A politically correct analysis of the Professional Indemnity Market

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

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- Historical Statistics and Rating Levels
- Sustainable Loss Ratios
- 2005 Prospects
- PIF – What’s in it for you?
- ‘The Price is Right’
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Historical Statistics and Rating Levels

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Premium £m</th>
<th>Inc % Loss Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>461</td>
<td>72</td>
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<td>2003</td>
<td>801</td>
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</tbody>
</table>
The UK Professional Indemnity Market statistics

Inc % Loss Ratio by Year

Inc % 72 115 162 164 124 107 27 7
The UK Professional Indemnity Market statistics

Ultimate Loss Ratios % by Year

Year

Loss Ratio
Ult. Loss Ratio

72 115 162 164 124 107 85 76

2004 Cambridge

Cambridge 2004
Cambridge 2004

The UK Professional Indemnity Market statistics

Ultimate Loss Ratios % 'against' Rating Level

Year

Ult. Loss Ratio
Rating Level
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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

<table>
<thead>
<tr>
<th></th>
<th>Premium Income</th>
<th>Inv. Income 12.5%</th>
<th>Capital Required</th>
<th>£8,000,000</th>
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</thead>
<tbody>
<tr>
<td>Expense Ratio</td>
<td>10%</td>
<td>£1,000,000</td>
<td>-£1,000,000</td>
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<tr>
<td>Reins Costs</td>
<td>5%</td>
<td>-£500,000</td>
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<tr>
<td>Return on Capital</td>
<td>15%</td>
<td>-£1,200,000</td>
<td>-£1,200,000</td>
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<tr>
<td>Claims</td>
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<td>-£8,550,000</td>
<td>-£8,550,000</td>
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<tr>
<td>Loss Ratio</td>
<td></td>
<td></td>
<td>-£11,250,000</td>
<td>85.5%</td>
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</table>
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2005 Prospects

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Loss Ratio</th>
<th>Ult. Loss Ratio (IBNR)</th>
<th>Rating Level</th>
<th>Claims Inflation Adj (3% p.a.)</th>
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<tbody>
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<td>2004</td>
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### 2005 Prospects - 10% Rate Reduction

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<th>Loss Ratio</th>
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## 2005 Prospects - 10% Rate Reduction and 5% Claims Inflation

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<th>Loss Ratio</th>
<th>Ult. Loss Ratio (IBNR)</th>
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</table>
2005 Prospects

- Here we go again!
- Are rate reductions sustainable?
- Can we all “select” the better risks to outperform the market?
- FSA requirements for increased capital
- Improved capital monitoring leads to a less naive market
- US litigation iro PSA’s
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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.
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.
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
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PIF – What’s in it for you?

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