

Beazley Group Large Law Firm Professional Liability

Presentation to 2007 CARE Seminar on Reinsurance

Session: Professional Liability –Lawyers E&O

Authors: Simon Brickman, Melissa Collins

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Presentation Overview

Overview of Presentation

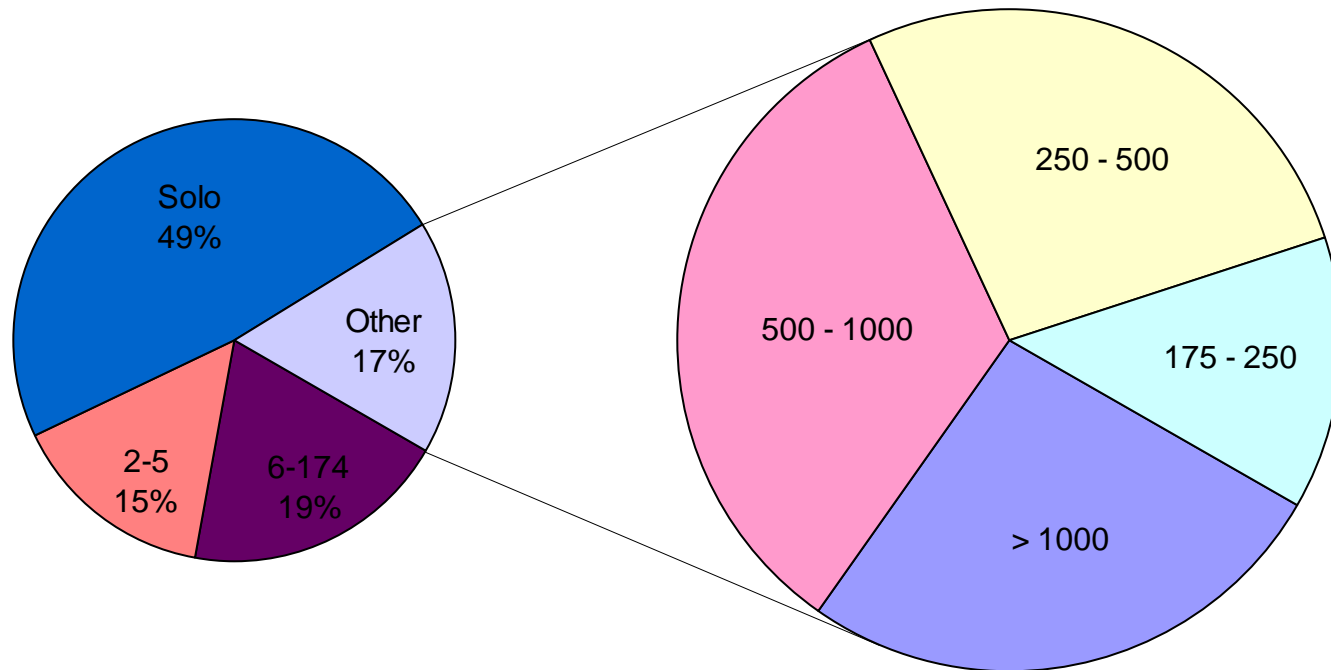
- Market Overview
- Rating Structure
- Claims Trends
- Loss Scenarios
- Underlying Risk Factors
- Benchmarking Study
- A look to the Future
- Useful Resources

Market Overview

Composition of Market

- 120,000 lawyers are in firms with a headcount over 174
- This accounts for 1 in 6 lawyers working as private practitioners
- Total estimated premium paid by this group is \$1 billion

Composition of Law Firms



Market Overview

Why London market is important for Lawyers Professional Liability



Market Overview

Coverage Provided

Product Features

- Broad Insured Person wording
- Mutual Choice of Defense Counsel
- Self-representation available
- Options available for reinstatements of limit

Losses Covered

- Subject to terms and conditions of the policy, the insurer will pay damages, judgments, settlements and costs, charges and expenses in respect of claims brought by clients or 3rd parties for malpractice

