

D&O LIABILITY COVERAGE

For Private Companies

Is D&O Liability Insurance Necessary for Private Companies?

Directors and officers of a private company can be held personally liable for the decisions they make. Any director or officer of a private company that is not provided D&O coverage is playing a dangerous game risking his own personal assets (including his/her spouse's assets). Is your company's board of directors comfortable with their level of personal risk?

Private held firms often underestimate their D&O liabilities. Being private does not mean that the decisions of your board are immune from public scrutiny. While D&O coverage is critical for public companies because of their large shareholder base; most lawsuits don't come from shareholders, but from creditors, competitors, government bodies and employees. In fact employee related litigation represents the majority of D&O related claims. This makes comprehensive D&O insurance essential in this litigious business environment. Further, in some cases private companies must have D&O coverage in order to keep or attract high profile board members.

If a company cannot indemnify its directors, officers or employees, either because of the allegations of a lawsuit or as a result of the company's insolvency, then this financial burden can become the personal responsibility of the company's directors, officers or employees.

Market Hardening for D&O Liability

There are several factors influencing the pricing:

- The insurance market has hardened in the last couple of years. We are frequently encountering higher D&O liability insurance pricing across the board on renewal.
- Many insurance companies have withdrawn from the D&O liability insurance market and are declining to provide D&O coverage, at least temporarily. This makes it even more challenging to secure quotations and coverage as the lack of availability of carriers adversely affects D&O pricing.

The collapse of Enron, the increase in the severity and frequency of D&O losses, reduced capacity in the D&O market and the attack on the WTC has accelerated the hardening of the insurance market. The result of the hardening of D&O liability insurance market is not only increased costs but also changes to the D&O policy terms and conditions. Overall, market observers expect Directors and Officers premiums to rise over the next couple of years by an average of 20-30%.

Increased D&O Liability Exposures

The market for D&O liability insurance is continuously evolving. This evolution is directly related to the insurance and business communities' heightened awareness of exposure to D&O and Employment Practices Liability related claims.

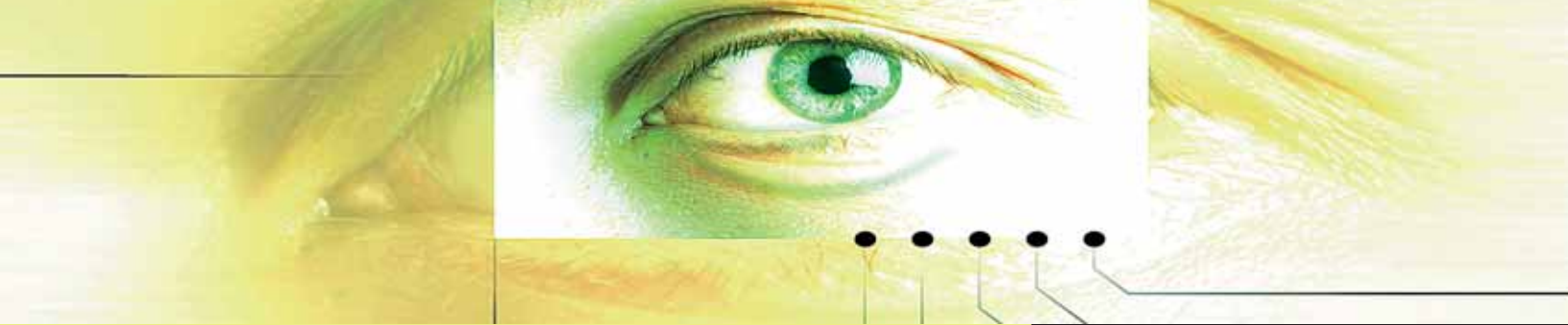
Increase in D&O Claims

- Approximately 50% of all D&O liability insurance claims are tied to Employment Practices Liability claims. Employees that were once silent about workplace harassment and discrimination are now speaking out and taking action against their employers.
- Plant closings, layoffs, and mergers and acquisitions are commonplace events that are providing fertile ground for multi-million dollar class action claims.
- The case of Enron in late 2001, coupled with an already large downturn in the economy, has further affected the pricing for D&O liability insurance.

