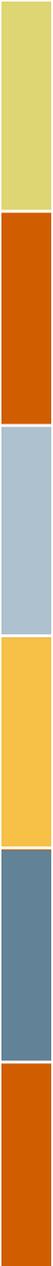


Solicitors Professional Indemnity

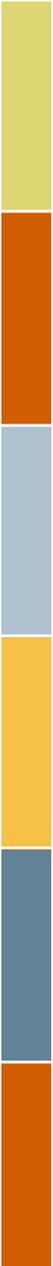
“Price, process and profitability”

Jon Davies
Assistant General Manager
Financial and Professional Services



Background

- Dissatisfaction with SIF
- September 2000 – a new era
- Profession voted for change and choice



Law Society safeguards

- Qualifying Insurer's Agreement
- Minimum Terms and Conditions
- Joint Venture with St. Paul
- Assigned Risks Pool

2000 Qualifying Insurers

CGNU

R E Brown

Mitsui

Wellington

Chartwell

Cox

Hiscox

Drysdales

RSA

Hiscox Syndicates

Liberty

Heritage

Saturn

Alleghany

AIG

Janson Green

QBE

Wren

Denham

Chubb

The Underwriter

Hicks & Wheeler

AXA Re

R J Wallace

Zurich

St. Paul

R J Kiln

M E Warrington

Ace

SJB (1212)

