Directors & Officers: Current Headlines

Mark Flower, Aon Benfield
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…

…but >85% of cases still outstanding

Source: Advisen

The Actuarial Profession
making financial sense of the future
Bank failures increasing...

US bank failures = impending litigation?

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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

Source: Aon database, sample of market

Accident Year
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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