

PROFESSIONAL INDEMNITY INSURANCE

A poor claims history and a hike in government charges means legal practitioners will face a substantial increase in Professional Indemnity Insurance for the 2000-01 practising year.

An increase of almost 38 per cent in the fees for minimum cover has resulted from the number of claims made against Northern Territory practitioners. An impost of 10 per cent GST and 10 per cent stamp duty amounting to a rise of \$585.40 on minimum cover, is down to government charges.

Despite the increase from \$2050 in 1999-00 for a limit of \$750,000 to \$2840 (plus \$286 GST and \$301.40 in Northern Territory government stamp duty) in 2000-01, the Northern Territory premiums remain among the lowest in the country.

The rise to \$2840 returns insurance premiums in the Northern Territory to around 1994 levels where a \$750,000 would have cost \$2770 per practitioner.

The situation could have been worse. If the brokers Marsh were unable to secure HIH and Gerling as insurers, legal practitioners could have been looking at premiums before government charges at almost double last year's levels ranging from \$3700 to \$5493.

Insurers in a shrinking PII market were not interested in taking on Northern Territory practitioners unless a minimum premium pool of \$1 million could be guaranteed. Therefore the rise in the minimum level of indemnity from \$500,000 to \$750,000 had no impact on the premium.

GST and Stamp Duty

To coincide with the introduction of the GST by the Commonwealth, the Northern Territory Government has imposed an increase in stamp duty. In previous years the NT had charged \$5 stamp duty on the Master Policy. This coming

practising year the NT will levy a fee of 10 per cent on the entire premium pool. This practice does mirror the method of duty collection in other jurisdictions but also exacerbates the substantial rises faced by practitioners.

Northern Territory's claims history

The largest hurdle in negotiating premiums for the next practising year was the Northern Territory's disastrous claims history. The impact of claims is felt acutely and is extremely damaging to the small premium pool that exists in the Northern Territory.

Actuarial analysis of claims by insurance companies since 1992-93 resulted in extremely high premiums being quoted. An overall loss ratio of 92 per cent was not an attractive prospect to insurers in a nervous Professional Indemnity Insurance market.

A large payout on a 1997-98 claim has had a massive impact on the figures. Negotiation has been further hampered by a hardening of the Professional Indemnity Insurance market.

In the period between September 1995 to July 2000 the largest number of successful claims and the largest payouts were in the areas of civil and personal injuries legal work.

The following were the amounts paid:

- 106 claims in Civil and Personal Injuries work — \$1,113,129.59
- 103 claims in Commercial and Conveyancing work — \$1,063,472
- 2 claims in Immigration work — \$66,716.30
- 17 claims in Family law — \$61,900.40
- 6 claims in Employment law — \$63,052
- 1 claim in Copyright — \$12,445

A shame file

While several members of the legal profession have suggested that a shame file be established naming legal practitioners subject to claims, the release of such information may have the effect of further weakening the Northern Territory's position in the market place. Similarly consideration is now being given to the introduction of a no claims bonuses and excesses based on claims, in the next insurance period.

PREMIUM TABLE AS QUOTED 10 AUGUST 2000

Limit	Premium per per practitioner	GST	Stamp duty	Total per
\$750,000	2840	284	301.40	3425.40
\$1,000,000	3270	327	348.70	3945.70
\$1,500,000	3610	361	386.10	4357.10
\$2,000,000	4030	403	432.30	4865.30
\$3,000,000	4490	449	482.90	5421.90
\$4,000,000	4890	489	526.90	5905.90
\$5,000,000	5190	519	559.90	6268.90
\$6,000,000	5310	531	573.10	6414.10
\$7,000,000	5380	538	580.80	6498.80
\$8,000,000	5450	545	588.50	6583.50
\$9,000,000	5520	552	596.20	6668.20
\$10 million	5590	559	603.90	6752.90

Firms

Claims for the period 1995 to 2000 have been evenly spread in numbers among different firm sizes. Sole practitioners and small firms make up almost 50 per cent of the Northern Territory profession.

Protection. The policy has been extended to indemnify an insured innocent partner for any claim upon which a suit may be brought by reason of alleged dishonesty, mis-statement or fraud on the part of another partner of the insured.

This clause applies to both equity and non-equity partners.

The cover does not apply to successful claims made on the fidelity fund.

Where a partner is found to be dishonest then the insurance company will

only pay in excess of the full extent of the dishonest partner's assets in the firm.

Pay by credit card

Marsh will also offer practitioners the option of a credit card facility for the payment of premiums via Visa, Mastercard or Bankcard. Premium funding and cheque payment also available.

After 6 years of excellent service from brokers Marsh (previously Sedgwick), the Council of the Law Society has decided it is time to test the market place and has resolved to go to tender for broker services for the 2001/2002 practising year. The Society will call for expressions of interest in April 2001.

CLAIMS BY FIRM SIZE

Firm Size	Claims	Total Incurred
Large 11 + pract.	16	\$578,171.66
Medium 6-10	12	\$738,460.94
Small 2-5	16	\$653,551.37
Sole pract.	16	\$248,610.05
Other	6	\$161,921.00

Figures show that large firms tend to report more notifications of circumstances than other practice sizes. This may be due to procedural policy in place in larger firms which may not exist in small firms or sole practices. Early notification of circumstances, even if they do not eventuate into claims, is encouraged by the insurer as it allows for the mitigation of loss.

The notification of circumstances does not effect the premium for further years as reserves set on prior years are based only on actual claims.

Innocent Partner Protection

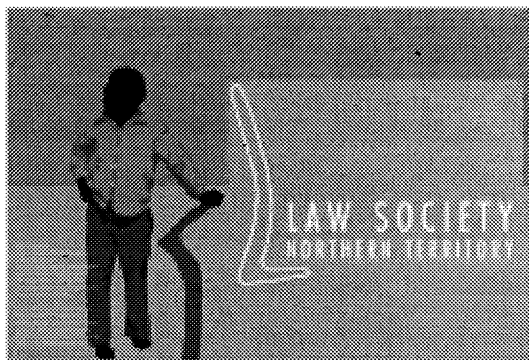
This year's cover has been extended to include Innocent Partner

**Practising
certificate
and PII
renewal
due on
1 October
2000**

Renewal packs for the 2000/2001 practising certificate year will be forwarded to all practitioners in the first week of September.

Please contact the Law Society if you have changed your address.

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