

Rising to the Challenges

The challenges to managing risk in large law firms are constantly changing. In addition to the review of firms' professional indemnity arrangements, therefore, this year's survey examines the new pressures from clients to reduce cost and outsource work. We also look at what firms are doing to manage risk in terms of allocation of responsibility, size of risk teams, and forms of insurance other than professional indemnity.

In this, Legal Risk LLP's seventh annual survey of the top 100 firms in the United Kingdom, we have reviewed the trends over seven years, with separate analysis of the top 30 firms.

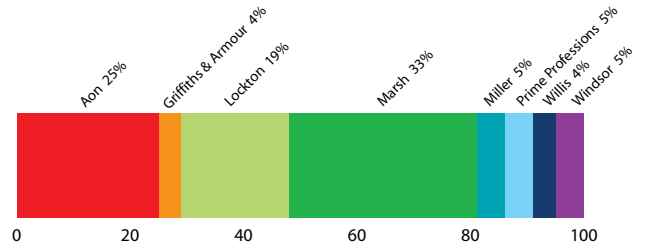
Once again there was a significant level of response, particularly among the larger firms, and we have provided separate commentary on the top 30 firms, for whom the issues are rather different from the rest of the top 100.

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?

Nine per cent of firms changed broker this year – up from last year's low of five per cent. As last year, Marsh led with 33 per cent, Aon remained second with 25 per cent (21 per cent) while Lockton were again third with 19 per cent, unchanged from last year. Reasons for change were various – service (37 per cent), personal relationship (37 per cent), cost of cover (20 per cent) and broker's position in the market (7 per cent).



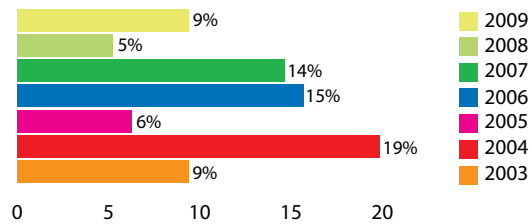
Top 30

Aon led the top 30 with 43 per cent (41 per cent last year), followed by Marsh at 33 per cent and Willis at 10 per cent. Only one firm changed broker in this bracket (5 per cent), compared with 14 per cent last year.

Top 100 brokers - seven year summary

2009	2008	2007	2006	2005	2004	2003
Marsh 33%	Marsh 33%	Marsh 36%	Marsh 37%	Lockton/AF 38%	Lockton/AF 39%	Lockton/AF 37%
Aon 25%	Aon 21%	Aon 27%	Lockton/AF 23%	Marsh 31%	Marsh 24%	Marsh 29%
Lockton 19%	Lockton 19%	Lockton 14%	Aon 19%	Aon 9%	Aon 11%	Aon 14%

