TransReView

Large Law Firm Errors & Omissions

Liability Insurance Market Analysis

August 2022

TransRe

We value risk.

Today's Pricing Reality

71.3%	Ultimate Loss Ratio
15.0%	Acquisition Costs
12.5%	Internal Expenses
98.8%	**Underwriting Ratio**

If we are to include Reinsurance Costs then this is simply unsustainable.

TransRe's View of Large Law Firm E&O

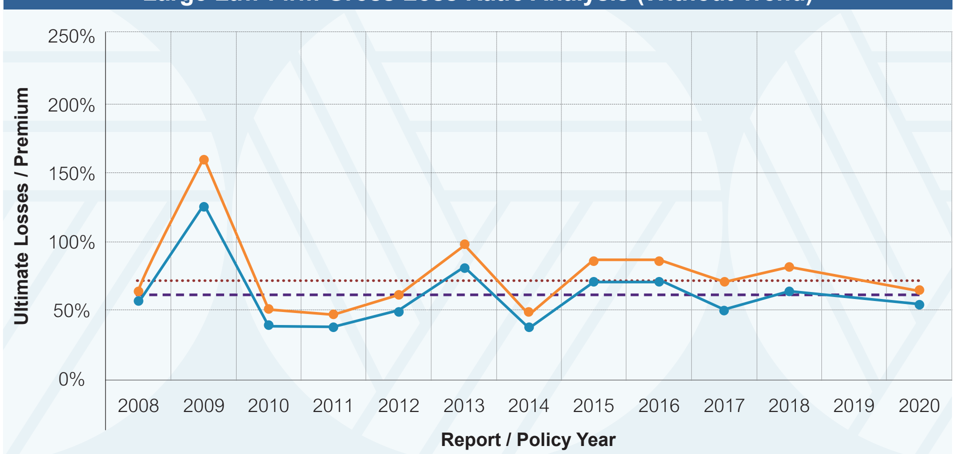
With another year's data to review, the problems from 2015-2018 policy years are increasingly clear. While large law firms are paying more now than they did last year, they are also generatig more and larger claims. As a result, insurers must remain viligant, and must maintain pressure o n both rates and limits to ensure the long term viability of deployed capacity.

As we said last year, the numbers continue to speak for themselves.

Our analysis is based on on-level premium of approximately $6.35B from 2008 – 2020, and on aggregated internal submission data reviewed through September 1, 2021.

The charts below first exclude, then include an annual loss cost trend assumption of 2.5%. 2020 is still relatively immature at this point, with estimates largely driven by IBNR but does not include inflation which also must be factored in.

Large Law Firm Gross Loss Ratio Analysis (Without Trend)



Nominal Ultimate Loss / On-level Premium
Projected Nominal Ultimate Loss Ratio
Weighted Average Nominal Ultimate Loss / On-level Premium of 60.1%
Prior Weighted Average Nominal Ultimate Loss / On-level Premium of 71.2%

Source: TransRe Data

2008-2020
7 years ran above 70% Loss Ratio, of which 5 years ran above 80% Loss Ratio.

2014
Still the only recent year with adequate margins.

2020
Some early signs of improvement, likely due to rate increases, although still rather immature.

Large Law Firm Gross Loss Ratio Analysis (With Trend)

Trended Ultimate Loss / On-level Premium
Projected Nominal Ultimate Loss Ratio
Weighted Average Trended Ultimate Loss / On-level Premium of 71.3%
Prior Weighted Average Trended Ultimate Loss / On-level Premium of 84.9%

Source: TransRe Data

A modest 2.5% loss cost trend adds 11.2 points to Loss Ratio across all years.

