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News Release

THE WILLIS COMMENTARY ON…

PROPERTY AND EARNINGS STREAM RISKS

New York, NY, November 24, 2003 – Today's more stringent corporate-governance standards require a fuller understanding of earnings stream risks and an invigorated initiative to mitigate them, whether via traditional insurance or through more creative, cutting-edge financial instruments. This is especially important in light of the fact that many basic corporate considerations and assumptions have shifted in the past few years, in large part due to the impact on business' operations after 9/11. Specifically, risk management professionals have to give additional consideration to the extent to which operations could be and were interrupted.

The events of 9/11 highlighted at least five areas where corporate earnings streams are exposed. At the:

- Location that sustains physical loss
- Locations within the same company that are dependent on the above (interdependency)
- Locations without physical damage that rely, for products or services, on third parties who sustain loss (contingency)
- Locations without physical damage that rely, for power or telecommunication services, on outside providers who sustain loss (off-premises power/service interruption)
- Locations unaffected by the above but access to which is either prohibited or impaired by order of governmental authorities (civil authority) or by damage to nearby facilities (ingress/egress)

And these are only the exposures that are traditionally viewed as "insurable" under Property policies. "Loss of market" played a part in significant numbers of deteriorated financial results post 9/11: airlines, hotels, retail establishments, resorts, etc., and some suggest this continues to impact ongoing poor results. The same may now be said of areas in the world that have also sustained terrorism losses: Indonesia, Morocco, Saudi Arabia and, most recently, Turkey. In traditional and non-traditional terms, the assumption is gone forever that Business Interruption values used for premium purposes (normally 12-month figures) represent actual loss duration parameters.

This wake-up call was heard not only by policyholders sustaining such losses, but also by reinsurers indemnifying them (or not). And more emphasis than ever is being placed on the need to properly and thoroughly evaluate these types of risks.

Of course these exposures exist outside events of the overwhelming magnitude of 9/11. This summer's east coast black-out, Hurricane Isabel and the California fires prove that point. But the critical differences are that such events are not likely to have affected simultaneously the same number of commercial policyholders to the same extent, the "trickle-down effect" is substantially less and the amount of time from disaster to recovery is considerably less than what has been needed post-9/11 (if full recovery is even possible following a disaster of that magnitude).

Earnings stream exposures currently in the public discussion include: just-in-time manufacturing practices; outsourcing of manufacturing; transfer or assumption of logistics risks; delays or disruptions caused by heightened security measures or epidemics such as SARS; cyber-threats posed by Blaster or So Big.F; and work stoppages/lock outs such as those experienced in California in 2003. All present "new" risks that need to be assessed and managed.

Some of these earnings steam exposures are within the realm of traditional Property insurance, but inadequately considered and quantified as the corporate landscape changes. Others are outside that realm, but this does not make them uninsurable. Leaving any of these unaddressed is increasingly at odds with corporate governance best practices and unnecessary because viable, cost-effective solutions are available. The key to success lies with the company itself: it must have clearly outlined the exposures and developed and validated a Business Continuity Plan to sufficiently mitigate them. Brokers, working with certified Business Continuity Planners and others who tap the reinsurance/capital markets, are creating highly individualized solutions to protect the specific earnings streams exposures of companies against "intolerable risks."

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