Market Overview

Incurred Loss Ratios (London Market)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1993	1.0%	30.2%	55.1%	82.1%	111.9%	116.9%	123.4%	117.4%	115.4%	115.4%	110.8%	109.9%	109.9%	109.9%
1994	1.5%	18.8%	23.5%	64.9%	72.0%	77.7%	77.5%	76.4%	74.6%	74.6%	74.6%	73.2%	73.3%	
1995	9.0%	14.0%	26.4%	41.9%	42.4%	41.5%	49.4%	48.3%	47.4%	48.2%	48.9%	50.1%		
1996	0.2%	8.5%	25.2%	33.5%	39.2%	46.8%	45.8%	38.1%	47.2%	45.2%	47.7%			
1997	1.0%	15.1%	12.5%	25.7%	26.2%	30.4%	30.5%	32.0%	37.3%	36.8%				
1998	10.9%	35.7%	51.8%	116.8%	163.1%	181.6%	176.6%	182.1%	181.1%					
1999	0.5%	19.8%	158.5%	98.6%	109.6%	119.8%	126.6%	129.7%						
2000	0.6%	56.1%	159.7%	189.2%	214.7%	226.3%	224.0%							
2001	0.5%	16.2%	22.7%	183.6%	259.3%	274.1%								
2002	0.4%	171.1%	200.9%	224.7%	293.7%									
2003	2.2%	8.1%	33.0%	44.8%										
2004	0.3%	25.3%	36.9%											
2005	0.3%	5.1%												
2006	0.7%													

