TransRe
We value risk.

TransReView

Large Law Firm Errors & Omissions

Liability Insurance Market Analysis

November 2019

TransRe's View Of
Large Law Firm E&O

Our analysis of the lawyers' liability market is based upon the insurers we serve, and the data we receive. As a result, the underlying data is not identical to last year's analysis. Large law firms are predominantly insured by carriers that write in multiple states and focus on firms with 25 or more attorneys. Our analysis therefore excludes data from mutuals, captives and risk retention groups.

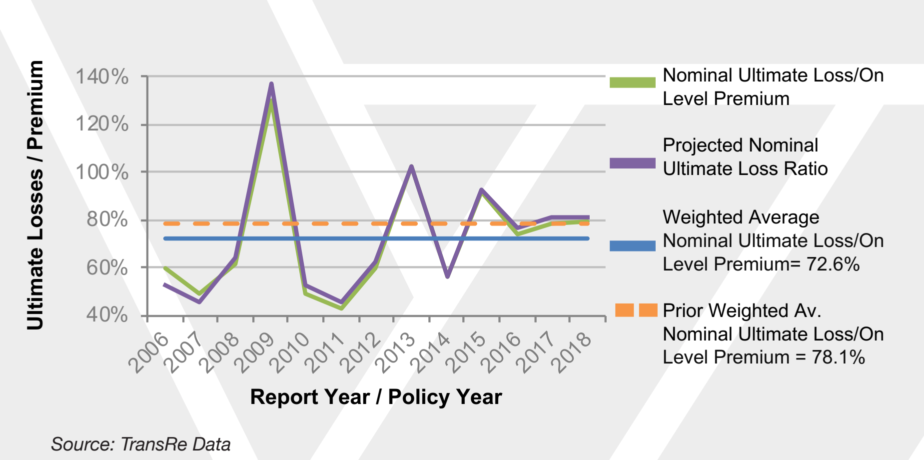
Our analysis is based on on-level premium of approximately $5.2B from 2006 – 2018, and on aggregated internal submission data reviewed through 9/1/19.

[1]The charts below first exclude, then include an annual loss cost trend assumption of 2.5%. 2018 is still relatively immature at this point, with estimates largely driven by IBNR.

2012 to 2015
Loss Ratio up 20 points compared to 2006-2011 average

2014
Only recent year with acceptable loss ratio

Large Law Firm Gross Loss Ratios, Excluding Trend[1]

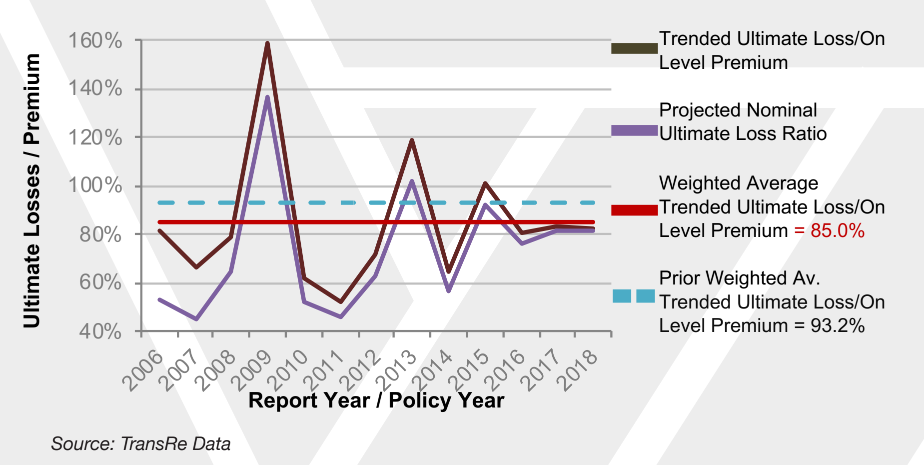


Source: TransRe Data

Applying a modest loss cost trend of 2.5% adds 12.5 points to Loss Ratio across all years

As defense and settlement costs rise, trended results become more deficient

Large Law Firm Gross Loss Ratios, Including Trend[1]



Source: TransRe Data

85.0% Ultimate Loss Ratio
15.0% Acquisition Costs
12.5% Internal Expenses

112.5% Underwriting Ratio

Primary & Excess
Analysis

Our analysis of the difference between primary and excess layers is based on on-level premium of ~$1.5 billion for primary and ~$1.1 billion for excess, from 2006 – 2018, and on aggregated internal submission data reviewed through 9/1/19.