Percentage of firms changing broker



Cover

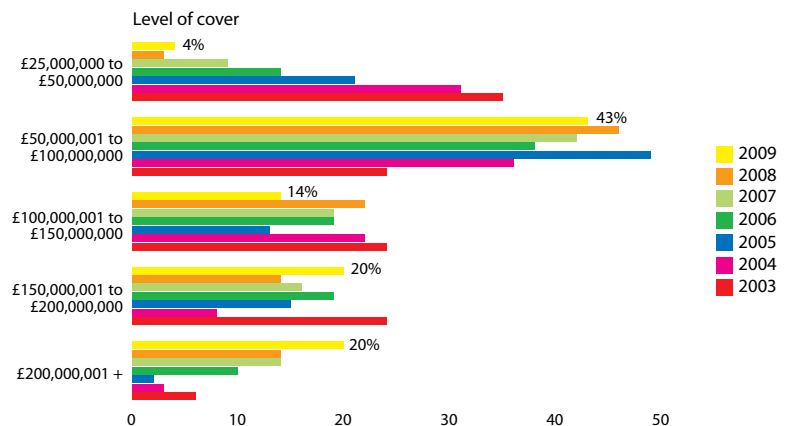
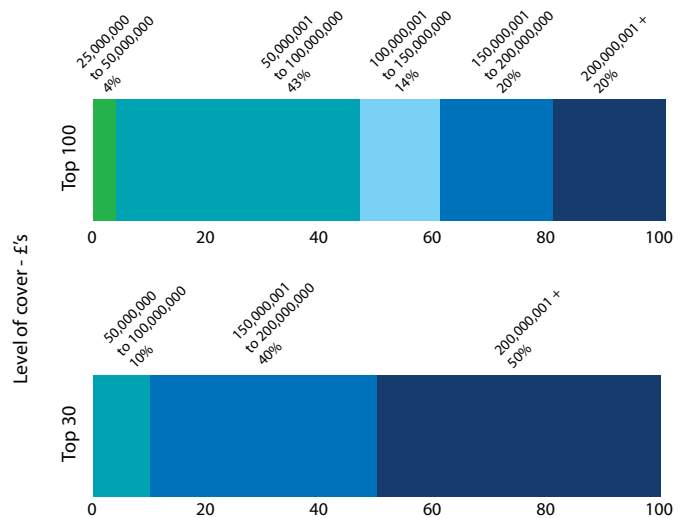
How much cover did you obtain?

Only 7 per cent of respondents increased cover this time, against 13 per cent last year, perhaps an indication of control on expenditure rather than an analysis of risk. One top 30 firm increased cover (5 per cent).

The number of firms with over £200 million cover has increased to 20 per cent (14 per cent last year), and in the top 30 it is 50 per cent (43 per cent).

All but 4 per cent buy over £50 million cover.

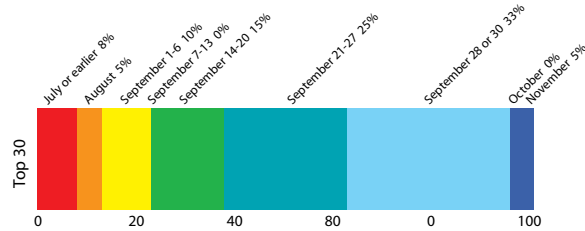
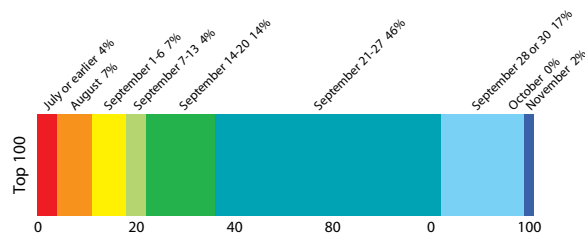
Top 100 seven year summary



When did you finalise this year's cover?

77 per cent renewed between 14 and 30 September 2009, which is identical to last year (though the dates for the last two weeks of the renewal period were 15 to 30 September 2008). 14 per cent were awaiting quotations and 25 per cent were held up waiting for alternative quotations to test the market, the remainder saying they experienced no delay. In the top 30, seven per cent were awaiting quotations and 21 per cent awaiting alternative quotations

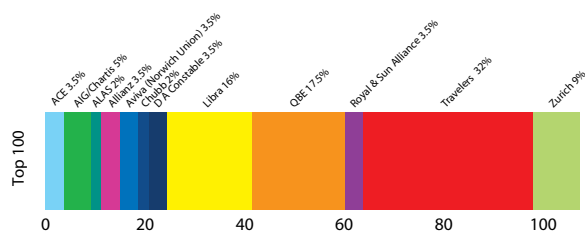
Firms in England and Wales renew their primary cover on 1 October each year, and firms in Scotland on 1 November. 71 per cent favoured freedom of choice on renewal date (compared with 77 per cent last year). 79 per cent of top 30 firms favour freedom of choice (81 per cent).



Choice of Insurer

Who is the insurer of your primary layer?

