

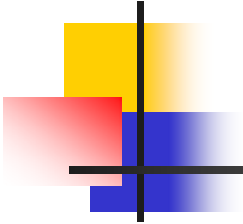


# **A politically correct analysis of the Professional Indemnity Market**

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*Russell Newell & Michael Earp*  
*Cambridge PIF Conference July 2004*

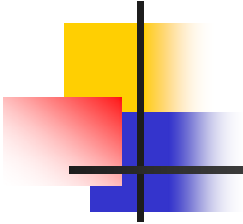
# Cambridge 2004



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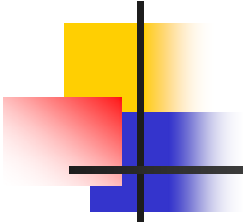
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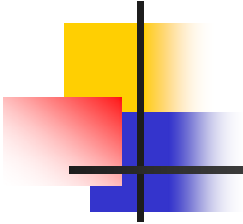
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## Historical Statistics and Rating Levels

- The size of the Professional Indemnity market
- The UK Professional Indemnity Market statistics

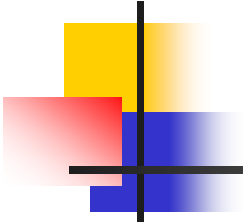
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## **The size of the Professional Liability market?**

- United Kingdom market between £1.5bn and £2.0bn (Excluding USA)
- UK Solicitors account for approximately 15%
- UK Surveyors Primary premium approximately £40m

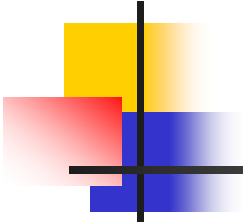
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## The UK Professional Indemnity Market statistics

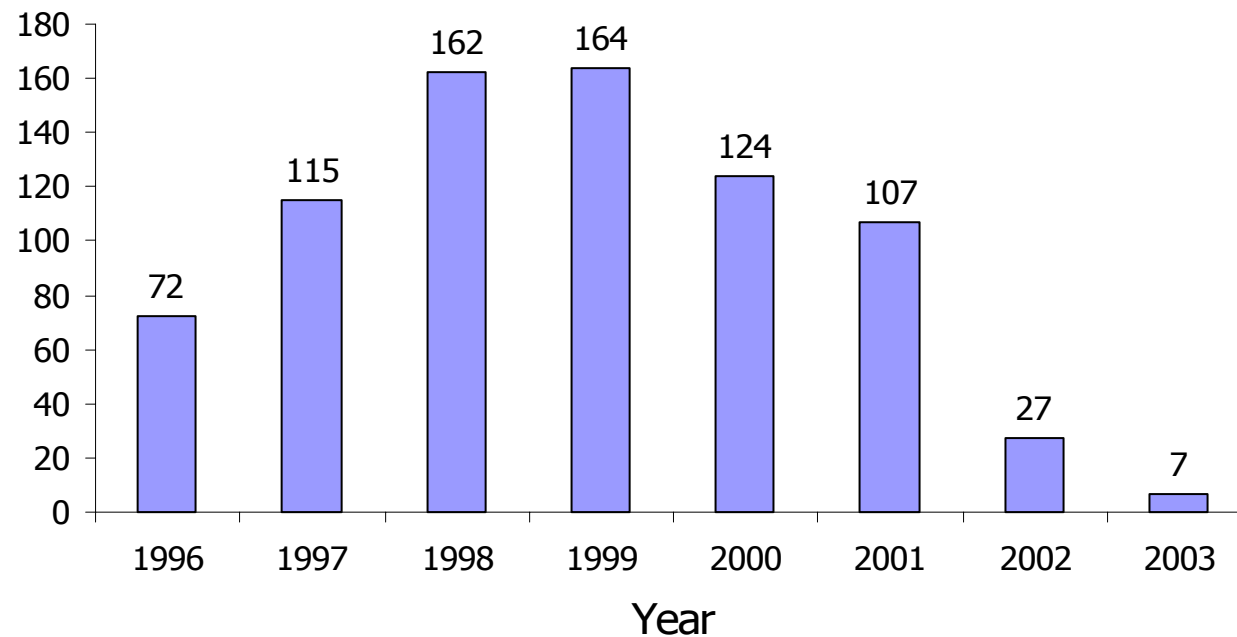
<b>PI Income &amp; Incurred Loss Ratio at 1st Qtr 2004</b>		
Year	Premium £m	Inc % Loss Ratio
1996	461	72
1997	442	115
1998	465	162
1999	607	164
2000	705	124
2001	862	107
2002	918	27
2003	801	7