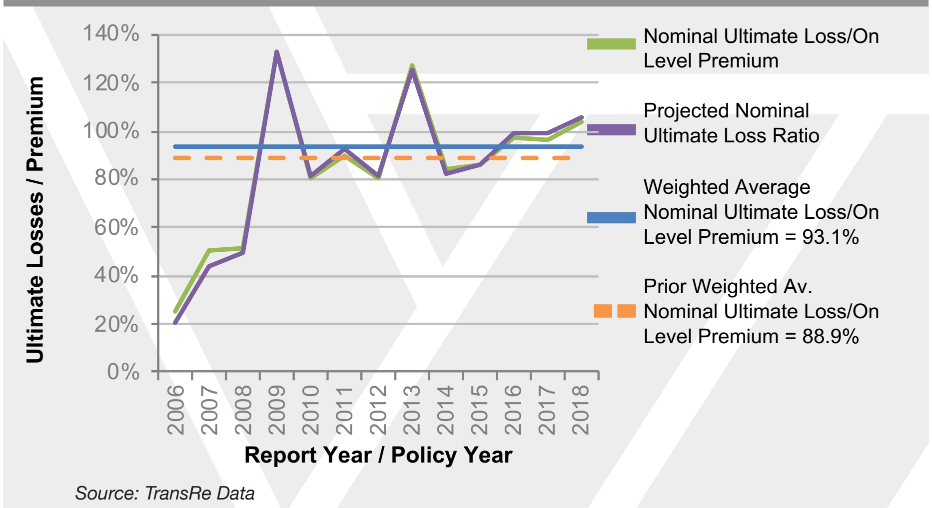
Only portfolios where the bulk of the business can be classified as either primary or excess are included in these figures.

[1] Both charts exclude any annual loss cost trend assumption.

Primary loss ratios remain consistently higher than excess layers – over the period of the report ~44 points worse

Claims are costly to defend. We have observed a number of early/quick settlements that run above the primary layer, with insufficient SIRs

Large Lawyer Gross Loss Ratios, Primary Before Trend[1]

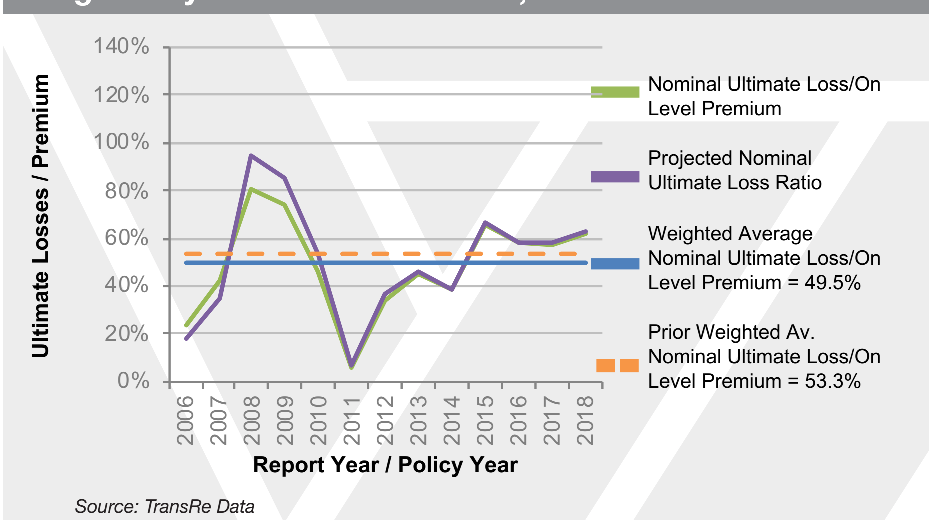


Source: TransRe Data

It is not a surprise that excess layers are volatile

A number of large losses from recent policy years have already impacted the excess market adversely, pointing to the need for prices to rise

Large Lawyer Gross Loss Ratios, Excess Before Trend[1]



Source: TransRe Data

Claims
Data

Our analysis of severity, large-loss claims and estimated industry reported losses is based on estimated ground-up losses valued at $5 million or more. These total $7.8 billion across all years.

The source of the data is both public information and submission-data reported losses, coupled with per-claim limit (layer share and 100%) and SIR / Attachment Point information.

Each ground-up loss is estimated at the per-claim level across all layers/insurers combined and counted as one claim regardless of the number of layers/insurers involved. Layer shares are estimated when not known.

