Quarterly D&O Pricing Index

Second Quarter 2014

Each quarter Aon's Financial Services Group ("FSG") publishes a pricing index of Directors' and Officers' liability ("D&O") insurance that tracks premium changes relative to the base year of 2001.[1,2] In the second quarter of 2014, the average price for $1 million in limits increased 10.1 percent from the first quarter of 2014, with the Index moving from 0.79 to 0.87. This "increase" in Q2 2014 has more to do with the mix of business from one quarter to the next.

However, as we have said in the past, a more meaningful measure derived from this Index is to compare the current quarter with the prior year quarter, which for Q2 2014 was down 4.4 percent vs. Q2 2013. Since D&O policies are typically written for a 12-month period, this year-over-year comparison is a close approximation of renewal pricing and a more significant indicator of renewal results in the quarter.

An even better comparison is to look at only those programs that renewed in both Q2 2014 and Q2 2013. On that basis, pricing decreased 5.4 percent.

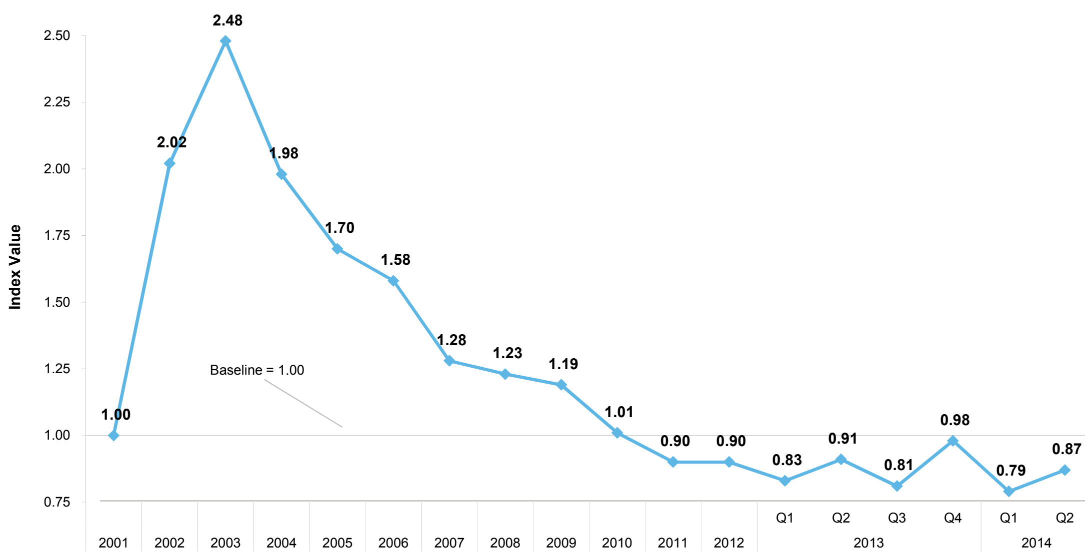
D&O Pricing Index

▼ -4.4%

Q2 2014	0.87
Q2 2013	0.91

Quarterly Index of D&O Pricing

Q1-2002 through Q2-2014 | Base Year: 2001 = 1.00



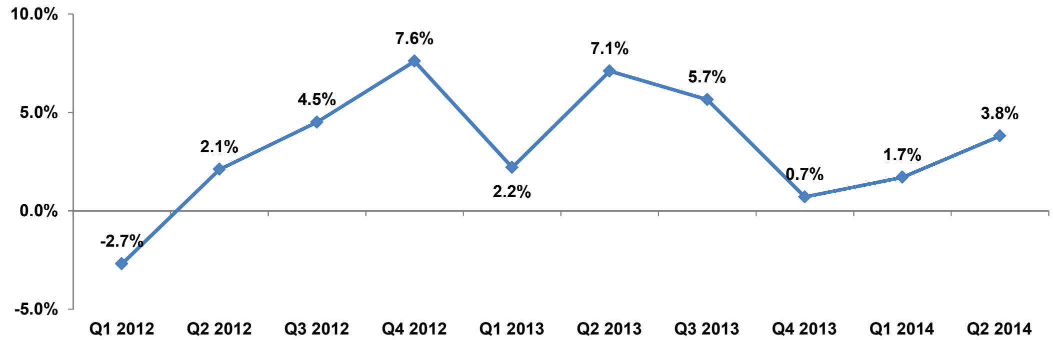
A Stable Environment

Prior to Q4 2012 we experienced year-over-year decreases in 35 out of 37 quarters dating back to Q4 2003. The two exceptions (Q4 2008 & Q2 2009) were during the Credit Crisis, and were primarily driven by results in the S&P Financial sector. As we watched with interest throughout 2012, we noticed the Index creeping towards positive territory, culminating with a year-over-year increase in Q4 2012

Despite some minor fluctuation from quarter to quarter over the intervening period, the full year Index for the last 3 years (2011, 2012, and 2013) has been constant at 0.90. As we consider the overall stability of the market, we continue to look at the carrier's reaction to the various layers within a program. Primary policies that renewed in both Q2 2013 and Q2 2014 with the same limit and retention increased, on average, 3.8 percent. Remembering that D&O programs are most often built on a layered basis, basic math would indicate that excess pricing continues to decrease more than enough to compensate for the increase in primary pricing, resulting in the average total program renewing down 5.4 percent.

