



Biography: Scott Willmot (Presenter)



Name: Scott Willmot
Title: National Manager, Sales & Service
Company: Aon Risk Services Australia Limited

Scott Willmot resides in Sydney and is the National Manager, Sales & Service (Retail Risk Services) for Aon, a position Scott has held for two years. The primary responsibility that Scott has in this role is to manage 30 branches and 600 staff throughout Australia, involving all lines of insurance. Prior to his current position, Scott was the National Manager of Aon's financial risks area (covering Professional Indemnity and Directors' & Officers Insurance).

Scott has over 26 years experience in the Insurance Industry, the past 18 as an insurance broker. Over this time Scott has specialised in many areas of Professional Risk insurance such as Professional Indemnity and Directors' & Officers.

Over the years Scott was responsible for the placement and administration of the Professional Risks facilities for a number of Affinity Groups and large corporations. He was the founding President of the Queensland Chapter of the Australian Professional Indemnity Group Inc.

Insurance Broking Experience:

- 2005 – Present: National Manager, Sales & Service, Retail Risk Services
Aon Risk Services Australia Limited
Management of Aon's Retail Insurance Division.
- 2004 – 2005: National Manager, Professional & Consumer Services
Aon Risk Services Australia Limited
Management of Aon's Retail Professional Risks Division.
- 1996 – 2004: Divisional Director
Aon Professional Services
Provision of Professional Indemnity and Directors' & Officers' insurance to various Queensland clients.
- 1995 – 1996: Manager, Professional Risks, Queensland
Minet Professional Services
Provision of Professional Indemnity and Directors' & Officers' insurance to various Western Australian clients.
- 1989 – 1992: Account Manager, Queensland
Minet Professional Services
Provision of Professional Indemnity and Directors' & Officers' insurance to various Queensland clients.

Professional Indemnity and Directors' & Officers Insurance Market Review and Future Outlook

Prepared by Scott Willmot
National Manager, Retail Sales & Service,
Aon Risk Services

Topics

- Review of 2006
- Outlook for 2007 and beyond

The Year That Was - 2006

Outlook in 2006

Competitive environment but market pricing may level off post July 2006

Results

Highly competitive market with general rate reductions – insurer financial results ‘best ever’ recorded

The Year That Was - 2006

- Competitive forces in play
 - Market in downward spiral
 - Drivers: market share and pressure on returns
 - existing business vs new business – different pricing result***
 - Local vs Global/Overseas markets
- 2006 was a bullish and active market environment – particularly in Liability, D&O, Property, PI

What caused the continued competitiveness?

