

Chairman's Report June 2011

I am pleased to present to our Members the Directors' Report and Financial Statements for Bar Mutual for the 2010-2011 financial year.

During the year to 31 March 2011 Bar Mutual recorded a very satisfactory surplus of £8,278,634, compared to a surplus of £321,430 for the 2009-2010 financial year. Members will of course be interested to know the reasons for this surplus and its implications for the future and, in particular, for future premiums. Premium income for the year received from Members increased roughly in line with fee inflation by £560,124. However, during the year we experienced unusually favourable developments in Bar Mutual's claims experience for recent policy years, which have manifested themselves in two different ways.

The first concerns the stop loss reinsurance that Bar Mutual purchased in 2008 for the 2008, 2009 and 2010 policy years. Stop loss reinsurance serves to cap Bar Mutual's aggregate claims exposure on a given policy year at an agreed percentage of the net premium income received for that year. Under the policy purchased in 2008 Bar Mutual is entitled to recoup profit commission in the event of a benign claims experience. After considering careful analysis by the Managers and their actuaries, the Directors have decided that the prospects of Bar Mutual making claims on any of the three policy years covered is remote, so that it would be both prudent and consistent with accounting standards to accrue for the profit commission (in the sum of £2,825,712) in this year's financial statements.

The second and more significant factor concerns Bar Mutual's claims reserves. Because of better than expected improvements in respect of claims that have been concluded and the satisfactory development of current claims, the Directors, acting on the recommendation of the Managers' actuaries, have decided to release £5,630,073 from our claims reserves. Once revisions to estimated and actual reinsurance recoveries are taken into account, there has been an overall improvement of £2,842,033 in Bar Mutual's net incurred claims, compared to a net deterioration of £3,933,205 during the 2009-2010 financial year.

The surplus has increased the reserves not currently set aside by Bar Mutual to meet future claims payments to £27,535,401, which leaves it in a strong position to continue providing comprehensive insurance cover and excellent service to the self-employed Bar, whilst meeting the ever more stringent solvency requirements imposed on us.

The Board is very conscious, however, of the need to ensure that Bar Mutual does not collect higher premiums than are reasonably required to meet existing and anticipated claims relating to the periods for which those premiums have been paid. For that reason, although it is important to have sufficient reserves to be able to meet any unexpected changes in claims experience without the need for sharp short-term increases in premium, the Board will seek to ensure that premiums are kept to the minimum figure consistent with prudence. Accordingly, while taking into account the

fact that the prudential regulatory requirements applicable to Bar Mutual under the Solvency II regime that will come into force on 1 January 2013 remain uncertain, the Board intends to explore ways in which it can utilise Bar Mutual's strong financial position to ease the burden on Members, many of whom it appreciates are currently subject to increased financial strain as a result of changes to public funding and the manner in which legal services may be supplied and procured. We shall be meeting in the Autumn to consider and fix the premiums for the policy year commencing on 1 April 2012 with that in mind.

This last point is highlighted by the recent decision in principle by the Bar Standards Board to regulate Alternative Business Structures which have a majority of advocate managers, have no more than 25 percent non-lawyer managers and which provide the same range of services (and thus give rise a very similar insurance risk) as that which a self-employed barrister will be entitled to provide. Bar Mutual has indicated to the Bar Standards Board that, subject to the finer detail of the regulatory rules remaining consistent with this template, it expects to be in a position to allow the ABSs regulated by the BSB to become Members of Bar Mutual and to take their primary layer of professional indemnity insurance with Bar Mutual. Further developments are expected on this subject during the course of the year.

This year's Annual General Meeting will take place on 14 July at the offices of the Bar Council. It will mark the retirement of Andrew Colman and Tom Lowe QC as Directors of Bar Mutual. On behalf of the Board, I would like thank both of them for their valuable contributions to Bar Mutual during their respective terms of office.

Justin Fenwick QC
Chairman
June 2011