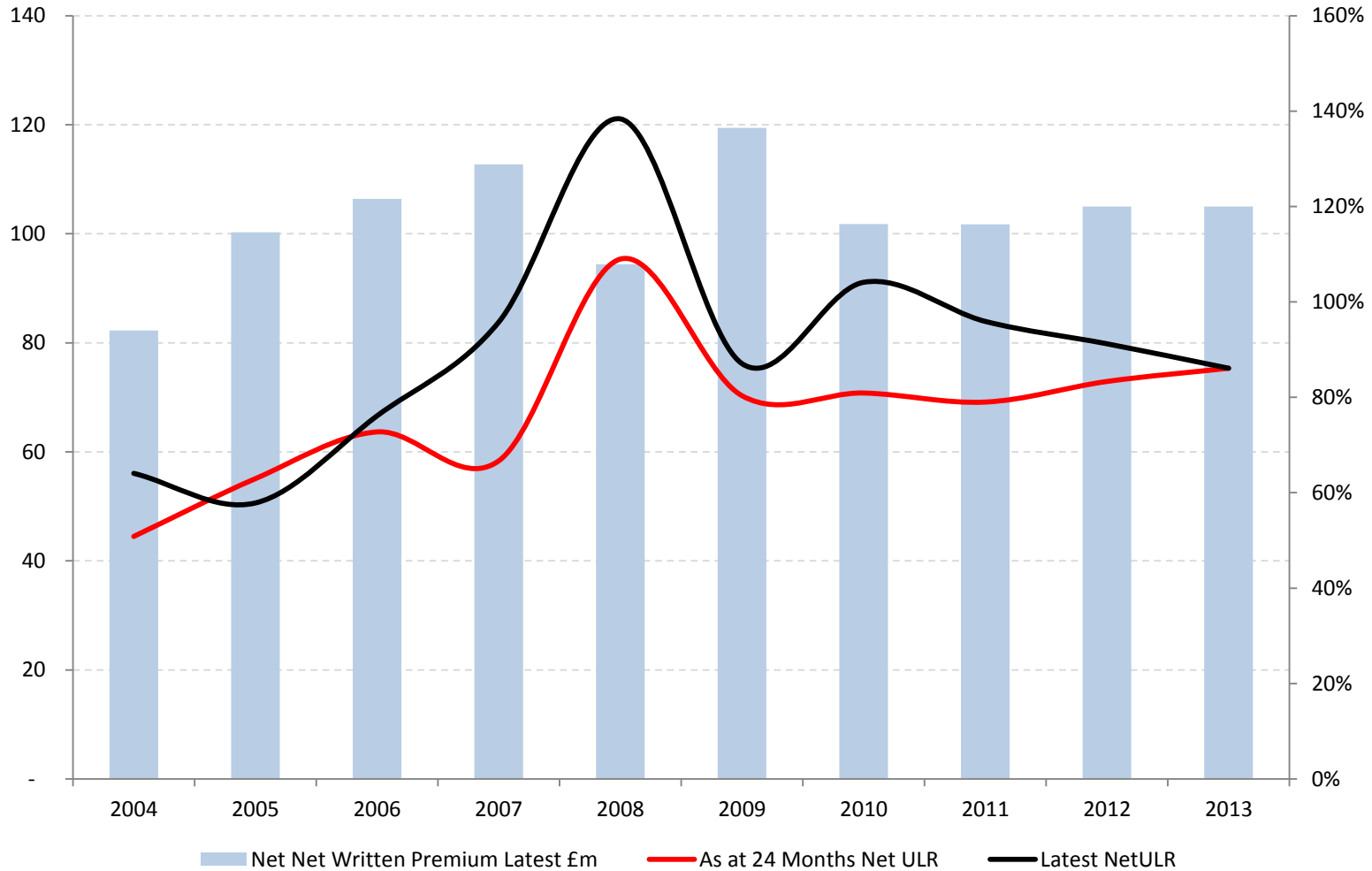
- 2009 had more negligence cases brought before High Court than the previous 5 years combined
- 2002 post dot com bubble and Enron/Worldcom etc.. there were 37