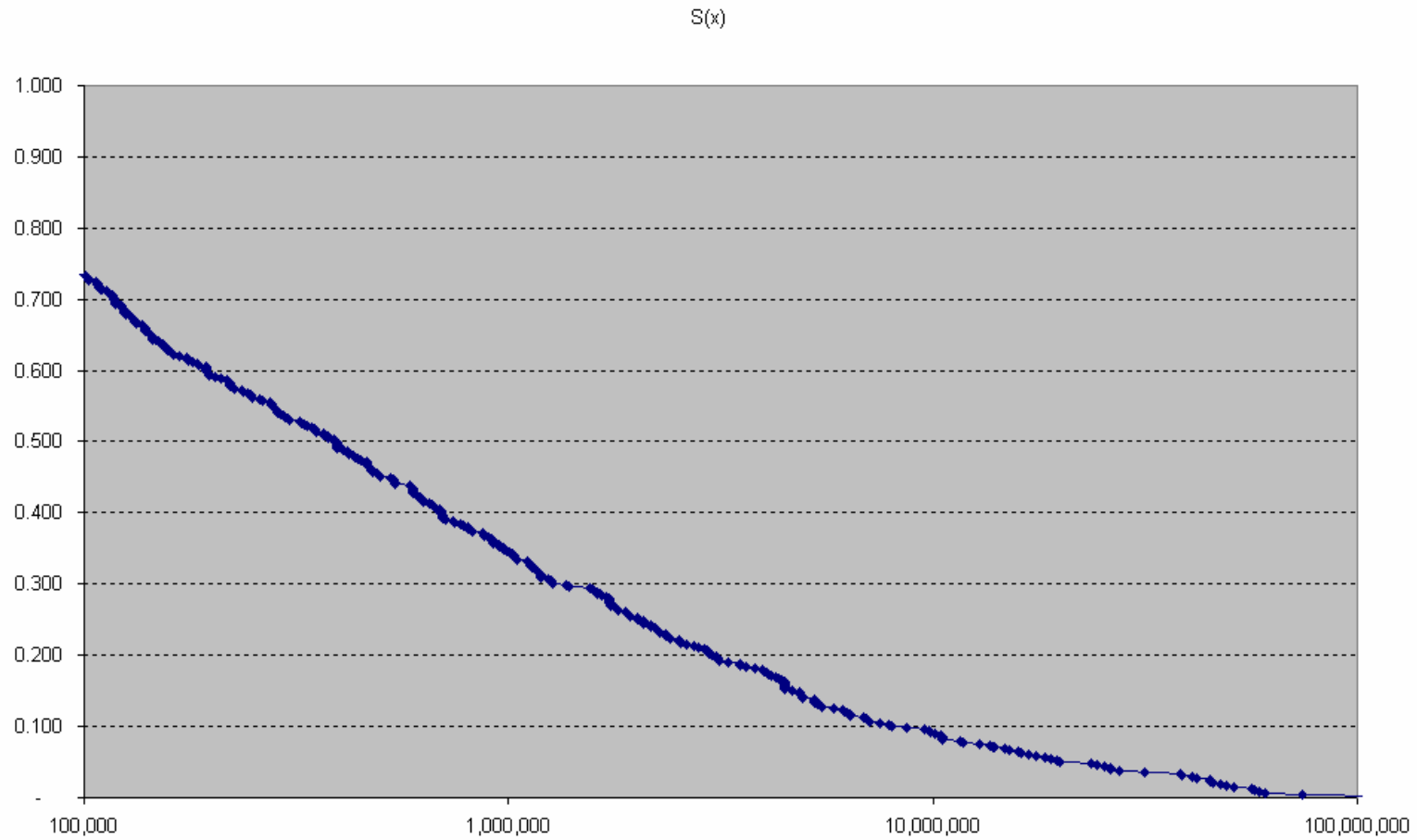
Rating Structure

Overview

- Rating model developed in 2004 to benchmark larger risks (excess 100 lawyers)
- Used Claims data from London market to generate rating model
- Initial model built from 2,500 claims in period 1994-2004 based on exposure of 172,000 lawyer years
- Treatment of circumstances
- Trend claims to current year
- Rating model developed by fitting frequency and severity to data

Rating Structure

Severity Curve (actual revalued)



Rating Structure

Pricing

- Adjust Exposure Rate for modifiers
 - Firm Management
 - Compensation
 - Risk Management
 - Business Process
 - Client/Matter Intake
 - Client Base
 - Audit/Governance
 - Lessons learned with previous claims
 - Lawyer Intake
 - Financials
 - Strategy
- Credibility blend with Claims Experience
- Load for cost for capital, using standard error of layer as a capital measure

Lawyers Professional Liability Loss Scenarios

Overview

Claims trace back to one of five areas:

