

Premium View

For insurance companies

Issue three | May 2013

Aon and Berkshire Hathaway deliver groundbreaking insurance sidecar facility

Aon Risk Solutions, the global risk management business of Aon plc (NYSE: AON), has signed a unique co-insurance agreement with Berkshire Hathaway International Insurance Limited (Berkshire Hathaway) that provides clients fast and efficient access to AA+⁺ rated capacity for all eligible business placed by Aon Risk Solutions where the Lloyd's market participates.

The first of its kind in the insurance industry, this innovative Aon insurance sidecar is globally available across all industry segments, bringing benefits usually exclusive to reinsurance markets to retail clients. This additional capacity provides dedicated Berkshire Hathaway International Insurance Limited capital through a fixed participation structure on a full follow form basis.

The solution will be managed by Aon Underwriting Managers – Aon's Managing General Agent business, which has delegated authority to grant cover on behalf of Berkshire Hathaway.

Steve McGill, group president, Aon plc, and chairman and CEO of Aon Risk Solutions, commented, "We are constantly looking for ways to empower results for our clients and this landmark solution provides a unique way for them to access high quality capacity efficiently. No other firm has been able to deliver a solution of this scale to their retail clients across all industry segments on a full follow basis. We are proud to be able to offer our clients unprecedented access to the financial strength of Berkshire Hathaway through this transaction."

* Standard & Poor's rating of Berkshire Hathaway International Insurance Ltd, 2013



Market interview

Geoff de Mallet Morgan Financial Institutions Underwriter – QBE European Operations

Full name of Company or Syndicate

QBE Insurance (Europe) Limited and Lloyd's Syndicate 1886

Length of time engaged in underwriting insurance companies

Geoff has worked in the London Market since 2001 initially on the broking side, moving across to the Underwriting side in 2008.

Classes underwritten for Insurance Companies

Crime, PI, D&O, PTL.

Market conditions for Insurance Companies for Crime and PI and D&O?

In the main, rate is steady with changes in the underlying risk being the driving factor for premium movement. Placements with heavy US exposures are seeing a more polarised impact and entities domiciled in troubled European jurisdictions are subject to pricing and capacity pressures. Coverage scope has remained consistent even where pricing and attachment points increase. The SME sector is somewhat more buoyant than for the larger placements as market participants look to restructure the profile of their books to fit the style-drift of their latest corporate appetite.

Whilst certain sectors across the market continue to perform, no one line of business is written in isolation and there is no immunity from broader market issues. The outlook is uncertain with a number of positive and negative factors influencing both long-term and newer market participants.

Your capacity

QBE writes Financial Institutions business from both a Lloyd's platform under Syndicate 1886 and through our Insurance Company QBE Insurance (Europe) Limited. Our capacity remains consistent across all major Financial Lines and for Financial Institutions we write up to GBP15m / USD30m / EUR22.5m across both our Lloyd's Syndicate and Insurance Company platforms.

In terms of claims/circumstances is there any particular trend proving dominant in the notifications?

I wouldn't say there is any "particular trend proving dominant in the notifications" as such but a few themes we are seeing in the various classes include:

D&O

- Various long running prosecutions/investigations brought by government agencies such as SFO, FSA, OFT ranging from allegations of false accounting, conspiracy to defraud and breach of competition law.
- Claims brought by shareholders of a company for misleading financial information and fall in share price e.g. in prospectus and/or accounts – can be off the back of prosecutions/investigations by the government authorities.
- Claims by insolvency office holders & others (including creditors/contracting parties) where directors continued to trade and incur debts when there was no reasonable prospect of avoiding insolvency and cash payments were made to certain creditors in preference to others.

continued

FI/PI

- Claims for mis-selling financial and insurance products e.g. PPI and interest rate products.
- Notifications in relation to LIBOR.

Crime

- Employee infidelity claims continue to be the largest problem area for crime losses, a number of developing matters in the emerging markets and a continued emphasis on financial crime arising out of the challenging global economic climate.
- As we start to make an economic recovery we suspect that this trend will continue.

What has been the attitude of your company / syndicate on mitigation cover following the Standard Life decision?

The aim of an insurance product must be to provide certainty in difficult and challenging times for our clients. The situation around the Standard Life decision has highlighted what can go wrong when there is not a common understanding of the intent behind complex wording points.

Mitigation coverage is a vital element in PI policies and certainly one for which there is no “one size fits all” solution. We have few concerns about giving the coverage provided that the language and intent is clear and the scope of coverage is appropriate to the exposures otherwise covered under the policy.