Common Claims :

- Failure to spot fraud
- Over valuation of assets (balance sheet write downs continue)
- Tax advice
- Corporate insolvencies



ARCHITECTS & ENGINEERS – E7



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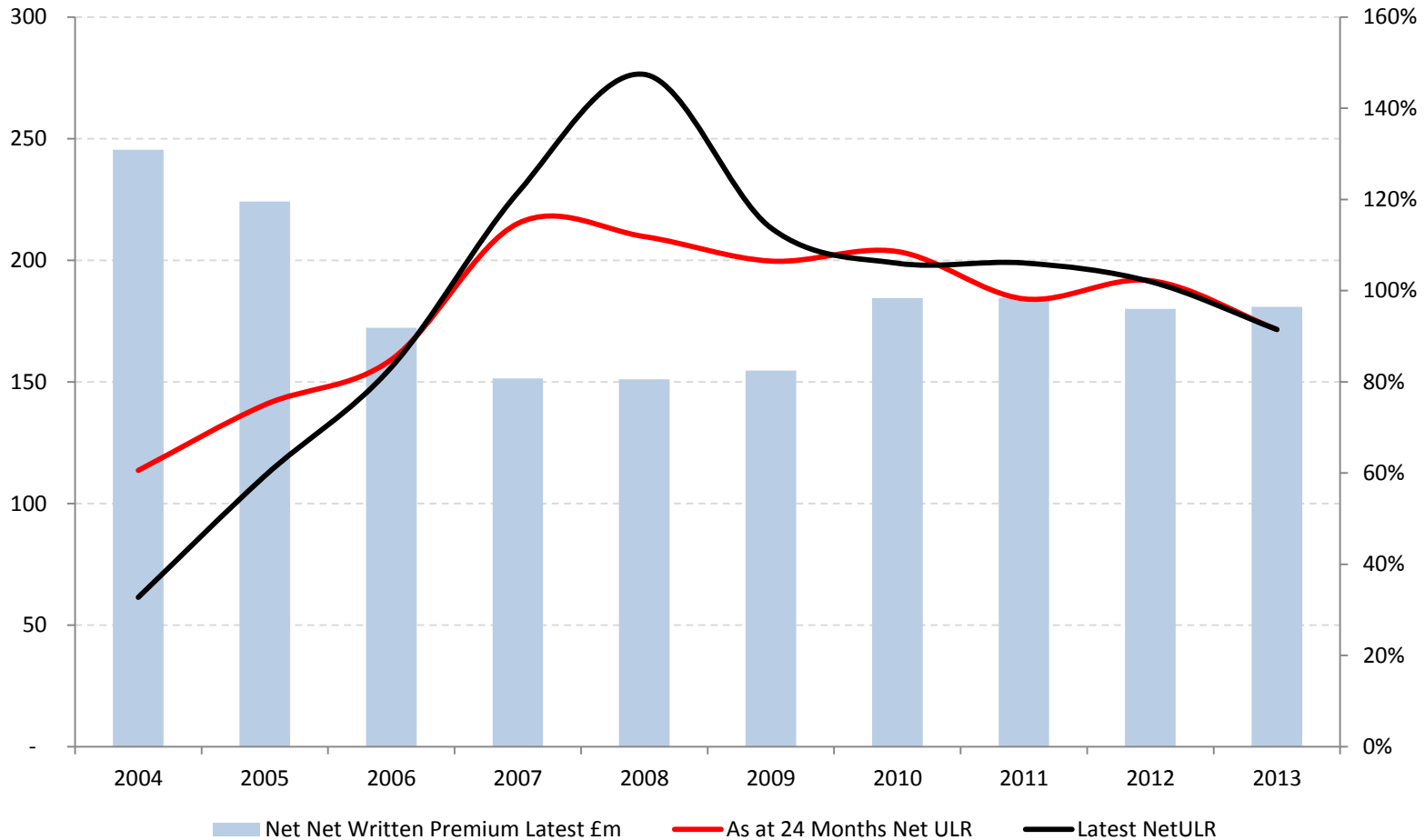