1. Client Mismanagement
2. Conflicts
3. Third Party Claims
4. Rogue Partners
5. Mistakes

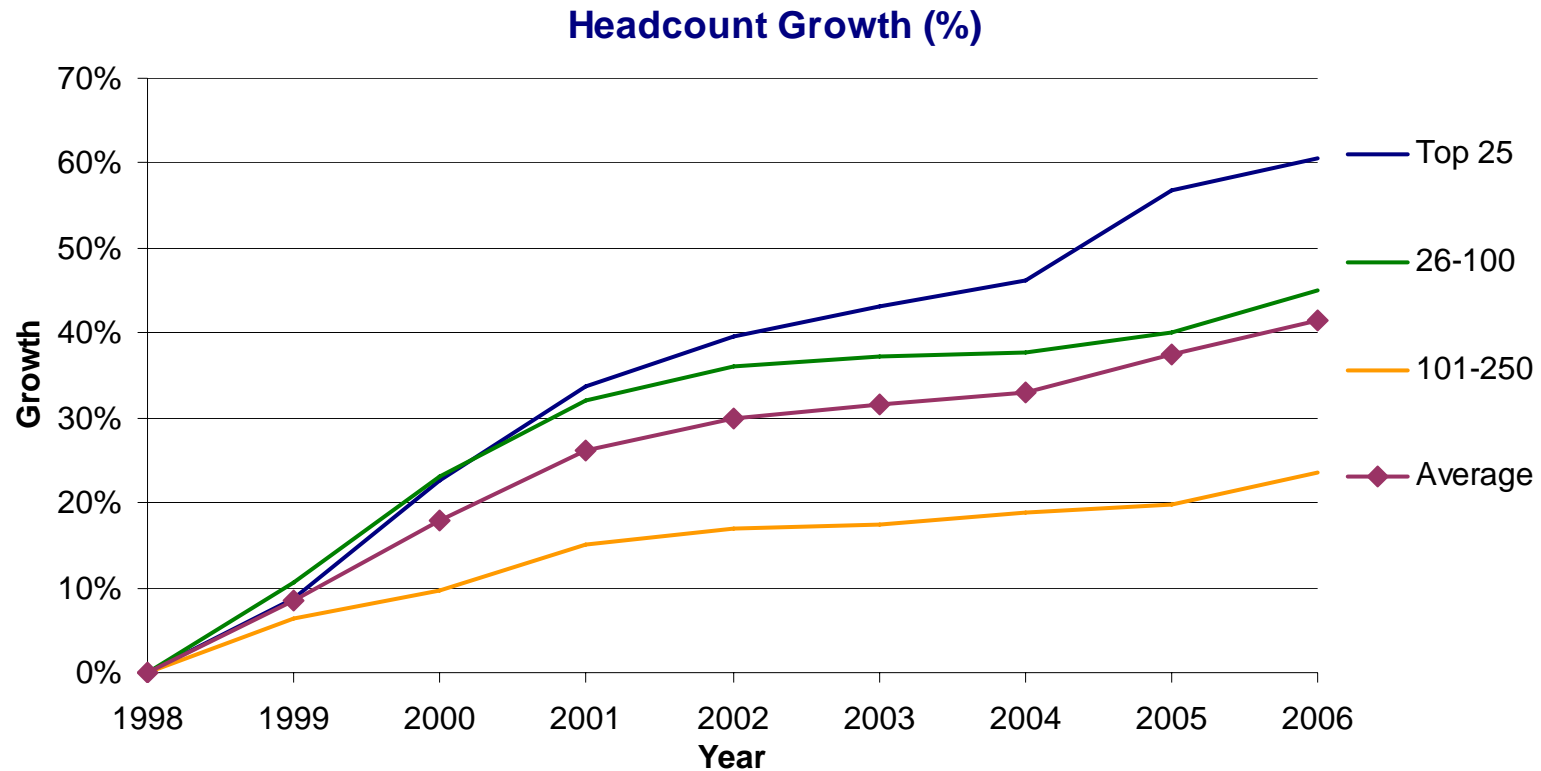
Underlying Risk Factors

Overview

- Headcount Growth
- Revenue Growth
- Firm Mergers and Acquisitions
- Globalization / New Offices

Underlying Risk Factors

Headcount Growth (Top 25 / 26-100 / 101-250)

