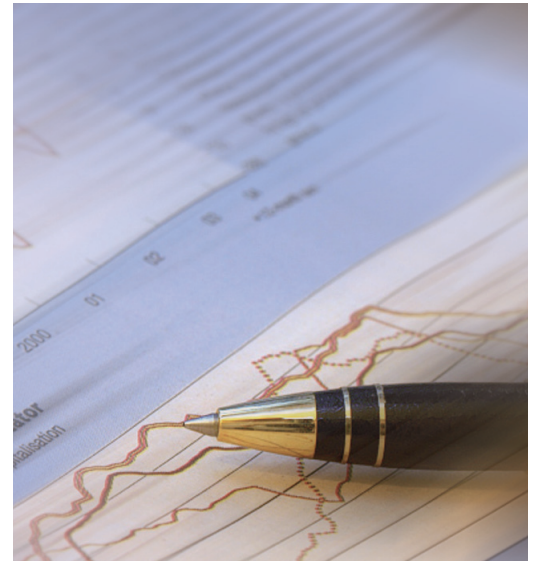


MARKET CONDITIONS AND THE RESULTS OF THE MARKET SURVEY

The Willis Index conducts a quarterly survey of the Lloyd's and London company market in which we invite responses from over 90% of D&O insurers and ask them to comment on premium rates and coverage terms for the preceding three months and over the next three months. The results are aggregated anonymously in this report.



REINSURANCE RENEWALS FAIL TO IMPACT Q1 RATES

Following the end-of-year reinsurance renewal season there has been no noticeable impact on D&O renewal rates in the first quarter of 2008, with soft conditions continuing to benefit insurance buyers. Rate reductions have been underlined by continued capacity increases from existing insurers and the entrance of new capacity into the market.

PRIMARY PREMIUM RATES

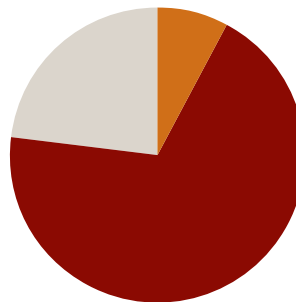
Over the last three months a static 8% of insurers reported flat renewals, although of the remainder a higher proportion – 69% – indicated smaller reductions of 0 – 10% compared with the previous quarter. The averaged rate of decline for primary insurers was 11.5%.

Over the next three months predictions remain for reductions of just under 10% for primary renewals.

EXCESS PREMIUM RATES

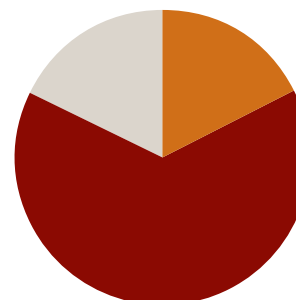
Over the last three months excess premium rates continued to decline, although at a slightly slower rate compared to the previous quarter, with insurers reporting an average reduction of 14%. Over the next three months reductions are predicted at a stable 13.5%.

PRIMARY PREMIUM RATES - LAST 3 MONTHS



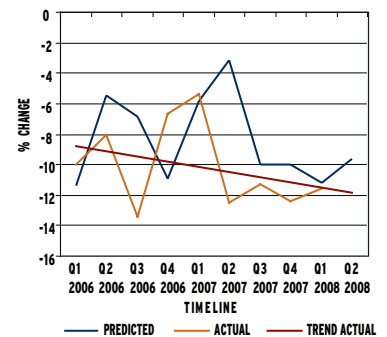
■ UNCHANGED 8%
■ 1 - 10% REDUCTION 69%
■ 10 - 20% REDUCTION 23%

PRIMARY PREMIUM RATES - NEXT 3 MONTHS



■ UNCHANGED 18%
■ 1 - 10% REDUCTION 64%
■ 10 - 20% REDUCTION 18%

PREDICTED VS ACTUAL RATE CHANGE



CONTENTS

Market Conditions and the Results of the Market Survey	1
Fraud	2
Meet the Team	4
Breaking News	4

FRAUD

Companies face many risks which, if not managed effectively, can seriously impact them. Fraud is one of those risks that should not be ignored. Too many companies treat fraud as a cost of doing business rather than taking a proactive approach and reducing its potential impact. The cost of fraud can be staggering and it is not only the financial position of a company that can be affected, it can also affect its public image and business relationships and it's these consequences** that can often be the most serious.

Fraud is not going away and there is recent evidence that it is on the increase in terms of frequency and severity. It is estimated that in the UK fraud costs the economy around £40bn every year and the cost is rising¹. No company can escape the risk of fraud no matter what industry or geographic location.

It is reported that the average fraud costs around \$2.4m² and that most internal frauds were committed by senior employees who know their way around a company's systems. It's not only employees that commit fraud against a company; third parties can also be involved whether independently or in collusion with an employee. Crimes such as theft of property including money, violation of computer systems or the misuse of company credits cards can seriously disrupt a company.

Once a loss is discovered, unwinding the accounts to calculate the size of that loss can be a very difficult task. There are additional costs in dealing with the consequences of fraud, including managerial time, damage to your company's brand, staff morale and even relationships with business partners.