Over the past twelve to eighteen months, underwriters have become increasingly vocal regarding their inability to maintain profitability given current pricing levels. D&O liability insurance underwriters are reporting increased claims activity. Greater claim activity, the overall deterioration in market conditions as a result of lost investment income, and the World Trade Center catastrophe have combined to create a climate that translates to reductions in available coverage and higher premiums for D&O.

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Drastic Changes for D&O Liability Insurance

D&O liability insurance coverage for private companies have undergone drastic changes recently. Insurance carriers are raising premiums and tightening coverage in response to the flood of lawsuits, losses from the overall decline of the stock market, the tragedy of 9/11 and corporate scandals. The continued volatility of the stock market could lead to an increase in claims against executives. The result is increased rates and more exclusions for D&O liability insurance policies.

This makes it harder for you to secure appropriate D&O liability insurance coverage — not only at the right price — but also a D&O coverage that offers security both to your business assets and also your personal assets which are at risk. That's why you need someone that specializes in insuring medium-large companies and has access to the whole D&O insurance market

Extended D&O Liability Insurance Coverage

With over 100 years of experience, InsurePro - a division of Gaston & Associates, has access to the whole D&O liability insurance market including surplus lines and London syndicates. This means that we can often negotiate a D&O liability insurance policy that offers extended coverage at a very competitive price.

The driving goals of InsurePro's marketing effort are to secure quotations that are more cost competitive, and to evaluate the structure of any existing Directors and Officers (D&O) coverage.

EPL Might Erode the D&O Coverage

It is now more common to write EPL on the same policy as the D&O liability insurance. While this practice might offer some savings in the short term, one should consider that the EPL exposure for the entity might be quite significant and a large claim can quickly erode the D&O coverage that is available.

InsurePro generally recommend securing EPLI coverage through a stand-alone EPLI policy, rather than by an endorsement to an insurance D&O policy. This avoids having EPL claims erode the protection available for directors and officers under their D&O policy. Sure the cost will be higher and this set up might be unnecessary for many businesses. Factors specific to your industry or your business might influence whether or not having the EPL on the same policy as the D&O makes sense.

Coverage Shortfalls of D&O Liability Policies

There can be a mismatch between the professional training of the broker who negotiate D&O policies and that of the insurance company. We keep seeing this over and over again - incompetent or generalist brokers handling D&O policies for clients. The end result is that you don't get the Directors and Officers Liability coverage that you need and not at the price that should. People does not know that D&O policy terms can be negotiated and that's why you need somebody that has the right experience and can formulate a matrix what coverage and limits that are appropriate for your business.

InsurePro specializes in D&O insurance and we have long experience insuring both private and public companies.

The high level of customer service continues after implementation of your policy. A proactive team of professionals will conduct phone "check-ups" periodically and work with you in advance of your renewal each year to ensure your solution remains competitive.

InsurePro understands your needs and can help you secure D&O Liability Coverage at a competitive rate.

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Providing Business Insurance Since 1895

InsurePro is a division of Gaston & Associates, Inc., a NY based insurance agency tracing its roots through 4 generations of family, and incorporated in 1895. InsurePro's marketing territory is national in scope, and we hold property-casualty and life-health licenses in all U.S. states & DC — except Alaska, Hawaii, Iowa, North Dakota, Oklahoma, and West Virginia.

Our customers range from start-ups to public companies. We serve about four thousand clients nationally and throughout the world. We specialize in providing personal and commercial lines of property and casualty insurance, group health coverage, and individual life insurance.

InsurePro has become a world leader in all forms of professional liability insurance products for medium to large private and public companies by proactively anticipating changing client needs in order to offer the most up-to-date solution.

Mission Statement

The mission of Gaston & Associates is to provide professional insurance services to the clients we represent.

- ✓ We strive to develop a customer base that will appreciate our service orientation and value added approach.
- ✓ We provide our clients with competitive, high quality insurance oriented products.
- ✓ We endeavor to maintain long-term customer relationships that are based on coverage and service.
- ✓ We embrace automation as a means to enhance service and improve communication.

To accomplish these goals, we establish departments, standards, workflows and procedures that enable us to provide a consistently high level of service to our customers. We staff each department with competent, ethical, individuals who are dedicated to continuing education and professional development.

GASTON & ASSOCIATES INC

100 S. Bedford Road
Mount Kisco, NY 10549
Phone: 914.244.1055
212.697.2444
800.432.7435
Fax: 914.244.1056
212.697.2920
Email: info@InsurePro.net

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