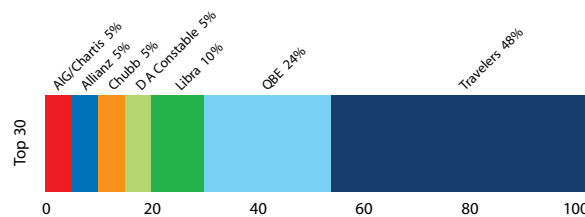
Travelers remains the dominant force with 32 per cent of top firms. QBE remain in second place but are back down from 22 per cent last year to 17.5 per cent. Libra's share increased from 13 per cent last year to 16 per cent further consolidating their position in third place. There was one new entrant this time, Allianz, who took 3.5 per cent.



Note: total is 101 per cent due to roundings

Top 30

The choice here is less diverse, with Travelers dominating once again, back up to 48 per cent from 41 per cent last year. QBE come second with 24 per cent (though one might add to that the 5 per cent for D A Constable as part of the QBE group). Libra are in third place with ten per cent.



Note: total is 102 per cent due to roundings.

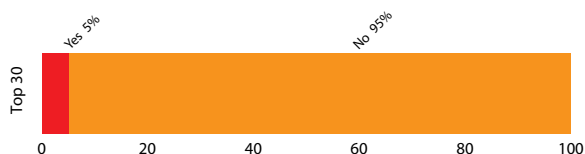
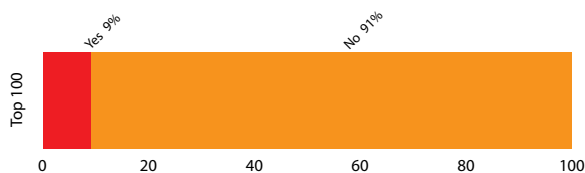
Top 100 insurers - seven year summary

Travelers have remained in top position throughout the seven years of our survey. Although QBE largely withdrew from the market for small firms this year, they have kept second place for the top 100 firms for four years. Libra are in third place for the second year running.

2009	2008	2007	2006	2005	2004	2003
Travelers 32%	Travelers 32%	Travelers 35%	Travelers 33%	Travelers 28%	Travelers 35%	Travelers 36%
QBE 17.5%	QBE 22%	QBE 16%	QBE 14%	ACE 17%	ACE 14%	Zurich 22%
Libra 16%	Libra 13%	Zurich 13%	Zurich 12%	QBE 11%	Libra 11%	Other (various) 19%
Zurich 9%	Zurich 8%	Libra 13%	ACE 10%	Zurich 11%	Norwich U 10%	ACE 8%
AIG 5%	AIG 6%	ACE 7%	Libra 8%	Libra 11%	QBE 8% =	Norwich U 6%
					Zurich 8% =	

Did you change insurer this time?

Nine per cent changed insurer this year, compared with 14 per cent last year, which we commented then was the highest since 2004. Five per cent of top 30 firms responding changed insurer, against 23 per cent last year. All cited cost of cover as the reason. None of the firms who changed insurer had done so in previous surveys.



Other insurance

Do you have any of the following insurance?

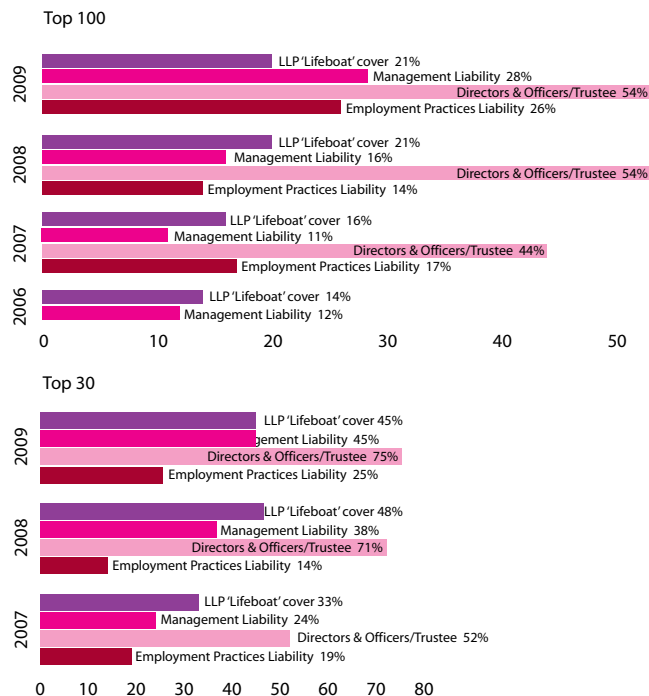
We asked firms about other forms of cover.

