

Hutt Professional

INSURANCE & RISK MANAGEMENT

Coventry & Warwickshire Solicitors Professional Indemnity Newsletter 2011

June 2011

Welcome to our first edition

Special points of interest:

- Local insurance broking expertise
- 1 to 1 Underwriter appointments
- ARP reforms
- Seminar and Q&A invitation
- Golf afternoon

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Welcome to the first edition of the Hutt Professional Newsletter, designed to inform, guide and prepare solicitors in Coventry & Warwickshire for the Professional Indemnity Insurance renewal season ahead.

The name of Hutt Professional (or R E Hutt & Company) may be familiar to many of you but not all firms will be aware of our presence and more importantly how we can help your business.

Hutt Professional Insurance & Risk Management has served local businesses for the last 50 years. We are proud of our reputation for integrity and client service that stems from founder Ronald Earle Hutt through his philosophy that 'listening is the first step to a lasting relationship'.

Today, Hutt Professional remains an independent family business with Chris Hutt as Managing Director and his son Dominic, who joined in April 2010, as Business Development Director.

2010 Professional Indemnity renewal season review

The 2010 renewal season was again a difficult period for many solicitor firms to obtain PII at a reasonable premium. After the severe rate increases of 2009 some firms experienced a 20% uplift for the second year in a row - compounded further by falling income in the tough economic climate.

The number of firms failing to find cover on the open market

Dominic specialises in arranging Solicitors Professional Indemnity Insurance (PII). He worked in the City of London insurance market for five years in both broking and underwriting roles - a key advantage that has helped to build and maintain strong Insurer relationships in order to provide an unparalleled

level of service to local businesses today.

I hope you find the following articles informative and I look forward to discussing how Hutt Professional can help your business over the coming months and years.

Dominic Hutt, Cert CII



Three generations : Dominic and Chris with founder Ron Hutt on his 93rd birthday in November 2010

and having to resort to the Assigned Risks Pool (ARP) increased from 263 to 320.

Whilst this trend would suggest an increase in overall Gross Written Premium (GWP) the figure was in fact lower than 2009 at around £213 million, raising questions about the validity of figures reported by participating Insurers.

Insurer capacity also fell in 2010 with Hiscox and Quinn announcing their withdrawal from the PII market prior to the start of the renewal season. This left approximately 12% (GWP) of the market without a renewing Insurer to seek terms from - a very daunting prospect for the firms concerned.

2010 Professional Indemnity renewal season review...continued

The combination of these factors created a near ‘perfect storm’ of problems for solicitor practices, insurers, brokers and the SRA. The issues have been addressed since October last year and the SRA recently released its policy statement on how the market should reform itself to become a stable and sustainable insurance option for all parties.

Highlighted below are the five changes to the Solicitors PII market for the 2011 Insurance year

- Time permitted in the ARP reduced from 12 to 6 months
- Firms in the ARP to address issues that have led to failure to find open-market cover or close if cover cannot be obtained
- Qualifying Insurers not to be burdened with ARP liabilities of another insurer becoming insolvent
- Revision to Qualifying Insurers ARP contribution responsibilities to ensure accurate reporting
- Records of any firm’s Qualifying Insurer can be made publicly available by the SRA

The common renewal date was also a priority topic for consideration by the SRA. It was decided that this would remain at 30th September whilst the above plans are implemented and be removed from October 2013.

