

SPECIAL RATINGS ISSUE

In this issue we list the key D&O carriers and their ratings assigned by a selection of rating agencies: A.M. Best, Standard & Poor's, Moody's and Weiss Ratings.

The rating table also includes important data concerning Risk Based Capital. Prior to 1995, an insurer's financial stability was often measured in terms of the ratio between premium and surplus. A high ratio [premium several times surplus] suggested an insurer writing more business than its surplus could sustain, while a low ratio [less premium than surplus] hinted at a company under utilizing its capital. This rule-of-thumb approach greatly oversimplified a complex situation, so in 1995 the National Association of Insurance Commissioners [NAIC] introduced a much better indicator of insurer strength known as the Risk Based Capital formula. The formula assesses four major areas of an insurer's exposure to risk:

- 1) **UNDERWRITING RISK:**
This measures the risks arising from inadequately pricing current business and the inadequacy of loss reserve settings on previously written business.
- 2) **ASSET RISK:**
A measure of the risk of asset default from fixed-income assets held by the insurer, and possible loss of market value for any equity assets.
- 3) **CREDIT RISK:**
The default risk on money owed to the insurer from reinsurers, policyholders or other creditors.
- 4) **OFF-BALANCE SHEET RISKS:**
Primarily a measure of the risk arising from excessive rates of growth.

By assessing these components of risk and applying its formula to them, the NAIC calculates a value known as the Authorized Control Level Risk Based Capital [ACLRBC]. The ACLRBC for USA domiciled insurers can be found in the 5-year historical data exhibit in their annual statutory statements.

The relationship between the ACLRBC and Total Adjusted Capital [TAC] is a crucial piece of information. As explained in the Notes to the table, if a company's TAC - essentially its statutory surplus, falls to a level of 200% of the ACLRBC, the insurer must submit a plan of corrective action to its home state insurance commissioner. If the TAC falls to equal that of the ACLRBC, the commissioner has the right to assume control of the insurer. Finally, if the capital level falls to 70% of the ACLRBC, the commissioner is mandated to take control of the insurer.

KEY D&O INSURERS RATING TABLE

Insurer [Trading Name]	Total Adjusted Capital ¹ \$ millions	ACLRCB ² \$ millions	2001 Ratio TAC: ACLRCB	2000 Ratio TAC: ACLRCB	A.M. Best	Weiss	Standard & Poor's	Moody's
National Union [AIG]	\$6,280.46	\$1,228.03	511%	524%	A ++	B +	AAA	Aaa
Continental Casualty [CNA]	\$4,836.88	\$1,654.85	292%	397%	A	C	A -	A3
Liberty Mutual Ins Co	\$4,498.21	\$1,250.09	360%	432%	A +	B	A +	A1
St Paul Fire & Marine	\$4,142.59	\$1,308.11	317%	430%	A	B	A +	Aa3
Federal Ins Co [Chubb]	\$3,526.32	\$1,199.95	294%	327%	A ++	B +	AA +	Aa2
Zurich American Ins Co	\$2,408.31	\$885.02	272%	325%	Au ⁴	B	A +	nr
Lloyd's of London	\$2,000.00 ³	na ⁴	na	na	A -	nr ⁴	A	nr
Swiss Re America	\$1,949.20	\$897.20	217%	278%	A ++	C	AA +	Aaa
Allied World Assurance [AWAC]	\$1,500.00 ⁵	na	na	na	A +	nr	nr	nr
Great American Ins Co	\$1,117.63	\$308.08	363%	371%	A	C +	A	A3
Lumbermens Mutual [Kemper]	\$1,058.47	\$481.42	220%	454%	A -	B -	A	Baa1
Royal Indemnity	\$514.29	\$243.54	211%	348%	A -	C -	BBB+	Baa2
Old Republic Insurance Co. [CUG]	\$497.01	\$69.28	717%	755%	A +	A -	AA	Aa2
Gulf Ins Co	\$425.33	\$59.71	712%	391%	A +	B	AA -	Aa2
Ace American Ins Co [Ace USA]	\$406.38	\$131.77	308%	242%	A	C	A +	A2
Westchester Fire Ins Co [Ace USA]	\$328.39	\$115.10	285%	316%	A	D	A +	A3
Executive Risk Indmt. [Chubb]	\$321.69	\$98.02	328%	343%	A ++	B -	AA +	Aa2
Houston Casualty [MAG]	\$285.40	\$44.09	647%	687%	A +	B -	AA	nr
Admiral Ins Co [Monitor]	\$253.15	\$66.56	380%	410%	A +	C	A +	nr
Twin City Fire Ins Co [Hartford]	\$153.40	\$12.40	1237%	1145%	A +	B +	AA	Aa3
Navigators Ins Co	\$115.13	\$15.13	761%	815%	A	B	A	nr
Genesis Ins Co	\$81.18	\$12.86	631%	574%	A ++	B	AAA	Aaa
Carolina Casualty [Monitor]	\$79.01	\$15.59	507%	416%	A	C	A+	nr
XL Specialty Ins Co [ELU]	\$64.96	\$21.07	308%	379%	A +	D +	AA	Aa2
Greenwich Ins Co [ELU]	\$27.65	\$26.72	103%	315%	A +	D +	AA	Aa2
Arch Specialty Ins Co [Arch Capital] ⁶	\$18.10	\$2.00	905%	1094%	A -	B	nr	nr