Most frauds occur over a number of years and alone wouldn't cause a significant financial impact on most companies, but the aggregation of such losses can amount to considerable sums and a loss in long term shareholder value. There are also one-off frauds which result in a large loss in a particular year, a most recent example of this are the large losses at Société Generale following unauthorised trading by a rogue trader.

WHAT ARE THE DRIVERS FOR FRAUD?

There are a number of reasons why employees commit fraud against their employer, the most common are:

- To supplement incomes
- Fund a lavish lifestyle
- Feed addictions – drink, drugs or gambling habits
- Lack of recognition by senior management
- To fund illicit affairs

Once a fraud is committed it is quite often committed again. It is therefore important to ensure a company is continually revising its internal fraud procedures, in order to prevent continuous undetected attacks.

Most frauds are discovered by chance as fraudsters continue to use highly sophisticated means of concealing their actions. Once a fraud is discovered it can be very hard to calculate the size of a loss; most of the evidence may already have been removed or deleted. Once the amount is established the chances of recovery are often low with over 60% of victims saying they recovered less than 20% of their loss³.

Fraud will always be part of society and it is therefore important every company takes this risk into account during their risk profiling. There are many ways to help mitigate the risk and impact of fraud on your business. These include analysing and evaluating the risk to your company by way of risk surveys and continually reviewing the updating your internal procedures as fraudsters are always looking at new ways to avoid detection.

CRIME INSURANCE

When a loss is discovered the costs and consequences can be catastrophic so it is important to be ready to act in order to minimise its affects on your business. Crime insurance is an efficient way of protecting your company's assets from a large crime loss and can form an essential part of your insurance portfolio helping to protect your shareholders' money. Purchasing insurance to cover fraud can help to create a more focused internal culture to tackling fraud and develop your understanding of the risk with help from insurers and outside specialists with regards to prevention and detection. Most policies also allow policyholders to gain access to experienced forensic accountants that can assist in calculating or discovering a loss.

CLAIMS EXAMPLES

TREASURY FRAUD

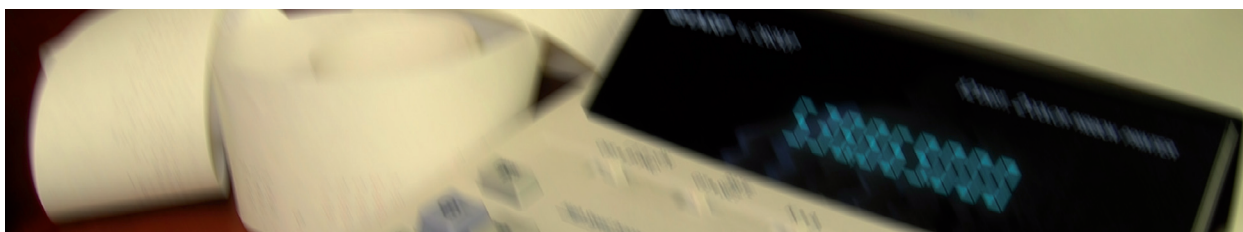
A gambling addiction forced an employee to set up fictitious client accounts to which they transferred a significant amount of their employer's funds over a short period of time. The employer made a claim for their loss which totalled approximately £9.2m.

FOREIGN FRAUD

A CEO of a foreign subsidiary was involved in a scheme wherein he submitted fraudulent invoices, stole inventory, and committed the company to transactions where he was self-dealing. The loss claimed, out of over \$51m in transactions, was approximately \$30m.

PAYROLL MANAGER FRAUD

A payroll manager was involved in a dishonest scheme, where he overpaid obligations for payroll taxes. When the overpayments were brought to his attention, he directed the cheques paid to reimburse the overpayment be sent to his attention. He had opened a bank account in a name similar to that of his employer and was able to steal the cheques sent to reimburse the insured for the overpayments. The loss claimed was approximately \$3m.



WHAT IS COVERED UNDER A CRIME INSURANCE POLICY?

Crime insurance is designed to protect the direct financial loss suffered by a company arising from any employee fraud or a dishonest act of a third party. The policy is written on a discovery basis meaning the policy pays once a company discovers it has suffered a loss as a result of fraud and subsequently makes a claim under their policy.

As with all insurance policies the terms and conditions vary from insurer to insurer and it is important to ensure the policy provides adequate protection for your risks.

WHO IS AN "EMPLOYEE?"

Employees are generally defined as any natural person who has entered into a contract of service with your company, any part-time or temporary employees including students, secondees, and volunteers pursuing studies or gaining work experience. Policies can also be extended to cover trustees and administrators of any pension plans of your company.

WHAT IS A FRAUDULENT ACT?

The Fraud Act 2006 came into effect on 15 January 2007 and is the first general Statute solely covering fraud under English law. The Act is split into three sections: fraud by false representation, fraud by failing to disclose information and fraud by abuse of position. Most losses under an insurance policy are likely to fall into the last section whereby employees abuse their position in order to overcome internal controls to make themselves an improper gain. Insurance policies usually cover the criminal takings of money or any other financial securities, credit cards fraud, computer systems fraud, forgery and the theft of physical property.