St. Paul

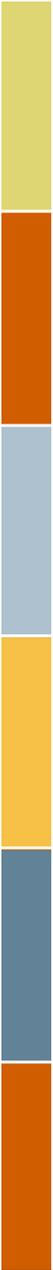
P G Butler

Admiral

Independent Ins

Syndicates

Gerling



2000 Qualifying Insurers writing primary in 2003

CGNU

RSA

QBE

Zurich

Ace

Hiscox Syndicates

St. Paul

Hiscox

AIG

Chubb

R J Wallace

2003 Qualifying Insurers

Norwich Union

Alea

Hiscox

SVB

RSA

Hiscox Syndicates

TWK

Saturn

AIG

QBE

Brit

Chubb

M J Harrington

Newline

D A Constable

Zurich

St. Paul

Ace

HCC

W R Berkley

London General

2003 Qualifying Insurers writing primary business

Norwich Union

Alea

Hiscox

SVB

RSA

Hiscox Syndicates

AIG

QBE

Brit

Chubb

M J Harrington

Newline

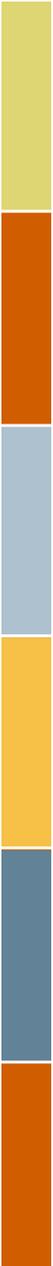
D A Constable

Zurich

St. Paul

Ace

W R Berkley



2003 Qualifying Insurers writing primary business

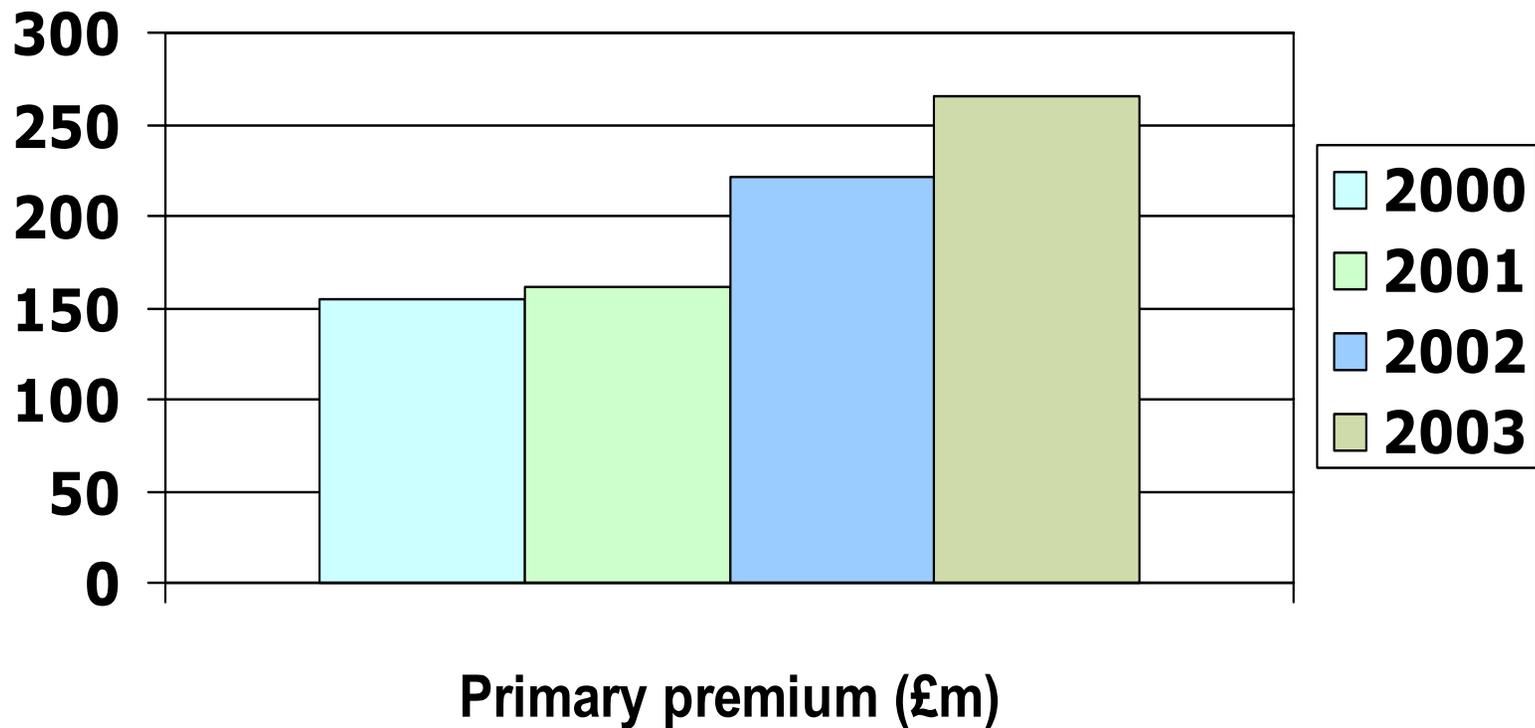
17 Qualifying Insurers participated

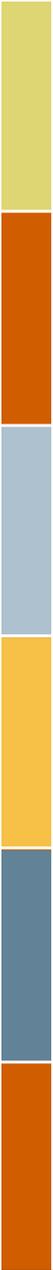
But...

80% from 6 markets

60% from 3 markets

Primary declared premiums





What would SIF be charging?

