

BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS

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IN THE MATTER OF
PROPOSED EXEMPTION OF
THE MISCELLANEOUS PROFESSIONAL
LIABILITY POLICY FROM THE
SEPARATE DEFENSE COST
LIMITS OF ARK. CODE ANN. § 23-79-307(5)

A.I.D. NO. 2007-046

ORDER

Now on this day, the aforementioned matter comes before Julie Benafield Bowman, Insurance Commissioner for the State of Arkansas (the "Commissioner"), and from the facts before her, as presented by Robert Alexander, Associate Counsel for the Arkansas Insurance Department ("Department"), the Commissioner finds as follows:

FINDINGS OF FACT

1. That Beazley Insurance Company has submitted for approval and issuance within the State of Arkansas its Miscellaneous Professional Liability Policy.

2. That such policy declaration states:

"Amounts incurred as claims expenses shall reduce and may exhaust the limit of liability and are subject to the deductible. The insurer shall not be liable for any claims expenses or for any judgment or settlement after the limit

of liability has been exhausted".

CHARLIE DANIELS
SECRETARY OF STATE
STATE OF ARKANSAS

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3. That said provision, enabling the insurer to include the costs of defense within the limits of its total claims liability, causes this policy to be characterized as one which provides "defense within limits".

4. That under the terms of Ark. Code Ann. § 23-79-307(5) it is provided that no liability policy may be approved for use within Arkansas if it contains provisions that would reduce the limit of liability available for judgments or settlements by the amount of payments made for defense cost or expenses, i.e., "defense within limits", UNLESS a separate limit for defense costs equal to one hundred percent (100%) of the annual aggregate liability for judgments or settlements is also offered or provided for defenses costs and claims expenses.

5. That the separate aggregate limit for high defense cost liability lines such as pollution liability, attorney's malpractice (securities oriented), non-profit directors and officers management liability, media risk (defamation) liability, design professionals liability, employment practices liability, for-profit directors and officers liability, bankers professional liability and insurance company errors and omissions liability has not proved practicable for insurers, as it places them in the untenable position in the course of litigation of having to determine whether they should abandon their defense when that limit is "used up" but when their liability exposure is as yet undetermined.

6. That because defense costs in miscellaneous professional liability litigation often exceeds damages awarded, it has been difficult to price such product on the traditional defense without limits basis since the upper limit of exposure could not be reasonably and predictably calculated. This has resulted in a very restricted market for this type of coverage, and further, separate aggregate limits within this limited spectrum are not necessary or desirable for the protection of the public.

7. That the policy of the Department continues to be that the public is best served if liability contracts are, in general, issued on a traditional "defense outside of limits" basis; it is therefore appropriate to limit the circumstances in which defense within limits contracts such as that proposed in the instant matter may be utilized.

CONCLUSIONS OF LAW

That the Commissioner has authority to issue a limited order of exception upon findings as set forth above.

IT IS THEREFORE ORDERED AS FOLLOWS:

1. That no insurer may issue any "defense within limits" miscellaneous professional liability policy within Arkansas unless:

- a. such policy is issued with liability and defense limits of \$1,000,000 or more;
- b. the applicant for the policy (whether an individual or firm) has executed a "Consent Form" acknowledging his/her or its understanding that the subject policy has limits of liability which may be reduced or completely exhausted by payments for defense costs and claims expenses; and
- c. the "Consent Form" noted above is made a part of the policy upon issuance.

2. That no miscellaneous professional liability policy may be otherwise issued on a "defense within limits" basis without specific written approval of the Insurance Commissioner.

IT IS SO ORDERED THIS 10th day of August, 2007.


JULIE BENAFIELD BOWMAN
INSURANCE COMMISSIONER
STATE OF ARKANSAS