

MARKET CONDITIONS

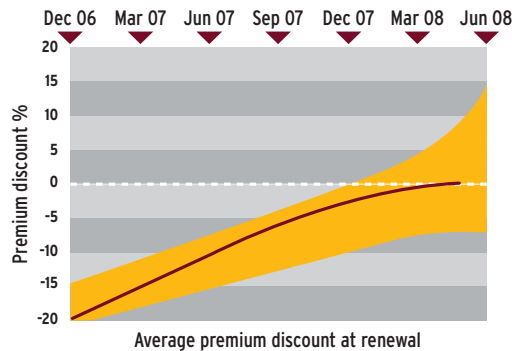
In the last Willis Index we predicted that due to the encroaching effects of the credit crunch the soft financial lines insurance market might start to level off or harden.

Unfortunately it seems we were correct, as our quarterly survey shows, that the rate reductions experienced throughout 2007 have faltered in the first quarter of 2008. In addition, the next three months are predicted to bring more uncertainty.

We continue to observe numerous credit-crunch related claims attaching to financial institutions. Claims of this nature are no longer limited to financial institutions that originated or securitised sub prime assets but have extended to more indirect claims. By indirect we mean claims that although not directly accountable to sub-prime assets can still be connected back in some way to the current financial slowdown. For example claims arising out of illiquidity of assets, poor performance of investments or breach of mandates. Another consideration which is adding to underwriters' concerns is the potential for a global recession, as history has shown that the frequency of claims against financial institutions will increase in difficult economic conditions. These matters have resulted in a distinctly nervous underwriting community.

So what does this actually mean in practical terms?

- There is substantial variance between renewal rates for different financial institutions. The most common result at renewal is 'as expiry'. However, we are also seeing both discounts and increases in premium.
- Financial institutions need to differentiate their risk profile and demonstrate insulation from the credit crunch and sub prime losses to have a chance of a premium saving.
- Underwriters may look to enforce a premium increase where there is considerable growth, material claims or for financial institutions that have a significant North American exposure.



The average discount for financial lines covers has seen a greater divergence of premiums over Q1 2008. The red line indicates the median discount which is level terms at the time of writing.

- The level of disclosure that underwriters require prior to renewal with regard to sub-prime and credit crunch exposures has become more stringent. In situations where underwriters believe that a financial institution is materially exposed they may attempt to apply sanctions such as exclusionary language in addition to premium increases.

To conclude, the financial institutions insurance market place is, for many, a difficult environment at present. Claims continue to be notified and this has forced underwriters to take a more conservative stance when considering renewal.

Moreover, the outlook is changing month by month, further adding to uncertainty. To deliver the best renewal results clear and carefully considered tactics need to be employed, combined with an early start to the renewal process.

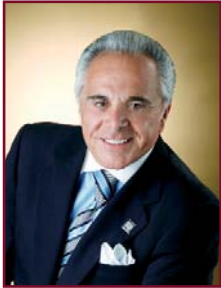
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WILLIS QUALITY INDEX®

Changing the way you choose your insurers



“The Willis Quality Index is the ultimate buyer’s guide. It cuts through all the pre-conceived notions of buying the cheapest insurance deal and helps clients select the best partners based on superior performance.”

“...by working in partnership with insurers, sharing information from the Willis Quality Index relevant to them, we can together help raise industry standards.”

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Willis is committed to excellence – especially when it comes to placing our clients’ business with carriers who can best meet their needs.

The Willis Quality Index® has been developed to capture, analyse and share vital carrier information. It is key to promoting superior relationships with our major trading partners globally, whilst enhancing our clients’ ability to make better informed carrier choices. By sharing information with carriers, we are committed to raising standards and service levels for our clients.

WHAT IS THE WILLIS QUALITY INDEX?

The Willis Quality Index® combines qualitative opinions from Willis Associates across the globe with quantitative data and measurements from our various tracking systems.

WQI INSURER SURVEY

Through the WQI Insurer Survey, insurers are evaluated by Associates on a five-point scale to record their views on four key areas of service, including:

Underwriting: Commerciality, pricing, coverage, responsiveness, continuity.

Policy Administration: Timeliness, accuracy, policy wordings, credit terms.

Claims Performance: Attitude, settlement, technical support, timely approval, timely payment.

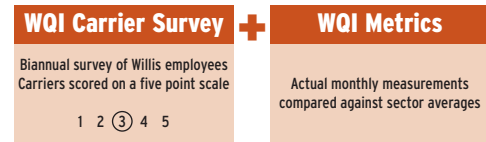
Service: Loss control, risk assessment, general service.

WQI QUANTITATIVE METRICS

Quantitative metrics are also sourced from a range of Willis internal systems. Performance is measured relating to:

- Policy Administration - including speed and quality of policy issuance
- Claims - including the time taken to agree and settle claims

HOW DOES THE WILLIS QUALITY INDEX WORK?