1999/2000 - £215m

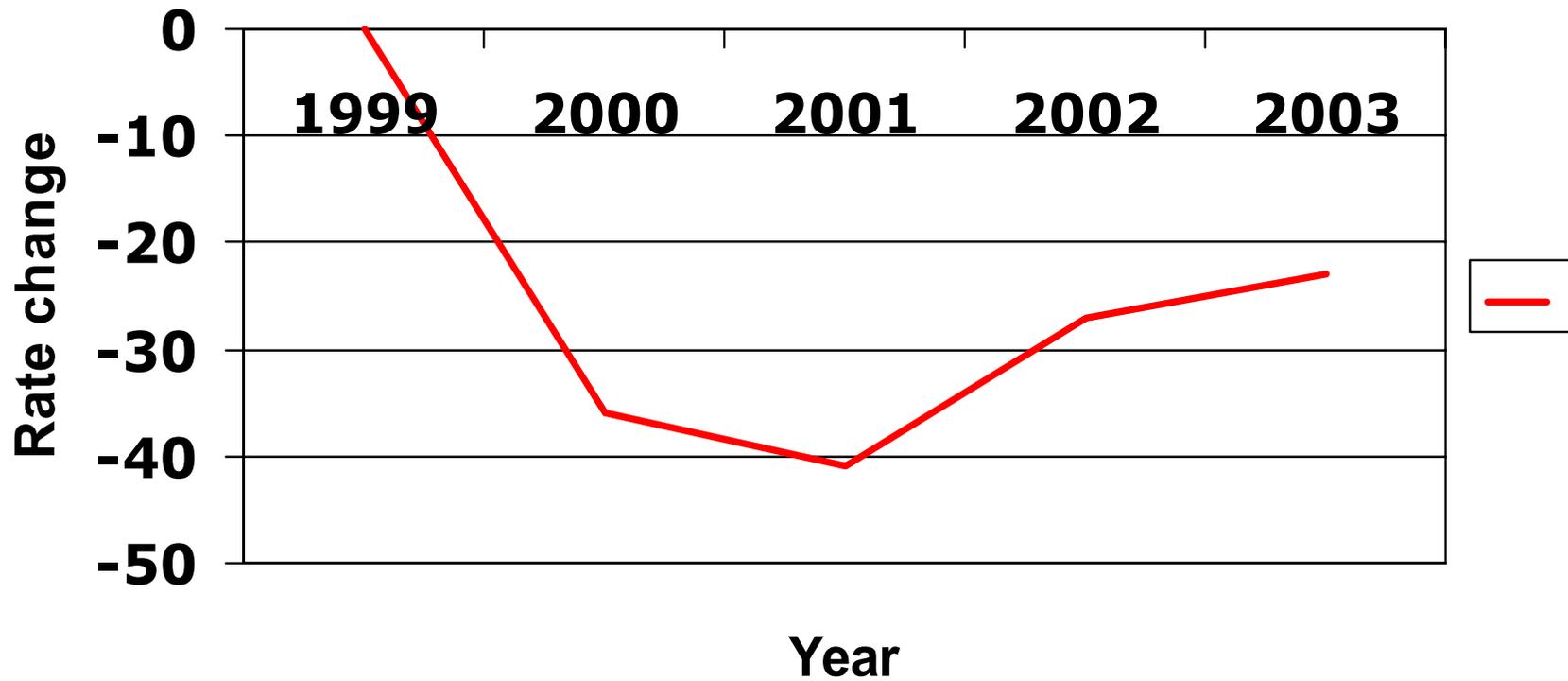
5% exposure growth per annum

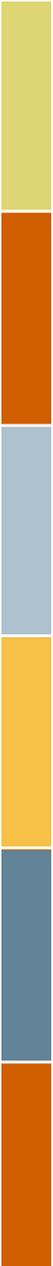
7% claims inflation

2003 @ £343m

2004 @ £385m!

Primary adjusted rate change

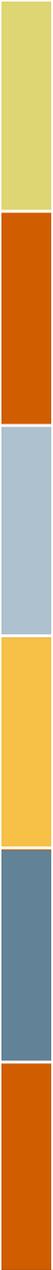




Claims inflation

Between 1989 – 1999

- average litigation settlement went from £16,000 to £43,000
- average claim ex conveyancing went from £24,000 to £44,000
- commercial claims quadrupled!



Who are the 'worst' insureds?

