



Entering Troubled Waters

Early signs of change in the insurance market for the larger firms were revealed in this year's survey, with a significant number of firms changing insurer, largely on cost grounds, and delay in renewal caused in part by fears over security of insurers. With most firms favouring a move from the compulsory 1 October renewal date for primary insurance, it is notable that 80 per cent delayed renewal until 15 September or later.

This is the sixth Legal Risk LLP annual Professional Indemnity Survey of Top 100 firms in the United Kingdom. We have reviewed the trends over six years, and also examined the position in the top 30 firms.

Once again there was a significant level of response, particularly among the larger firms, and we have provided separate commentary on the top 30 firms, for whom the issues are rather different from the rest of the top 100.

This year's survey made further enquiries about the size of firms' client engagement and risk management teams and whether firms had audit committees. We also asked about the impact of the Legal Services Act 2007.

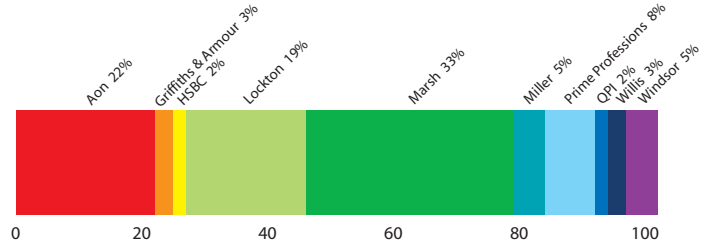
Choice of Broker

Who is your broker?

Only five per cent of the top 100 changed broker this time – the lowest in six years - but all were in the top 30.

Marsh kept their lead with 33 per cent (36 per cent last year) while Aon remained in second place with 22 per cent (27 per cent). Lockton remained third with 19 per cent (14 per cent).

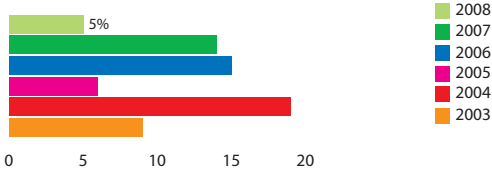
Note: total is 102 per cent due to roundings.



Top 30

For the Top 30, Aon lead with 41 per cent, followed by Marsh at 27 per cent. Lockton are in third place with 14 per cent. 14 per cent changed broker this time, with the reasons split equally between broker's fee, cost of cover and personal relationship.

Percentage of firms changing broker



Top 100 brokers - six year summary

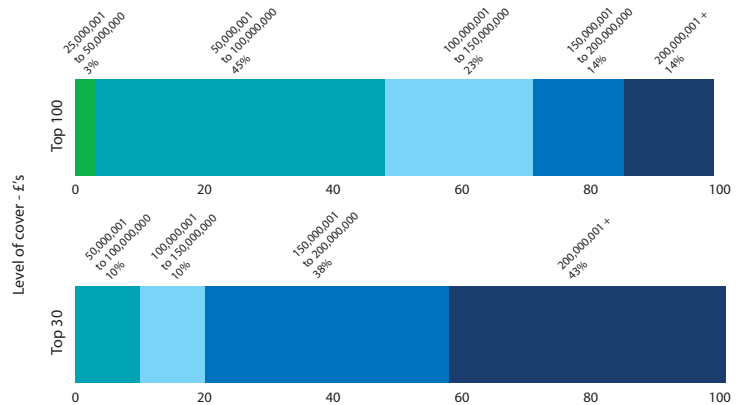
2008	2007	2006	2005	2004	2003
Marsh 33%	Marsh 36%	Marsh 37%	Lockton/AF 38%	Lockton/AF 39%	Lockton/AF 37%
Aon 21%	Aon 27%	Lockton/AF 23%	Marsh 31%	Marsh 24%	Marsh 29%
Lockton 19%	Lockton 14%	Aon 19%	Aon 9%	Aon 11%	Aon 14%

Cover

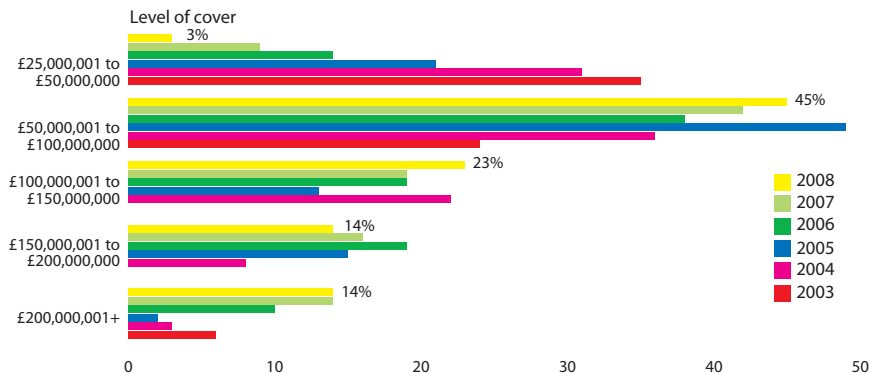
How much cover did you obtain?