# Cambridge 2004

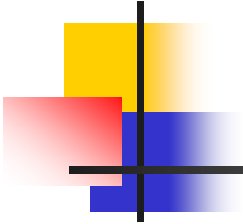


## The UK Professional Indemnity Market statistics

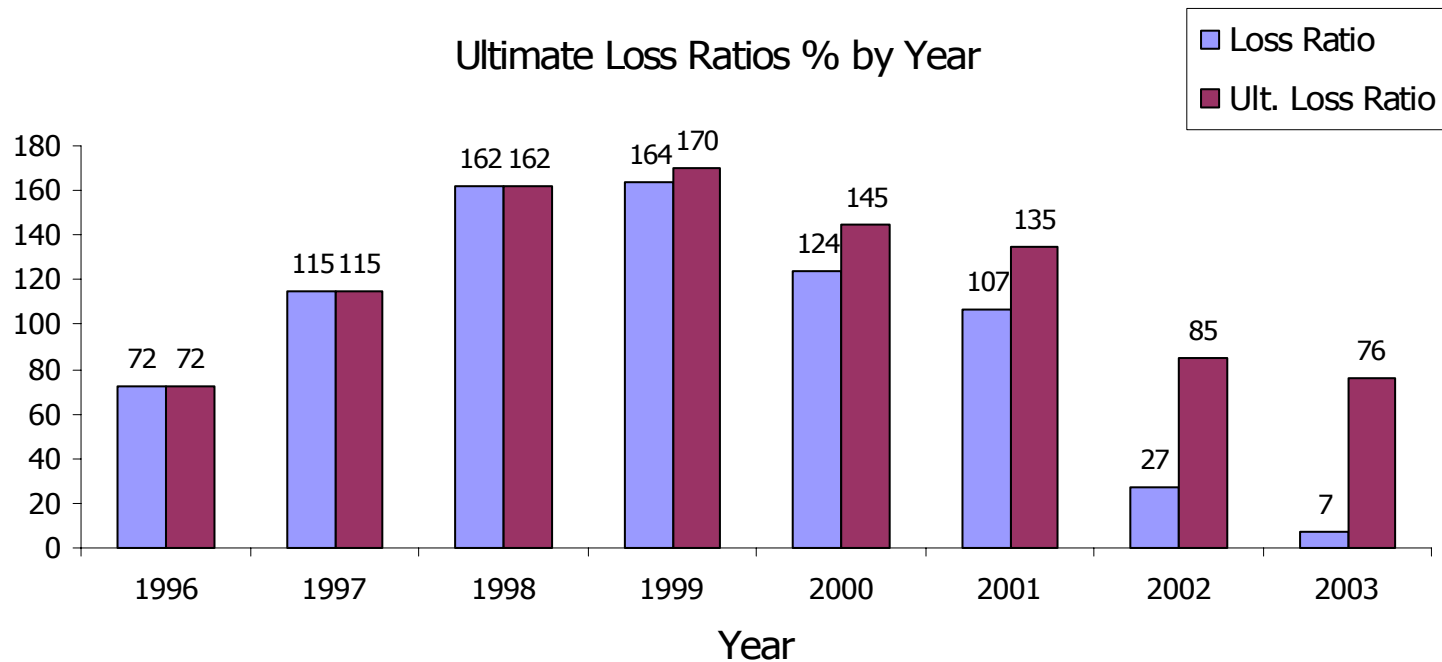
Inc % Loss Ratio by Year



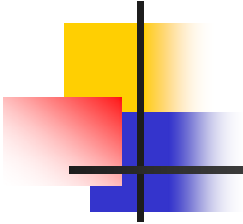
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## The UK Professional Indemnity Market statistics

