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Tuesday 3rd June 2003

Professional Indemnity Cover

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A PII Insurers Dilemma

- What does an Actuary do?
- Key exposure Investment Advice (Pension Funds).
- Infrequent large losses (Catastrophe Risk).
- Small profession/premium pool.
- "Good for 10 years" then total loss.
- Little underwriting between good and bad.
- Notifications of claims increasing.
- Absence of data to set rates.

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Legal/Claims Aspects

1. Plaintiffs include:

- Liquidators
- Purchasers of Insurance Companies
- Regulators
- Trustees

2. NRG:

- Claim for £400m dismissed.
- Substantial defence costs incurred.

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Legal/Claims Aspects

3. Negligence in investment actuarial advice to Pension Fund - £1m.

4. Negligent tax advice - £300k.

5. Two paid claims same year - pension fund related:

- £4.5m
- £7.5m
- Insurance £150k for £30m cover.

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Legal/Claims Aspects

6. General:

- Errors in calculation of funds required
- Incorrect setting of reserves
- Pension Scheme mis-management

7. Failure of Independent Insurance and HIH.

8. Watson Wyatt/Connecticut Carpenters Pension Fund:

- US\$40m paid (\$170m fund).

9. Towers Perrin/LACERA - seeking \$2bn damages (\$20bn funds).

10. Alleged UK claim recently settled for £30m.

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Insurance Market and Trends

1. Insurers

- Chubb
- St. Paul
- RSA
- Great Lakes (Munich Re)
- XL
- Swiss Re
- Markel

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Insurance Market and Trends

2.Capacity - up to £50m.

3.Trends:

- Prices and Retention Increasing (up to 4 times).
- Lack of Insurer Competition.
- Greater Disclosure required.
- Coverage Restrictions.
- Move by firms to examine Alternative Risk Transfer options.
- More Innovative Pricing Approaches.
- New markets for Catastrophe cover.

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Alternative Insurance Approaches (larger firms)

1.Alternative Risk Transfer:

- Multi-year
- Limited Risk Transfer

2.Loss Rated Programmes.

3.Co-insurance.

4.Inner Aggregate Deductibles.

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Alternative Insurance Approaches (larger firms)

5.Group Purchase.

6.Use of Retro-dates.

7.Commutation/Profit Commissions.

8.Employment Practices Liability.

9.Intellectual Property.

10. Directors' & Officers'.

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A Placement Strategy

1. Continuous dialogue with Existing Insurers on:
 - The business
 - Risk Management
 - Claims
 - Trends in the profession
2. Cultivate new Insurers to reduce reliance.
3. Develop formal strategy for risk retention (captives).

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A Placement Strategy

4. Commence renewal process early.
5. Assess Insurer security and desire/willingness to pay claims.
6. Determine amount of cover required to meet clients reasonable expectations.
7. Use legitimate devices to limit liability.
8. Engage with regulator on PII requirements.

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PII Options under Consideration by Regulators and Firms

1. Minimum Requirements for PII (local and EU).
2. Affordability/cost versus consumer protection.
3. Two Tier System of consumer protection (PII and Capital).
4. A Mutual Fund.
5. Compensation Funds (insolvency).

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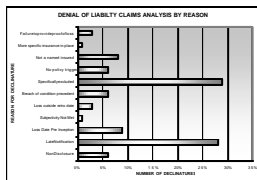
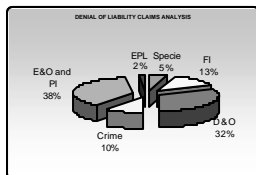
Do not Rely Solely on PII

1. Have conflict system.
2. Robust Terms of Engagement.
3. Limit liability and third party use.
4. Caveat and disclaim.
5. Methodology for contract disputes.
6. Understand client and his ability to digest complex advice.

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Denial of Liability Claims



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Pension Trustees Liability

1. Up to 500% increase in cost:
 - Previously £1,000 to £3,000 per million of cover.
2. Available Insurance Markets Receding.
3. Underfunding of Pension Funds.

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	Pension Trustees Liability
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4. Insurers wish to see:

- Greater utilisation of consultants
- Regulator reviews of investment strategy and avoidance of high risk investments (high tech)
- More financial expertise of Trustees.

5. Still little claims activity.

6. Notifications mainly members not happy with passive role of Trustees.
