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## **Covid-19 – Explanatory Memorandum**

Filed on June 5, 2020

### **Introduction:**

Lawyers' Mutual writes Legal Professional Liability coverage on a claims-made basis. This is a medium tailed line: the average claims closed with payment is reported 1.5 years after the underlying cause and is closed 2.5 years after the claim is opened. Therefore, no credible data is available to support a return of premium at this time.

### **Exposure:**

Given Lawyers' Mutual's 40+ year history writing Legal Professional Liability, we expect claims to increase from Covid-19 due to the following reasons:

- Claims are negatively correlated with the economy and historically increase during recessions,
- Bankruptcy and Will & Trust claims tend to be severe and are expected to increase due to Covid-19,
- It is likely that a significant number of small law firms were not prepared to work remotely, and
- Inconsistent court closures may create confusion and increase blown statute claims.

### **Action:**

For the last 24 years, Lawyers' Mutual has declared a dividend in November. In April, the management team used year-to-date results to determine that a 4% dividend could be paid as a special dividend in June to help its members during this crisis. This is not correlated with a drop in exposure, but instead, action approved by the Board as a prudent use of Company surplus. We will continue to protect and support our members responsibly.

### **Monitoring:**

In the middle of March, when the stay at home order was put in effect and the reality of Covid-19 became clear, our Chief Actuary created new underwriting and claims reports to track monthly changes in new business, renewal business, canceled policies, tail endorsements, and a variety of claim metrics in order to identify trends quicker than the traditional quarterly and annual triangles.