Architects

Engineers

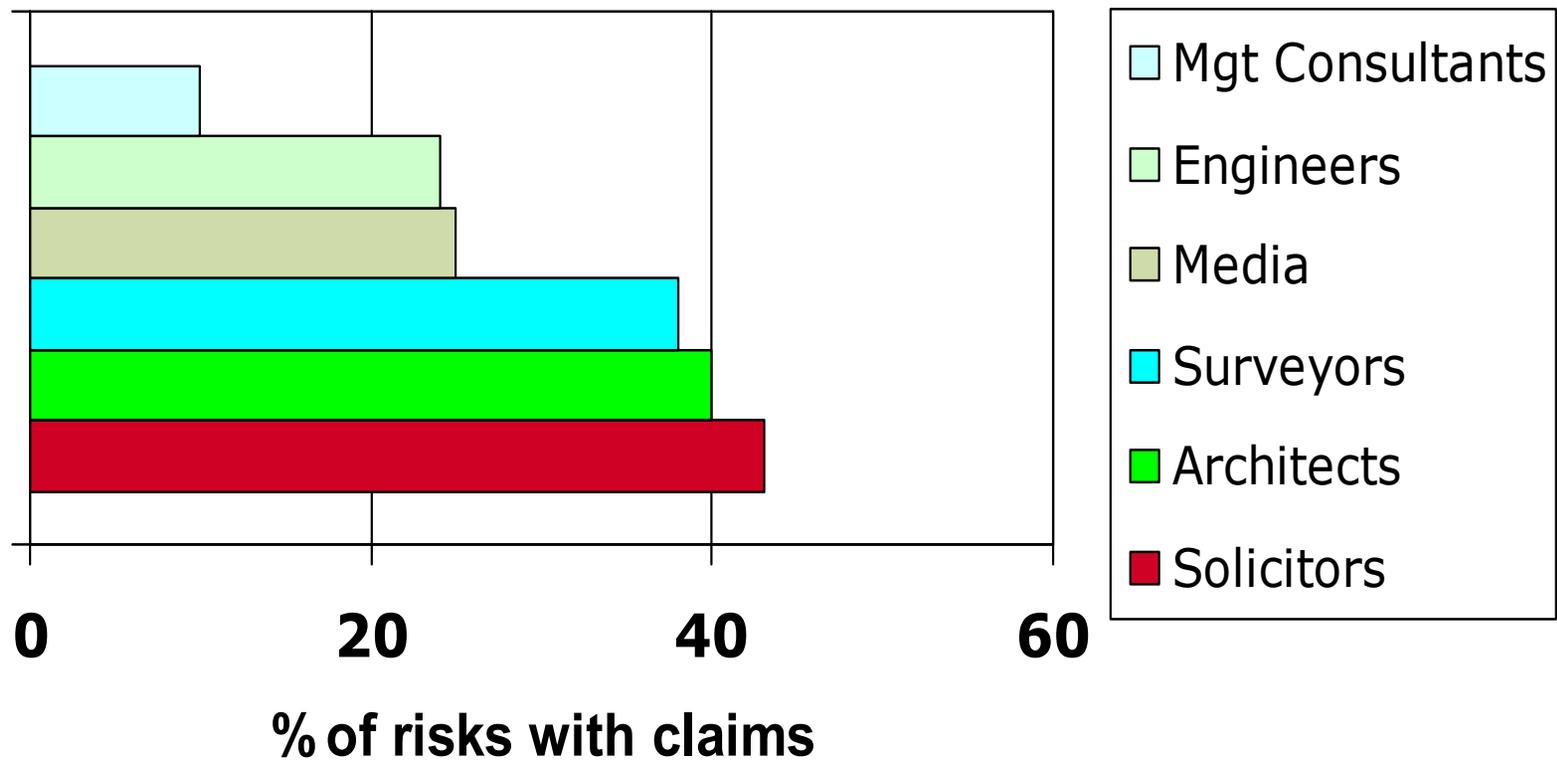
Media Companies

Management Consultants

Solicitors

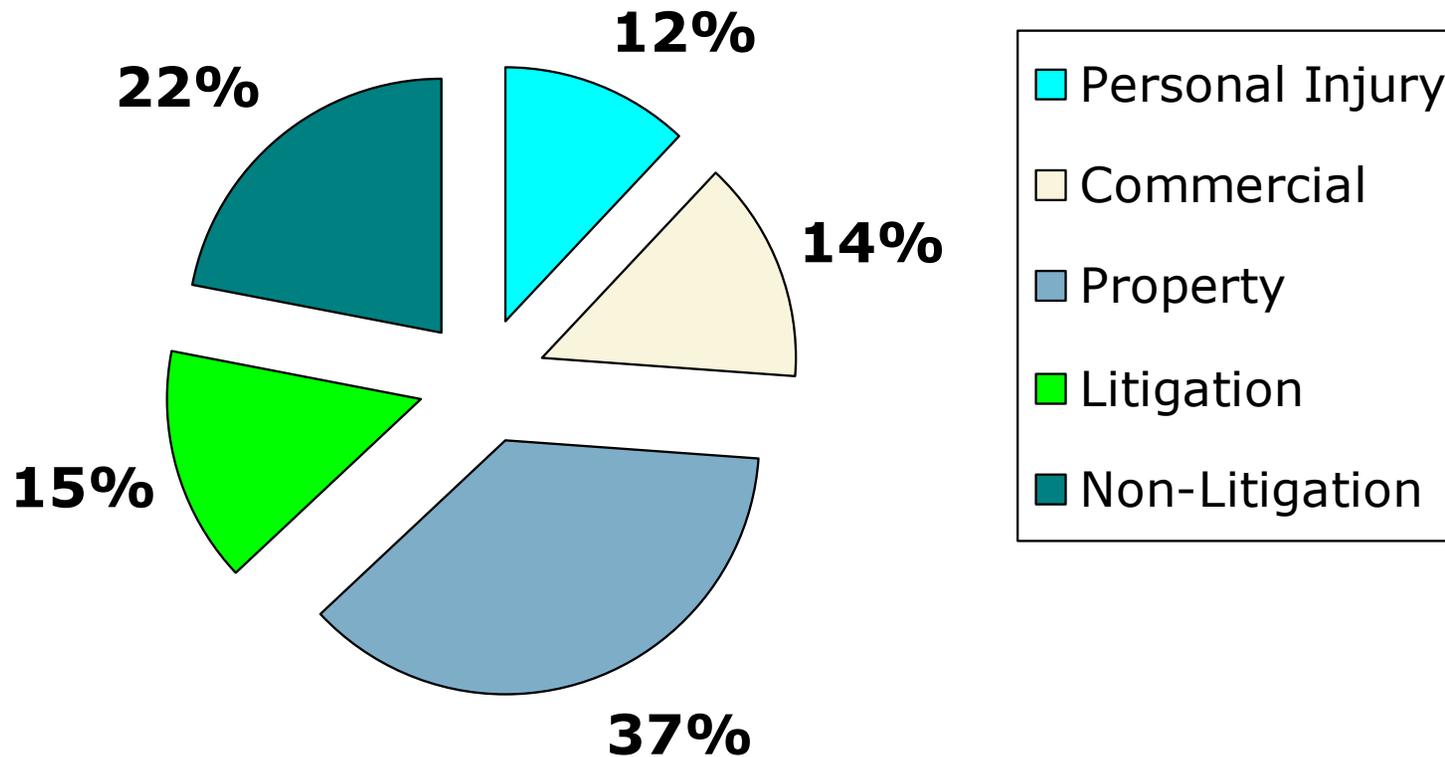
Surveyors

Claims frequency by profession

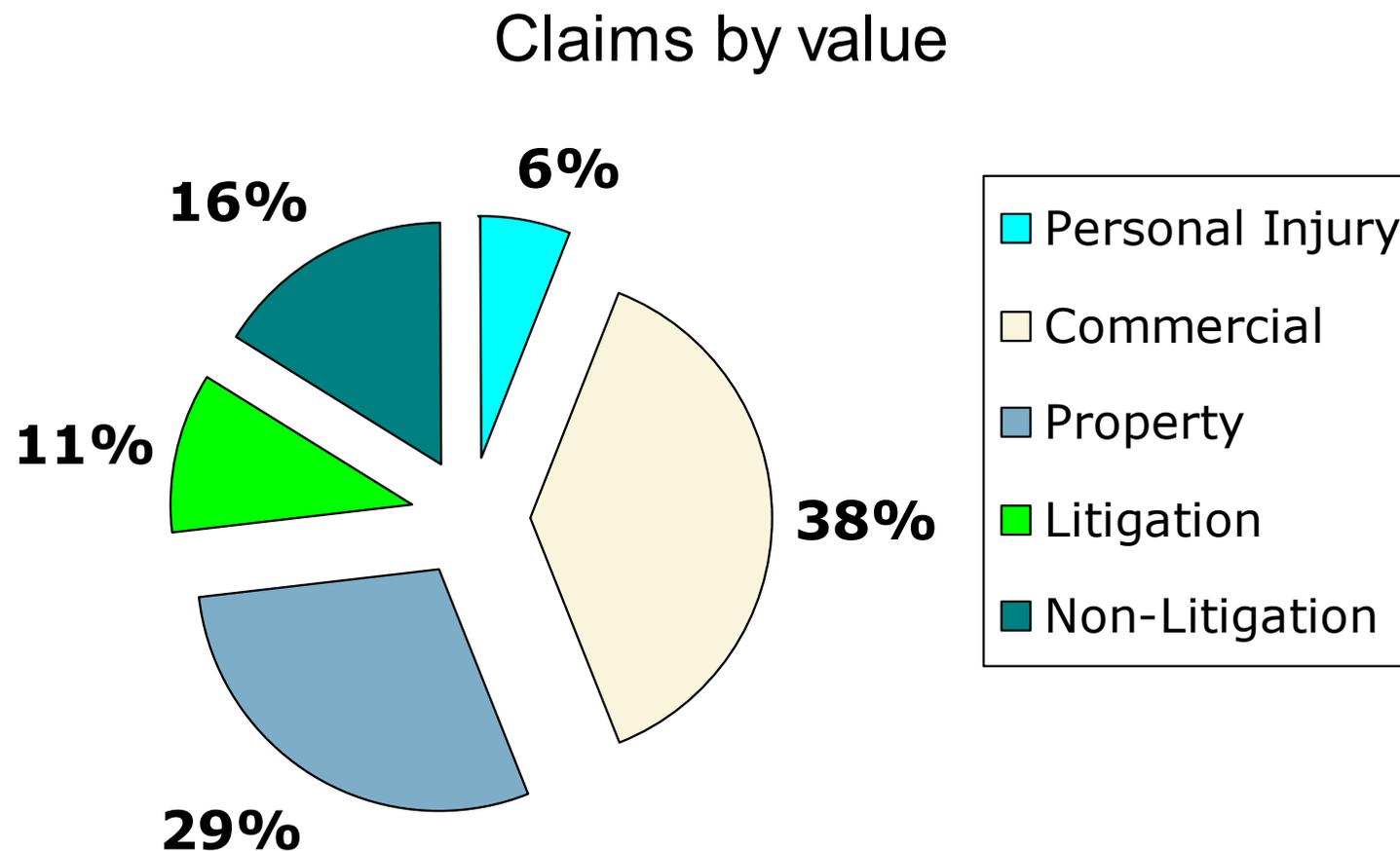


Where are the claims coming from?

Claims by number



Where are the claims coming from?

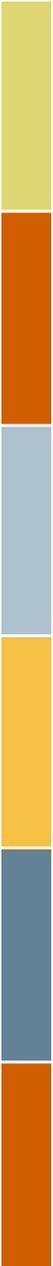


All firms – claims by number

| Type of claim | % |
|-------------------------------------|----------|
| Litigation – Conduct of Action | 10 |
| Personal – Conduct of Action | 9 |
| Commercial Contract Terms | 6 |
| Commercial Lease/Assignment | 5 |
| Residential Searches/Enquiries | 4 |
