TransReView

Large Law Firm Errors & Omissions

Liability Insurance Market Analysis

November 2020

TransRe™
We value risk.

TransRe's 2020 View of Large Law Firm E&O

84.9% Ultimate Loss Ratio

15.0% Acquisition Costs

12.5% Internal Expenses

112.4% Combined Ratio

It's just math, and
It's unsustainable.

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 $4.9B from 2007 – 2019 and on aggregated internal submission data reviewed through October 1, 2020.

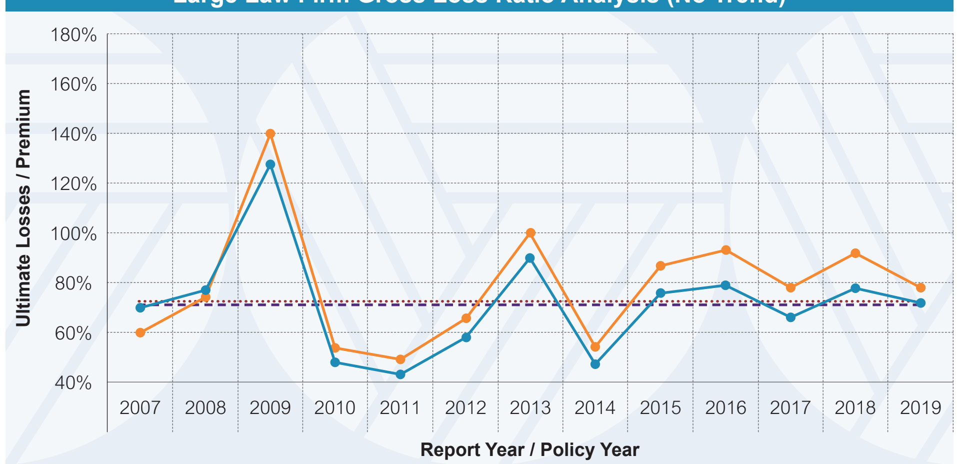
The charts below first exclude, then include an annual loss cost trend assumption of 2.5%. 2019 is still relatively immature at this point, with estimates largely driven by IBNR.

2007-2019 // 7 years ran above 75% Loss Ratio, of which 5 years ran above 85% Loss ratio.

2014 // the last year with adequate margins.

- Nominal Ultimate Loss / On-level Premium
- Projected Nominal Ultimate Loss Ratio
- Weighted Average Nominal Ultimate Loss / On-level Premium of 71.2%
- Prior Weighted Average Nominal Ultimate Loss / On-level Premium of 72.6%

Large Law Firm Gross Loss Ratio Analysis (No Trend)



Source: TransRe Data

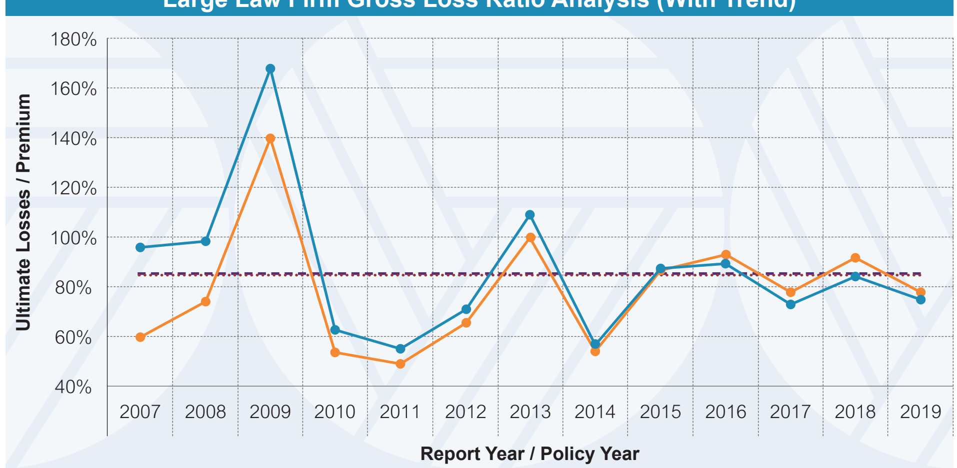
A modest 2.5% loss cost trend adds 13.7 points to Loss Ratio across all years.

More complex suits and higher defense/settlement costs will cause continuing problematic trended results.