'Lifeboat' (or asset protection) policies protect the residual personal liabilities of members of limited liability partnerships (LLPs), though they vary in the way they work. 21 per cent of top 100 firms have this, and 45 per cent of top 30 respondents.

Management liability policies protect the management of the practice from liability incurred in that capacity, much like directors and officers cover bought by companies. The figures were 28 per cent for top 100 and 45 per cent for top 30.

Directors and officers cover for outside appointments was bought by 54 per cent of the top 100 and 75 per cent of the top 30.

Employment practices cover was bought by 26 per cent of top 100 firms and 25 per cent of the top 30.



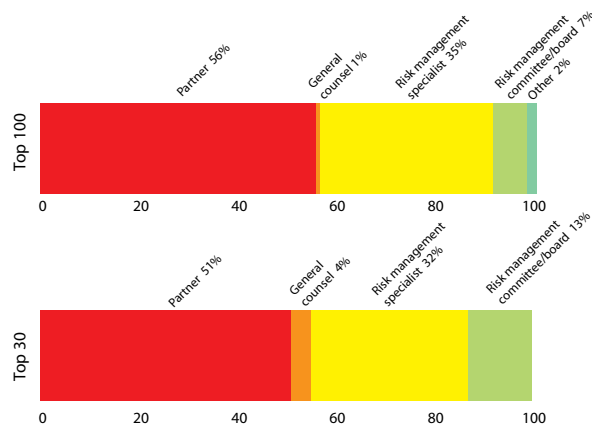
Systems

Who is responsible for risk management?

As one respondent rightly pointed out, everyone is responsible for risk management. Subject to that, our survey focused on the management of the process, and 56 per cent of firms have a partner responsible, with 35 per cent relying on a risk management specialist (including Risk Manager/Director). In top 30 firms, 51 per cent have a partner, 32 per cent risk management specialist, and 4 per cent General Counsel.

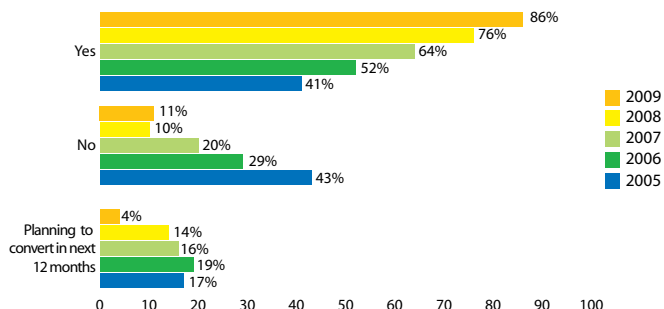
As last year, we enquired about audit committees. Terms of reference vary but essentially they review the firm's financial reporting, internal control and risk management, and internal and external audit. 60 per cent have audit committees, up from 51 per cent last year, and 68 per cent of the top 30, up from 60 per cent.

Again, we asked firms about the size of their teams for Client and matter engagement and Other risk management. Again the average was five for 'Client and matter engagement' and three for 'Other risk management', though numbers varied considerably, mainly depending on firm size and international spread. For the top 30, the averages were nine for 'Client and matter engagement' and four for 'Other risk management'.



Do you have Limited Liability Partnership status?

86 per cent of top 100 firms have now converted to limited liability partnership (LLP), though some partners may still need reminding that it is not a guarantee of immunity from risk. Four per cent plan to convert in the next 12 months, but 11 per cent are not planning to do so. 90 per cent of top 30 firms responding have converted.