| Residential Completion/Registration | 3 |
| Residential Title | 2 |
| Commercial Merger & Acquisition | 2 |
| Trust/Probate Taxation | 2 |
| Residential Contract/Lease | 2 |

All firms – claims by value

| Type of claim | % |
|------------------------------------|----------|
| Commercial Contract Terms | 18 |
| Litigation – Conduct of Action | 7 |
| Commercial Merger & Acquisition | 7 |
| Commercial Lease/Assignment | 7 |
| Personal – Conduct of Action | 6 |
| Landlord & Tenant Notices | 4 |
| Commercial Taxation | 4 |
| Residential Searches/Enquiries | 3 |
| Commercial Completion/Registration | 3 |
| Trust/Probate Taxation | 2 |



All firms – relative claims value by activity

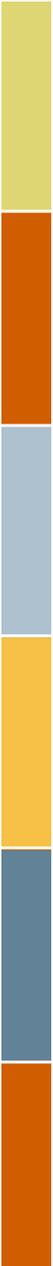
| | |
|-----------------|--------|
| Commercial | £1,000 |
| Litigation | £1,010 |
| Non-Litigation | £1,270 |
| Conveyancing | £2,310 |
| Personal Injury | £4,920 |

Major firms – claims by number

| Type of claim | % |
|---------------------------------|----|
| Litigation – Conduct of Action | 13 |
| Commercial Contract Terms | 11 |
| Commercial Lease/Assignment | 8 |
| Commercial Merger & Acquisition | 5 |
| Personal – Conduct of Action | 3 |
| Commercial Taxation | 3 |
| Trust/Probate Taxation | 3 |
| Landlord & Tenant Notices | 3 |
| Commercial Title | 2 |
| Residential Searches/Enquiries | 2 |

