



**An Analysis of the
Professional Indemnity
Market
2006**

Outline of Presentation

- ⇒ State of the Market
- ⇒ How we got here
- ⇒ Where are we going?
- ⇒ Why?
- ⇒ PI Forum
- ⇒ Current Issues

State of the Market in 2006

The market is extremely competitive:

- ⇒ Over Capacity
- ⇒ Rates Falling
- ⇒ Coverage broadening
- ⇒ Excesses decreasing
- ⇒ Why has this happened?

Market Participants in 2006

⇒ AIG
ACE
A F BEAZLEY
AMLIN
BRIT
CANOPIUS
CHUBB
CHARRINGTON
CHAUCER
CNA
COLLEGIATE
D A CONSTABLE
HCCD
HISCOX
LIBERTY
MAGIAN

MARKETFORM
MEDIAPRO
MITSUI
M J HARRINGTON
NAVIGATORS
NEWLINE
NORWICH UNION
PI DIRECT
QBE
QUINN
RSA
SATURN
ST PAUL
SVB
WURTT
ZURICH

⇒ **New Entrants in the last 5 years:**

A G DORE
CATLIN
DUAL

M H WHEELER (QUANTA)
M H LAWRENCE
W R BERKLEY

Global PI Results

Year	Premium	Incurred Loss Ratio
1999	590	184%
2000	666	168%
2001	809	228%

PI Results excluding USA

Year	Premium	Incurred Loss Ratio
1999	370	179%
2000	423	125%
2001	507	208%

Rate Levels

Year	Rate Level
1999	0.6
2000	.054
2001	0.65
2002	1
2003	1.48
2004	1.39
2005	1.22
2006	1.09

Rate Levels and Historic Loss Ratios

Year	Rate Level	Loss Ratio
1999	0.6	179%
2000	.054	125%
2001	0.65	208%
2002	1	?
2003	1.48	?
2004	1.39	?
2005	1.22	?
2006	1.09	?

Rate Levels and Predicted Results

Year	Rate Level	Predicted Ultimate Loss Ratio
1999	0.6	179%
2000	.054	125%
2001	0.65	208%
2002	1	111%
2003	1.48	74%
2004	1.39	79%
2005	1.22	91%
2006	1.09	101%

Rate Levels and Results

Year	Rate Level	Predicted Ultimate Loss Ratio	Actual Incurred Loss Ratio
1999	0.6	179%	179%
2000	.054	125%	125%
2001	0.65	208%	208%
2002	1	111%	45%
2003	1.48	74%	32%
2004	1.39	79%	22%
2005	1.22	91%	11%
2006	1.09	101%	2%

Rate Change in 2007

⇒ ?

⇒ -10

Why Do We Keep Getting It Wrong?

- ⇒ Not a Precise Science
- ⇒ Claims Levels
- ⇒ IBNR
- ⇒ Rating Levels

Claims Levels

- ⇒ Inflation
- ⇒ Economy
- ⇒ Legal Climate
- ⇒ Social Inflation
- ⇒ Effect of the Cycle

IBNR

- ⇒ Lack of Data
- ⇒ Long Tail
- ⇒ Claims Inflation
- ⇒ Effect of the Cycle

Rating Levels

- ⇒ Renewals Only
- ⇒ Benchmark Rating
- ⇒ Changing Coverage
- ⇒ Changing Self Insured Levels

Summary

- ⇒ Predicting Market Results is extremely difficult
- ⇒ We can outperform the market?
- ⇒ Pressure to stay in market and wait for the good times
- ⇒ Do we have enough information
- ⇒ Will the PI Market make money in 2007?

The PI Forum

⇒ Statement of Aims:

The Forum was formed by leading underwriters in the London market with a view to improving levels of knowledge in the market as a whole. This is pursued through an academic approach to dealing with real problems facing the market. PI Forum provides a forum where underwriting practitioners may meet to exchange views and information but, most importantly, to undertake research for the benefit of the whole market.

⇒ Membership:

Membership is open to any company or syndicate which underwrites primary professional indemnity business in the London market.

⇒ Affiliation

Current Issues

- ⇒ Co-insurance is dying? Good or Bad
- ⇒ Contract Certainty. Does the value added justify the cost?
- ⇒ Treating Customers Fairly. How will it effect PI insurers?
- ⇒ Increasing Demand for PI