Star scores are assigned by category and business sector on five star basis

Survey stars are based on relative performance
★★★★★

Metric stars are based on defined thresholds
★★★★★

| | Underwriting | Policy Administration | Claims Performance | Service | Financial Strength Ratings |
|-----------|--------------|-----------------------|--------------------|---------|----------------------------|
| Carrier A | ★★★★★ | ★★★★★ | ★★★ | ★★★ | A++ (stable) |
| Carrier B | ★ | ★★ | ★ | ★★ | A- g (stable) |
| Carrier C | ★★★ | ★★ | ★★★ | ★★★ | AA (neg) |

HOW DO WILLIS CLIENTS BENEFIT FROM THE WILLIS QUALITY INDEX?

- Willis clients have the opportunity to make better informed insurer choices, tailored to their specific placement needs, based not only on financial strength but also on superior performance.
- Willis clients have exclusive access to the Willis Quality Index through their trained Account Executive or Client Advocate®.
- A customized report can be produced for a Willis client showing relative performance of insurers for a particular business sector.
- Willis clients benefit from the combined opinions and experience of thousands of Willis Associates worldwide.
- The Willis Quality Index® is a unique offering from Willis, with information covering the widest range of service performance measures in an easy to understand structure.

Willis clients benefit from the combined opinions and experience of thousands of Willis Associates worldwide.

Protection for your company in the litigious field of **EMPLOYMENT PRACTICE LIABILITY (EPL)**

The intention of EPL insurance is to provide broad liability protection for employment practice violations and protect both the company and its employees from damages and costs awarded against them by employment tribunals and courts.

In contrast, a Directors' and Officers' Liability (D&O) policy provides some protection for the directors and officers from damages and costs as noted above but does not provide any protection for the corporate entity.

EPL insurance coverage provides protection for:

- Defence costs
- Legal representation at an official investigation
- Punitive damages (for North American exposure)
- Claims for mental anguish or emotional distress
- Pensions regulator or ombudsman awards

Allegations against a company or its employees may be brought about as a result of any one or more of a range of wrongful acts including:

- Unfair and wrongful dismissal, discipline or promotion
- Discrimination
- Harassment or humiliation
- Breach of employment contract
- Breach of Data Protection Act
- Invasion of privacy

The burden of proof lies on employers to prove their innocence and defence costs, even where the allegations are proved to be false, can mount rapidly.

Financial institutions are becoming more exposed to employment related claims due to the continuing development of employment law around the world. In a recent case, a UK Asset Manager faced a claim for £19m after an employment tribunal ruled that a female employee was the victim of bullying, intimidation, sex discrimination and victimisation by senior management.

In the UK more than 40 pieces of employment legislation have been passed since 1999, giving employees more rights of action against their employers. Additionally there are 70 types of employment complaint over which tribunals have the authority to make decisions. Maintaining the correct HR procedure is incredibly complex in the face of such volumes of multifaceted employment legislation.

Employees are increasingly aware of their rights under employment legislation. As a consequence this is impacting the frequency and cost of employment practice claims in the UK. The situation will be more complex if you have overseas operations.

Willis recommends that EPL be considered as part of a balanced portfolio of financial lines covers. The key rating factors are number of employees in each operating territory, verification of your Human Resources procedures and details of any claims or loss history.

For further information about EPL, please contact your usual Willis contact or **Derek Reeves** (+44 20 3124 6944 or reevesd@willis.com)

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BREAKING NEWS



SUCCESSFUL FINANCIAL LINES SEMINARS

MAY 8, 2008

POLITICAL CAPITAL: EU REGULATORY REFORM AND ERM. HALF DAY SEMINAR

A representative of the European Union's chief insurance regulator gave a keynote speech in the Willis Auditorium on the latest details of the political and legislative direction of the Solvency II programme which will illustrate the environment that governs all insurers in the European Union from 2012.

Additional speakers included Oliver Peterken, CRO at Aspen Re, Rob Curtis from the Financial Services Authority and Rob Jones of Standard & Poor's, who provided perspectives on ERM and regulatory change from an underwriter, national regulator and rating agency.

MAY 21, 2008

FINANCIAL LINES INSURANCE MARKET TURMOIL? BREAKFAST BRIEFING SEMINAR

Mark Carver, Head of Financial Institutions at AIG outlined the insurer's viewpoint on the changing macro-economic climate on rating for financial lines insurances.

Duncan Holmes, Director, FINEX, Willis provided an update on current insurance trends for Professional Indemnity, Crime and Directors' & Officers' Liability covers. He also touched on emerging risks and solutions for financial institutions. A copy of the slides from this seminar are available on request.

MEET THE TEAM



Mark Pearce

Mark began his insurance career in 1985 working in the back office of a Lloyds insurance broker before moving into the UK retail division. Mark joined the financial institution sector when he was recruited by an international broker at the start of 1991. Mark spent his few years working on global wholesale business before moving into a retail account executive role for a number of major institutions.

Mark joined Willis at the end of 2003 and is one of the team's senior account executives dealing with a number of major institutions. He has executive responsibility for development projects and provides technical and strategic support to colleagues on major accounts. His role encompasses the management and distribution of news, technical items and current financial affairs that are of interest within the FINEX division.

Mark and his wife Lynsey have two young daughters, Harriet and Daisy. Outside of work, Mark is an active football player and West Ham supporter. He is preparing for an activity beyond football by completing his first half-marathon in 2007.

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