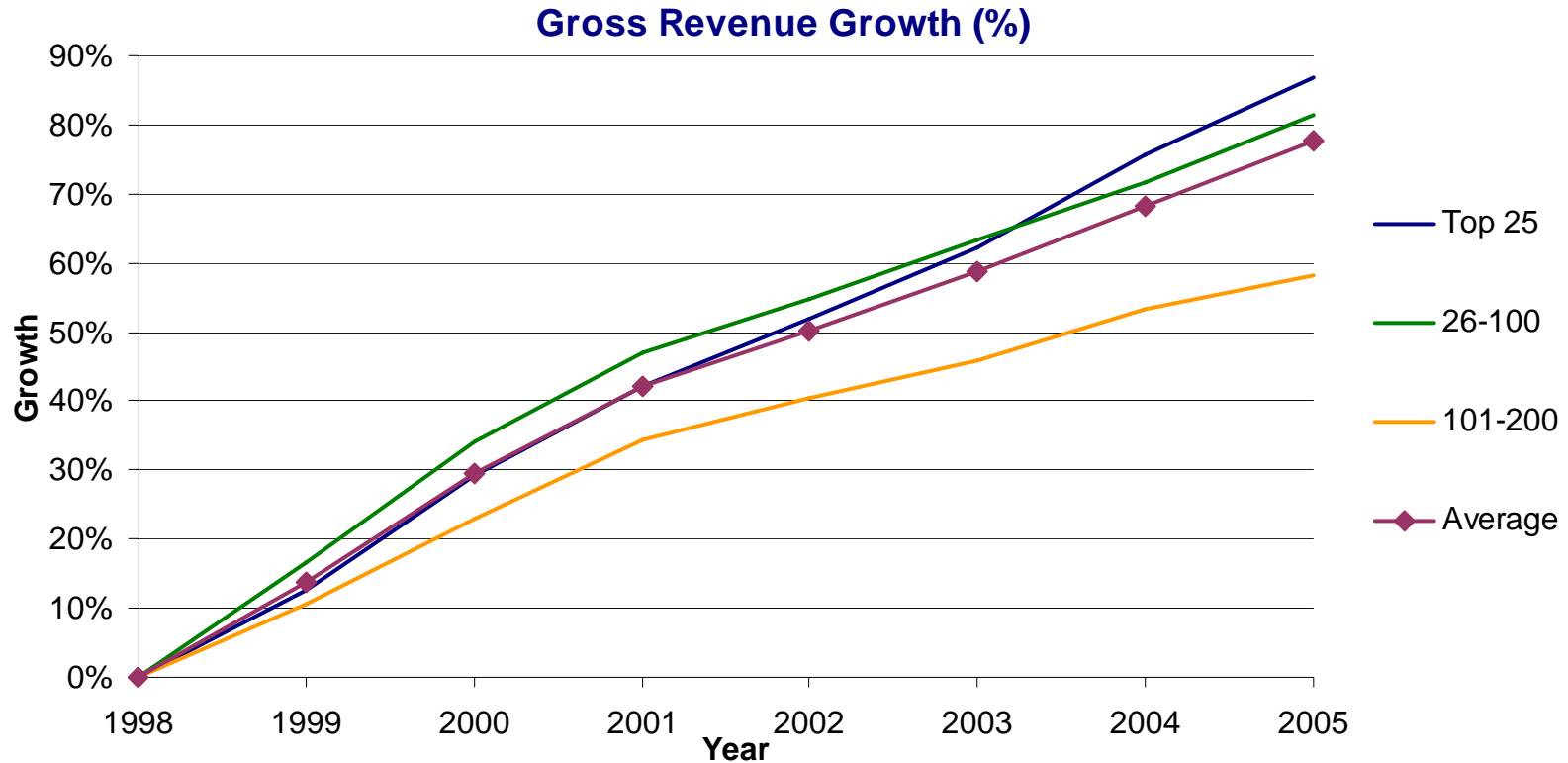


- Chart shows large law firm headcount growth from 1998 to 2006
- Top 25 average yearly headcount growth: 8%
- Top 250 average yearly headcount growth: 5%

Source: NLJ 250

Underlying Risk Factors

Revenue Growth (Top 25 / 26-100 / 101-200)