13 per cent increased cover; for the top 30 the figure was 10 per cent. All but three per cent buy over £50 million.

Note: Top 100 total is 99 per cent due to roundings.



Top 100 six year summary



* 2003 combined total 24%; separate data not collected for £100,000,001 to 150,000,000 and 150,000,001 to 200,000,000.

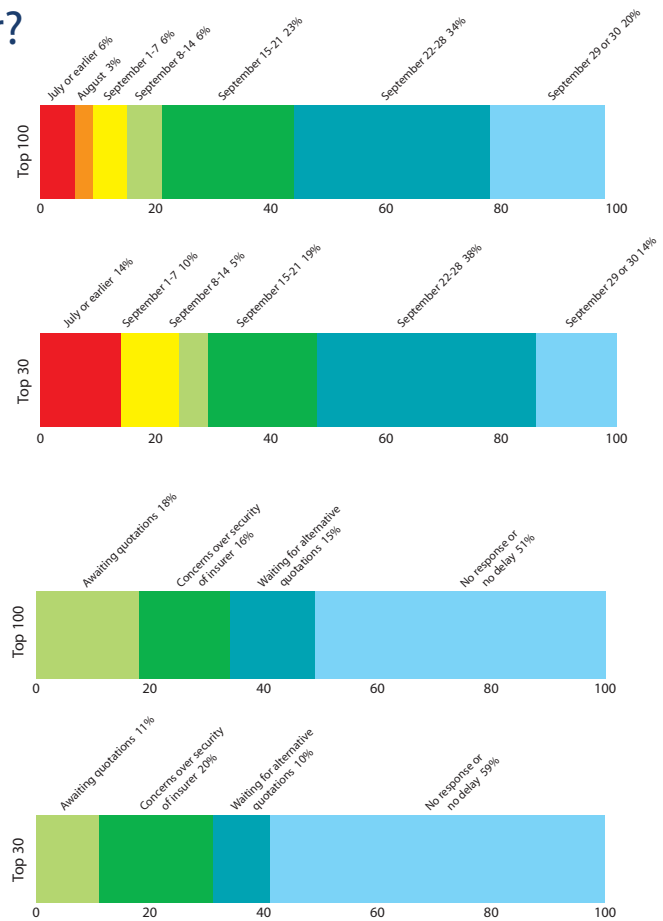
When did you finalise this year's cover?

77 per cent renewed between 15 and 30 September, 71 per cent of the top 30; last year two thirds renewed in the last two weeks (albeit a slightly shorter period). The figures include three Scottish firms for whom the renewal date is 1 November.

In the past we have suspected that firms delayed in renewing while waiting for alternative quotations, in many cases no doubt to test the market rather than with any real wish to change. This time we asked about the reasons with the following results.

Awaiting quotations caused delays for 18 per cent of respondents. Significantly, concerns over security of insurers were the reason for 16 per cent. A further 15 per cent were attributable to awaiting alternative quotations to test the market.

Firms in England and Wales renew their primary cover on 1 October each year, and firms in Scotland on 1 November. We asked whether firms favoured freedom to choose a renewal date for their primary policy. 77 per cent of respondents favour a choice of renewal date and 81 per cent of top 30 firms. However only two of the six top ten respondents were in favour of change.



Systems

Who is responsible for risk management?

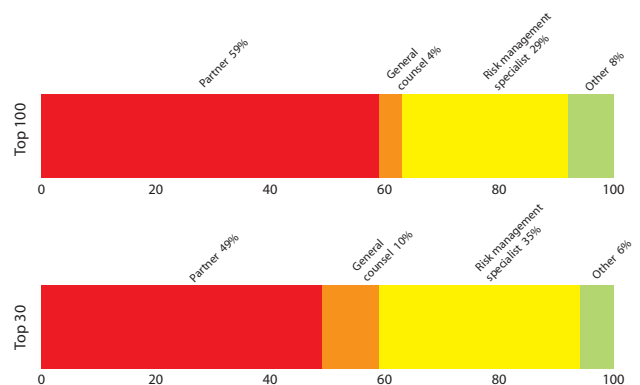
As previously, partners continue to maintain responsibility in this important area. There is an emerging trend for the appointment of general counsel in top 30 firms - 10 per cent, against 4 per cent last year. There are no general counsel as yet in the remainder of respondents below the top 30.