Primary Price Changes

Q1-2012 through Q2-2014 | Same Limits and Deductibles

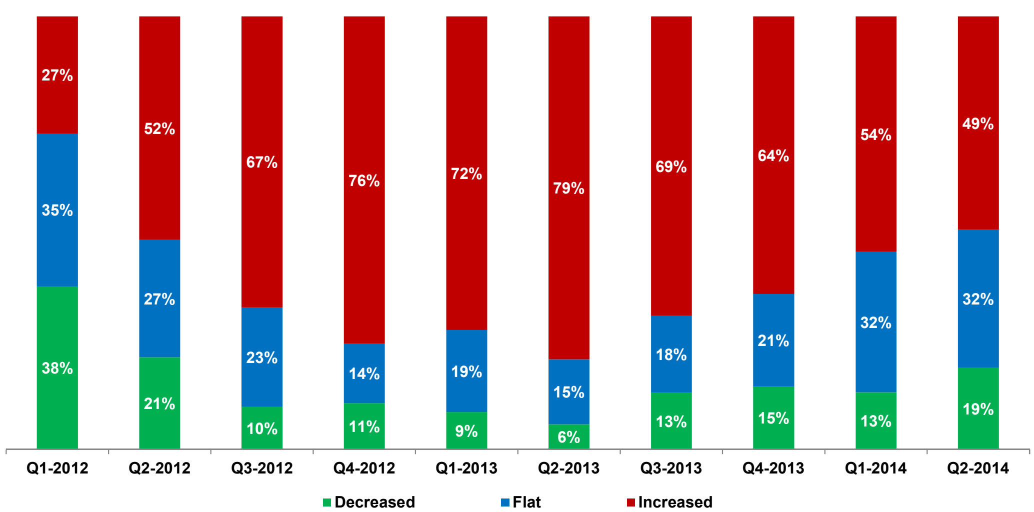


As the graph above indicates, increases in the primary layer had been gaining momentum from Q2 2012 through Q2 2013, but began reversing course starting in Q3 2013. It is interesting to note that the primary policy change in Q2 2014 is about half of the increase in Q2 2013.

In addition to the average pricing change, we also look at the number of companies that experienced a decrease on their primary layer versus a flat renewal or an increase. Although the total number of primary decreases is still in the minority, the number of clients receiving decreases on the primary layer grew to 19 percent in Q2 2014, the highest level since Q2 2012. Overall, the vast majority of primary renewals are flat to slightly up, but the trend of those that are experiencing increases continues to decelerate slightly.

Primary Price Increases/Decreases

Q1-2012 through Q2-2014 | Same Limits and Deductibles

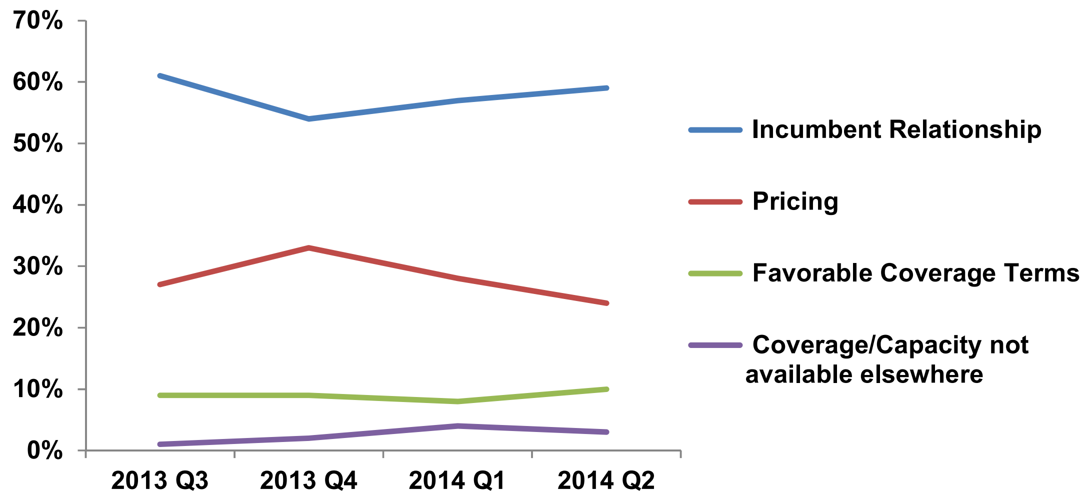


By month, the number of primary decreases in the first quarter was 30 percent in April, 17 percent in May, and 14 percent in June.