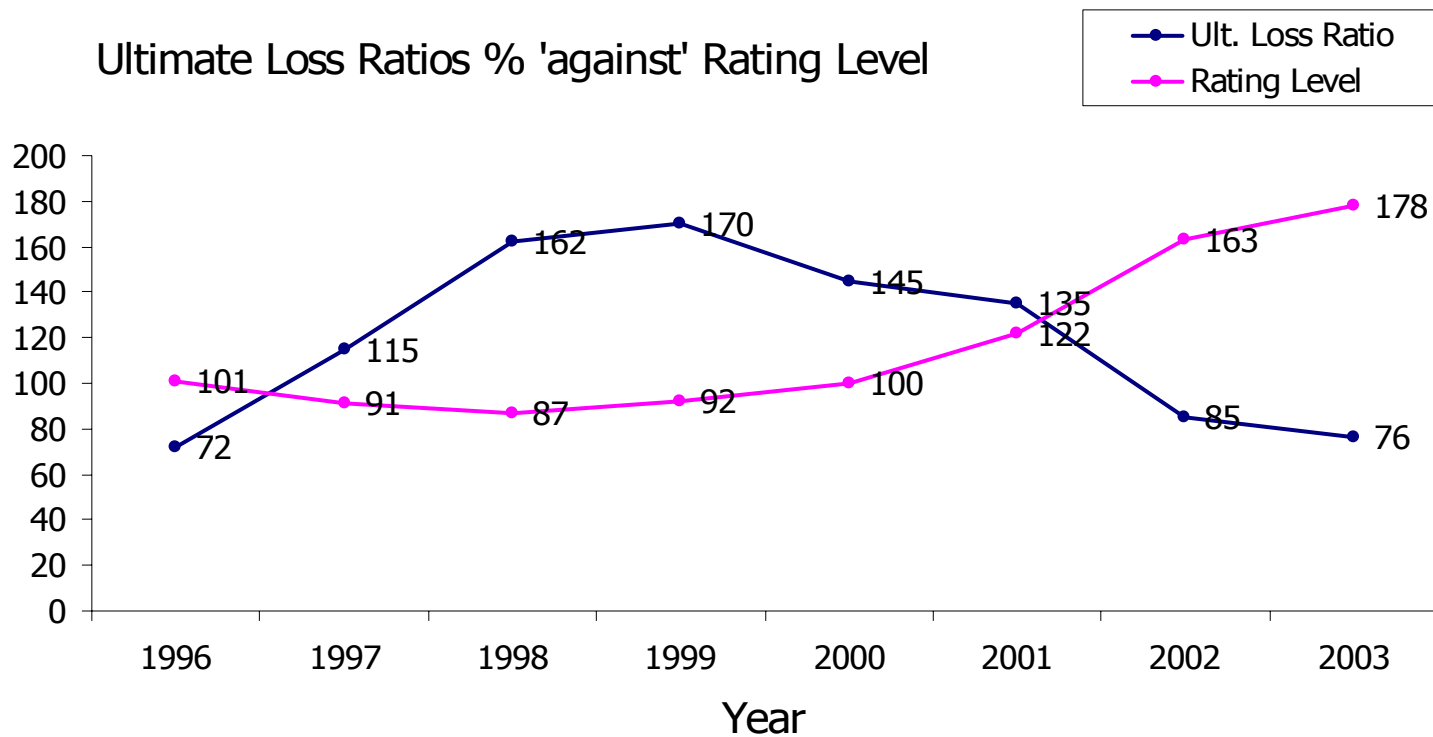


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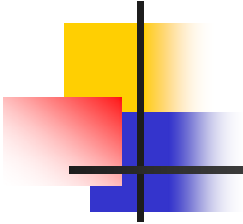


## The UK Professional Indemnity Market statistics

Ultimate Loss Ratios % 'against' Rating Level



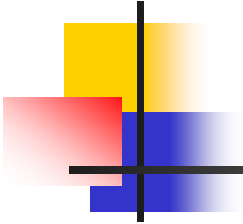
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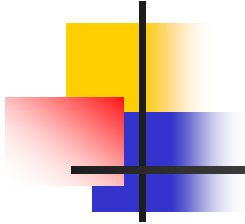
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## **Sustainable Loss Ratios**

- Capital Requirements (ICA & ECR)
- Expense Ratios
- Investment Returns
- Claims Inflation
- Reinsurance Costs
- Return on Capital

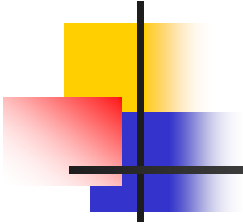
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## Sustainable Loss Ratios

Premium Income		£10,000,000	Capital Required	£8,000,000
Inv. Income	12.5%	£1,250,000		
		£11,250,000		
Expense Ratio	10%	-£1,000,000		
Reins Costs	5%	-£500,000		
Return on Capital	15%	-£1,200,000		
Claims		-£8,550,000		
		-£11,250,000		
Loss Ratio		85.5%		

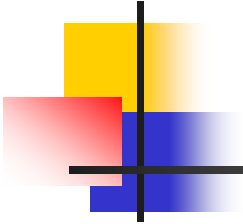
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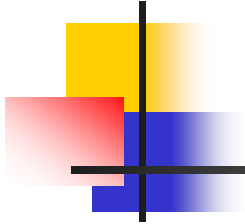
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## 2005 Prospects

- Established sustainable loss ratio
- Information on historic loss ratios
- Anticipating 2005 result
- Variable factors
- Working model