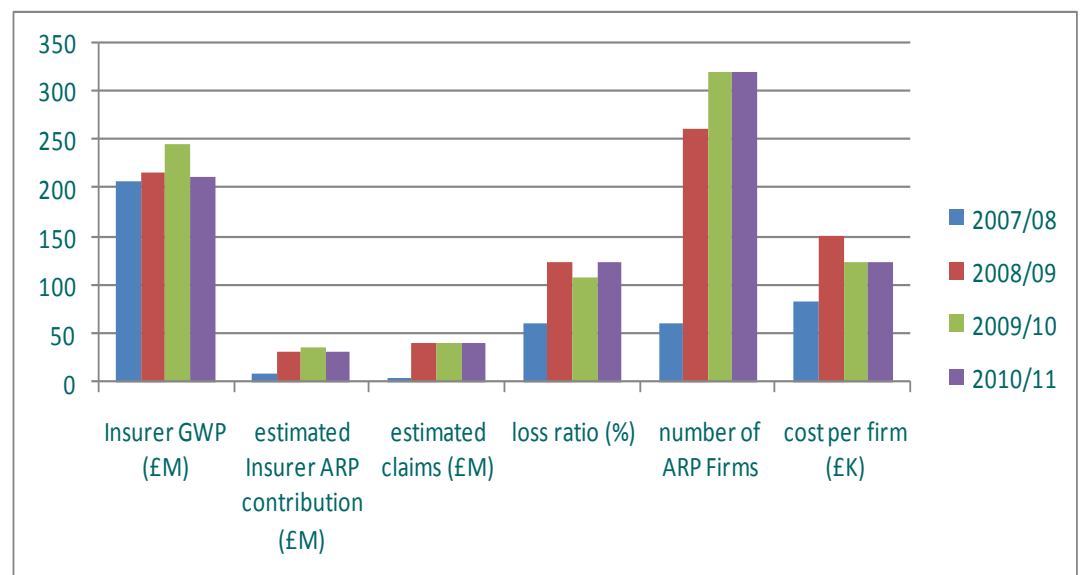
Furthermore, the SRA considered the responses of Insurers during the consultation period that highlighted a major contributor to professional indemnity claims was dishonesty rather than negligence, particularly arising from property related work.

The focus of the SRA’s supervision in 2011/12 will therefore be on the conveyancing sector and as such the Law Society’s Conveyancing Quality Scheme has recently been launched.

The anticipated effects of these changes are discussed later in the newsletter.

ARP analysis in numbers

The table below is an illustrative guide as to how the ARP has directly impacted the Solicitors PII market over the past four years. The figures are drawn from historical data and estimated figures in relation to claims and are intended to give an approximate trend over this period only.



The most striking points to note are the sharp increase in ARP claims and number of ARP firms in 2008/09. To compensate for this, the Insurers ARP contribution level has also increased (to around 15% of Gross Written Premium). This cost has been passed directly on to the profession yet the loss ratio remains above 100% suggesting that this contribution level will continue in order to improve on this position.

The most alarming figure that I came across in the research undertaken is that the loss ratio of firms in the ARP (i.e. excluding Insurer contributions) has run at approximately 800% over the last ten years combined.

“The combination of these factors created a near ‘perfect storm’ of problems for solicitor practices, insurers, brokers and the SRA”

The severe impact of the ARP on the Solicitors PII market since 2007 is highlighted in this table

2011 Professional Indemnity renewal season preview

By analysing the cause of PII claims arising from solicitor practices the SRA is taking the right steps to restore the natural balance that should exist within the current open market arrangement. Research has revealed that half of all PII claims arise from conveyancing work, either through acts of negligence or fraud related activity.

Whilst Insurers expect professional negligence claims to occur, the number arising through dishonesty, whether by a practising firm or one of their clients, has hitherto been grossly underappreciated. The underlying principal of utmost good faith no longer seems applicable to insurance contracts in some cases - a reflection of cultural change and the pressures of a difficult economic climate.

With key problem areas now identified and measures in place to reform the Solicitors PII market, the top of the Professional Indemnity cycle as illustrated below may now have been reached. The success of both the ARP reforms and Conveyancing Quality Scheme over the next 12 months will have a large bearing on the Solicitors PII market being a more attractive place for Insurers to participate in.

Speculation regarding new Insurers entering the Solicitors PII market is usually high around this time of year and 2011 is no different with at least two London market wholesale brokers reportedly looking to secure an Insurer to underwrite business on an exclusive basis.

No formal announcements have been made at the time of going to press but there are certain to be further developments in this area which we will keep you abreast of over the coming weeks.