The Lawyers Professional Market clearly needs higher rates.

- Trended Ultimate Loss / On-level Premium
- Projected Nominal Ultimate Loss Ratio
- Weighted Average Trended Ultimate Loss / On-level Premium of 84.9%
- Prior Weighted Average Trended Ultimate Loss / On-level Premium of 85%

Large Law Firm Gross Loss Ratio Analysis (With Trend)



Source: TransRe Data

Primary & Excess Analysis

Our analysis of the difference between primary and excess layers is based on on-level premium of $1.3B for primary and $0.8B for excess from 2007 – 2019, and on aggregated internal submission data reviewed through October 1, 2020.

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

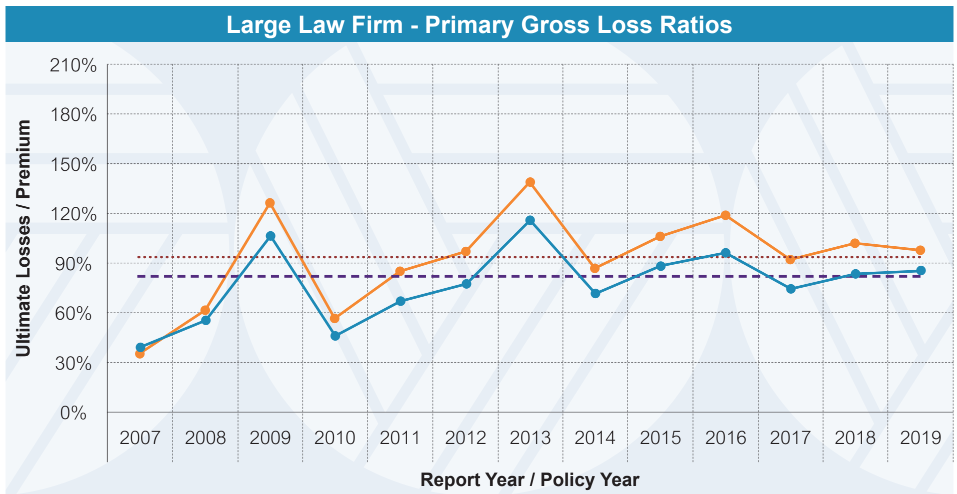
The charts below exclude any annual loss cost trend assumption.

Primary loss ratios remain higher than excess layers – currently 30.6 Points.

Down ~10 Points vs 2019 lawyers report, **but** 82.5% LR does not deliver an Underwriting Profit.

(Adding a 2.5% Loss Cost Trend increases LR to 95%).

- Nominal Ultimate Loss / On-level Premium
- Projected Nominal Ultimate Loss Ratio
- Weighted Average Nominal Ultimate Loss / On-level Premium of 82.5%
- Prior Weighted Average Nominal Ultimate Loss / On-level Premium of 93.1%



Source: TransRe Data

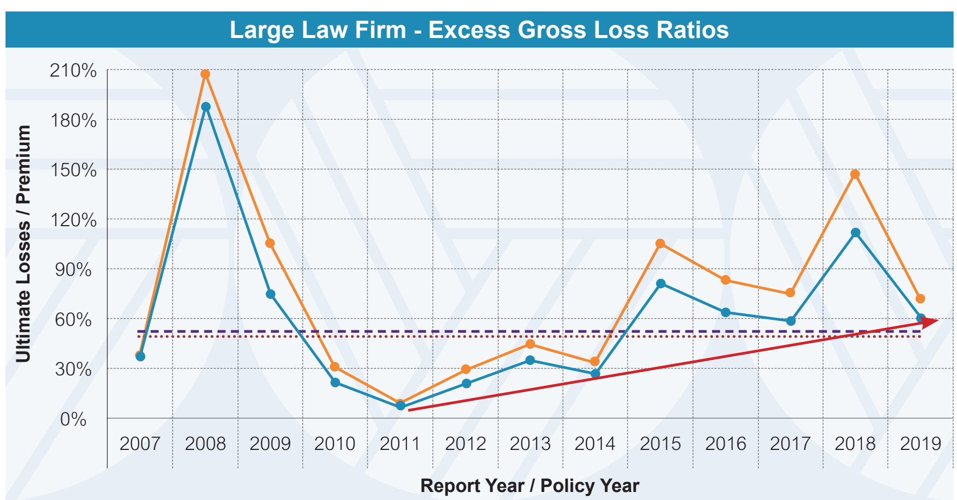
As expected – in the long term excess layers run better than primary, but with greater volatility.

