



The Actuarial Profession

making financial sense of the future

Directors & Officers: Current Headlines

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GIRO Convention, October 2009

Sub-prime / credit crisis

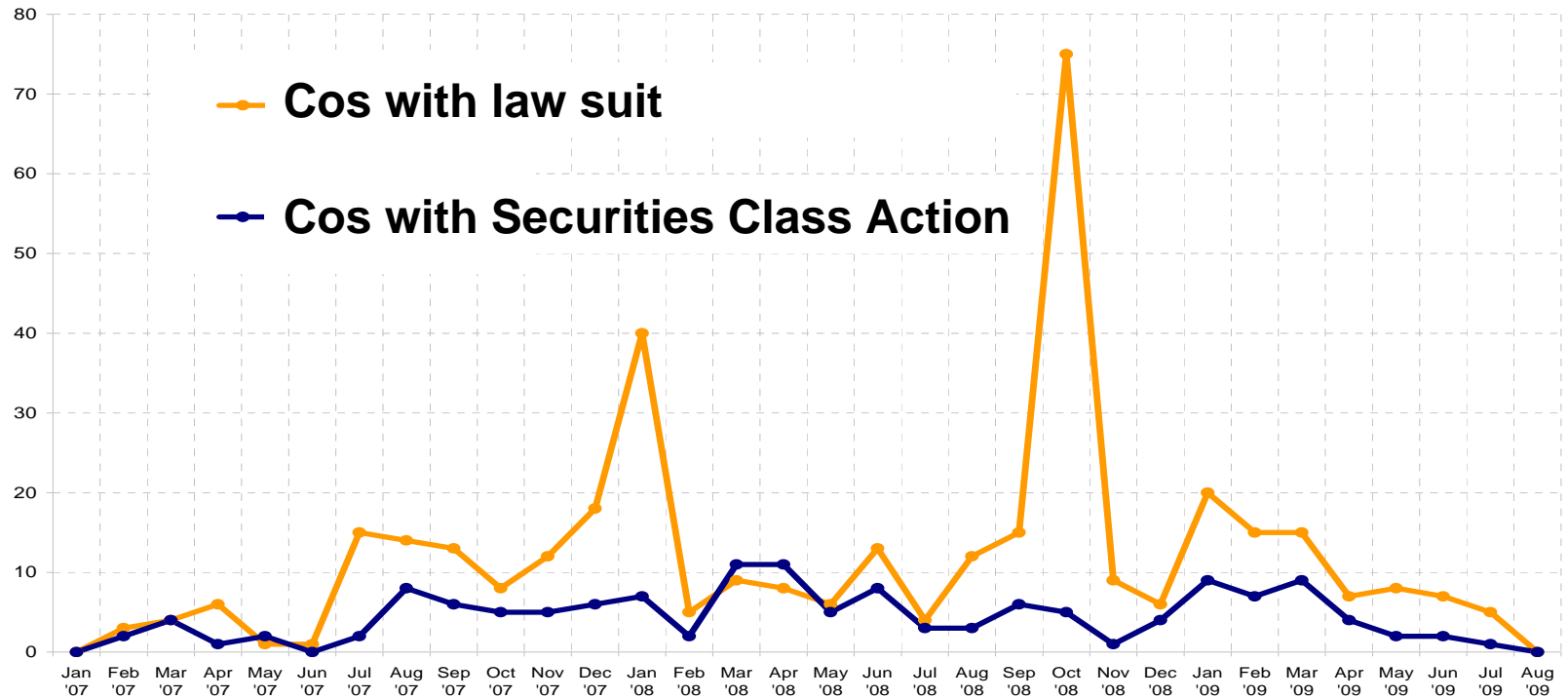
Madoff / Stanford

'Classic' D&O losses

Loss ratios, Rate levels

Reinsurance market

Sub prime law suits flow slowed...



Jan 07

Source: Advisen

Aug 09

...but >85% of cases still outstanding

Bank failures increasing...

➔ US bank failures = impending litigation?

'00	'01	'02	'03	'04	'05	'06	'07	'08	3q'09
2	4	11	3	4	0	0	3	26	100

Source: FDIC (Federal Deposit Insurance Corp)

BUT...

- ➔ FDIC not litigating (yet!!)
- ➔ SCAs limited success to date
- ➔ Insurers acted defensively

Expect more bank D&O losses (but not a bloodbath?)

Madoff liquidators getting started...