Global capability / compliance solutions

This is an increasingly important area and one where we see a real need to support our Clients and Brokers. Once a client has decided to go down this route, delivery is key both on a placement and claims basis. We have established a highly experienced team in London who facilitate and manage our approach globally both with our Claims Adjusters and our Underwriters. We have the added flexibility of our Lloyd’s licence which augments the QBE Global Network allowing us to offer locally compliant solutions for a number of key business lines in over 150 Countries.

Aon Insurance Companies’ Forum

Introducing the new regulatory regime and key insurance trends

On Wednesday 13 March, hosted at the CII, Aon’s Financial Services Group welcomed over 30 senior risk executives to its annual Insurance Companies’ forum to explore key issues including D&O, cyber and the changing regulatory landscape.

Aon’s non-executive chairman, Bruce Carnegie-Brown chaired the event which was made up of four topical sessions. After the forum, at the pre-dinner drinks reception Greg Case, CEO Aon plc also took the opportunity to personally greet Aon’s UK insurance company clients, and presented a brief overview of Aon’s strategic objectives for the next 18 months, articulating why the move of Aon to the UK was so crucially important to the firm’s clients, the market, and to Aon’s 65,000 global colleagues.

Session 1 – FSA and the changing regulatory landscape

Chris Moulder, Head of London Markets, FSA:

“[our] regulatory focus will be on “what presents the greatest risk to the stability of the financial system.”

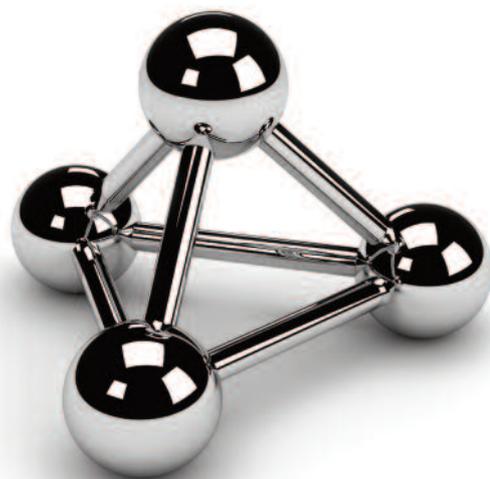
Session 2 – D&O and Extradition

Stephanie Pectorich Manson, Claims Advocate, Aon Financial Services Group:

“It is very important that the Board understand what they are covered for and the extent to which they are covered; misconceptions are more common than you think.”

Session 3 – Cyber risks for insurance companies

Paul Bantick, Head of Technology, Media and Business Services Team, Beazley Group plc and Alec Cramsie, Director Aon Professional Services Group – Paul compared the US with the UK experience: “in the US there is a \$160 cost of data breach per individual; in the UK it is more like double that amount” and cautioned that, “many companies cannot answer a seemingly simple question: “How much personal data do you have?””



Session 4 – Market overview

Finally, **Tracy-Lee Kus, Managing Director, Aon Financial Services Group**, hosted a session with commentary from members of the UK and US insurance company practices; there is: “continual reinsurance pressures on underwriters on rates and wordings” but “there is still capacity coming into the market which is driving competition and enables Aon to differentiate insurance companies from other FIs in the market.”

For further information on Sessions 2 – 4 above or if you would like to register your interest for next year’s forum, please contact your Client Director or Julia Pescud: julia.pescud@aon.co.uk

A view from APAC

The hot topics at our recent UK Insurance Companies' forum on 13 March, were echoed by our colleagues in the APAC practice:

Cyber

- Many Asian governments promulgating specific laws and setting up data protection authorities.
- Some insurers introducing their Cyber offerings across Asia.
- Insurer products slowly but surely gathering momentum in the Asian market.

Directors' & Officers'

Aon APAC recently partnered with the Singapore Exchange Ltd to produce the 2012 Aon-SGX D&O Insurance Benchmarking Report which provides valuable insights on D&O purchasing and practices of many SGX listed companies, along with providing key data on industry issues and trends.