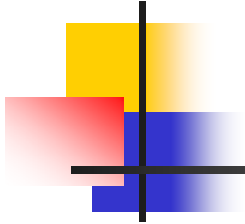
# Cambridge 2004



## 2005 Prospects - Historic Position

Year	Loss Ratio	Ult. Loss Ratio (IBNR)	Rating Level	Claims Inflation Adj (3% p.a.)
1996	72	72	101	94
1997	115	115	91	146
1998	162	162	87	199
1999	164	170	92	203
2000	124	145	100	168
2001	107	135	122	152
2002	27	85	163	93
2003	7	76	178	81
2004		79	178	81

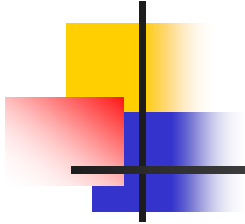
# Cambridge 2004



## 2005 Prospects - 10% Rate Reduction

Year	Loss Ratio	Ult. Loss Ratio (IBNR)	Rating Level	Claims Inflation Adj (3% p.a.)	Rating Level Adj
1996	72	72	101	94	59
1997	115	115	91	146	83
1998	162	162	87	199	108
1999	164	170	92	203	117
2000	124	145	100	168	105
2001	107	135	122	152	116
2002	27	85	163	93	95
2003	7	76	178	81	90
2004		79	178	81	90
2005			160		96

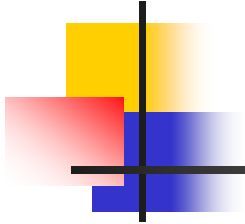
# Cambridge 2004



## 2005 Prospects - 10% Rate Reduction and 5% Claims Inflation

Year	Loss Ratio	Ult. Loss Ratio (IBNR)	Rating Level	Claims Inflation Adj (5% p.a.)	Rating Level Adj
1996	72	72	101	112	70
1997	115	115	91	170	97
1998	162	162	87	228	124
1999	164	170	92	228	131
2000	124	145	100	185	116
2001	107	135	122	164	125
2002	27	85	163	98	100
2003	7	76	178	84	93
2004		79	178	83	92
2005			160		105

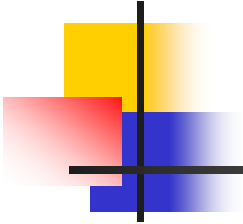
# Cambridge 2004



## 2005 Prospects

- Here we go again!
- Are rate reductions sustainable?
- Can we all “select” the better risks to out-perform the market?
- FSA requirements for increased capital
- Improved capital monitoring leads to a less naive market
- US litigation iro PSA's

# Cambridge 2004



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# Cambridge 2004



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## PIF – What's in it for you?

- **Articles of Association !!**

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

# Cambridge 2004



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## **PIF – What's in it for you?**

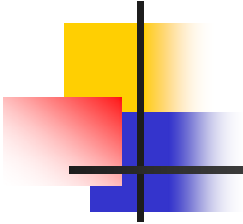
- **Affiliation**

PIF is not affiliated to either IUA or Lloyd's albeit there is a close association with Lloyd's. PIF is considering some form of affiliation but that might restrict the ecumenical approach of PIF.

- **Membership**

Membership is open to any company or syndicate who underwrite Primary Professional Indemnity business in the London market.

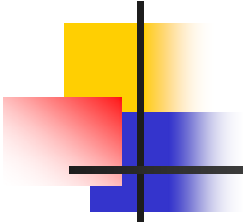
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## **PIF – What's in it for you?**

- Lack of information causes uncertainty and market fluctuations
- Information is power – “Rubbish-in Rubbish-Out”
- Exchange of knowledge beneficial to all
- Not cartel

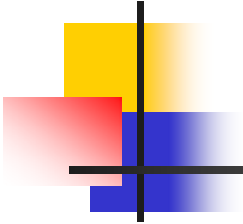
# Cambridge 2004



## **PIF – What's in it for you?**

- Publicise meetings in advance
- Not personal invitation
- Bulletin Board
- Past achievements
- Future structure

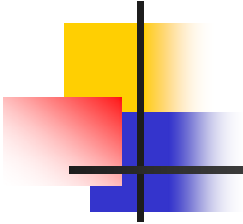
# Cambridge 2004



## **PIF – What's in it for you?**

- Everybody blames everybody else
- Should we be surprised this what happens in the insurance cycle
- Do we need a disaster to take capital back out of market?
- Lines to stand and 100% writes leave people little alternative but to compete

# Cambridge 2004



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# Cambridge 2004



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## The 'Price is Right'

- Most points picked up by each team
- Prices varied considerably from £100k to £500k
- Shows importance of a 'good' broker
- Writing 100% like being in a vacuum
- The Winners!