

UK SOLICITORS' RENEWAL 2009

This year's renewal has been characterised by a continuing soft market that enabled the larger sectors of firms to renew at terms similar to 2008, albeit with variable results depending on claims records, growth rates and the service mix.

The crisis that emerged in 2008 for smaller firms continued and resulted in an even larger number of firms having to enter the Assigned Risks Pool (ARP) for 'distressed' risks.

Competition remained high in certain segments. Alternative lead insurers and capacity for higher limits were available.

2009 RENEWAL SEASON: A BACKGROUND

At the beginning of the year, the expected hardening of the insurance market and expectations of large numbers of claims from property transactions and the financial crisis, led many to believe this would be a very tough year for buyers. Insurers warned of rate increases across the board; they would be reluctant to reduce premiums even where firm revenues had decreased.

The general market, however, did not harden and the recovery of investment markets in the second quarter rebuilt capital and created a continuation of the soft market, contrary to most expectations at the beginning of the year.

AIG had been a major market prior to September 2008, but there was a lack of client confidence and uncertainty entering this renewal about its capacity. In fact, the developments surrounding AIG meant these fears were unfounded and AIG (now rebranded as Chartis) played a continuing role in this market.

Claims have emerged, but mostly in the small firm sector arising from residential property work. The wave of claims anticipated from financial

markets or arising from business failures has not materialised, although some believe this is a timing issue and these claims will emerge over the next few years.

There is an absence of large claims and those that have attracted publicity have settled for nominal amounts.

2009 RENEWALS

When analysing the 2009 renewal season, it is necessary to segment the U.K. market. For the smaller firms of fewer than four partners renewal is believed to have been very difficult with large premium increases and many firms unable to find insurance coverage prior to the renewal date. The single renewal date and the congestion in the marketplace contributed to this situation.

Conditions were more favourable for medium sized firms. Insurers paid more attention this year than in past years to the individual firm's service mix and its risk management procedures. Firms without claims, and little or no exposure to the property market, enjoyed reasonably priced renewals. This was in part fuelled by new entrants to the market creating competition.

The larger firms (top 100 by revenue) were generally able to renew at existing rates and may have paid small real increases or had small real reductions depending on business mix and claims history. The total premium income for qualifying insurers on the primary layer was reported as increasing from £215 million to £241 million. We suspect that increase was borne by the smaller firms. It is important to note that that total is now back at the levels of 2003 and 2004 before the primary layer limit increase.

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MARKET CAPACITY

All major insurers continued their participation. AIG became the largest insurer as Travelers, QBE and Zurich gave up market share. In addition, XL entered the small and medium sized markets. Hannover was a new entrant writing mid-sized firms with more than four partners, and Allianz, having recruited a team from AIG, competed for business at the primary and lower excess layers. Capacity in general was stable or higher when compared to 2008.

Where excess lead insurers attempted to force rates up, for example for firms with claims, alternative suppliers were available and willing to renew at expiring terms. This despite the fact that the total premium pot for excess layers is estimated at about £60 million, a figure that would clearly be vulnerable to experience penetrating those levels.

All insurers seemed intent on keeping market share outside of the small firm sector. New entrants competed fairly aggressively but not imprudently.

EXPECTATIONS FOR 2010

The best assumption at the moment is that general market conditions will not cause a significant change in the solicitors' market. Additional claims could emerge as corporations struggle with economic conditions and debt re-financing and it is conceivable, indeed likely, that property market related claims will damage market profitability.

Insurers have reported an increase in the number of notifications with final quantification being uncertain. For the small firm market especially, much may turn on the ultimate cost of these claims.

Reinsurance is not believed to be a significant factor in moving the market as insurers' retentions are high and indeed some carriers are writing on an entirely net basis. In any event, the reinsurance market continues to be in a soft phase for most classes.

The best guess at this point, based on current knowledge and conditions, is that unless a particular insurer is badly damaged by any of these phenomena, next year's market will look quite similar to 2009. This could change if some of the factors listed above develop unfavourably and cause identifiable costs to insurers. Economic

and financial events represent one lag and claims take time to be quantified once they have emerged. SIMIA, for example, has made a premium call for two old underwriting years (2001 and 2002).

FUTURE CONDITIONS

In the longer term it is important to bear in mind that the market conditions are sustained by the amount of capacity available to firms and the competition amongst a relatively small number of potential insurers for the larger firms. While an individual insurer may pull back (indeed Marp withdrew from the market this year), capacity will not necessarily reduce.

For smaller firms the situation is far more difficult. The number of firms in the ARP increased from 160 to approximately 350. The ARP's claims experience continues to deteriorate and in the 2008 policy year it is reported that the ARP's incurred position has already reached £20 million. This represents an increasing cost to the whole market and will have an inflationary effect on rates across all size sectors as insurers factor it into their premium modelling. The plight of the small firms is on the Law Society's agenda and indeed, the single renewal date, which we believe is a contributing factor to market congestion and purchasing difficulties, is also under review. A consultation has been launched on the future of the ARP.

There is some well founded speculation that there is a lag in potential property claims and these will crystallise in the coming years. Further, banks may be reluctant to realize losses currently on loan books and that too is delaying the emergence of future claims. A future trend of increasing interest rates is another factor that could bring more losses.

Insurers may become less enthused about the minimum terms and conditions and indeed the Law Society of Ireland has recently reduced the scope of its minimum terms. The market for Irish member firms is very difficult.

The most obvious point of future pricing pressure is the excess layers, but that may only materialise after losses emerge. Having said that, first excess layer insurers have expressed concern about claim frequency entering their thinly priced layers.

Much can change before next year and it will be necessary to monitor claims, general market conditions and the views of the leading insurers going forward.



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