- Bernard jailed 150y for \$65bn fraud
- Insured losses far smaller
- Flurry of litigation
- 19 SCA's so far

- D&O not biggest concern
 - FI PI
 - FI Crime
 - Household ??



Allen Stanford fighting...

- Alleged \$7bn fraud
- Believed \$90m D&O policy
- Battle to access proceeds
- 28/9 ruling Stanford can't use it to pay his own legal bills...
- Not a major D&O event



‘Classic’ D&O losses subdued...

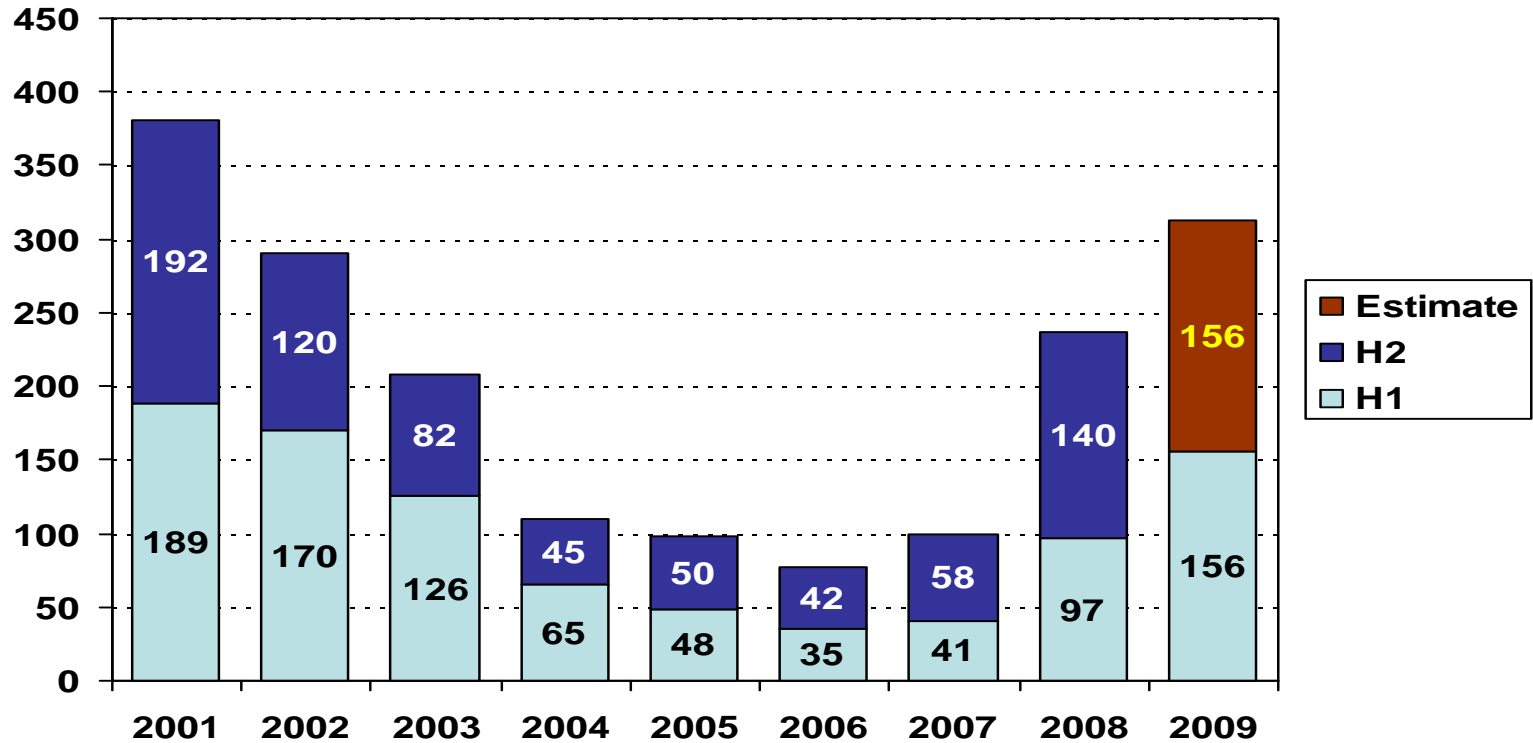
- 22% decline in SCAs for 2009 Q1-3
 - Half of those are credit-related...
- Stock markets calmed down somewhat
- Classic loss activity similarly subdued

BUT...