► Recession Related Claims:

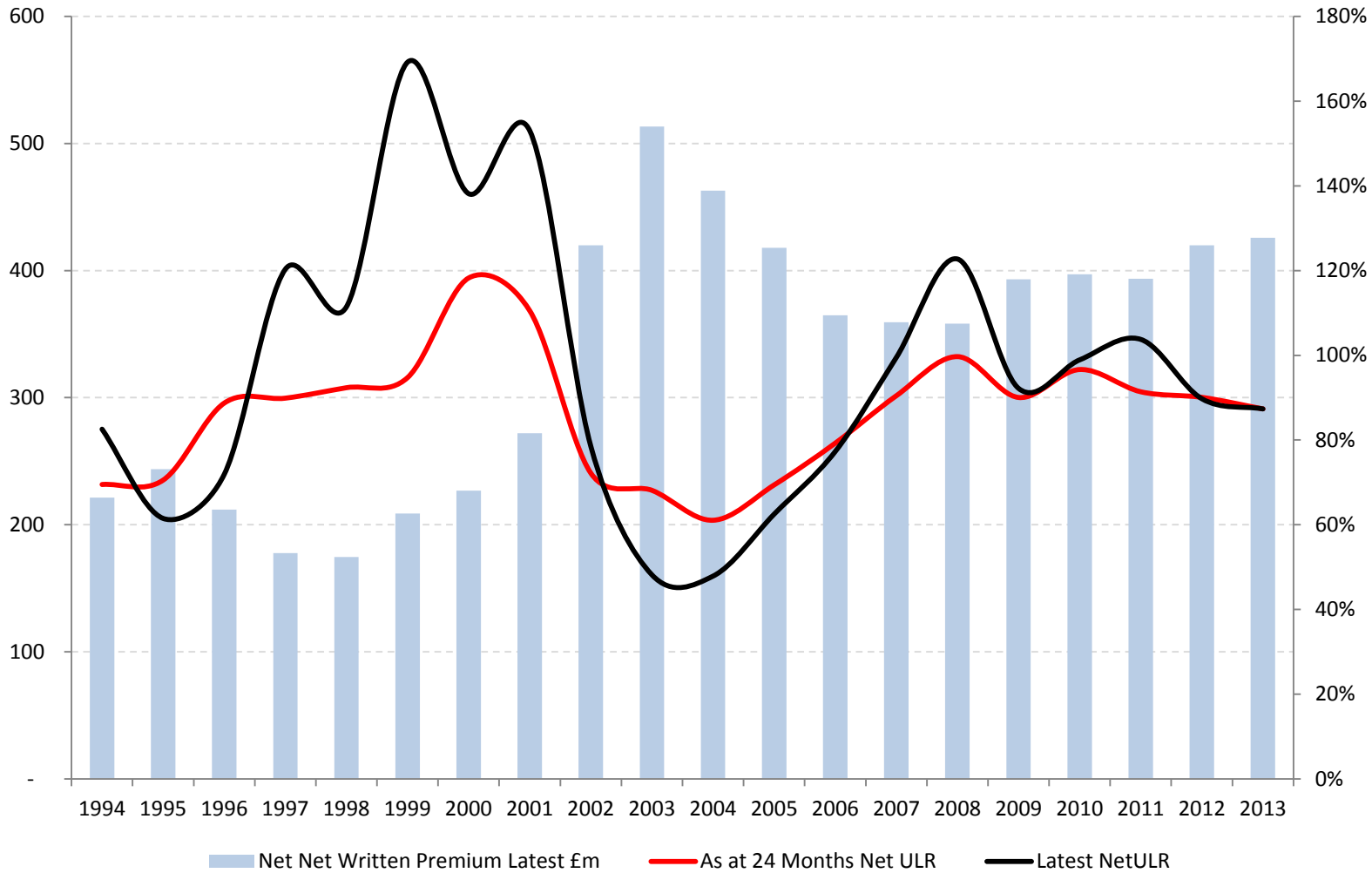
- Project loss of funding
- Counter claims following fee disputes
- Cutting corners to save costs
- Delays and increase in costs are no longer masked by rising property values
- Reduction in new projects gives opportunity to pursue negligence claims on past works
- Significant Claims: Adelaide Desalination Plant
Australian Toll Roads