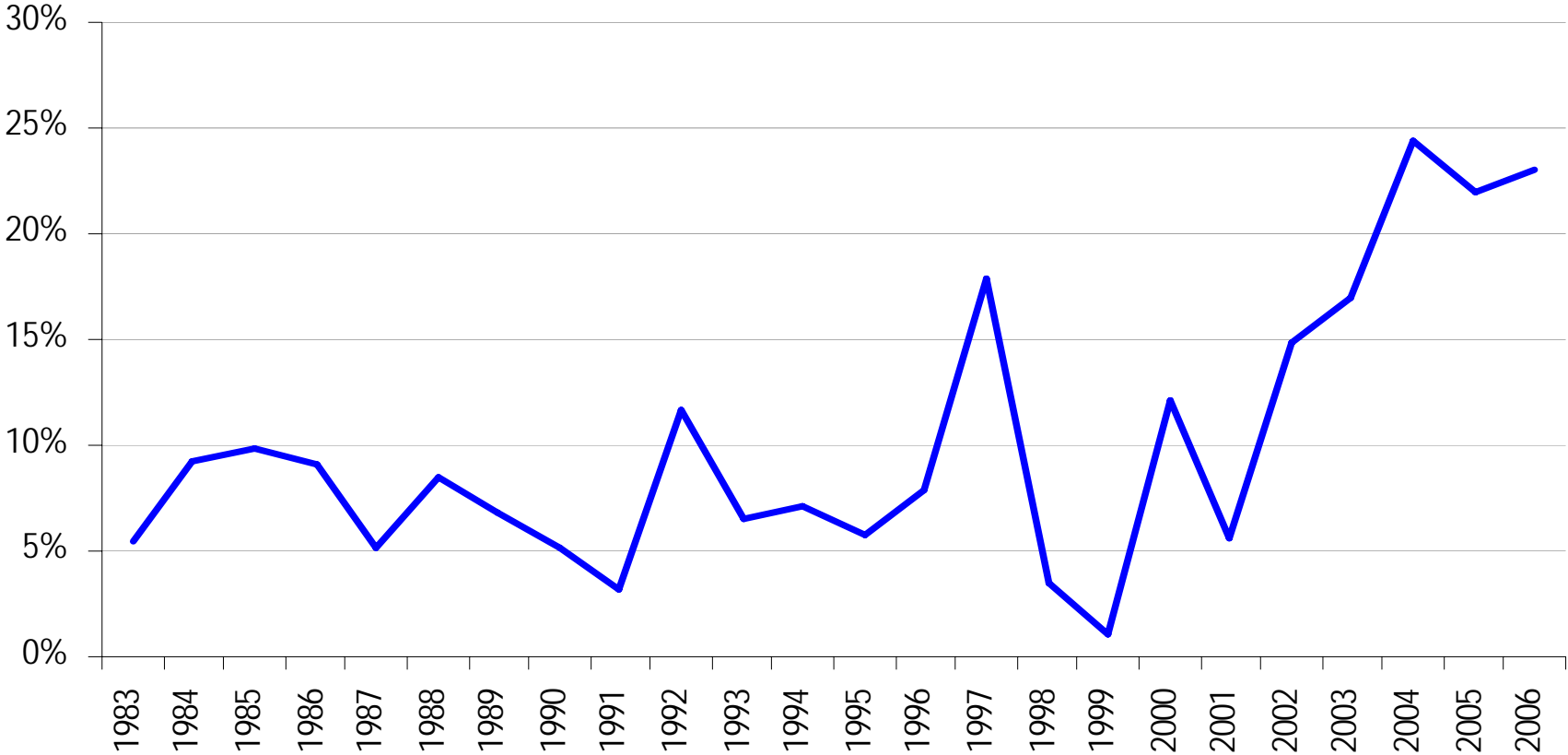
- Reasonably benign claims environment in Australia
- Continued favourable investment market place
 - Remains positive
 - Record financial returns for Insurers, particularly in Australia. ROE was 24% (a record high)

