

BRIEFING SHEET

WILLIS ENTERPRISE & RISK FINANCE

WISDOMSM

The Willis Integrated Solutions D&O Model (WISDOM) is a proprietary analytic tool that helps public companies address one of the most difficult and complex risks facing any organization: Directors & Officers Liability. This *BriefingSheet* describes how WISDOM helps companies:

- Establish both the likelihood and the potential magnitude of future D&O losses stemming from securities class action litigation
- Uncover and address company-specific accounting, corporate governance and high-risk event metrics that major D&O underwriters are evaluating to determine program structure, retention levels and pricing
- Provide more objective, quantitative support for D&O risk financing decisions
- Determine the optimal program structure for their D&O risk

PROCESS OVERVIEW

Most serious D&O claims arise from securities class action lawsuits. WISDOM generates a one-year litigation probability for these based not only on the organization's industry and market cap, but also on more than 150 accounting, corporate governance, high-risk event and stock price metrics that have a proven correlation with this litigation.

A severity distribution is generated from a robust database of historical D&O cash settlements. The probability of a loss and the severity distribution are then combined to simulate loss frequency and severity for thousands of hypothetical years.

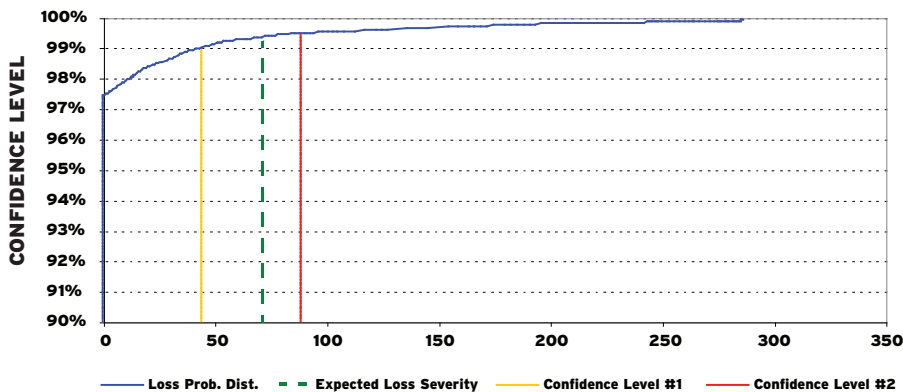
The result is a statistically valid, loss probability distribution of potential D&O losses to the firm as illustrated in Figure 1.

WISDOM then imports this data to our proprietary program optimization model, Comprehensive Cost of Risk (CCoRSM), to identify the technically optimal D&O program structure; i.e., that specific combination of limit, retention and premium that delivers the most efficient use of capital between *retaining* D&O risk and *transferring* D&O risk (Figure 2).

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FIGURE 1

PROJECTED D&O LOSSES IN \$MILLIONS (INCLUDING DEFENSE COSTS) DURING THE NEXT 12 MONTHS

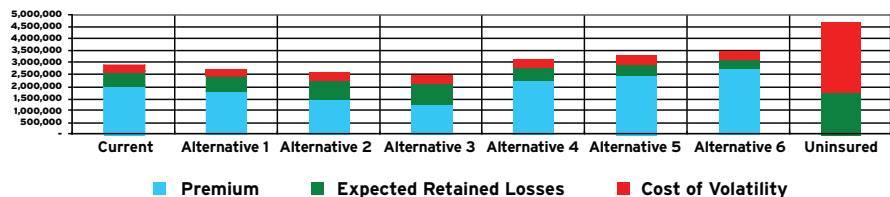


MAXIMUM PERCENTILE IN CHART	99.900%	CONFIDENCE LEVEL #1	99.00%	43,779,000
EXPECTED LOSS SEVERITY	70,400,000	CONFIDENCE LEVEL #2	99.50%	88,384,000

FIGURE 2

Program	Side B/C Deductible	Side B/C Policy Limit	Side A Policy Limit	Premium	Expected Retained Losses	Safety Level Losses	Capital Charge (Cost of Volatility)	Comprehensive Cost of Risk (CCOR)	PROGRAM COMPARISON				
1 Current	5,000,000	150,000,000	150,000,000	2,054,112	563,845	5,000,000	310,531	2,928,488	<table border="1"> <tr> <td>Safety Level</td> <td>99.0%</td> </tr> <tr> <td>Cost of Capital</td> <td>7.00%</td> </tr> </table>	Safety Level	99.0%	Cost of Capital	7.00%
Safety Level	99.0%												
Cost of Capital	7.00%												
2 Alternative 1	5,000,000	125,000,000	125,000,000	1,807,112	651,115	5,000,000	304,422	2,762,649					
3 Alternative 2	5,000,000	100,000,000	100,000,000	1,532,112	756,017	5,000,000	297,079	2,585,208					
4 Alternative 3	5,000,000	75,000,000	75,000,000	1,295,566	881,769	5,000,000	288,276	2,465,611					
5 Alternative 4	5,000,000	175,000,000	175,000,000	2,286,862	492,112	5,000,000	315,552	3,094,526					
6 Alternative 5	5,000,000	200,000,000	200,000,000	2,507,975	435,884	5,000,000	319,488	3,263,347					
7 Alternative 6	5,000,000	225,000,000	225,000,000	2,718,031	388,429	5,000,000	322,810	3,429,270					
8 Uninsured	Unlimited	-	-	-	1,760,038	43,778,917	2,941,322	4,701,359					

COMPREHENSIVE COST OF RISK OF VARIOUS PROGRAM STRUCTURES



WHO CAN BENEFIT FROM WISDOM?

Companies that have been publicly traded in the U.S. for at least six to eight quarters that:

- Desire company-specific, quantitative support for their D&O risk financing decisions that traditional benchmarking or “what-if” scenario analysis cannot provide
- Are considering a materially different D&O program structure from what they currently purchase
- Want to increase their understanding of the underwriting process and/or enhance their leverage and ability to negotiate with underwriters

CONTACT

For further information on this and other processes of the Willis Enterprise & Risk Finance Practice, please contact:

Steve Saporito, CPCU
 Managing Partner
 Willis Enterprise & Risk Finance Practice
 617 351 7404
 steve.saporito@willis.com