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Reliance Insurance Company

Total Adjusted

Equally important as an insurer's current TAC: ACLRCB ratio is the historic trend, and so column four shows this ratio for the year 2000. On the right is the applicable data for Reliance Insurance Company, which was declared insolvent in October 2001.

Year	Capital	ACLRCB	Ratio
1999	1,197,956,170	639,463,535	187%
1998	1,698,336,204	606,965,481	280%
1997	1,256,422,431	495,914,741	253%
1996	1,149,620,824	445,214,176	258%
1995	1,110,837,415	345,368,291	322%

A. Specific Notes**1. Total Adjusted Capital**

The sum of an insurer's statutory capital & surplus, and any other items, if any, that Risk Based Capital instructions may provide for. It is usually the same or just slightly different from the insurer's capital and surplus.

2. ACLRBC - Authorized Control Level Risk Based Capital

Under the NAIC [National Association of Insurance Commissioners] Risk Based Capital Model Act, now adopted in some form in every state, the ACLRBC provides a benchmark for helping to assess the capital adequacy level of the insurer.

- If the insurer's Total Adjusted Capital falls to an amount equal to twice the ACLRBC, the insurer must submit a plan to the insurance commissioner that contains proposals for corrective action.
- If the Total Adjusted Capital falls to an amount equal to the ACLRBC, then the commissioner of insurance is empowered to take control of the insurer.
- If the Total Adjusted Capital falls to 70% of the ACLRBC, then the insurance commissioner is mandated to take control of the insurer.

[Total Adjusted Capital data and Authorized Control Level Risk Based Capital data are taken from the 2001 Annual Statements, obtained from the NAIC - see Footnote.]

3. Lloyd's

It is difficult to assess the "Total Adjusted Capital" of Lloyd's. The number shown is based on the A.M. Best financial size rating of "XV (\$2 billion or more)."

4. nr = Not Rated; na = Not Available; u = Under Review

5. Allied World Assurance Co Ltd. - This is a Bermuda domiciled company and as such does not report financials in the same way as USA domiciled insurers. The "Total Adjusted Capital" number is based on the A.M. Best financial size rating of "XIV (\$1.5 - \$2.00 billion)."

6. Arch Specialty Ins Co was formerly Rock River Insurance Company. The Total Adjusted Capital data and the ACLRBC data are those shown by the NAIC under Arch Specialty Insurance Company. The A.M. Best rating refers to Arch Specialty; the Weiss rating refers to Rock River Ins Co.

B. General Notes

A.M. Best, Standard & Poor's and Moody's ratings were taken from their web sites during October 2002. Weiss ratings were taken from the Summer 2002 Weiss Rating Guide.

This does not claim to be an exhaustive list of current D&O carriers. It shows only those we regularly encounter and therefore believe to be the most prominent.

While we have made every effort to ensure the accuracy of the data shown in this table, rating and financial information is subject to constant change. We apologize for anything that is outdated or incorrect.

Footnote:

Data Source: National Association of Insurance Commissioners, by permission. The NAIC does not endorse any analysis or conclusions based upon the use of its data.



SPECIAL MESSAGE FOR BROKERS

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- What are your Goals for the renewal?
- What Opportunities are there?

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