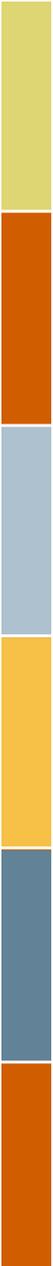
Major firms – claims by value

| Type of claim | % |
|--------------------------------------|----|
| Commercial Contract Terms | 27 |
| Commercial Merger & Acquisition | 13 |
| Commercial Lease/Assignment | 10 |
| Other Litigation - Conduct of Action | 7 |
| Landlord & Tenant Notices | 7 |
| Commercial Taxation | 6 |
| Trust/Probate Taxation | 3 |
| Commercial Planning/Usage | 2 |
| Commercial Licences/Consents | 2 |
| Commercial Registration Co. Charges | 2 |



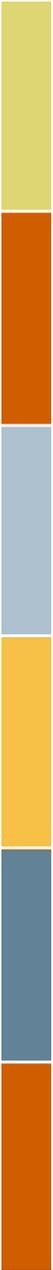
Claims against major firms

- New clients
- Non UK
 - infrastructure
 - jurisdiction issues
- Commercial property – leases
- Tax
- Pensions



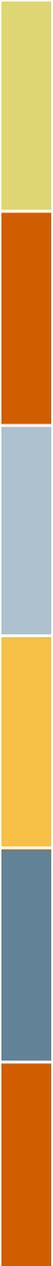
Assessing risks for large firms

- Claims history and trends
- Fee income and work type
- Geographical spread
- Excess/retention
- Approach to new clients
- Management structure
- Claims handling and risk management
- Relationship



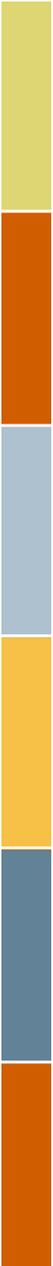
Issues for Insurers

- Mandated wording
- Non-voidance
- Disclosure
- Fraud
- Costs in Addition
- Aggregation
- Run-off
- ARP



Issues for the profession

- Adequate capacity
- Fair allocation of premiums
- Reducing claims...



Is the open market better?

Law Society was looking for...

Public protection

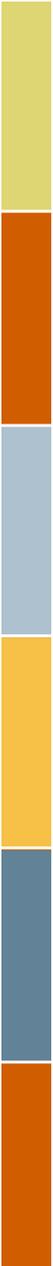
Long term solution

Continuity

Wide coverage

All sectors covered

Ability to revert back to mutual



Is the open market better?

Law firms were looking for...

Choice

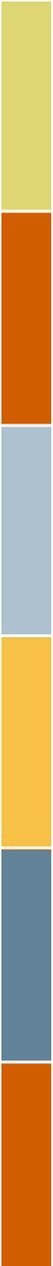
Competition

Opportunity to make their case

Insurers were looking for...

Long term opportunities

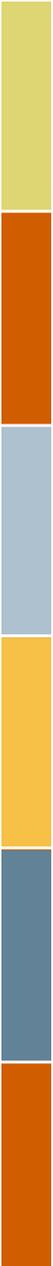
Profitable business



Is the open market better?

Law Society?

they set the rules



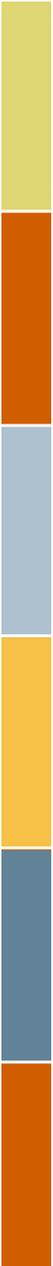
Is the open market better?

Law firms?

Choice but with responsibility

Selective competition

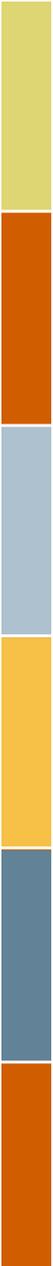
Make their case but half are worse than average



Is the open market better?

Insurers

| | |
|------------|-----|
| Long term | yes |
| Profitable | ? |



Conclusion

For the open market to fare any better than SIF...