What caused the continued competitiveness? cont.

- New capacity
 - By ‘existing’ insurers
 - New entrants – local and overseas
 - Underwriting Agencies

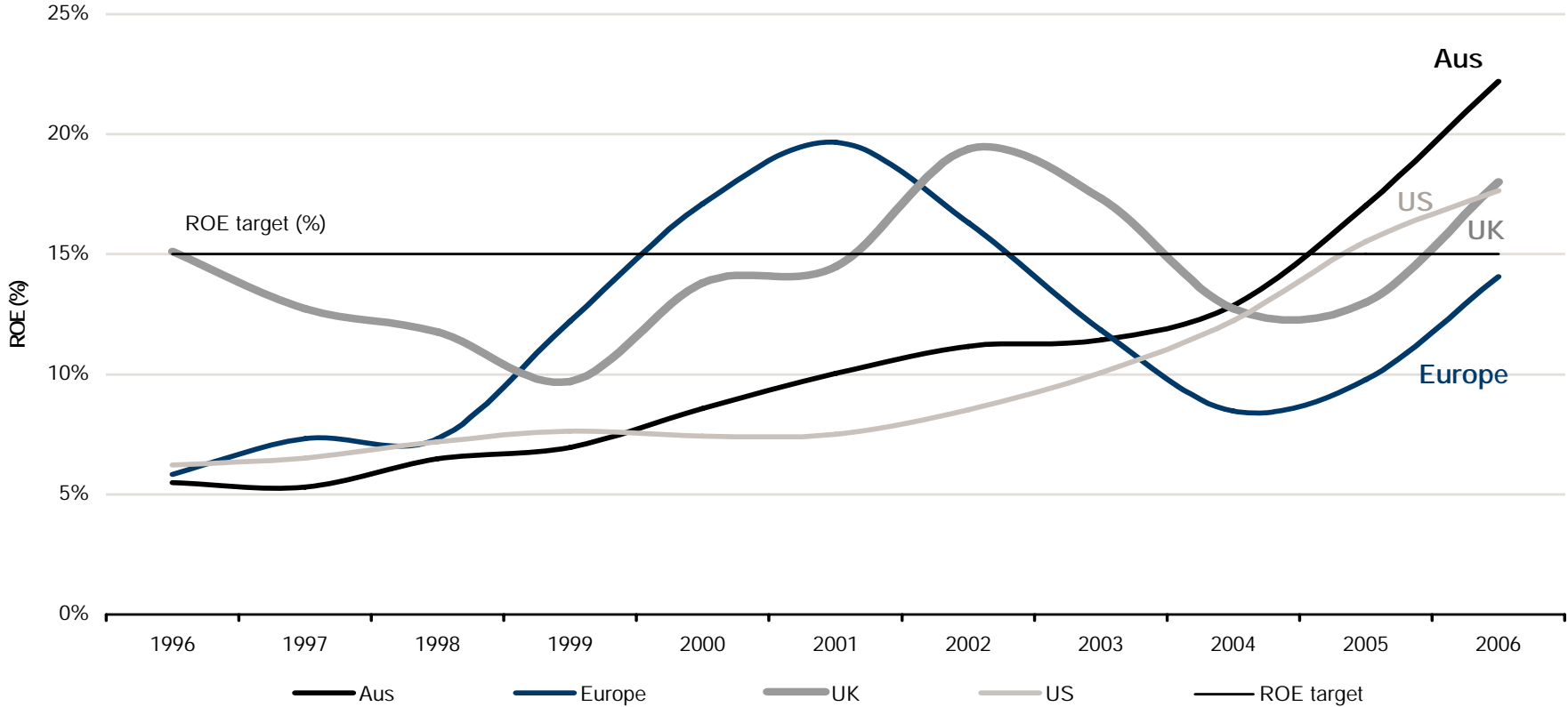
All are free of claim reserve issues and latent legacy exposures