Policies can be tailored to your individual needs and there are many extensions available, typically these are:

- Property of third parties whilst in the care custody or control of your company
- The expenses in relation to evaluating the amount of a loss sustained using forensic accountants
- Reconstitution Costs – costs of repairing computer systems following a violation of your systems
- Pre-Loss consultants to help detect a loss and provide risk management advice
- Loss of interest on stolen monies or interest payable as a result of a loss
- Penalties under contract as a result of a loss

TYPES OF LOSSES

- Payments to fictitious clients on receipt of invoices set up by an employee in the accounts department who knows their way around the internal procedures. The employee can then access the bank account to where the funds have been paid.
- Overpayment of salaries or slicing a little off many salaries to supplement an employees own salary, often this goes unnoticed as one or two pounds off a pay slip isn't always easy to spot but if this happens to thousands of employees each month the losses can add up.
- Cheque / bank transfer tampering – employees can amend electronic bank transfers, often by making a minor amendment to an account number and transfer the funds to an account they control.
- Overpaying or over-ordering on stock - employees can overpay a supplier and insist the repayment is transferred to a separate bank account; the details of the overpayment are never kept on file. Over ordering of stock can also occur whereby the employee receives kickbacks for placing large orders.

- Laddering payments – many businesses operate on a credit basis with their buyers leading to an opportunity for employees within a credit control and accounts department to commit fraud whilst settling accounts. For example one debtor may owe £10,000 on their account, they make the payment but the employee only settles £7,000 of the account, instead siphoning off £3,000 for themselves. When the next debtor settles their bill, £3,000 of it can be used to pay off the remaining balance of the first transaction, and so the process continues with the employee siphoning off amounts from each debtor settlement but ensuring the bills are settled fully using other debtors' funds. The loss is usually only discovered after the employee has left employment or moved department.
- One-off hit – professional criminals can attack your company by way of a one off hit that can have a significant impact on your financials. Today many of these attacks occur using electronic means by hacking into your computer systems and stealing funds from your bank accounts or using company credit card details.

WHAT IS A FRAUDULENT ACT?

As fraud claims increase and more losses are disclosed to the public, many companies are turning to the insurance markets to transfer their risk. Robust internal controls are not always enough to prevent a loss, sophisticated criminals are continually finding new ways to embezzle company funds and you need to be in a position to act quickly should you have a loss. Using the experience of outside specialists can help a company manage their risk effectively, helping to protect shareholder value. Willis works with clients and leading insurers provide to bespoke policies ensuring their risks are appropriately covered.

For further information or a quotation please discuss with your Willis Client Advocate.

1. PricewaterhouseCoopers – Economic Crime Survey 2003
2. PricewaterhouseCoopers – Economic Crime Survey 2007
3. Ernst & Young: Fraud – The Unmanaged Risk 8th Global Summary





MEET THE TEAM - MONICA KARMASIN

Monica joined Willis London to work within the SELA (South Europe, Latin America) division in April 2005. She assisted the management team in the assessment and development of the international book of business. She provided strategic networking support in handling high-profile Italian clients, and she worked closely to the Medical Malpractice Italian and International team.

In August 2006 she moved to the D&O Team. Since then she has been focussing on international business from Europe, Russia, Ukraine and Kazakhstan while liaising with major corporations and broking their risks into the London market. She holds a Foreign Languages and Literature Degree in Russian and Spanish from the University of Trieste.

Monica is a fluent speaker of Italian, Spanish, Russian and French and in her spare time she enjoys music, the cinema, visiting art galleries and keeping fit with her volleyball team.

+44 (0)20 3124 6135
karmasinm@willis.com



BREAKING NEWS - WILLIS LONDON ON THE MOVE

Willis is moving into an iconic, 28-storey headquarters directly opposite Lloyd's of London.

From 31 March 2008 our address will officially be:
The Willis Building
51 Lime Street
London, EC3M 7DQ

Switchboard number: +44 (0) 20 3124 6000

“The Willis Building is a reflection of how far we’ve come, but also symbolises a new chapter in insurance broking. Risk is rapidly evolving and we are challenging the status quo to deliver cutting-edge solutions to you our clients. We look forward to working with you as partners in this evolution.”

Joe Plumeri, Chairman and CEO, Willis Group Holdings

Willis is one of the world's leading risk management and insurance intermediaries. We have approximately 16,000 professionals in over 300 offices around the world.

This Bulletin is published for the benefit of clients and prospective clients of Willis UK & Ireland. It is intended to highlight general issues relating to the subject matter which may be of interest and does not necessarily deal with every important subject nor cover every aspect of the subjects contained herein. If you intend to take any action or make any decision on the basis of the content of this bulletin, you should first seek specific professional advice and verify its content. Copyright Willis UK & Ireland 2008. All rights reserved.

Willis Employee Benefits Limited is authorised and regulated by the Financial Services Authority. Registered office Ten Trinity Square, London EC3P 3AX. With effect from 31 March 2008 this will change to: 51 Lime Street, London, EC3M 7DQ. Registered number 5641509. England and Wales.

6244/03/08