Excess writers have been adversely effected by quick, large losses in 2015 and 2018.

Many excess writers have an issue with premiums vs limits deployed.

Reported LR from 2015 through 2018 is already 2.5 times higher compared to the prior four year block. Expect more loss to materialize as open claims settle.

- Nominal Ultimate Loss / On-level Premium
- Projected Nominal Ultimate Loss Ratio
- Weighted Average Nominal Ultimate Loss / On-level Premium of 51.9%
- Prior Weighted Average Nominal Ultimate Loss / On-level Premium of 49.5%



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 $7.7B 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.

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 and 2018 continue to be problematic.

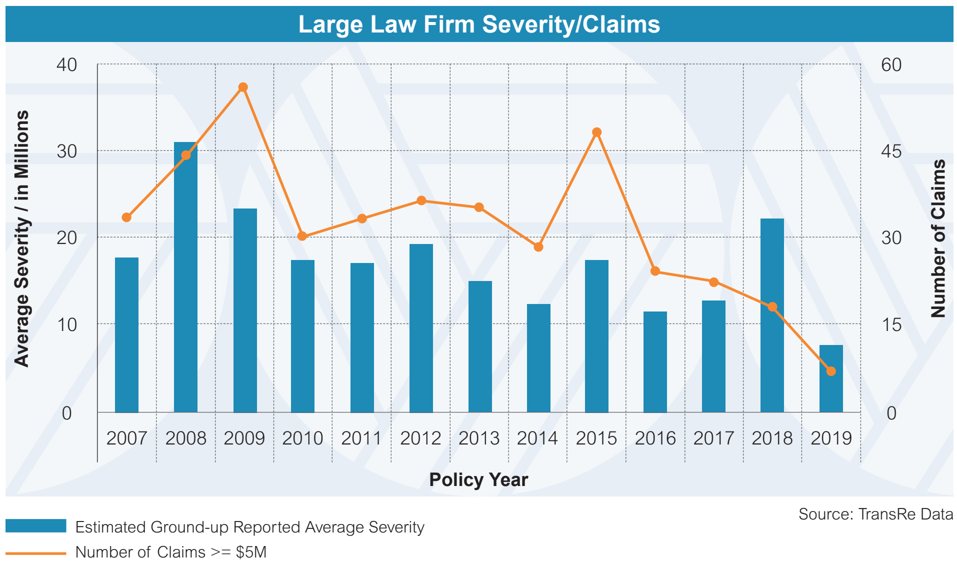
They are still not fully developed – in the past 12 months those years have seen ~$350M development from losses over $5M.

2016 and 2017 are each up over $100M in incurred losses from claims over $5M compared to last year.

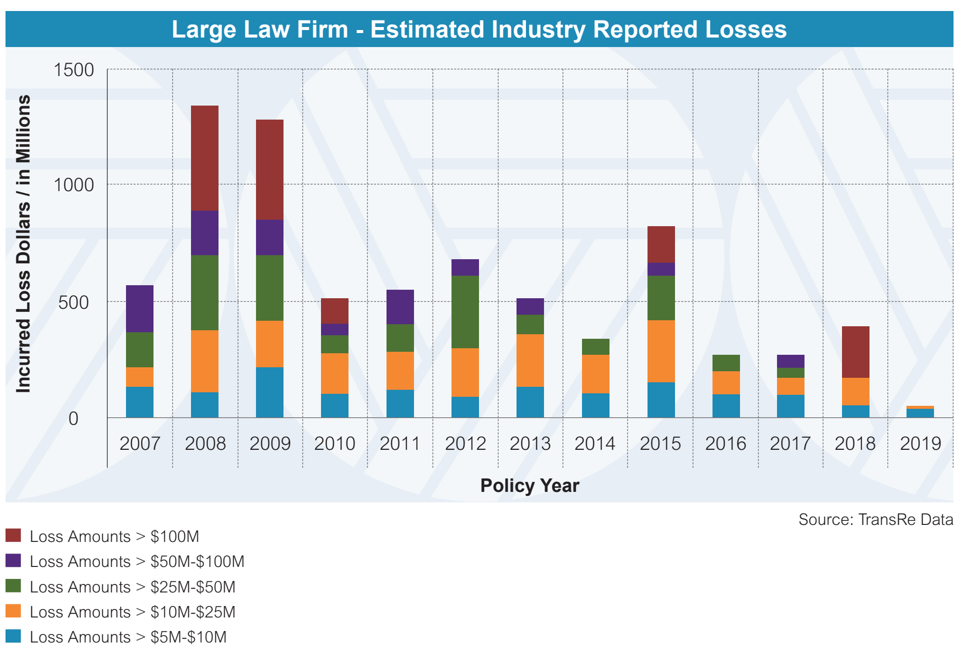
To date we have observed 112 claims greater than $5M from 2015 to 2018 which are still not fully developed.

