The Credit Crisis and Associated Liabilities

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François Morin, FCAS, MAAA, CFA

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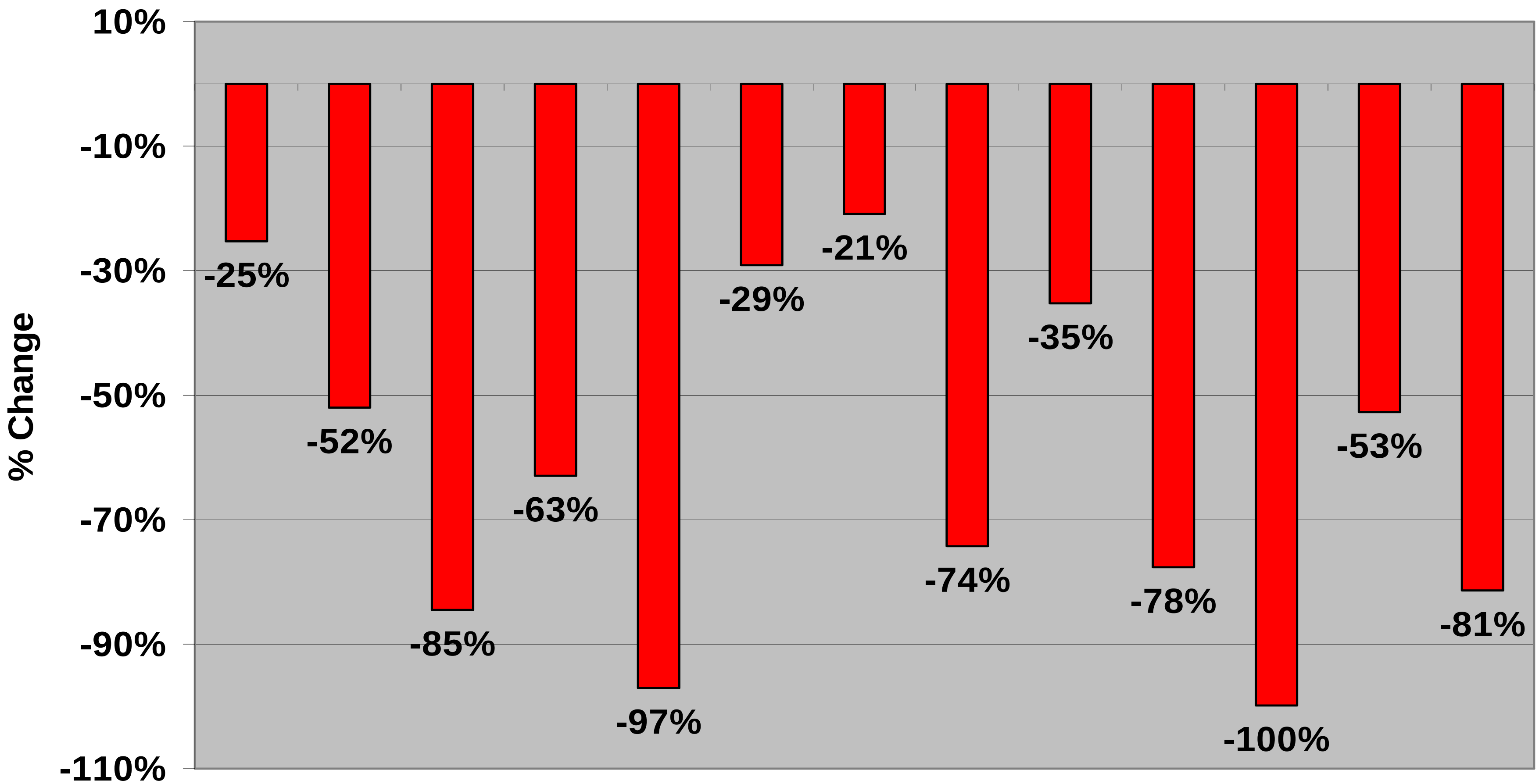
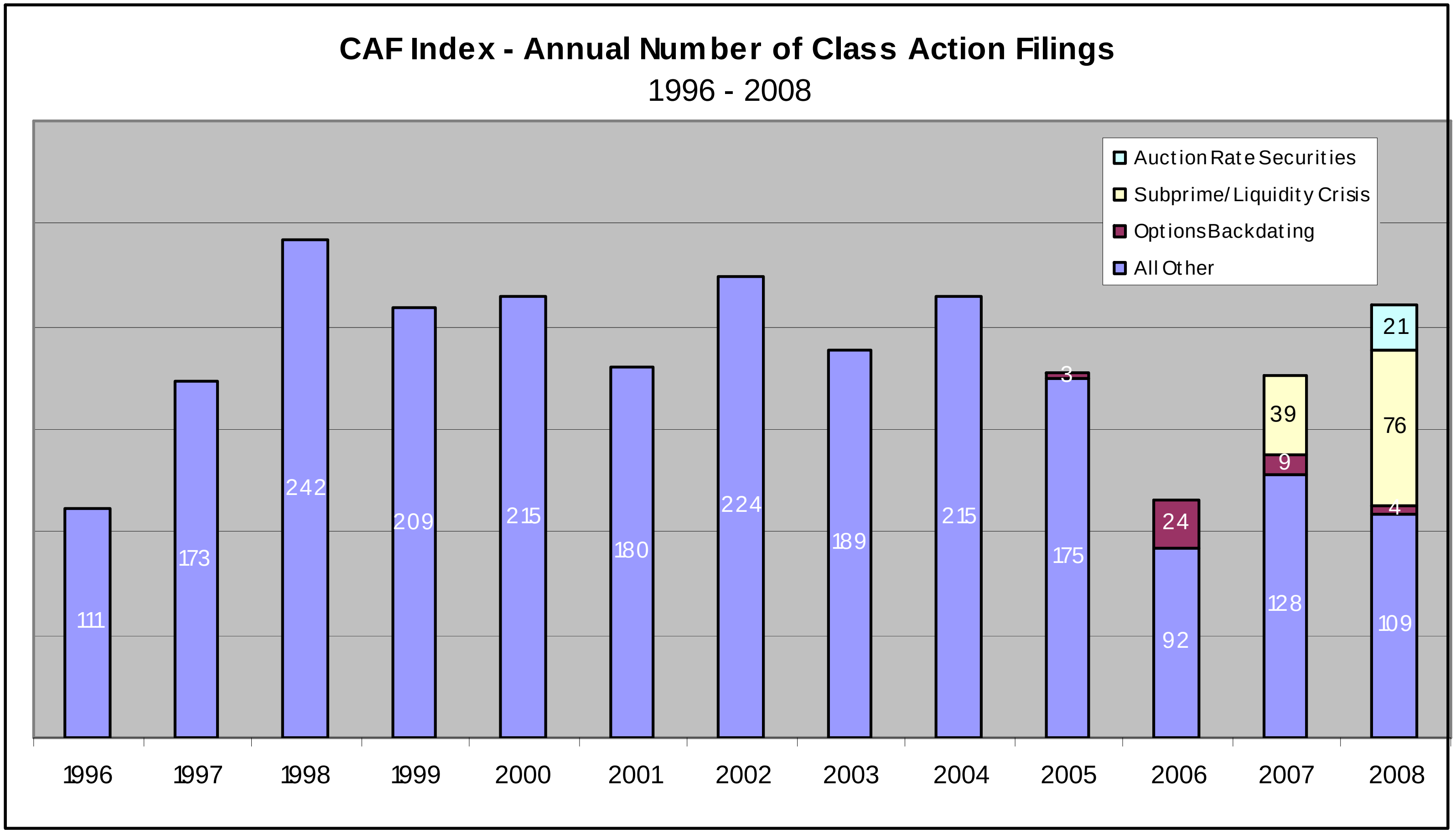
The subprime credit market crisis has helped trigger and fuel the global financial crisis