- Bankruptcies on the increase
- US Filings against foreign firms at record levels
 - Steady increase from 10% to 20%+ over last 10y

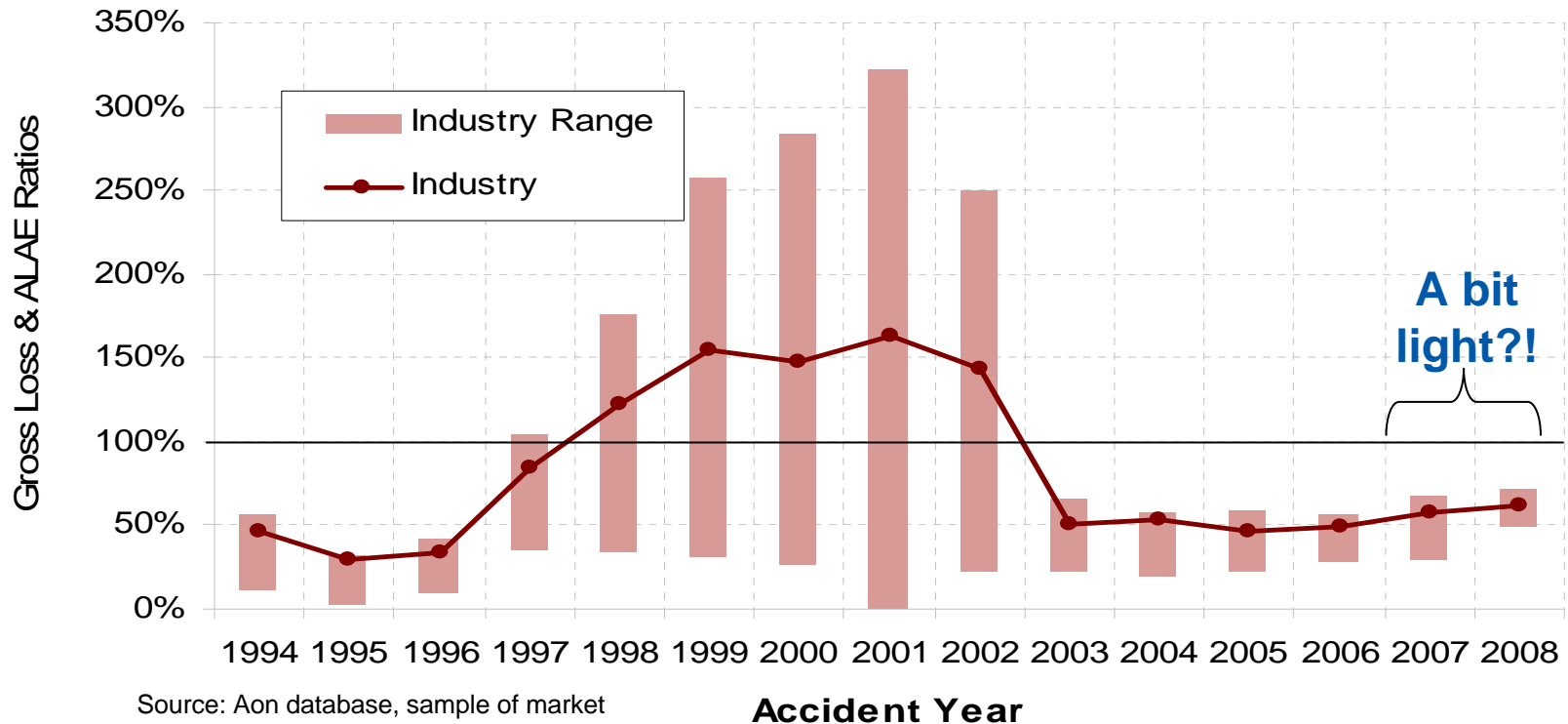
Bankruptcy filings are increasing...