This year we enquired about whether firms have audit committees, the growth in which has perhaps been partly fuelled by conversions to Limited Liability Partnership and firms' governance acquiring a more corporate style. The terms of reference will vary from firm to firm, but essentially they will be reviewing the firm's financial reporting, internal control and risk management, and internal and external audit.

51 per cent have an audit committee, and 60 per cent of the top 30.

We also asked about the size of firms' teams for Client and matter engagement and other risk management.

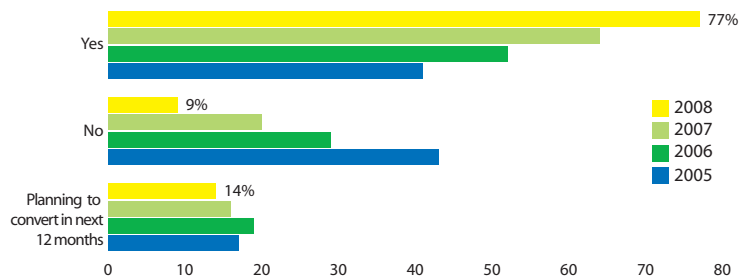
Firms' approaches to these issues vary considerably, and across all the top 100 respondents the average was five staff for Client and matter engagement and three for Other risk management. Across the top 30, the averages were eight and four respectively. However, this masks the wide variation even within the top 10, six of whom responded. There, the averages are 15 and four respectively, but at the top end the figures are 40 and ten.



Do you have Limited Liability Partnership status?

As we commented last year, while limited liability partnership (LLP) status is not a guarantee of immunity from liability, some partners may need reminding that it is not a risk management strategy in itself; it is however a valuable step in protecting partner assets – provided it is structured and documented appropriately. We cannot rule out the possibility that this will be tested in extreme circumstances in credit-crunch related litigation.

77 per cent have converted and the number not already converted or seeking to convert has now fallen to nine per cent. The time must surely come when the rest will follow and firms will have to resolve the obstacles standing in the way of conversion. There may be some who have decided not to convert for cultural reasons, but they are looking increasingly isolated and this approach may impede recruitment.



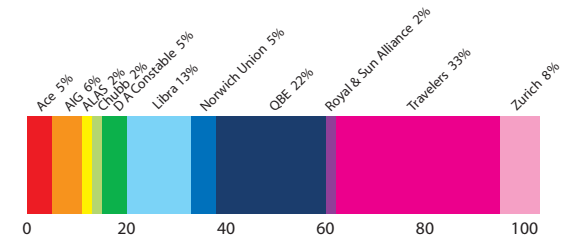
Top 30

In the top 30, 82 per cent have converted with a further 14 per cent planning to convert in the next 12 months, with five per cent neither having converted nor planning to do so yet. *Note: total is 101 per cent due to roundings.*

Choice of Insurer

Who is the insurer of your primary layer?

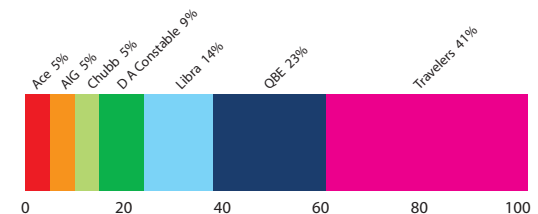
Travelers (previously St Paul Travelers) remains the dominant force among the larger firms, with 33 per cent, though slightly down on last year's 35 per cent. QBE made significant gains, again in second place, but up from 16 per cent last year to 22 per cent. Libra moved into third place with 13 per cent, as last year.



Note: total is 103 per cent due to roundings.

Top 30

The market for top 30 firms remains less diverse. Although Travelers still dominate it, their share reduced from last year's 57 per cent of firms responding to 41 per cent. QBE took second place above Libra, with which it was joint second last year.



Note: total is 102 per cent due to roundings.

Top 100 insurers - six year summary

Travelers (previously St Paul) have remained the market leader in the top 100 throughout the past six years of our surveys.

QBE have held second place for the last three years while ACE have slipped from second place in 2004 and 2005 and are now in equal sixth place.

Meanwhile Libra have moved back to third place, where they were in 2004. Zurich came fourth with a marked reduction from last year.

Despite widely reported concerns over the situation at AIG, they increased their share from five per cent last year to six per cent, taking fifth place.