Australia Insurance Industry ROE (%) 1983 to 2006



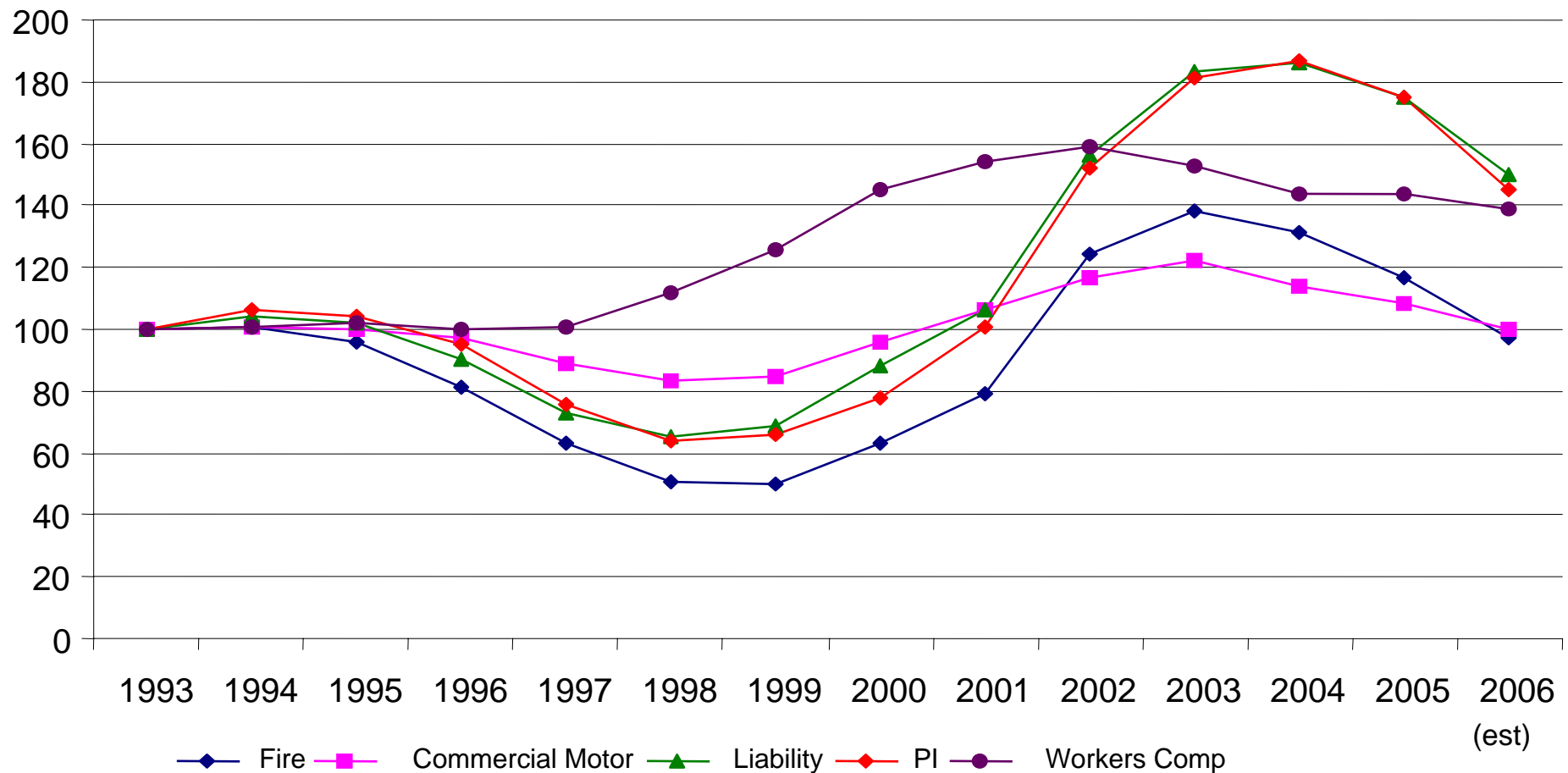
Source: ISC / APRA

Global Insurance Sector ROE (%) - by Region



Source: ASX, Reuters, Bloomberg. * IBES – Cash EPS 12mth forward rolling, Credit Suisse estimates

Rate Movements On Australian Commercial Policies



Source: JP Morgan

Highlights - 2006

Professional Indemnity

- Conditions continued to improve across all professions including the traditionally difficult professions, i.e., Financial Institutions, Specific Engineering, Environment, Auditing
- Continued new capacity entered market in 2006 i.e., Bermuda/London/Local
- Continued coverage expansion
- Clean and well managed accounts obtaining reductions in the range of 10-20%

Highlights – 2006 cont.

Professional Indemnity cont.

- SME Business was far more competitive and depending on the profession and claims history reductions of up to 50% were evidenced
- *For the year ending 30 June 2006, Gross Premium for Professional Indemnity Insurance fell 5.6% from the previous year to \$1.276 billion; and 9.4% on 2004 (A\$1.408 billion)

(*Source: APRA)

Highlights – 2006 cont.

Directors' & Officers' Liability (D&O)

- Australian D&O wordings generally still broader than overseas market offerings
- This differential was increased further in 2006 as insurers used coverage as a means to offset further reductions in premium
- Capacity in Australia continued to grow.

Highlights – 2006 cont.

Directors' & Officers' Liability (D&O) cont.

- In 2006 Side A (D&O) gained traction for the first time in Australia. It is common to the US market but new to Australia (Side A is a standalone limit to protect individuals only i.e., no company reimbursement, broader cover to main program, acts as DIC when insurer on main program does not respond through denial or insolvency). It was taken up only by a small group of major corporates in 2006.
- Claims record developing. Some major shareholder class actions (well reported by the media) are growing in number and quantum

Highlights – 2006 cont.

Directors' & Officers' Liability (D&O) cont.

- The amount of Merger & Acquisition activity and private equity was significant in 2006 and is **very** relevant for the acquired company purchasing run-off cover for this class
- Legislative changes flowed on to litigation funding became more evident throughout the year