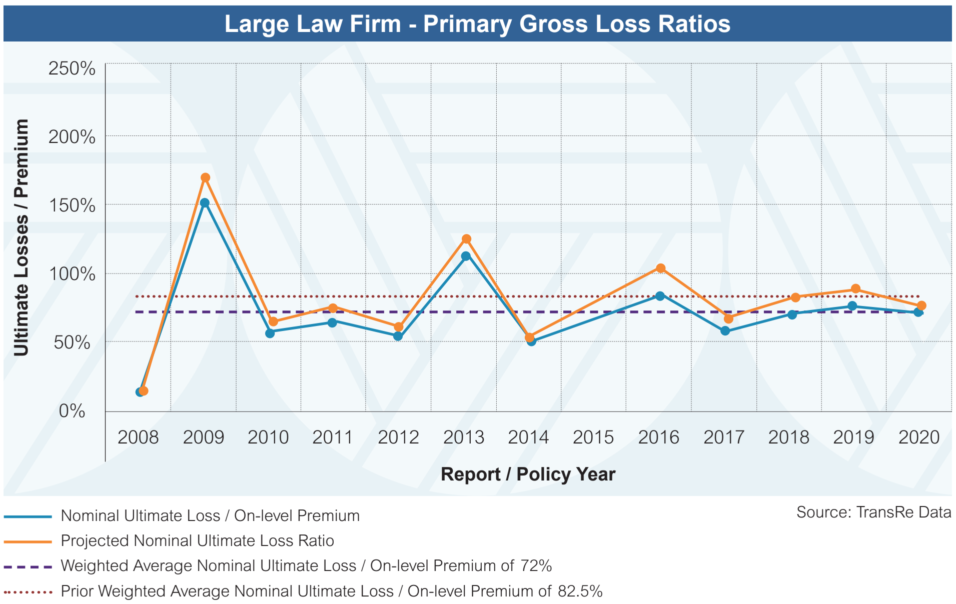
More complex suits and higher defense/settlement costs will cause continuing problematic trended results. If we include inflation then this looks even worse.

The Lawyers Professional Market clearly needs to continue pushing rate.

Primary & Excess Analysis

Our analysis of the difference between primary and excess layers is based on on-level premium of $2.7B for primary and $1.4B for excess from 2008 – 2020, and on aggregated internal submission data reviewed through September 1, 2021.

The charts below exclude any annual loss cost trend assumption but does not include inflation which also must be factored in.



Source: TransRe Data

Primary loss ratios remain higher than excess layers - currently 24.5 Points.

Indications are down ~10 Points vs 2020 analysis due to rate, **but** 72% LR does not deliver an Underwriting Profit.

Adding a modest 2.5% Loss Cost Trend increases LR to 86.0%.

Source: TransRe Data

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

Excess writers have been adversely affected by multiple severity losses in 2015 and 2018. These years have more development to come.

Many excess writers face a challenge with the imbalance between premiums vs limits deployed.

A combination of rate increase and limit reduction is warranted.

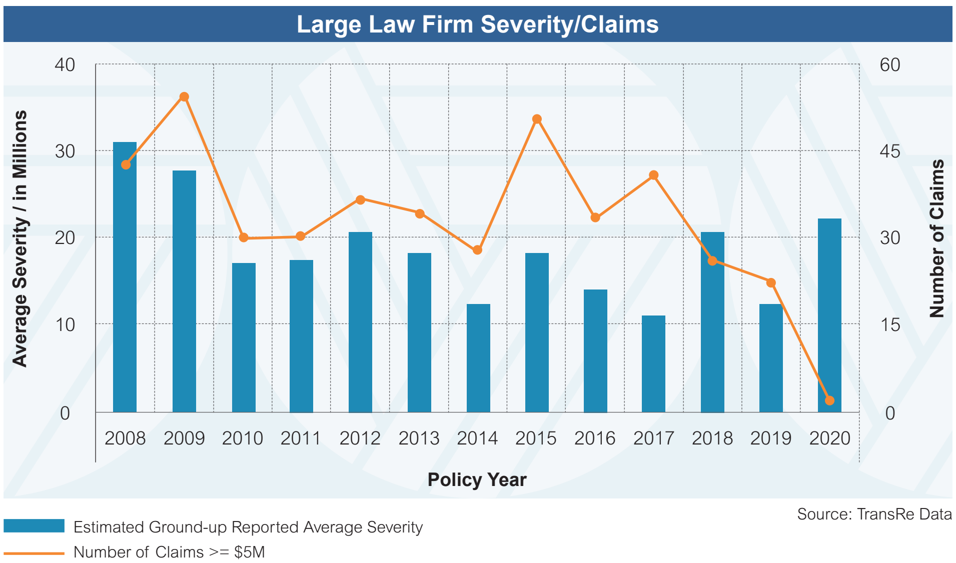
Adding a modest 2.5% Loss Cost Trend increases LR to 55.5%.

