



## Protecting Law Firm Partners' Assets


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Professional indemnity insurance provides protection for law firms against claims arising from alleged negligence or breach of duty in the delivery of their professional legal and advisory services. The frequency and severity of these allegations continue to rise, as does the expense associated with defending the matters. These escalating costs lead us to ask the question: Do law firms have sufficient levels of Professional Indemnity Insurance in place?

In the event of a catastrophic loss, a law firm's professional indemnity insurance policy could prove insufficient. Once the professional indemnity tower is exhausted by the loss, the law firm and its partners are responsible for the remaining balance which could cost millions and potentially lead to the firms' insolvency. Many firms purchase additional layers of professional indemnity cover; however, if the claim payment exceeds total coverage limits, the firm and partners' assets may be at risk.

Asset protection insurance offers an alternative level of cover. The asset protection policy sits above the firm's professional indemnity program to shield the firm's assets when a loss is triggered by a negligence claim. The firm sets up a trust which controls the insurance and distribution of any recovery under the policy. The creation of this trust means the funds cannot be accessed by a third-party claimant.



In the event of a claim in excess of the professional indemnity tower, the policy responds by providing additional funds to be used in negotiating a full and final settlement. Or, if this cannot be reached by replenishing the assets of the firm, which have been eroded by the loss, the coverage could thereby potentially save the firm from insolvency. If no agreement can be reached with the claimant and the firm is pushed into insolvency, the policy can be used (at the discretion of the trust) to reimburse the partners their lost assets.

Ironshore recognizes that exposure to the potential for significant losses is an unfortunate reality for many law firms, thus increasing the likelihood that the professional indemnity policy limits may be exhausted. Ironshore's asset protection insurance is structured on a case-by-case basis, customized to offer excess coverage that aligns with the specific characteristics of the partnership trust. Professional integrity and valued firm assets can and should be protected with insurance programs designed to assure sufficient levels of partner asset protection.

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