Throughout 2005 the Willis index has shown that the insurance market for Financial Institutions has been progressively softening. A couple of years of comparatively high rates combined with several new entrants in the market looking to gain market share had resulted in many Financial Institutions being able to generate significant reductions in their premium spend.

Three months ago it seemed that this downward trend in the market would continue into 2006 with only the spectre of the insurance market having to make substantial payments for Enron, ‘laddering’ and Worldcom related claims potentially standing in the way. However the huge insurance payouts as a result of Hurricanes Katrina, Rita and Wilma which could well be in the region of $80bn are likely to spell an end to this downward trend in pricing. The insurers consulted as part of this most recent Willis Index are already predicting that up to year-end, rates will remain flat i.e. that Financial Institutions will no longer be able to negotiate discounts, and that in 2006 rates could begin to rise.

Whilst the actual losses that Financial Institutions insurers are likely to pay as a direct result of the Hurricane season are likely to be negligible they could still have a substantial effect on underwriting strategies for 2006. Given the success of the market over the last few years and a return to profitability for many insurers, Financial Institution insurers were probably expecting to be able to negotiate discounts, or in the worst case flat rates, for their reinsurance renewals. This will no longer be the case as the major reinsurers will be looking to pass on the costs of the Hurricane season (Swiss Re $1.2bn, Munich Re Euro 1.1–1.3bn both net loss) directly to their client base regardless of class of business. As a result it is highly probable that Financial Institutions insurers will be faced with increased costs of reinsurance which they in turn may look to pass onto their direct clients. Even insurers who purchase limited reinsurance programmes are likely to be under pressure to increase rates if other parts of their business have been affected by the Hurricane losses.
Hard Times Ahead (continued)

Willis expect 2006 to be a tougher environment than 2005, and this will take effect from early January. There is little doubt that insurers will resist with vigour any reduction in rates and will look to secure increases particularly for risks that have experienced significant growth, have had losses or operate in what insurers perceive as high risk environments. However, before Financial Institutions start to consider the implications of paying increased premiums we believe that a timely and well managed renewal process can avoid or minimise this upward turn in the insurance cycle. Although insurers are facing an increase to their cost bases we have not yet seen a reduction in the amount of capital available and we expect insurers will be under pressure to renew their existing books of business. In previous hard market conditions insurers have been prepared to non-renew risks if they did not secure what they perceived as adequate premium increases. We have not yet seen insurers increase retentions or restrict coverage.

The large outstanding payments for Enron, ‘laddering’ and Worldcom remain a concern. Combined with the Hurricane losses, such payments could result in a much harder market. AIG’s ‘CorporateGuard’ insurance policies have been available for many years and have served many policyholders well over that time. However, AIG have recognised the need to undertake a wide ranging review of their products in order to ensure they continue to deliver market leading coverage and services.

During September 2005, AIG launched their latest suite of CorporateGuard products which includes:
- Crime,
- Civil Liability,
- Directors & Officers Liability (D&O),
- Employment Practices Liability
- Pensions Trustees Liability
- Investment Managers Insurance (IMI).

Whilst all the products carry coverage enhancements, the D&O and the IMI products stand out as having the more significant changes. Below, we have summarised some of the enhancements of these products.

**D&O**

**Non Executive Directors** – A ‘ring fenced’ limit of £1m is made available to each Non Executive Director, payable in addition to the policy limit (this applies in excess of the policy limit and indemnification from the company).

**Emergency Pre Approved Defence Costs** – Defence Costs must have the prior approval of AIG, but in the event of an emergency, AIG will waive this requirement.

**Outside Directorships Liability** – Previously AIG did not allow limits available under several AIG policies to aggregate in order to meet a large claim. The so called ‘non stacking’ provision is now deleted.

**Professional Services Exclusion** – Previously the language of the exclusion had the potential effect to exclude substantial coverage. The new language limits the impact of the exclusion.