For the quarter, 97.0 percent of all primary placements renewed with the same carrier. The average increase for those primary policies that renewed with the same limit/same deductible, and remained with the same carrier, was 4.0 percent. Interestingly, a number of our largest carriers posted a 100 percent retention rate for their primary renewals in 2013. This would indicate to us that for carriers, retaining business may be more important than increasing rate.

Why do Carriers win Business?

Why do clients choose one carrier over another? Aon Global Risk Insight Platform, or Aon GRIP, aggregates and analyzes Aon's insurance placement activity across the globe — from submission to quotes to binding. We are not surprised to see that for the trailing twelve months, clients value relationships with their carriers above all else. Furthermore, it does not appear that a lack of coverage and/or capacity is a driving factor. This is yet another example of the highly competitive landscape.



Changes by Sector

In Q2 2014, seven out of ten S&P sectors decreased while two sectors increased (one sector had no renewals during the quarter). Account specific issues (i.e., claims experience, pricing history, underwriting concerns at the time of renewal, etc.) and industry characteristics have an effect on individual customer's D&O pricing. Fortunately, there appears to be a great deal of differentiation in the marketplace as underwriting due diligence has become more robust.

Limits & Deductible Purchasing Trends

In Q2 2014, our clients purchased on average 4.9 percent more limits than the prior year. Looking at only those companies that were in both the Q2 2014 and Q2 2013 samples, 23.0 percent of companies purchased higher limits than in the prior year. Only one client reduced their limits in Q2 2014. This continues to illustrate the point that companies are still focused on limits adequacy. For the quarter, 76.5 percent of primary limits remained unchanged.

We also monitor deductible changes within our book of business. During the quarter, 14.8 percent of D&O program deductibles increased, with those clients retaining more upfront risk. No deductibles decreased during the quarter. Historically speaking, deductibles were fairly stable (85.2 percent remained unchanged) for the quarter. An interesting finding is that those that renewed with the same primary limit and a higher deductible also experienced a primary increase on average of 0.0 percent. It is likely that in these particular cases, the deductible increases were involuntary rather than a cost savings mechanism. Some carriers continue to push for higher retentions in general.

A Change in the Landscape for D&O Claims

For years we have presented the incidence of low frequency, high severity Federal Securities Class Action ("SCA") litigation. Our position was that individual carriers could manage their "severity" exposure through proper risk selection and managing their limits exposed. We suggested that what really kept carriers up at night was high frequency, low severity "systemic" risk.

Starting with the Credit Crisis in 2007, we've seen an uptick in other types of SCA litigation; e.g., Credit Crisis filings and M&A "Merger Objection" filings. Add to those the increase in other non-SCA litigation (suits brought by law enforcement agencies and regulators, breaches of fiduciary duty and derivative actions) and you have a noticeable increase in the type of litigation inventory that largely tends to impact the primary layer. For the past few years, there has been a relatively small fraternity of primary carriers bearing the brunt of this increased frequency. We believe that is the reason why we've seen an uptick in primary pricing over the past two years as those carriers work to address the profitability of their portfolio of primary policies. Since "normal" SCA litigation typically results in higher severity, increases in these types of claims may have more of an impact on excess carrier's results. We will continue to monitor this activity. There were 41 filings in Q2 2014, equal to the 41 filings in Q2 2013.

Insurers Report Six Month Results

H1 Results	P&C Combined Ratio[3]		Net Income/(Loss) in millions		
Insurer	2014	2013	2014	2013	% Change
ACE Limited (NYSE: ACE)	88.2	88.1	$1,513	$1,844	(18.0)
American International Group (NYSE: AIG)	99.9	100.0	$4,648	$4,989	(6.8)
Chubb Corporation (NYSE: CB)	91.6	86.7	$948	$1,235	(23.2)
XL Group plc (NYSE: XL)	89.0	90.8	($24)*	$623	(103.7)
Zurich Insurance Group Ltd. (PINK:ZURVY)	96.1	98.1	$2,109	$1,851	13.9

Source: Corporate earnings reports: ACE, AIG, Chubb, XL, and Zurich

**Includes $621.3 million loss on sale of life reinsurance subsidiary in Q2 2014.*

After improved results in 2013 (Property & Casualty ("P&C") industry profitability remains at historically high levels), the first half of 2014 had mixed results in P&C combined ratios[3]. We noted previously that a few carriers addressed reserves on their D&O book in 2013. To date, while their underwriting continues to be robust, we have not witnessed any changes in appetite.

