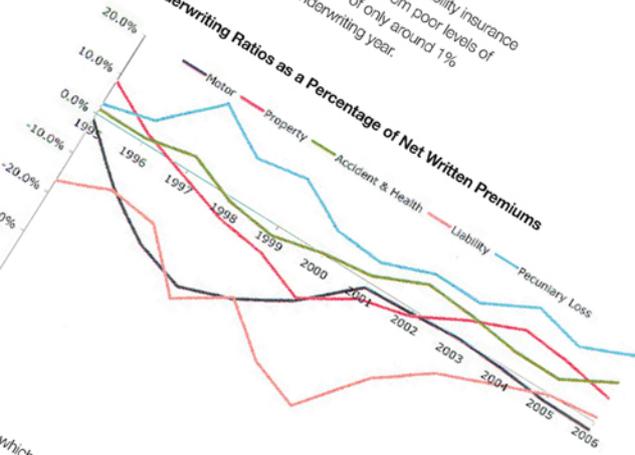


## MARKETS FOR PROFESSIONAL INDEMNITY INSURANCE

The ABI graph shown below illustrates just how infrequently insurers make a technical or 'pure' underwriting profit on their accounts - and just how large the underwriting losses can be. It is also notable that very often it is the liability insurance market that suffers so significantly from poor levels of profitability, with profit margins of only around 1% predicted for the 2006 underwriting year.

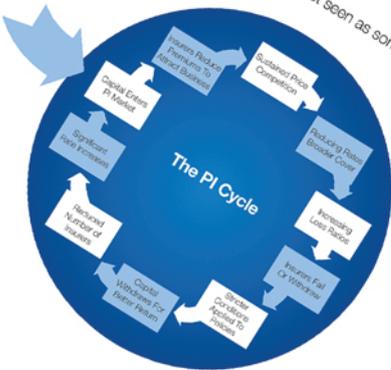
**UK Underwriting Ratios as a Percentage of Net Written Premiums**



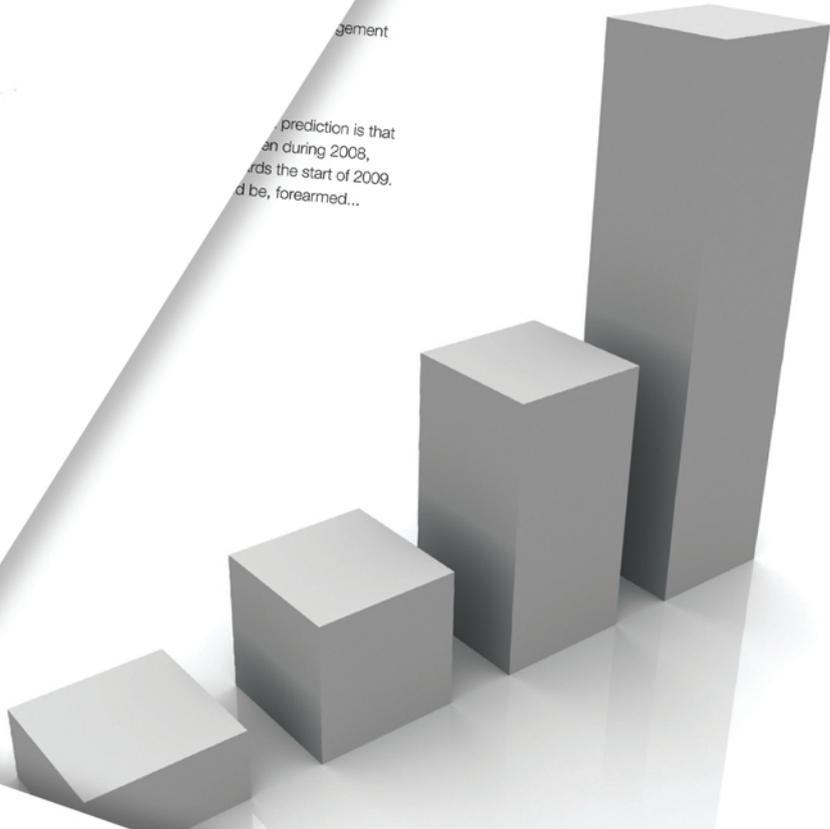
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Which affects all sectors to varying degrees - is the name given to the cycle is driven as much by relatively rare events, accurate pricing, too infrequent to be complex and their

market to have created an overall profit across the cycle. However, where individual insurers price risk too low and for too long the consequences can be catastrophic - as we will see later. In summary, the PI cycle is best seen as something like this:-



prediction is that during 2008, towards the start of 2009, and be, forearmed...



summarise the workings of the insurance market and the hard/soft cycle. We will also discuss what the future might hold as the market moves out of its soft phase and into harder times.

### Claims

Our statistics indicate that the number of claims and potential claims are increasing year on year - a trend is also borne out by figures from the T and Construction Court. 2006 saw an 8% increase in cases reaching court of which 44% related to construction and professional negligence. It is also remembered that the vast majority of claims are settled out of court. Just the tip of the iceberg.