US Public & Major Co Bankruptcies



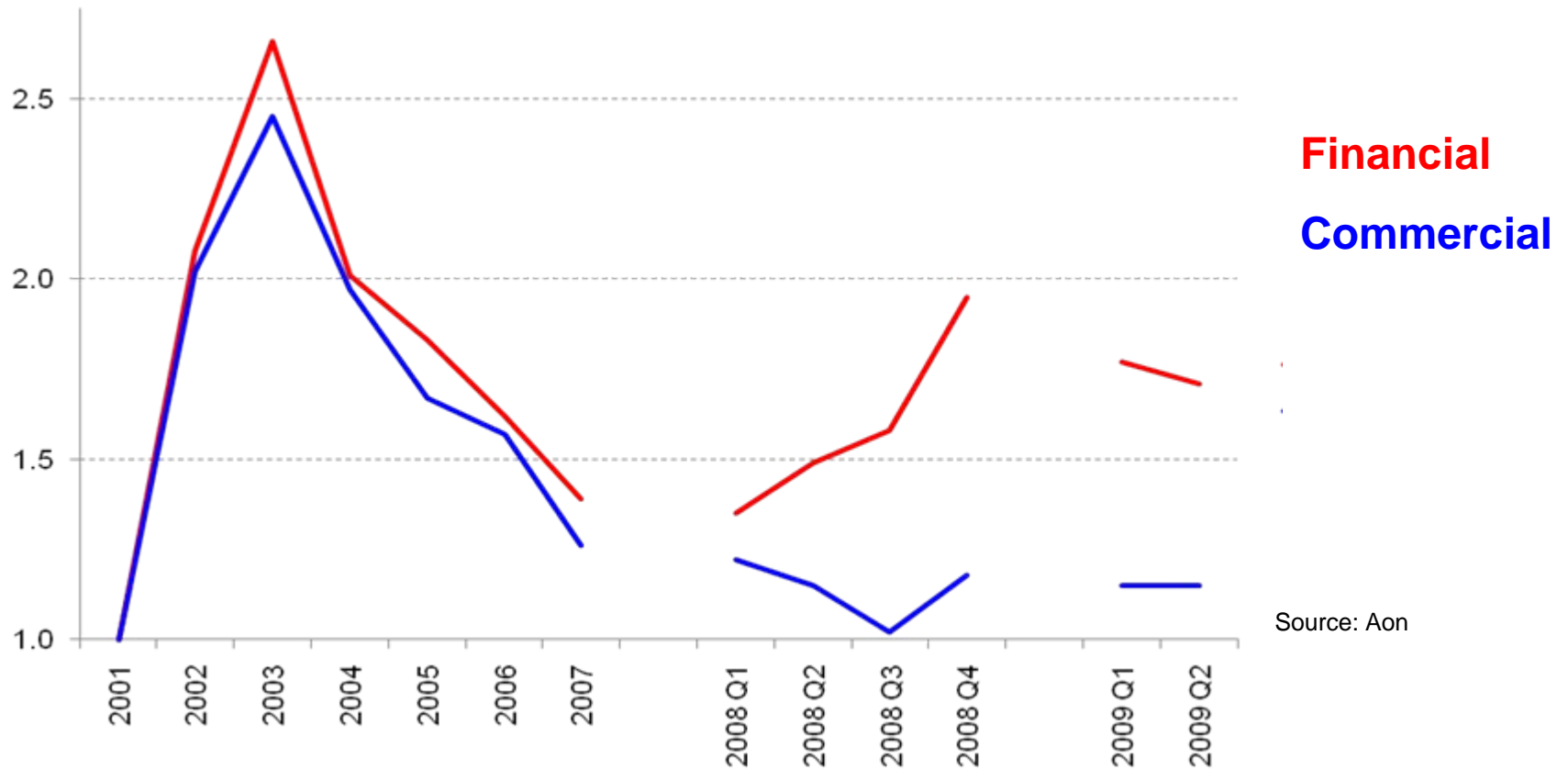
Source: Bankruptcydata.com

Gross ULRs still looking good...



- Data panel of US insurers
- Ex-US similar but lower; R/I greater amplitude

Rate levels react to losses...



➔ Not full story – increases still targeted at ‘problems’

Reinsurance partially responded...

➤ FI D&O

- Shift towards Side-A cover
- Ring-fencing of issues; exclusions; rates
- Demand > supply (esp. if you have issues!)
- Hardening market, coverage tight, rates strengthened

➤ Commercial D&O

- Competitive market, capacity still expanding, rates soft
- Supply > demand (esp. ex-US)
- Experience good but exposures rising
- Outlook requires caution

In a nut-shell...

- Credit crisis working through slowly
 - Flow stemming, 'in the past' but costs very uncertain
 - FI PI books hardest hit, but digestible so far...

- D&O should not be 'another 1998 / 02'
 - Sting in tail mitigated by underwriting action

- Look beyond US FI D&O
 - Commercial lagging behind
 - Internationals are not immune
 - Exposures growing, rates flat outside FI



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