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PRESS RELEASE

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Best Releases D&O Market: A Crisis in Remediation Report

Writers of directors and officers insurance are facing a lengthy catch-up period, given the increased frequency and substantially greater severity of claims since the mid-1990s, according to the special report, "The Directors & Officers Market: A Crisis in Remediation," issued May 19 by A.M. Best Co.

Not since the liability-lines crisis of the mid-1980s has the directors and officers liability market hardened to the extent that it did from 2000 through 2002. According to Tillinghast-Towers Perrin's premium index, premium increases for generally equivalent D&O coverage averaged 11 percent in 2000 and 29 percent in both 2001 and 2002.

However, these premium increases followed five years of competitive pricing, when average premiums declined nearly 38 percent. Average premiums in 2002 were still only about 16 percent above levels reached in the mid-1990s. While D&O pricing remained robust in 2002, this continued strong pricing will take at least another year to be fully realized as premium earned, and it appears insufficient to turn around near-term underwriting results for most D&O insurers.

In the early and mid-1980s, an increasingly litigious society, higher jury awards and accelerating inflation resulted in substantially higher loss costs in virtually all liability lines, particularly in D&O. Furthermore, inflation and extraordinarily high interest rates encouraged aggressive cash-flow underwriting. Rampant pricing and underwriting competition were the norm.

While the pricing and underwriting practices that led to the mid-1980s crisis clearly were self-defeating for insurers, A.M. Best believes the factors driving the current deterioration of D&O underwriting results might be just as ominous and longer lasting. Important distinctions with the current D&O crisis include:

- Apparently more surplus capacity to write D&O business; and,
- A greater number of insurers, including reinsurers, with resources and underwriting expertise.

However these factors might help mitigate the current crisis, insurers' willingness to provide adequate and affordable coverage is being tested severely, given the growing demand for D&O coverage and current uncertainty of risks.

A.M. Best believes the majority of companies writing D&O coverage already have experienced severe deterioration in underwriting and will continue to report poor underwriting results through 2003. As well, the adverse fundamentals currently affecting D&O loss costs will result in a continued deterioration of calendar-year underwriting results for most D&O insurers in 2003. While insurers are radically repricing and reunderwriting their D&O books, and even modifying policy forms, a lengthy period of remediation is likely.

2003 is expected to be characterized by continued heightened reserve strengthening by most D&O writers and additional partial or full market withdrawal by some. While insurers that historically have reserved conservatively might be exceptions, the trends in frequency and severity on more recent accident years are almost certain to absorb the margins from prior accident years and delay the restoration of any meaningful cushion.

The trends in the professional-liability arena do not yet threaten to rock the financial foundation of the D&O market leaders because of their overall financial strength, diversification and historically conservative reserving approaches. However, D&O issues will impact earnings. Consequently, those insurers whose earnings are dependent upon their D&O results are likely to experience negative rating pressure. A limited number of downgrades are likely to occur for professional-liability insurers that experience significant adverse loss-reserve development and are unable to restore capital.

As a wholesale broker specializing in financial service products, Blais Excess & Surplus Agency of Texas, Inc.'s knowledgeable and experienced staff assists agents/brokers with the acquisition, placement and service of Directors & Officers Liability (D&O), General Partners Liability (GPL), Employment Practices Liability (EPLI), Crime (Fidelity), Kidnap & Ransom (K&R), Errors & Omissions (E&O), Media Liability and Loss Mitigation products for a variety of industries. Clients assisted include but are not limited to energy, biotech, high tech, financial institutions, profit and non-profit entities, partnerships, healthcare, companies making Initial Public Offerings and companies in the process of merger or acquisition.

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