**IMI**

**Wrongful Act Definition** – This is more clearly defined so as to embrace professional and managerial acts exposures.

**Deletion of Exclusions** – Many common exclusions have been deleted including Market Abuse, Investment Banking, Money Laundering and Market Fluctuation.

**Inability to complete a transaction** – New coverage is provided for ‘failure to complete transactions’ due to fraud, loss of documents or identity deception.

**Vicarious liability** – Automatic cover is provided in respect of vicarious liability.

Our Research and Development team has undertaken a detailed review of these wordings and we welcome AIG’s desire to address the demands of Financial Institutions with an innovative platform for coverage. However, in order to provide leading edge coverage, there can be no substitute for a manuscript policy wording designed to address the specific needs of each client and we are pleased that AIG has agreed to work with Willis in order to refine the new wordings in order to meet these needs. For further information please contact John Newton on newtonjm@willis.com or +44 (0)20 7975 2691.

AIG Launch New Suite of 2005 CorporateGuard Wordings

**Insured vs. Insured Exclusion** – In respect of claims brought outside of USA jurisdiction, AIG will only exclude those claims brought about by collusion between the defendant director and plaintiffs.

**Punitive and Exemplary Damages** – These damages are not excluded in respect of claims brought under USA jurisdiction.

**Investigation Expenses** – The full limit is now provided.

**Non Rescindable Policies** – Recent years have seen the rescission of many policies when faced with large claims. AIG agree that the policy can no longer be rescinded for any reason.

Willis Publishes Global D&O Liability Guide Covering 51 Jurisdictions

Willis have published The Willis Worldwide Directory of Directors’ and Officers’ Liability. It is a unique guide detailing the personal liabilities of directors in 51 jurisdictions in Africa, Latin America, North America, Asia, Australia, Europe and the Middle East.

It is vital for senior executives to identify and understand their liabilities when considering international expansion or acquisition activity and prior to accepting overseas board appointments. The Willis D&O team, bringing its specialist knowledge, has partnered with leading law firms around the world to gather this material together in one easy to manage reference tool.

2 The Willis Index: Financial Institutions Q4 2005
Examples of difficulties faced by Trustees in detriment of the fund and its beneficiaries. The Regulator believes the company’s actions would be to the compulsory payments into the fund where it potential to impact on the fund. The Regulator blowers’ when internal corporate issues have a such as buy-outs, restructuring or outright sales. Trustees will need to have a very clear view of ‘contribution notices’ or ‘financial directions’, pension scheme and the company supporting it. The financial liabilities they face when considering ‘Professional’ Trustees The Pensions Act which came into effect in April 2005 enforces tough new rules for Trustees. The Pensions Act, are such that some companies are finding it increasingly difficult to persuade individuals to increasing their interest in PTLI in terms of: • Reviewing the need for cover • Increasing the limits purchased • Refining the extent of cover provided. The environment in which Trustees are to operate is such that they will have no option but to take a ‘professional’ approach to their role. Their skill and expertise is dependent upon their desire to gain the requisite knowledge and experience, and the time they can commit to the role. Being a Trustee is no longer simply a charitable or social undertaking, indeed, it carries huge responsibility and of course, personal liability. There are various remedies available to the Trustees in the event of personal liability but the question is whether these remedies will operate in the first instance of a claim for damages? It is for this reason that Trustees look to arrange Pension Trustee Liability Insurance (PTLI) as a primary means of protecting themselves against personal liability. Whilst we believe all Trustees should arrange PTLI, an interesting fact in a recent Willis survey revealed that 42% of companies do not arrange such insurance. For those that do purchase PTLI, the picture is varied, however the table below gives an indication of limits purchased and the change in premium when compared to the previous year. Currently, there is a trend of increasing interest in PTLI in terms of: • Reviewing the need for cover • Increasing the limits purchased • Refining the extent of cover provided. Many of our clients now consider PTLI to be an important element of their suite of financial lines insurances.