2011 shows ~$100M in unexpected losses from claims in the $50M to $100M band.

Commentary: losses continue to be non-systemic in nature and occur across multiple areas of practice, but we have seen a noticeable uptick in the severity of Trust & Estate claims as well as from advice regarding M&A activity.



Source: TransRe Data



Source: TransRe Data

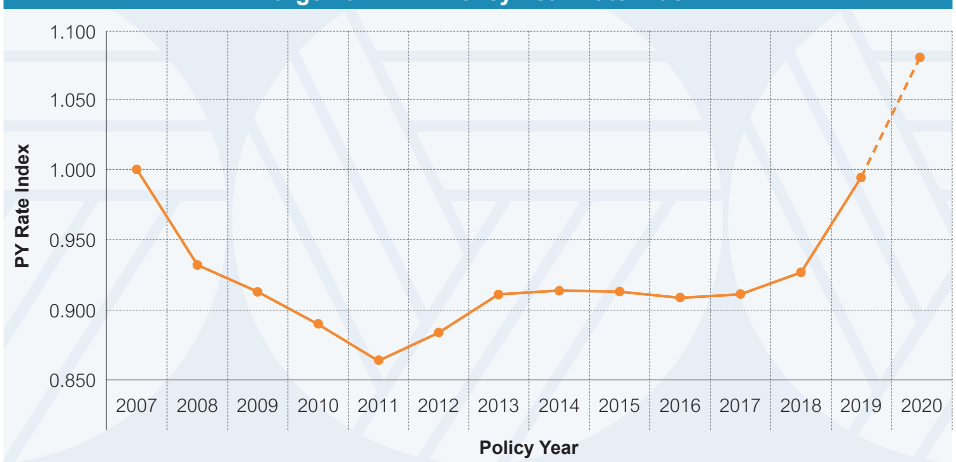
Large Law Firm
Policy Year Rate Index

Our analysis is based on rate changes reported in submissions reviewed through October 1, 2020.

Policy Year 2020 rate changes are based to some extent on budgets or partial year figures.

Note also that the data sources used to compile the rate change information do not exactly mirror those used to compile the gross loss ratio analysis figures.

Large Law Firm Policy Year Rate Index



Source: TransRe Data

Using 2007 as our base:

2011 hit a low of premiums vs exposure, as Financial Crisis losses were paid.

2011-2017 premiums/exposure flat-lined before 2018/2019 rate improvements finally returned the index to 2007 levels.

As carriers have paid the losses shown on prior pages, rates rose 8.7% in the first half of 2020. While this is a step in the right direction, more must be done to enable a long term sustainable marketplace.

In Conclusion

Progress has been made in the past twelve months: large law firms are paying more for their insurance capacity.

However, large law firms are also generating larger claims in $ and #. The slowdown of such large losses in 2020 is likely to be temporary (and covid-19 related).

As noted, 2015-2018 policy years already exhibit worrying frequency and severity trends.

Global interest rates close to, and in some cases below zero, has ramifications for underwriters: if the float delivers little or no yield, insurers must generate all their return from underwriting profits.

Once again, we must note the need for carriers to continue to address prices and self insured retentions to better reflect the risks being assumed.

Solve For Sustainable

For rate to have kept up with a modest loss cost trend (2.5% from 2007) the index would now have to be at 1.400, rather than 1.081. Had that happened, the numbers would be:

65.0%	**Ultimate Loss Ratio**
15.0%	**Acquisition Costs**
12.5%	**Internal Expenses**
92.5%	**Combined Ratio**

It's just math, and
*This **would** be sustainable.*

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:

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