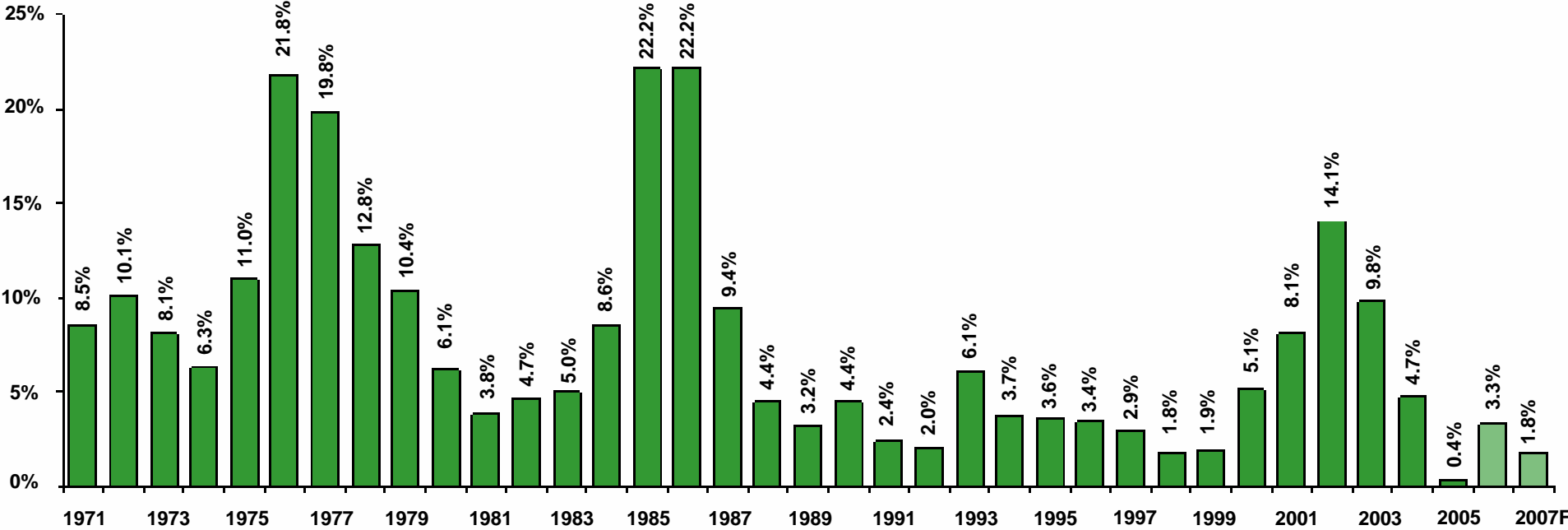
The Outlook



***“There are two kinds of forecasters:
those who don’t know, and those
who don’t know they don’t know”***

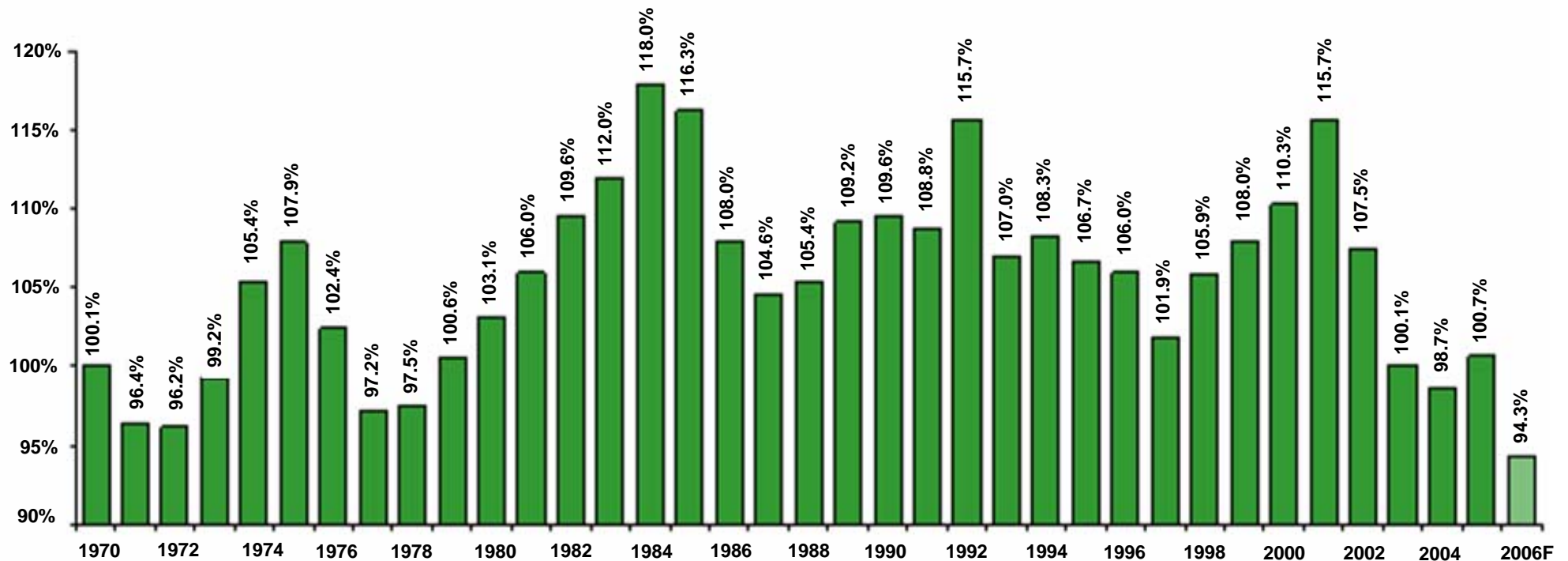
John Kenneth Galbraith - Economist

US General Insurance Industry – historical premium growth & forecast 2006 and 2007