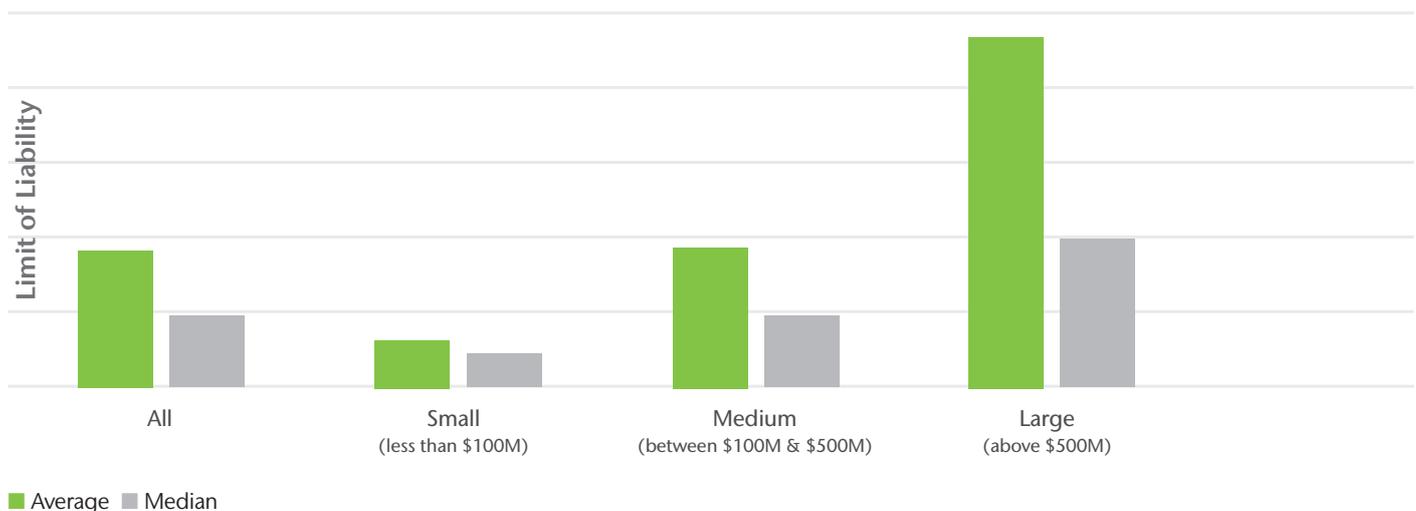
The report looks at premium and limit of liability data for both industry segment and market capitalisation. It also examines which insurers are providing capacity for the primary layer of insurance by industry segment. Below is some sample data:

Claims

Claims Legal Precedents: First of its Kind Compensation Order in Hong Kong

In the first case of its kind, the Hong Kong Securities and Futures Commission (SFC) brought a proceeding against former company executives and issued a compensation order under section 214 of the Securities and Futures Ordinance. The SFC issued a finding against the founder and former chairman of Styland Holdings Ltd. ordering him and a former executive director to pay their former company over HKD 85M (approximately USD 11M) in compensation for misconduct. The SFC's Executive Director of Enforcement, Mr. Mark Steward said: "These directors flouted their responsibilities, abused shareholders' funds and then sought to prevent steps being taken to make them accountable. The compensation order means they must now account for those shareholders' funds that were misappropriated and the lengthy disqualification periods send a deterrent message... He added: "companies and shareholders may lose money legitimately for all sorts of reasons but misconduct by directors is not one of those reasons."

Survey Participants: Limit of Liability Per Million by Market Capitalisation



For a copy of the 2012 report, simply visit www.surveymonkey.com/s/Aon_SGX_DO_Benchmark and answer a few questions on your existing D&O insurance cover.

(Source: Aon Financial Services & Professions Group, Asia)

Who's who in our team...



We have recently been delighted to welcome **Erica White**, who has joined us from the US Insurance Company Practice.

Current role: Client Director

Years experience: 15 years

Which living person do you most admire and why?

In general, I tend to admire individuals who have persevered through loss and hardship while maintaining dignity and respect for self and others and individuals who have dedicated their lives to helping the less fortunate without fanfare or celebration. That, to me, is truly admirable.

What single thing would improve the quality of your life?

A clone. Or more hours in the day. Since neither of those are scientifically possible, I'd settle for a personal assistant to run errands for me during the week. Or a well-behaved dog...

What is the most important lesson life has taught you?

Interpersonal relationships and shared experiences are a much bigger determinant of happiness than anything existing solely in the material world. And, oftentimes, we must risk what we have valued in the past to obtain what we will value in the future.

Who would you invite to your dream dinner party?

Well, since I don't cook, I suppose a chef should be first on the list, so maybe Mario Batali. After that, I enjoy lively debate, so I'd invite Barack Obama, the Clintons, Karl Rove, Boris Johnson, Richard Dawkins, Pope Francis, Bill Gates, Donald Trump, and Warren Buffett. I'd probably need to invite Oprah as the mediator and Kathleen Madigan for some much-needed comic relief!

If you could have any job in the world, which one would you want?

I love travelling and exploring new places so my dream job would be to work as a travel writer/reviewer for an international travel magazine.

Can you name a recent "tricky" or embarrassing situation at work?

Having just arrived from the US a few months ago, I find myself in "new" situations at work on a daily basis (but thankfully not "tricky" or embarrassing situations!).

Forthcoming events:

D&O conference 'Boardroom Risks'

November 2013 London, City

Information & booking: julia.pescud@aon.co.uk

AIFMD Level 2 breakfast seminar

TBA 2013 London, City

Information & booking: julia.pescud@aon.co.uk