The Willis Index: Financial Institutions Q4 2005

<table>
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<tr>
<th>Asset Size of Fund(s)</th>
<th>Aggregate Limit</th>
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<tbody>
<tr>
<td>Excess of £1000m</td>
<td>£10m to £50m</td>
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<tr>
<td>£250m to £1000m</td>
<td>£10m to £25m</td>
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<tr>
<td>£100m to £250m</td>
<td>£10m to £15m</td>
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<tr>
<td>£25m to £100m</td>
<td>£5m to £10m</td>
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<tr>
<td>Up to £25m</td>
<td>£1m to £2.5m</td>
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Average Annual Premium Reduction

- 5%
- 5%
- 10%
- 15%
- 20%

Should you require further information please contact:
Derek Reeves on reevesd@willis.com or +44 (0)20 7975 2944.
Nigel Primmer on primmern@willis.com or +44 (0)20 7975 2076.
Nigel Primmer

Nigel started his insurance career with a spell on the underwriting side in Lloyd’s, where he was employed by David Coleridge who went on to become the Chairman of Lloyd’s. Not wishing to forego the opportunity of university life he left Lloyd’s to read Economics at Exeter University.

He joined Sedgwick Group, being taken on by Dennis Mahoney who went on to become Chairman and CEO of the Aon Group Limited. Nigel gained experience of a range of different classes of insurance and roles involving North American liability insurance, general UK insurance and international programmes for clients whilst serving as a UK and International Account Executive. In the latter part of his time with Sedgwick he specialised in handling the requirements of financial sector clients, in particular the crime and professional liability classes.

During this time he also studied for his insurance exams, ultimately becoming a Fellow of the Chartered Insurance Institute. Wishing to develop his specialist skills still further, Nigel joined Special Risk Services where he worked on a number of high profile financial sector accounts. This successful company was acquired by Minet five years later. Minet appointed Nigel as Managing Director of Client Servicing. Soon, however, Minet itself was up for sale.

In 1997, Nigel joined Willis Faber & Dumas Limited as an Executive Director in the European Financial Risks team of the Global Financial & Executive Risks Practice. Now part of Willis Professional Risks, he is principally an Account Executive for UK based financial sector companies and organisations.

Outside of insurance, Nigel’s family keep him busy, with two boys at senior school, but whenever time allows, he takes an interest in the City (he is a Freeman of the City of London), supports events with the School of Business and Economics at Exeter University. Nigel also is involved with the work of the British Trust for Conservation Volunteers, most recently leading a weekend woodland management project in Kent. Over the years he has devoted much time to practical conservation work around the UK.

A New Joint Venture to Service the Insurance Needs of Hedge Funds

ASF and Willis have created a joint venture, providing specialist risk identification and insurance broking services for corporate and personal liabilities in the Hedge Fund and Fund Management sector.

“The creation of the specialist team consolidates our position as a leading service provider to the Hedge Fund sector. Building on our success, the combination of knowledge, experience and resources will help expand our global reach and deliver a first class service to our clients throughout the world.” Andrew S Fielding, Managing Director, ASF Financial.

“The joint venture with ASF Financial creates the leading insurance and risk management provider to the Hedge Fund and Fund Management sector. We are convinced that this joint venture will enhance the service and creative solutions that we can provide to our clients in this specialist area.” Duncan Holmes, Executive Director, Willis Limited.

The risks, solutions and products can be highly complex. Inadequate risk assessment and poor advice may lead to restricted policy coverage and increased costs.

Financial Institutions Breakfast Seminar to be held Wednesday 25th January 2006

This will be the first opportunity of 2006 to discover the impact of the new season of reinsurance rates on the professional risks insurance markets. Duncan Holmes will outline the current trends and provide an insight into the pricing features that may develop later in the year.

The guest speaker will be Matthew Allen of Eversheds whose practice areas include Insurance, Financial Services, Litigation and Dispute Management. Matthew is ideally placed to comment on recent cases that have a bearing on Financial Institutions and will detail the operation of Early Case Assessments and their cost benefits. Invitations will be issued in the near future, contact Derek Reeves on reevesd@willis.com or +44 (0)20 7975 2944.