

THE STATS

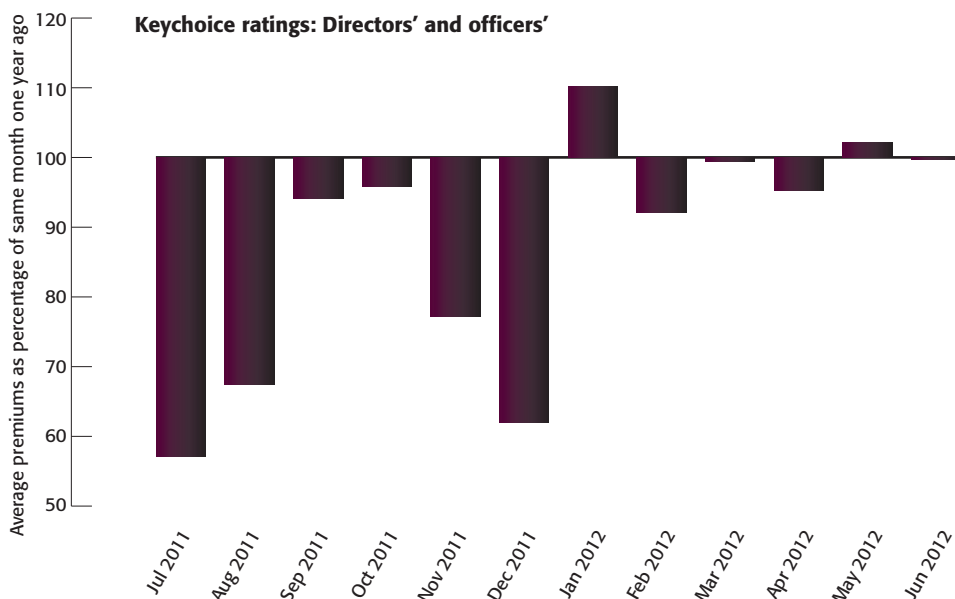
● Slow but steady wins the race and that looks to be the name of the game for brokers when it comes to directors' and officers' (D&O) premiums.

A deluge of capacity amid a benign claims environment – especially on the corporate side – saw premiums plummet and a great deal of teeth gnashing during the second half of 2011. However, a period of stabilisation has since ensued and brokers are now sensing that the tide is set to turn in their favour.

One of the reported catalysts behind the predicted rise has been the implementation of the *Bribery Act 2010*. This, according to some commentators, has sparked a growing amount of claims and litigation against companies in the UK, in many cases, as a result of the actions of their overseas subsidiaries. Even those not so sure that the claims are sweeping in are at least certain that the fear of claims is having, and will have, an impact.

The UK's financial institutions are now operating in an increasingly stressed market as the spotlight shines ever more keenly on their work following a succession of controversies. A rapid rise in claims certainly could both get premiums growing again and also reduce capacity, which in turn would compound any rises. Some predictions in the market are for premiums to grow by up to 10% this year.

Indeed, during this financially-challenged period, a recent report by Marsh said firms should now expect to face closer underwriting scrutiny after, until now, having enjoyed favourable capacity and coverage conditions.



With the knife finally predicted to twist for firms, the harsh climate brokers operated in this time last year now seems a far cry away. In July 2011, brokers took a battering with premiums plummeting 43% lower than compared to the same month in 2010. Come August, the situation barely improved with rates 33% below 2010 levels.

However, a more mild autumn period eased the losses somewhat for brokers with rates just 6% and 5% below their 2011 levels for September and October respectively. Yet, by winter, premiums returned to their early

summer form as both November (down 23%) and December (down 39%) suffered drops.

Looking at the graph it is clear to see that, after a gloomy Christmas period, hope gradually seeped back into the D&O market for brokers as rates broadly remained the same or edged upwards. This largely flat period has remained the status quo until now, although optimism does remain that the market has turned a corner and that premiums are set to harden, leaving brokers set to enjoy some much-needed rate respite.

A.M. Best Company: Top 10 UK total commercial liability insurers for year ended 31 December 2011

Rank 2011	Rank 2010	AMB	Company Name	Rating	Ultimate Parent	GWP (£000s)	Underwriting Result* (£000s)	Combined Ratio (%)	Loss Ratio (%)
1	1	87416	Chartis Europe	A	American International Group	695,804	-33,167	109.1	75.5
2	2	87674	XL Insurance Company	A	XL Group	590,662	-65,176	-407.8 [3]	51.9 [3]
3	3	86485	Ace European Group	A+	Ace	538,483	-6,415	108.0	78.7
4	5	86126	QBE Insurance (Europe)	A	QBE Insurance Group	484,652	-13,120	N/A	N/A
5	4	86257	Royal & Sun Alliance Insurance	A	RSA Insurance Group	471,880	-35,028	111.7	70.9
6	9	85012	National Farmers Union Mutual Ins Soc	NR	National Farmers Union Mutual Ins Soc	386,218	-107,924	131.5	107.7
7	8 [1]	86524	Aviva Insurance	A [2]	Aviva	373,928	-141,670	141.8	101.5
8	6	86373	Allianz Insurance	A+	Allianz SE	370,641	-6,325	101.3	66.3
9	7	85630	Chubb Insurance Company of Europe SE	A++	The Chubb Corporation	340,904	97,044	71.8	37.9
10	10	87425	Liberty Mutual Insurance Europe	A	Liberty Mutual Holding Company	251,780	17,443	N/A	N/A

* Underwriting result excludes investment income. Note: Some ratio figures are not available (N/A) because more than 1% of these companies' commercial lines liability insurance business is accounted for on an underwriting year basis, for which earned premiums is not disclosed on the FSA return. Figures in above table are based on FSA returns of financial year 2011 for total commercial lines liability insurance business (reporting category 270). [1] 2010 ranking relates to Aviva International Insurance Ltd which transferred its portfolio into Aviva Insurance Limited. [2] Rating relates to AMB# 78733 Aviva Insurance Limited. [3] The operating ratios for XL Insurance Company Limited are significantly affected by a reinsurance transaction and do not therefore appear comparable with the other companies' ratios here. Ratings as of 6 July 2012.