



2007 Chubb Private Company Risk Survey Executive Summary

Background & Introduction

Today's private companies are increasingly facing management and professional liability risks more typically associated with large, publicly traded firms – suits against directors and officers (D&O), errors and omissions (E&O), employment practices liabilities (EPL), kidnap and ransom (K&R), and more. Numerous factors have contributed to this trend including both:

- External factors including ever-changing regulatory and economic landscapes;
- Internal practices and plans, such as global expansion, product evolution and outsourcing.

Particularly in the more specialized management liability insurance areas (such as cyber-theft or K&R), frequent headlines and other media reports have helped drive overall awareness among private companies of the changing risks they face. At the same time, there remains a significant gap between these risks and the policies or practices in place to mitigate them. Consider that, while 34% of companies surveyed had experienced an EPL suit or other event in the last five years, only 22% have purchased an EPL policy.

Regardless of awareness or adoption, management liability risks are very real, and they can be uniquely dangerous for private, especially smaller firms. Beyond the pure financial costs involved (e.g. an average of \$361,000 for D&O events), some events can take years and significant personal resources to resolve. Indeed, they can be crippling to small and even medium sized businesses.

For Chubb Insurance Company of Canada, the Private Company Risk Survey is a vital tool in understanding and anticipating its clients' needs, a hallmark of Chubb's reputation. What's more, by showing why companies adopt the practices they do, the survey is helping Chubb best educate and advise its private company clients so they are sufficiently protected from potentially fatal management liability risks.

Significance & Methodology

The 2007 Chubb Private Company Risk Survey represents a first of its kind in Canada in terms of its focus and depth. It provides a view of the risks facing private companies today, and how and why they are taking measures to address them.

Chubb commissioned Canadian market research firm Pollara to conduct telephone interviews with specialty insurance decision makers at 300 private companies in Canada and 469 in the United States.. Participating companies comprised private, for-profit corporations or partnerships with at least 25 full or part-time employees and annual sales between \$1 million and \$1 billion. Pollara conducted the interviews during November and December 2007.

The survey looked specifically at:

- The frequency and costs of management liability “events” (e.g. lawsuit, regulatory audit) that companies have experienced over the past five years;
- The risks companies anticipate encountering over the next year;
- The insurance policies and company risk management practices in place to protect companies against management liability risks;
- Why companies do or do not have risk mitigation policies or practices in place.

The results of the survey are presented for management and professional liability as a whole, and broken down by the following coverage areas:

Crime	Errors & Omissions (E&O)
Employment Practices Liability (EPL)	Cyber-theft
Directors & Officers (D&O)	Fiduciary
Workplace Violence	Kidnap & Ransom

While a first of its kind in Canada, this marks the third Private Company Risk Survey undertaken by Chubb in the United States, where similar surveys were conducted in 2003 and 2005.

Key Findings

Across several insurance coverage areas, there is a clear gap between the risks companies expect to face, and the policies in place to help protect against them. In EPL, the adoption rate for policies (22%) was lower than the number of firms that experienced (34%) or expect (25%) to face a management liability event.

Respondents cited two potentially dangerous assumptions as the most common reasons for not purchasing insurance:

- that the company’s exposure to management liability risks is low or zero (up to 31%); and/or
- that they believe that the risks are already covered in an existing policy (up to 26%).

In addition to factors outside of their control, such as the economy or regulations, private companies are planning numerous initiatives that at times can lead to management liability events. They include that, within the next year:

- 25% of respondents plan on reducing their workforce.
- 24% plan on outsourcing one or more business functions.
- 11% plan on reducing or eliminating employee benefits.

U.S. and Canadian companies exhibited similar patterns across most risks and coverage areas. In contrast to common perceptions, parallels between the two markets even extended to the litigation faced by companies related to D&O, E&O and other coverage areas. In the case of EPL did Canadian companies (34% vs. 24%) report facing greater litigation incidents than their U.S. counterparts.

Cyber-theft risk and events provided another exception. While purchase rates and frequency of events were largely parallel, the average Cyber-theft loss in Canada was \$202,600 – four times the average U.S. loss of \$50,457.

Findings by Coverage Area

Coverage Area	Experienced Event in Last 5 Years	Expect Event in Next Year	Average Cost	Purchased Insurance
Crime	35%	34%	\$41,877	39%
EPL	34%	25%	\$56,185	22%
D&O	25%	31%	\$361,856	35%
Workplace Violence	17%	17%	\$77,353	8%
E&O	12%	13%	\$66,345	29%
Cyber-Theft	8%	16%	\$202,600	10%
Fiduciary	2%	4%	\$26,500	13%
K&R	3%	3%	\$34,000	5%

About Chubb

Chubb Insurance Company of Canada has offices in Toronto, Montreal, Vancouver, and Calgary and employs an exclusive network of more than 200 brokers across Canada.

The member insurers of the Chubb Group of Insurance Companies form a multi-billion dollar organization providing property and casualty insurance for personal and commercial customers worldwide through 8,000 independent agents and brokers. Chubb's global network includes branches and affiliates in North America, Europe, Latin America, Asia and Australia.

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