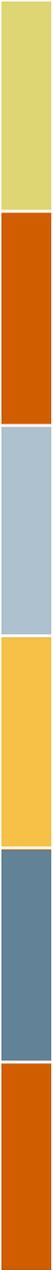
1. focus on claims reduction must intensify
2. adequate capacity comes from adequate pricing
3. underwriters need to know what they are covering



Solicitors Professional Indemnity “Price, process and profitability”

Olivia Burren

Senior Risk Management Consultant



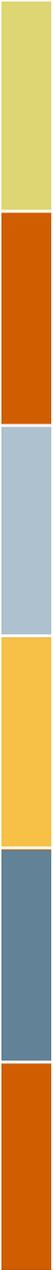
Cost of claims

£250 million per annum

Property

Commercial Law

Tax



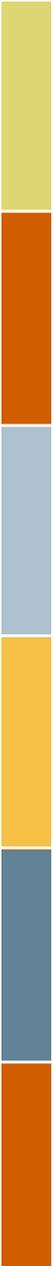
Past claims experience

Property work is still the biggest area for claims against solicitors

37% of claims by volume

6 of the top ten categories of claims against all firms relate to property work

High risk – high turnover – low profit

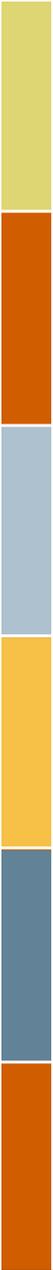


Past claims experience

Commercial work – increasing
14% of claims by volume, but 38%
by value

29% of claims against major firms are
related to commercial work

62% of payments in respect of major
firms arising from commercial work



What do lawyers get wrong?

They rarely get the law wrong

- Administrative errors
- Routine clerical mistakes
- Client selection

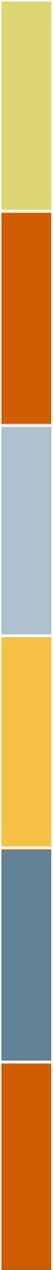


Why do they get it wrong?

Pressure of work

Traditional culture

Training and organisation



What goes wrong?

Analysis of 26 large claims, over the first three months of 2004:

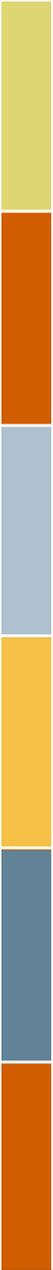
17 related to commercial property

1 – matrimonial

2 – litigation

4 – commercial contracts

2 – tax advice



They included:

Insured did not investigate planning permission, and client proceeded to buy a property that they could not use

Insured reserved rights for client over part of property being sold off, but failed to register this, making it ineffective



Insured served break notices, but did not ensure that all other requirements had been complied with – notice was ineffective

Company restructuring did not have desired effect of tax saving

Agreement for sale did not clarify who was entitled to outstanding rent

In one case, advice resulted in client potentially committing criminal offence



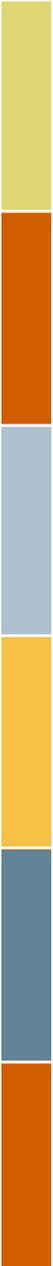
What does this reveal?

The client's instructions were not followed

Documentation prepared did not reflect those instructions

The documents were intended to do what the client wanted, but failed in their purpose

Lawyers gave advice in areas where they did not have sufficient expertise



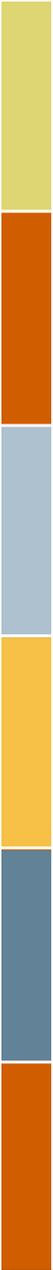
Why does this happen?

Client/matter vetting and supervision not adequate

Clients instructions not recorded clearly

Communication with the client poor or inadequate

Ineffective procedures for checking documentation

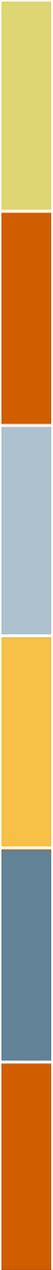


Three major problems

Time Limits

Delay

Communication

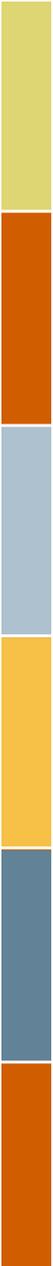


Three straightforward answers

Diary system

File review

Keeping detailed notes

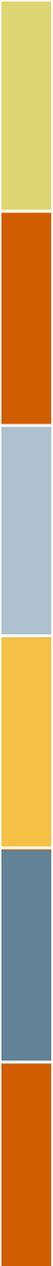


How can firms reduce risk?

Raise risk awareness throughout the firm

Ensure partners understand their responsibilities

Have procedures and review systems that work



Encouraging compliance

A clear chain of responsibility

Named individuals to manage risk

Regular reviews of procedure

Making risk management integral, not additional