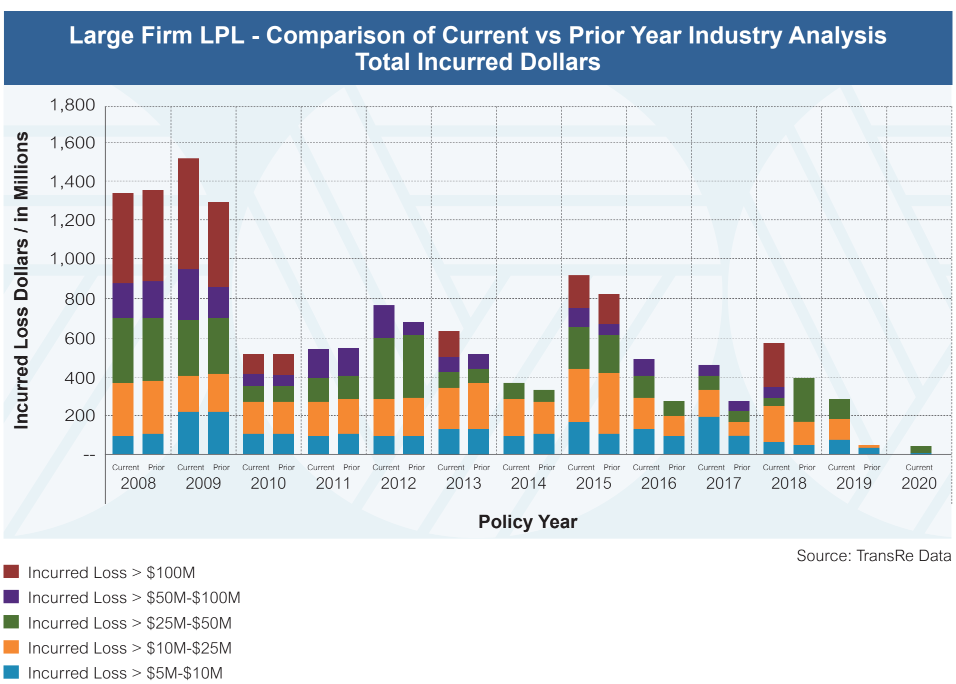
Claims Data

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 $8.5B 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 combined have seen ~$260M development from losses over $5M.

2016 and **2017** are each up about $200M in incurred losses from claims over $5M compared to last year.

To date, we have observed 153 claims greater than $5M from **2015** to **2018** and an additional 23 in 2019. These years are still not fully developed.

2009 and **2013** each show > $120M in unexpected losses, mostly from claims in the > $100M or > $50M - $100M bands.

Large Law Firm
Policy Year Rate Index

Our analysis is based on rate changes reported in submissions reviewed through January 1, 2022.

Policy Year 2021 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.

Source: TransRe Data

Using 2008 as our base:

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

2011-2017 premiums per exposure flatlined before 2018/2019 rate improvements finally returned the index to slightly above 2008 levels

As carriers have paid the losses shown on prior pages, rates rose 11.5% in 2020 and an estimated 9.0% in 2021. While this is a step in the right direction, more must be done to enable a long term sustainable marketplace.

Note: For rate to keep up with a modest loss cost trend of 2.5% from 2008, the index would now have to be at 1.400. It is at 1.275.

In Conclusion

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

However, large law firms continue generating larger claims in frequency and severity.

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

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.

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A NOTE ABOUT OUR DATA

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.

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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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