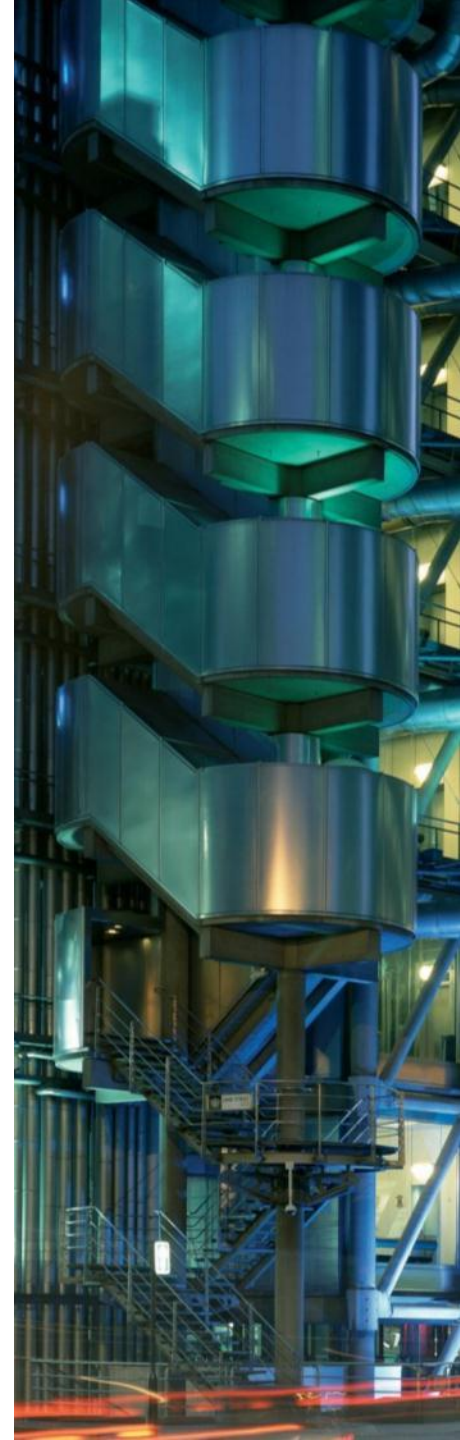


MISCELLANEOUS - E9



HISTORIC DEVELOPMENT



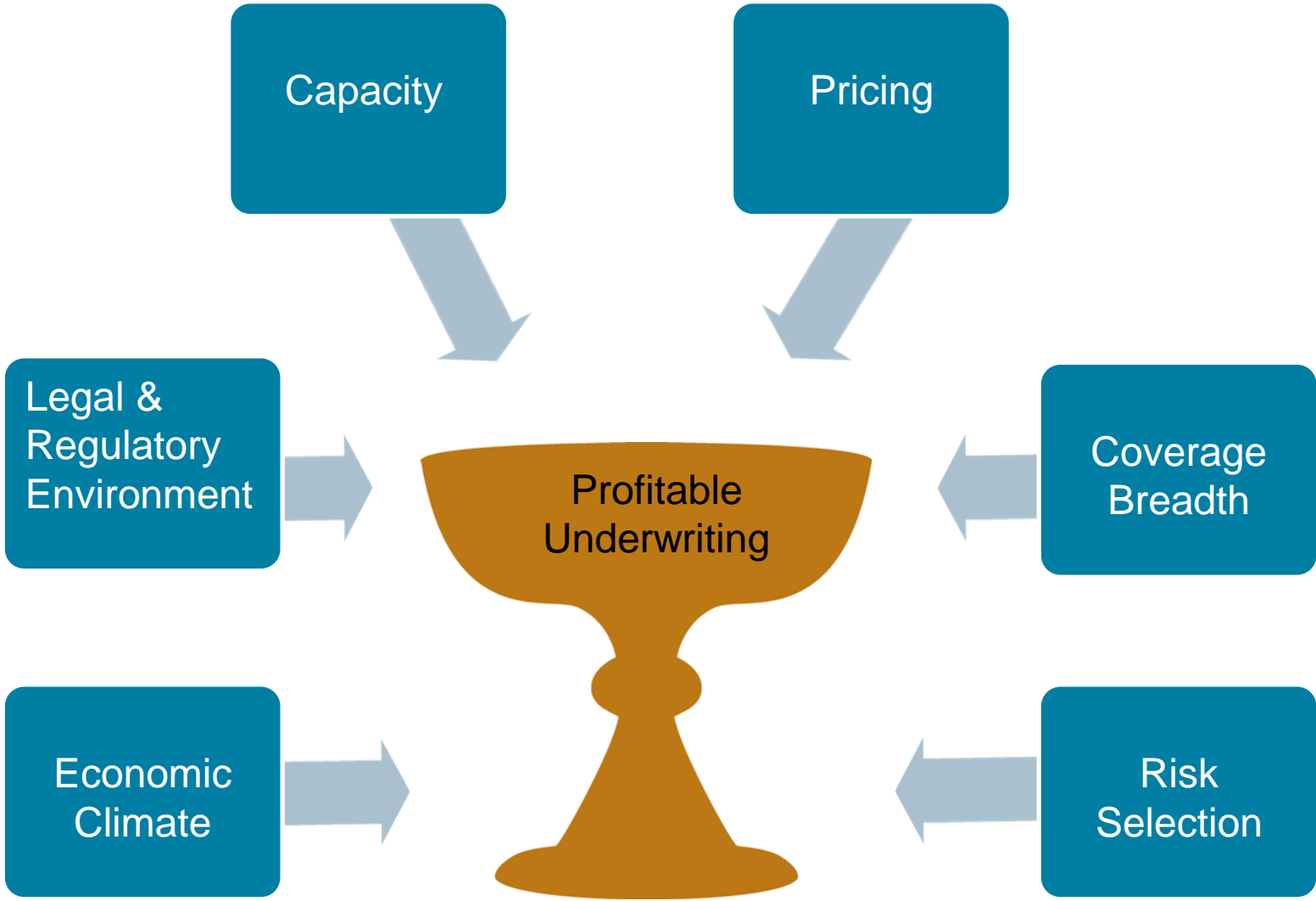


CONCLUSION

INFLUENCING FACTORS..?



The Usual Suspects !



RISK SELECTION: POLARISED VIEWS FROM THE FLOOR

Delegated underwriting diversifies our book

Single Projects are indicative of a soft market

45 Degrees N and S



IFA's are fundamentally uninsurable

Now's the time to write IFA's

MGA's compete on existing business with increased costs

Single projects represent a great opportunity



CHARACTERISTICS OF A TOP QUARTILE U/W

- ▶ Anticipated economic turmoil
- ▶ Exited classes of business heavily correlated to economic cycle
- ▶ Diversified mix of business (class and territory)
- ▶ Balanced lines to size of account
- ▶ Priced for additional coverage
- ▶ Selective with Delegated Authority
- ▶ Technically calibrated pricing models
- ▶ Maintained pricing discipline