Many financial institutions have seen their stock value decline significantly

Change in Stock Price of Selected Financial Institutions May 1, 2008 to May 1, 2009



As a result, the number of SCA lawsuits* has increased over the last two years



* From Cornerstone Research, Stanford Law School Securities Class Action Clearinghouse

Traditional actuarial methods have limited value in developing liability estimates for the credit crisis

- Financial market instability is unprecedented
- Instability makes D&O and E&O claim estimation extremely difficult
- The implications of government intervention are yet to be fully understood
- M&A activity has also changed the landscape

We've developed a tiering model to estimate insurer exposure to credit crisis claims

- Tiering system organizes financial crisis D&O and E&O exposures by probability of hitting a layer and potential dollar cost
- Parameters reflect input from various experts
  - Claims
  - Legal
  - Underwriting
  - Reinsurance
  - Actuarial
- Categories are scored from 1 (most severe) to 5 (least severe)
- Analysis contemplates probability differences based on coverage (e.g. Side-A only) and attachment point
- Model can be adjusted in real-time, in response to emerging developments for each case/insured

Estimates are first developed by account, and then aggregated to get an overall estimate for each Tier

Loss = Limit x Frequency % x Severity %

= $25M x 85% x 85% (Low)

= $25M x 90% x 90% (Central)

= $25M x 99% x 100% (High)