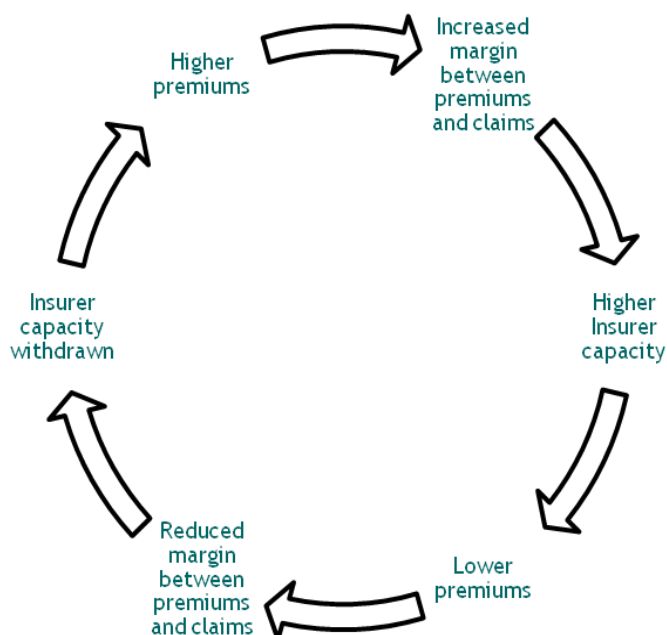
Premium rates and risk appetite of existing Insurers are unlikely to improve in the short term as incurred losses and ARP contributions are still impacting heavily on loss ratios. Recent discussion forums have highlighted one Insurer's expectation that rates will increase by 20% this year and a further 15% next year. There has been little comment from other Qualifying Insurers so it remains to be seen whether this sentiment will be echoed by the remainder of the market.

The one increase that is a certainty and something to be aware of, if you are not already, is the applicable Insurance Premium Tax (IPT) increase from 5% to 6%.

“Whilst Insurers expect professional negligence claims to occur, the number arising through dishonesty, whether by a practising firm or one of their clients, has hitherto been grossly underappreciated”

The Professional Indemnity cycle explained

Although there are many contributory factors each year to how hard or soft an insurance market may be, the diagram below illustrates the general trend that the PII market (for solicitors and beyond) tends to follow. If the cycle is true to form then rates should soften slightly over the next year. This is very much dependent however on the monetary value of PII claims that are not yet settled and also those that are yet to materialize.



The trend that the Professional Indemnity cycle has historically followed is shown in this diagram

Professional Indemnity Seminar and Golf afternoon –Thursday 14th July

Hutt Professional Insurance & Risk Management invites you to a Professional Indemnity Seminar at The Warwickshire Golf & Country Club on Thursday 14th July. The format of the seminar will be a brief presentation to review the points raised in the newsletter and discuss any further developments that have arisen since. A Questions & Answers session will follow to give you the platform to raise any PII related queries you may have.

The seminar will also provide a good opportunity for you to find out more about Hutt Professional and how we can benefit your business.

Nine holes of golf will follow the seminar for those wishing to participate.



**The Warwickshire Golf & Country Club
Leek Wootton
Warwick
CV35 7QT**

The format for the afternoon is as follows

3.30pm - Arrival, The Spa Room

3.45pm - Seminar followed by Questions & Answers

4.30pm - Golf

RSVP by Friday 16th June indicating your attendance for both seminar and golf or just the seminar. Spaces are limited so please respond early to reserve your place.

Please contact Dominic Hutt for any further information.

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I look forward to hearing from you soon and meeting you on the 14th July.

How the team at Hutt Professional can help your business

Since 1962, Hutt Professional has been providing insurance and risk management advice to businesses of all industry sectors throughout Coventry & Warwickshire.

Our focus has more recently moved to providing an unrivalled level of expertise to local firms within the professional services sector.

The key to achieving this niche service is the strength of Insurer relationships built up and maintained through experience of working in the City of London insurance market. This enables us to offer well informed advice and carry out a wide market analysis both quickly and cost effectively.

These relationships were a great advantage during the 2010 Solicitors PII renewal season, where I was able to arrange a weekly underwriter appointment to present and discuss submissions on behalf of a number of firms. In the 80% of cases where terms were offered, I was able to provide a full quote within 48 hours.

Following recent underwriter discussions in preparation for the 2011 PII renewal period, I have been able to make the same arrangement for a weekly appointment starting from the first week in August.

Ahead of these underwriter appointments, you are invited to join us at the Professional Indemnity Seminar detailed above. If you are unable to attend, I will be happy to visit your firm to discuss how the team at Hutt Professional can help your business.

I look forward to hearing from you soon and wish you every success for the months ahead.

**Dominic Hutt, Cert CII
Business Development Director**

HuttProfessional

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