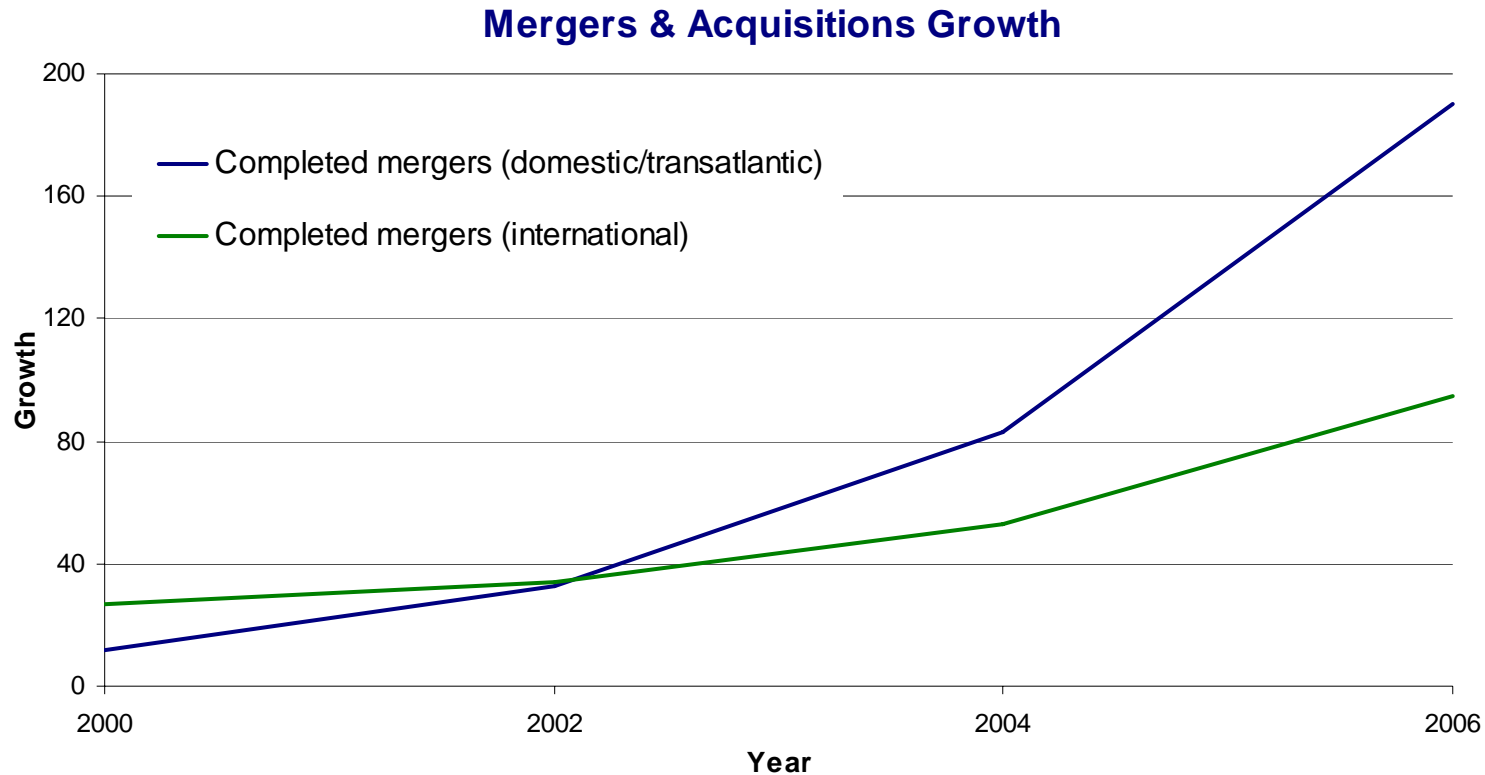


- Chart shows large law firm revenue growth from 1998-2005
- Top 25 firms average yearly revenue growth: 12%
- Top 200 firms average yearly revenue growth: 11%