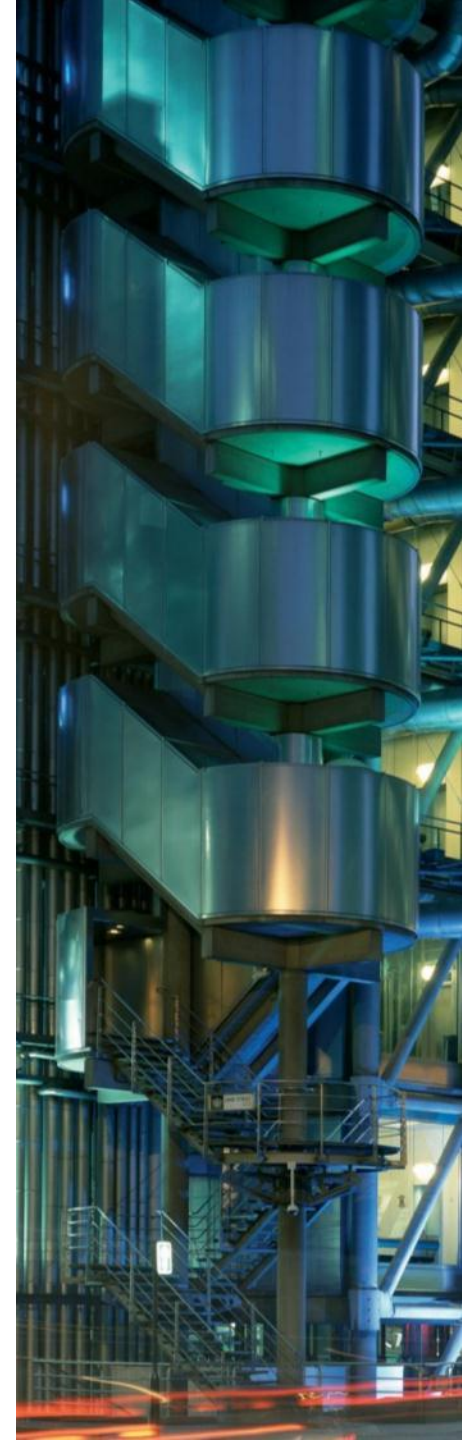
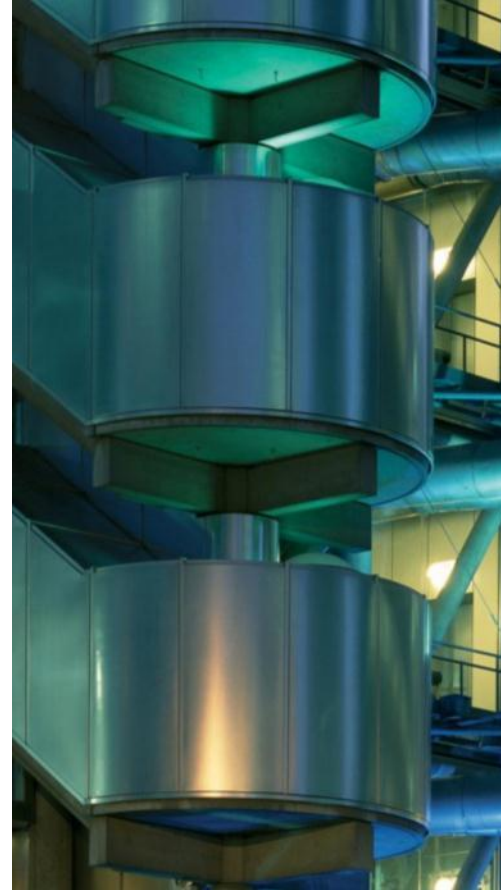


CHALLENGES AHEAD ?