Exposure to Loss = $18M to $ 25M

Sum of individual losses = Total D&O/E&O load

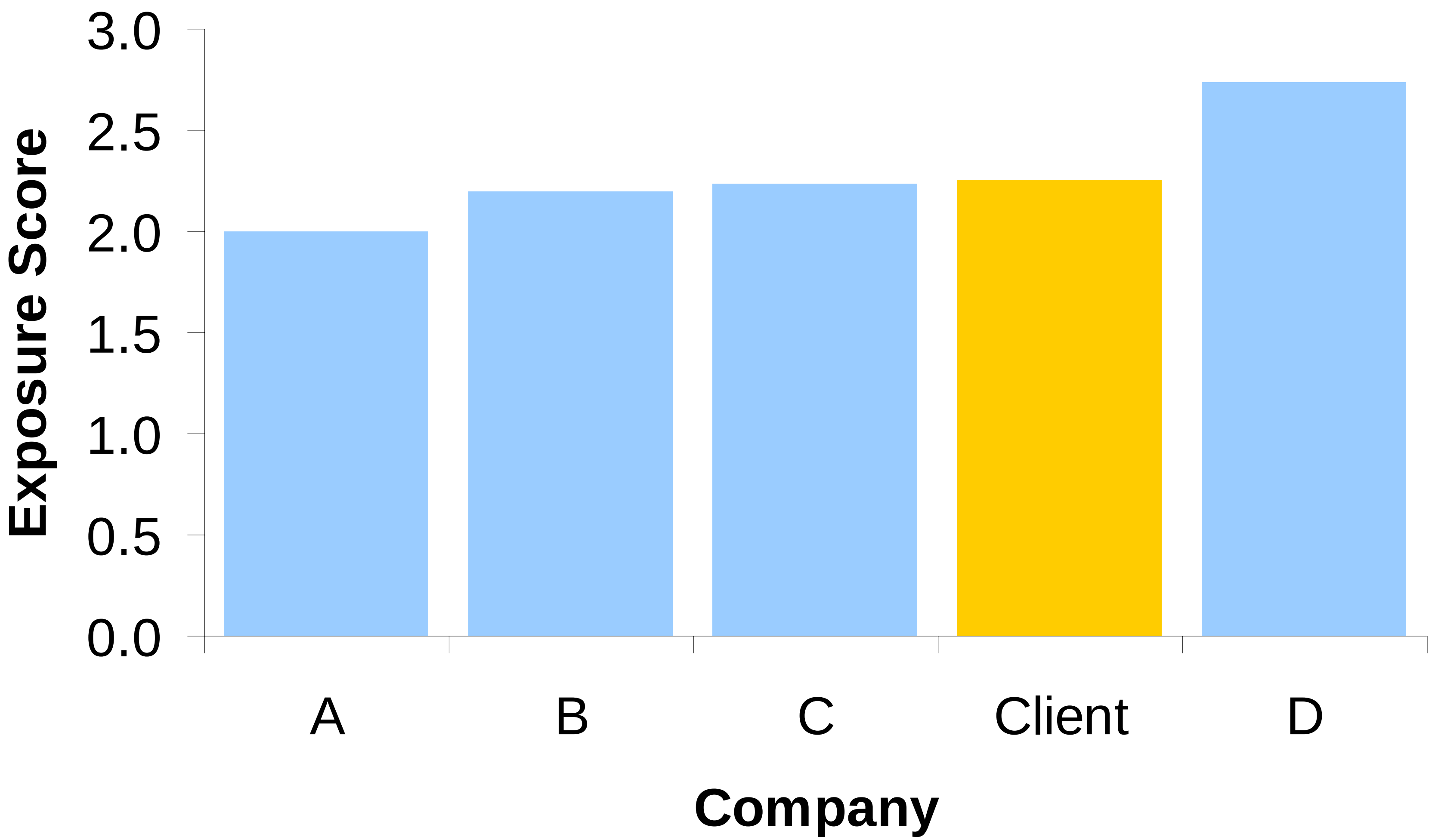
Issues specific to this event must be addressed when estimating the ultimate liability

- Policy period allocations/Inter-related events
- Data issues
  - Accurate list of claims
    - — Are they consistent across cedants?
  - Potential claims
- Aggregate limits, deductibles
- Variety of opinions on the ultimate exposure from cedants

Benchmarking against peer companies provides additional value to senior management

- Scoring system can help re/insurers estimate their financial crisis-related D&O and E&O liabilities
  - Re/insurers can use these analyses to build stakeholder confidence in reported D&O and E&O losses
- Benchmark figures are developed by weighting the tier assignment for each individual claim by its limit
- Weighted-average tier group provides a D&O and E&O “Exposure Score”
- Exposure Score gives management a sense of its D&O and E&O liabilities compared to peers
- Results of peer analysis can be presented to senior management/Board of Directors
- While the Exposure Score provides guidance on the severity of the loss, the overall financial result for the line is also impacted by the level of diversification into non-financial institutions accounts
  - Private/Not-for-profit D&O
  - Commercial D&O

The exposure score gives a company a view on its risk profile, relative to its competitors



Towers Perrin estimates
$4b to $7b of insured D&O losses as of year-end 2008

- This estimate is for the U.S. P/C insurance industry only
  - There's more outside the U. S.
- This estimate represents a charge of approximately 30% on the 2008 industry D&O loss ratio
  - It is comparable to the impact on the 2007 loss ratio
- While D&O is the major source of loss, other lines will be affected (E&O, Fiduciary, etc.)
- More claims will emerge in 2009 and beyond
- D&O industry reserves appear to be sufficient in aggregate at this time to cover known exposures
- This estimate does not include claims related to Madoff and other Ponzi schemes