2008	2007	2006	2005	2004	2003
Travelers 33%	Travelers 35%	Travelers 33%	Travelers 28%	Travelers 35%	Travelers 36%
QBE 22%	QBE 16%	QBE 14%	ACE 17%	ACE 14%	Zurich 22%
Libra 13%	Zurich 13%	Zurich 12%	QBE 11%	Libra 11%	Other (various) 19%
Zurich 8%	Libra 13%	ACE 10%	Zurich 11%	Norwich U 10%	ACE 8%
AIG 6%	ACE 7%	Libra 8%	Libra 11%	QBE 8% =	Norwich U 6%
				Zurich 8% =	

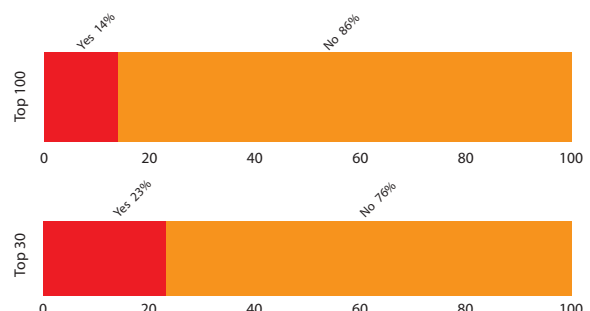
Did you change insurer this time?

14 per cent changed insurer this year – up from nine per cent last year, the highest proportion since 2004. Of these, six firms changed to QBE, two to Libra and one to Travelers.

Significantly, 23 per cent of top 30 firms changed insurer, compared with five per cent last time.

Three of the respondents have changed insurer three times, and another changed for the second time having changed last year.

Unlike last year, firms which changed broker did not change insurer.



Key points from the survey –

1. 14 per cent changed insurer – equal to the previous record in 2003, but in the top 30 it was a remarkable 23 per cent; price was the main reason.
2. 77 per cent, and 81 per cent of the top 30, favour a change from the single mandatory renewal date.
3. Concerns over security of insurers delayed renewals for 16 per cent, and 20% of the top 30.
4. Most firms believe the introduction of Legal Disciplinary Practices under the Legal Services Act 2007 will have little impact on them.

Other Insurance

Do you have any of the following insurance?

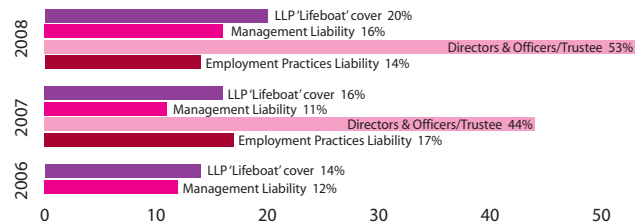
We asked firms about a number of additional forms of cover.

'Lifeboat' policies protect the residual personal liabilities of members of Limited Liability Partnerships (LLPs). The name 'Lifeboat' was first used by Travelers but the terminology is commonly used in referring to other providers' products too. These are policies which, with some variations in approach and detail, protect members of LLPs from residual personal liability of respondents.

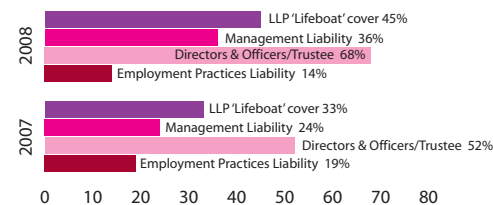
Management liability policies protect the management of the partnership or LLP from liability incurred in that capacity; after a small decrease last year, these are now up to 16 per cent.

Five respondents have both Lifeboat and management liability cover – all top 30. Of these, three also have directors and officers, and two of those have employment practices liability cover as well.

Take up of all these forms of cover increased apart from employment practices liability and was significantly higher in the top 30.

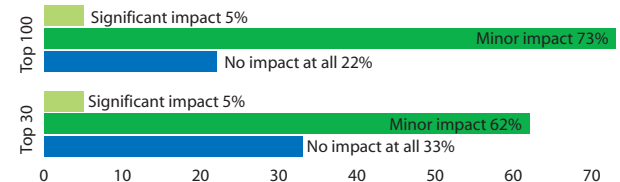


Top 30



Legal Disciplinary Practices

The provisions of the Legal Services Act 2007 relating to Legal Disciplinary Practices (LDPs) are expected to come into force on 31 March 2009, subject to Parliamentary approval. LDPs will be a new type of solicitors' firm which will include one or more lawyers who are not solicitors and/or up to 25 per cent non-lawyers. Some international firms may rely on these provisions to enable them to admit overseas tax advisers or patent attorneys to partnership. We asked firms whether these provisions would be likely to have any impact on them. The results suggest not.



Notes on data

We invited the top 100 UK law firms to respond. 64 replied across the spectrum from magic circle to the smaller firms, including 22 of the top 30. Where charts contain data for more than one year, references to a given year refer to the data we collected in that year and which is contained in the following year's survey. Data for the 2008 year, for example, is contained in our 2007 survey.

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