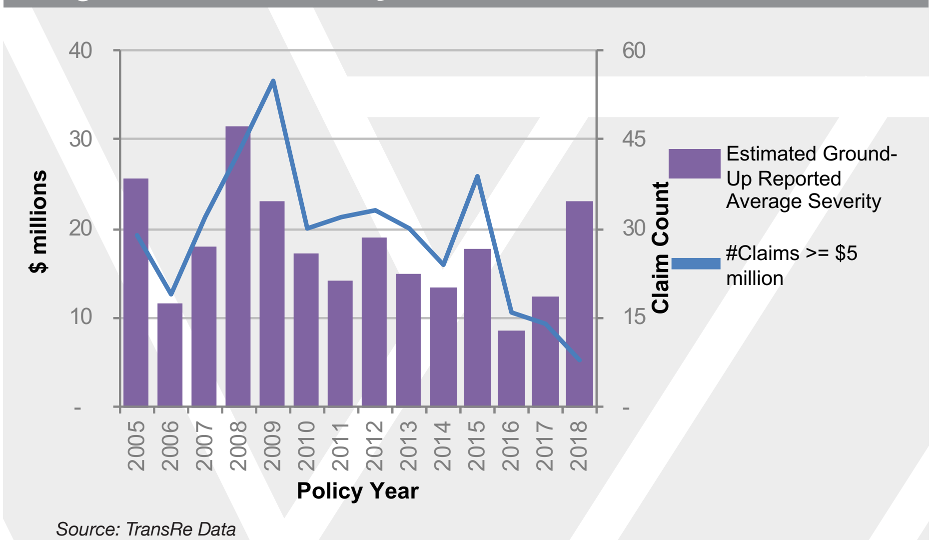
The ground-up estimate could be ***understated*** to the extent higher layers of the tower and/or SIRs are unknown, or layer shares (when estimated) are not correct. Alternately, some claims information is at the per-policy level rather than the per-claim level, so the ground-up estimated loss could be ***overstated*** to the extent the total loss for a policy is comprised of more than one large claim.

2015 is showing early and elevated severity in a year not yet fully developed

2018 has incurred significant claim development beyond the primary layers, with more development to come

No single area of practice is driving outsized losses – over the past decade the losses impacting insurance layers are largely non-systemic errors across all areas of practice

Large Law Firm Severity/Claims Count



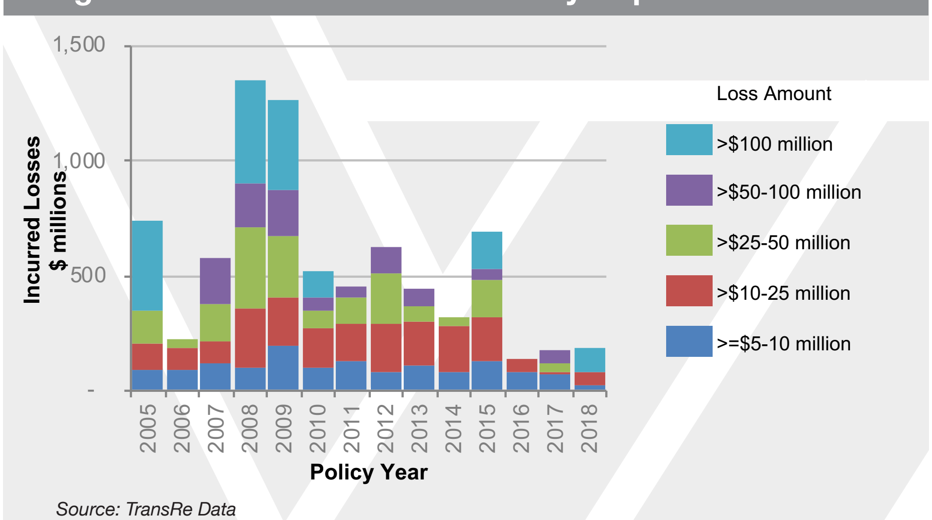
Source: TransRe Data

2015 has over $690 million in reported large losses, up >50% from last year's report

2017 has $172 million of large losses, $91 million of which from claims over $25 million

2018 is off to a poor start – one claim already over $100 million, and numerous claims larger than $10 million

Large Law Firm – Estimated Industry Reported Losses



Source: TransRe Data

Large Law Firm
Policy Year Rate Index

After many years of rate reductions, premiums (relative to exposures) hit a low in 2011 and slightly increased over the next two years as carriers recognized Financial Crisis losses

From 2013 - 2017 premiums were generally flat to slightly down. However, as demonstrated here, insurers were not being paid adequately for the risks they assumed

Since 2017, as insurers have incurred losses in recent policy years, some have reduced limits or withdrawn from the Large Law Firm space entirely. Those that remain are now, finally, pushing much needed rate across their portfolios

However, when taking a long-term view, rates are still below pre Financial Crisis levels