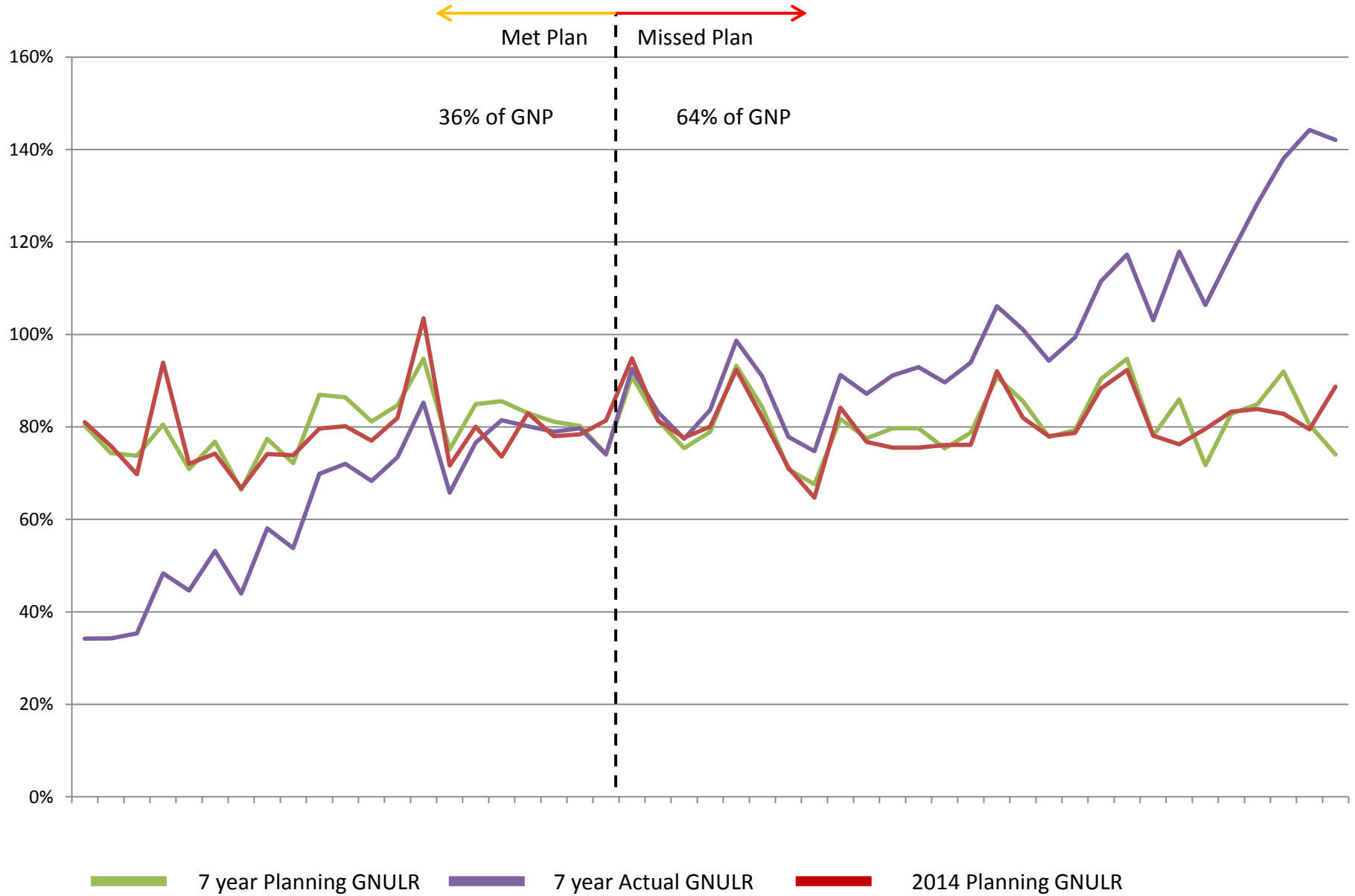
- Zombie Companies
- Recession (US, China & global being predicted)
- Tech bubble burst
- Grexit/Brexit
- Increased Litigation – (3rd Party Funding, Collective Actions)
- Prolonged soft market
- Greater Regulatory Scrutiny-(E.G. Tax avoidance)
- More mis-selling Scandals-(Pension liberation)
- Reserve strengthening
- Cyber Exposures





2016 BUSINESS PLANNING

2016 BUSINESS PLANNING



2016 BUSINESS PLANNING



- ▶ Improved granularity of plans, particularly if seeking growth
- ▶ There may be scope for greater diversification, and plans seeking to bring new profitable portfolios into Lloyd's
- ▶ Coverage breadth should be closely monitored with any broadening attracting commensurate pricing adjustment
- ▶ Ideally actuarially validated technical pricing models should be used and be calibrated to achieve benchmark loss ratios
- ▶ Plans should include consideration given to future challenges that may impact the class