Market Capacity – More Primary D&O alternatives

In the past we've talked about the effect "supply and demand" has on D&O pricing. The "theoretical capacity" available to any one buyer of D&O insurance is approximately $1.4 billion. We are pleased to state that the new capacity we recently reported on is not only being put to use, but that some of it is being utilized on the primary layers. The overall increase in capacity coupled with some potential new players in the primary D&O space should make for a stable to improving D&O marketplace for customers in 2014. Incumbent carriers should consider flat to be a winning proposition given these dynamics.

Summary

In summary, Aon FSG's observations about the D&O marketplace for **Q2 2014** are as follows:

- Overall, D&O price per million was down 4.4 percent compared to the prior year quarter
- The price per million on programs that renewed in both Q2 2014 and Q2 2013 decreased 5.4 percent
- Primary layer price per million increased 3.8 percent compared to the prior year quarter
- 81 percent of primary policy premiums were either flat or increased
- Companies purchasing higher limits compared to the prior year quarter was 23.0 percent
- 14.8 percent of deductibles increased compared to the prior year quarter.

On a macro basis we believe that the surplus of capacity, combined with overall positive P&C underwriting results, will continue to make for an overall stable D&O pricing environment for public companies. We believe that a stable environment equates to a buyers' market as we continue to be at or below the 1.00 baseline established in 2001.

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[1] The Quarterly D&O Pricing Index is compiled using the proprietary policy data of the Aon Global Risk Insight Platform ("Aon GRIP"). The D&O Pricing Index is currently comprised of policy information on more than 9,050 D&O programs for publicly traded companies between January 1, 2001 and June 30, 2014. The Index represents the weighted average cost of $1,000,000 of D&O insurance (Total Premium / Total Limits). The average "rate per million" of limit includes D&O placements (A/B/C Coverage), Side A only (non-indemnifiable loss) placements, and Side A DIC (difference-in-conditions) placements. Programs with blended coverage (e.g., a shared limit for D&O and Fiduciary Liability combined) are excluded from the Index.

While the Index data includes a small number of foreign companies that trade on a U.S. exchange, the majority of the companies are U.S. issuers traded on U.S. exchanges. As such, the data is representative of the U.S. D&O market and not the global D&O market.

FSG first produced the Quarterly D&O Pricing Index in Q2 2006. The base year (2001) is the average price per million for $1,000,000 of D&O coverage costs for the 2001 calendar year.

[2] In the first quarter of 2008, FSG began adding S&P's Compustat company data to our proprietary policy data. Some companies previously included in our pricing index are not included in this S&P data, primarily foreign issuers not traded on U.S. exchanges and some smaller U.S. companies (e.g., OTC:BB). These companies have been removed from the D&O Pricing Index which resulted in some minor changes to prior results. We do not view these changes as material to the overall results of the Index.

[3] Combined Ratio is defined as Loss Ratio[4] + Expense Ratio + Dividend Ratio. It measures the percentage of premium used to cover losses, expenses and policyholder dividends. If the combined ratio is below 100 percent, the company is operating at an underwriting profit. If the ratio is above 100 percent, the company is dependent on Investment Income to earn a profit. (Source: Highline Data LLC 2008)

[4] Loss Ratio is defined as (Losses + Loss Expenses Incurred) divided by Net Premiums Earned. Loss Ratio is a component of the Combined Ratio measuring the percentage of premium dollars used to settle claims. This measure can be affected significantly by changes in estimates of losses from prior years. (Source: Highline Data LLC 2008)

About Aon

Aon plc (NYSE:AON) is the leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 65,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, reinsurance intermediary, captives manager and best employee benefits consulting firm by multiple industry sources. Visit www.aon.com for more information on Aon and www.aon.com/manchesterunited to learn about Aon's global partnership and shirt sponsorship with Manchester United.

About Aon Global Risk Insight Platform ("GRIP")

The Global Risk Insight Platform is the world's leading repository of insurance placement activities. By capturing information about key broking activities, GRIP provides timely insight into market trends and client buying behaviours. As a result of the contributions of 8,596 Aon GRIP users spanning 20 countries in North and South America, Europe, Asia and the Pacific, Aon GRIP* provides insights into:

- US $150 billion in premium flow
- 2 million opportunities to quote
- US $90 trillion in total limit
- 180 client countries
- 1,328 global carriers
- 65,906 global clients
- 51 lines of coverage
- 33 global carriers with GRIP Dashboard
- *as of June 2014

About Aon's Financial Services Group

Aon's Financial Services Group is the premier team of executive liability brokerage professionals, with extensive experience in representing buyers of complex insurance products including directors' and officers' liability, employment practices liability, fiduciary liability, fidelity, and professional liability insurance. FSG's global platform assists clients in addressing their executive liability exposures across their world-wide operations. Aon's Financial Services Group manages more than $2.2 billion in annual premium, assists with claim settlements in excess of $3.5 billion, and uses its unmatched data to support the diverse business goals of its clients.

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