Key points from the survey -

1. Nine per cent changed broker, and nine per cent changed insurer.
2. Despite extensive press coverage, the number of firms currently outsourcing is small, though there are similar numbers where it is under consideration.
3. Most top firms would be likely to opt for Lord Hunt's recommendation of Authorised Internal Regulation, if that were allowed.

Outsourcing

With client pressure on firms to reduce cost, we considered the time was ripe to find out how extensive this is, particularly legal process outsourcing. Outsourcing is not solely about sending work overseas: as in the USA, firms are making use of lower cost bases in their own country. We asked about location and categories of work outsourced. Despite extensive press coverage on the subject, the number of firms currently outsourcing is small, though there are similar numbers where it is under consideration.

The results were as follows:-

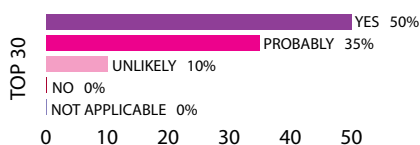
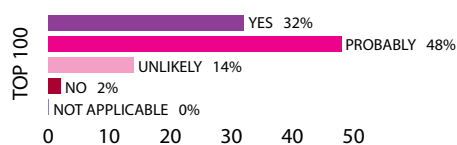
Top 100	Current	Planned	Under consideration	Top 30	Current	Planned	Under consideration
UK regions	12%	2%	11%	UK regions	14%	-	10%
Ireland	2%	-	-	Ireland	5%	-	-
India	5%	-	5%	India	14%	-	5%
South Africa	11%	-	9%	South Africa	14%	-	10%
Operations	-	-	Operations		-	-	-
Accounts	-	-	5%	Accounts	-	-	5%
Knowledge management	5%	-	7%	Knowledge management	10%	-	10%
Litigation support	7%	-	7%	Litigation support	19%	5%	10%
Legal process	4%	2%	7%	Legal process	10%	-	10%
Legal advice	2%	-	4%	Legal advice	5%	-	5%
Document production	2%	-	-	Document production	5%	-	-
Administration (UK)	2%	-	2%	Administration (UK)	-	-	5%
Secretarial (South Africa)	2%	-	-	Secretarial (South Africa)	-	-	-
Secretarial, typing	7%	2%	4%	Secretarial, typing	10%	-	-
IT	-	-	2%	IT	-	-	-
Library services	2%	-	-	Library services	-	-	-
Matter creation/data logging	-	-	2%	Matter creation/data logging	-	-	5%
Marketing	2%	-	-	Marketing	-	-	-

The Hunt Report and Authorised Internal Regulation

Lord Hunt's Review of the Regulation of Legal Services recommended that the Solicitors Regulation Authority should instigate a system of Authorised Internal Regulation (AIR).

Firms would be eligible where the SRA believes their risk, compliance and governance processes are sufficiently sophisticated and robust. Our question asked, 'If this goes through, do you anticipate your firm seeking to be regulated in this way?'

The responses were as follows:-



However, the bare figures mask some surprises in the underlying data. In the top 30, two major city firms thought themselves unlikely to seek AIR status. On the other hand, in the top 100, several major regional firms were likely to seek it.

Notes on data

We invited the top 100 UK law firms to respond. 57 responded across the spectrum from magic circle to smaller firms, including 21 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 are contained in the following year's survey. Data for the 2008 year, for example, are contained in our 2009 survey.

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Clients include over a quarter of the Top 100 law firms in England & Wales, and leading European and multinational practices.

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- Advising on compliance with the Money Laundering Regulations 2007;
- Representing solicitors on investigations by the Solicitors Regulation Authority, by the Legal Complaints Service and in the Solicitors Disciplinary Tribunal.

Professional Indemnity

- Handling professional indemnity policy coverage disputes;
- Advising on professional indemnity insurance issues on mergers/demergers;
- Advising on risk management, and implementing risk management systems;
- Defending professional indemnity claims.



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