Source: AM Best, ISO, III forecast for 2006, III analyst survey provides forecast for 2007 ABN-ARMO

US General Insurance Industry – historical combined ratio and forecast for 2006



Source: AM Best, ISO, III forecast for 2006, ABN-AMRO

Expectations in 2007

Professional Indemnity

- Continuation of aggressive pricing
- Broader coverage being offered **Professional Indemnity**
- Relaxing of underwriting disciplines
- Very competitive in the SME segment
- Capacity to remain buoyant
- Competitive edge to shift to terms and conditions rather than straight pricing reductions
- Notifications of claims expected to increase in Financial Services and difficult Professions
- Possible changes to wordings due to ICA Reforms

Expectations in 2007

Directors' & Officers' Liability (D&O)

- Expect continued competition in 2007. Insurers will be keeping an eye on litigation funding potentially increasing the risk of shareholder class actions but do not expect a turn in the market in 2007.
- Given potential claim settlements for D&O post June 2007, we could expect the D&O market to level off
- Possible changes to wordings due to ICA Reforms

Expectations in 2007 cont.

D&O

Global concerns for Insurers

- Increase in non-US involvement in US Securities class action litigation
 - 10% of the Securities class actions filed in the US involved a European company
 - 80% of all US Securities class actions involved securities listed on a European Exchange
- Increase in severity and frequency of D&O claims against Fortune 100 companies
- Company Act in UK – defining duties for directors. Impact on D&O?
- UK Fraud Act 2006 (effective 15 January 2007)

The Year Ahead

Expect to see:

- Continuation of local and overseas competition for Australian risks
 - Australia is seen as mature, well regulated and profitable market
- Increased capacity on most classes of insurance albeit this will slow down, but pockets will increase
- Deductibles/Retentions to be generally flat
- Expect a lot of insurer and reinsurer ‘verbal warnings’ but market dynamics will ultimately prevail as in 2006
- Possible effect on capital due to DOFI/DMF Legislation changes in July 2008

The Year Ahead

Expect to see:

- State of competition will vary and depend on market segments:
 - SME – greater competition
 - Middle Market – greater competition
 - National/Global Markets – complexity, size of risk, sophistication of buyer will influence competition

The Year Ahead

Expect to see:

- Financial results from insurers – being supported by claim reserve releases – may see insurer results and ROE dip quicker in 2008 than expected
- Continued financial improvement and health of reinsurance sector

Tips for the Buyer

- While enjoying the rate reductions from the competitive marketplace it is equally important to optimise policy cover. The climate of competition between insurers should be exploited to:
 - Resist attempts to restrict coverage
 - Revisit elements of cover (perhaps recently withdrawn) for consideration
 - Include areas of coverage enhancement as part of the overall negotiation

Tips for the Buyer cont.

- In looking at the longer term we recommend that you:
 - Identify those developing issues highlighted for your territories and industry
 - Open a dialogue with your Broker/Insurer to understand their specific concerns
 - Ask your Broker/Insurer what practical support they can given you in managing developing risks
 - Put yourself in a position to demonstrate a high level of risk management over an extended period of time.

Recommendations

- The current landscape creates a period of opportunity for securing premium savings, coverage improvements and service benefits for most buyers in 2007, but before embarking upon a single-minded cost cutting strategy, **buyers should look further ahead**

Recommendations cont.

Buyers who have:

- Engaged insurers
- Explored with them their risk concerns
- Can demonstrate evidence of an agreed risk mitigation process

will be in a significantly more powerful position to negotiate coverage aspects than buyers struggling to open negotiations and collect and present data **when restrictions are about to be imposed.**

Conclusion

Conclusions

- In this profitable environment, carriers are seeking to preserve, and where possible, increase market share
- In most marketplaces the scene is set for further competition and buyers should generally expect to gain further cost savings for stable risk and like-for-like coverage placements
- However, carriers are increasing their vigilance on emerging and known risk issues and coverage restrictions are growing

Any Questions

