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

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

Lloyds 8%

Est. Total
Non-US PI
Gross
Premium
Income £9bn

£720m GWP

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

- Worldwide: 46%
- UK: 17%
- Oceania: 10%
- Canada: 14%
- Western Europe (excl. UK): 10%
- Other: 3%
DISTRIBUTION – BY CLASS CODE

Class:
- E9 - Miscellaneous
- E7 - Architects & Engineers
- E5 - Accountants
- E3 – Lawyers
DISTRIBUTION - BY PLACEMENT METHOD

All Risk Codes

- Binder
- Lineslip
- Open RI
- Open Direct
ACQUISITION COSTS

The graph shows the acquisition costs from 2005 to 2014. The costs have a steady upward trend, with a linear fit line indicating a consistent increase each year.
PERFORMANCE – AVERAGED OVER TIMESCALES

Market performance against plan over various timescales.
GROWTH

Syndicate Count Professional Indemnity non US

<table>
<thead>
<tr>
<th>Year</th>
<th>Count</th>
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<td>60</td>
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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?

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

“You only find out who’s swimming naked when the tide goes out”
Warren Buffett
CORRELATION TO THE ECONOMIC CYCLE

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

- Queen's Bench Division (other negligence including professional negligence)
- Chancery Division (professional negligence)
LAWYERS - E3

► International profile dominated by UK and Commonwealth territories

► Offshore Corporate Service Providers

► Significant participation on Top 100 firms, < 10 ptnr 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
UK High Court Actions Against Solicitors
ACCOUNTANTS – E5

![Graph showing net written premium and net ULR over time.](image-url)
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

Net Net Written Premium Latest £m  As at 24 Months Net ULR  Latest NetULR
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

The graph shows the net net written premium (Latest £m) and the As at 24 Months Net ULR and Latest NetULR from 2004 to 2013. The net net written premium trends indicate a peak around 2008, followed by a slight decline up to 2013. The As at 24 Months Net ULR shows a similar trend, with a peak around 2008, and a slight decline up to 2013. The Latest NetULR shows a decreasing trend from 2004 to 2013.

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HISTORIC DEVELOPMENT

- Net Net Written Premium Latest £m
- As at 24 Months Net ULR
- Latest NetULR
CONCLUSION
INFLUENCING FACTORS...?

The Usual Suspects!

- Capacity
- Pricing
- Legal & Regulatory Environment
- Economic Climate
- Coverage Breadth
- Risk Selection

Profitable Underwriting
RISK SELECTION: POLARISED VIEWS FROM THE FLOOR

- Delegated underwriting diversifies our book
- Single Projects are indicative of a soft market
- 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

Met Plan

Missed Plan

36% of GNP

64% of GNP

7 year Actual GNULR

7 year Planning GNULR

2014 Planning GNULR
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.