Source: AmLaw 250

Underlying Risk Factors

Mergers & Acquisitions

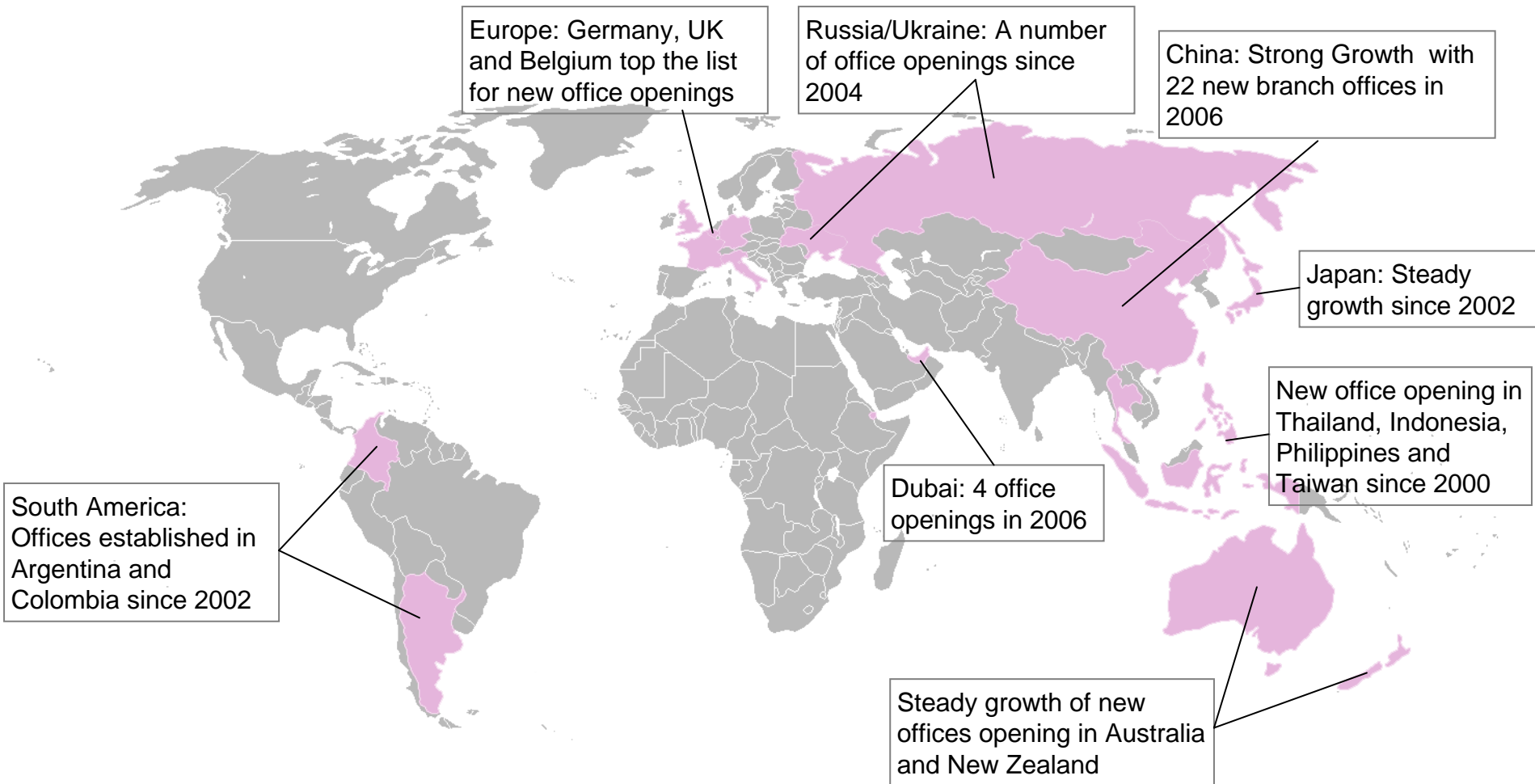


- Domestic/Transatlantic mergers includes US domestic mergers and transatlantic mergers where a US firm is one party
- International mergers includes all reported mergers outside of the US

Source: Hildebrandt

Underlying Risk Factors

Globalization / New Office Openings



Lawyers Professional Liability Benchmarking Study

Overview

Statistically significant database

- 10 Year Claims History – 6,008 LPL Claims
- 1691 At Cost, 331 Settled
- Updated each year
- Industry wide data – not Beazley specific

Lawyers Professional Liability Benchmarking Study

Overview

Claims Trends Overview

- 42 claims in excess of \$20M since 1980
 - 20 of these have occurred since 2000
- 13 Claims between \$10M - \$20M
 - Half of these in the last 6 years
- 16 Claims between \$5M - \$10M
 - 9 of these in the last 3 years
- 47 Claims between \$1M - \$5M
 - 32 of these in the last 6 years

A Look to the Future

Potential New Claims Drivers

Emerging Areas

- Claims resulting from failed deals/litigation
- Electronic Discovery
- Claims/Demands in excess of policy limits
- Hedge Funds
- Stock Option Backdating
- Liability for supervising third party conduct

Useful Resources

- **Beazley**
 - Global specialist insurer with operations in the UK, US, France, Singapore and Hong Kong
 - www.beazley.com
- **American Bar Association (ABA)**
 - www.abanet.org
- **Attorney's Liability Assurance Society, Inc. (ALAS)**
 - Major mutual insurance company for large law firms
 - www.alas.com
- **American Lawyers (AmLaw)**
 - Monthly magazine counts among its readers the nation's most powerful attorneys: managing partners and partners at the largest law firms in the United States, as well as General Counsel at the Fortune 500. Also publishes annual league tables of firms.
 - www.americanlawyer.com
- **National Law Journal (NLJ)**
 - www.law.com
- **Hildebrandt**
 - Hildebrandt headlines offers a summary of the current news and trends in the legal and other professional services industries
 - www.hildebrandt.com