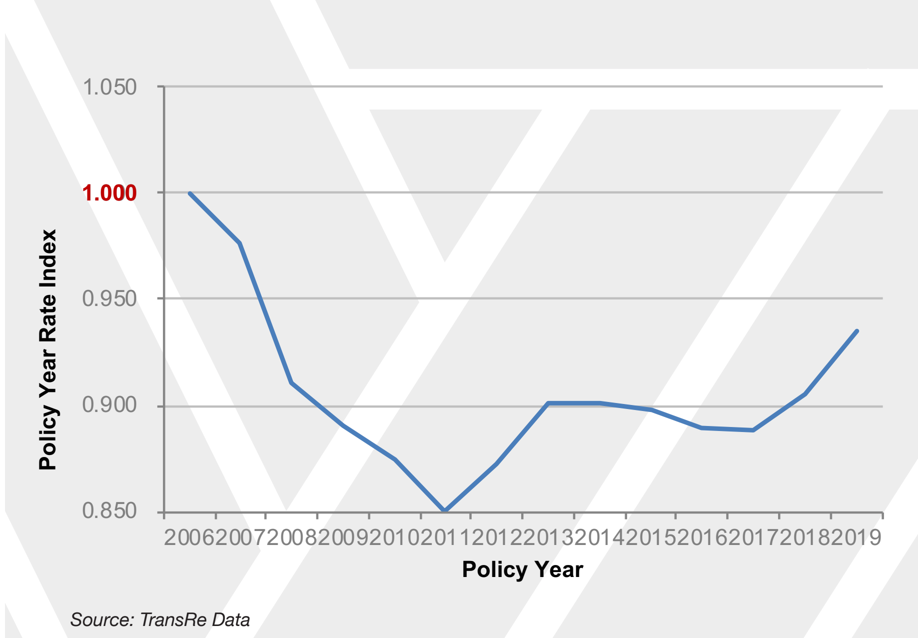
Our analysis is based on the data from insurers that write in multiple states and focus on firms with over 25 attorneys. This price index excludes the data of mutuals, captives and risk retention groups.

The figures are based on rate changes reported in submissions reviewed through 10/1/19, and reflect renewal business only.

Policy Year 2019 rate changes are largely based on budgeted or partial year figures.

As such, the data sources used to compile the rate change data do not exactly mirror those used to compile the gross loss ratio analysis shown earlier.

Large Law Firm Policy Year Rate Index



Large law firms have enjoyed multiple years of abundant insurance capacity. As demonstrated, this has kept rates at levels that do not support profitability.

Compounding the problem for insurers are new sources of claims. These arise from changing client expectations, and a change in role, with more 'consulting' advice being provided on larger and complex issues such as geopolitical/ international, wealth transfer and technological matters.

It is too early to assess ultimate expectations for 2016-2018 frequency and severity, but the trend is already a cause for concern. Therefore we expect the market to continue to address prices and self-insured retentions to better reflect the risks being assumed.

Contributors

Underwriting
Nick Tzaneteas, Brian Finlay, Daniel Hojnowski

Actuarial Science
Joe Marracello

Legal

Reproduction in any form without permission of TransRe is prohibited. The material and conclusions contained in this document are for information purposes only and TransRe offers no guarantee for the completeness of its contents. Statements in this document may provide current expectations of future events based on certain assumptions. These statements involve known and unknown risks, uncertainties and other factors which are not exhaustive. Although TransRe makes reasonable efforts to obtain information from reliable sources, TransRe does not guarantee the accuracy or completeness of the information given or any forward-looking statements made. TransRe undertakes no obligations to revise or update any statements, whether as a result of new information, future events or otherwise, and in no event shall TransRe or any of its affiliates or employees be liable for any damage or loss arising in connection with the use of the information relating to this document.

About Us

TransRe offers all management and professional liability reinsurance, both on a treaty and facultative basis, for D&O, E&O, Healthcare, Cyber and Transactional liability.

Underwriting	Nick Tzaneteas	ntzaneteas@transre.com
D&O/E&O Treaty	Brian Finlay	bfinlay@transre.com
	Stuart Alford	salford@transre.com
	George Delaney	gdelaney@transre.com
	Daniel Hojnowski	dhojnowski@transre.com
	Bill Seymour	wseymour@transre.com
Med Mal Treaty	Megan McIntyre	msullivan@transre.com
Cyber	Elizabeth Geary	egeary@transre.com
Facultative	David Scott	dscott@transre.com

Questions?
Comments?
Feedback?

We intend to update this report periodically, and to delve deeper into the quantification of the identified trends. To discuss how we can help you and your business, please call:

Brian Finlay (212) 365 2038
Daniel Hojnowski (212) 365 2168

TransRe™

We value risk.

November 2019