PRIVATE COMPANIES EXPOSED

Highlights from
The Chubb Private Company Risk Survey

CHUBB
INSURANCE

Contents

www.chubbinsurance.com/privatecompanysurvey2007

Introduction

Facts from the 2007 Chubb private company risk survey

There is a false sense of security among private companies in Canada. "It won't happen to us." "That doesn't happen here." But new governance standards, a changing legal environment and changing economic times have created new risks for private companies. Many feel they are protected, but this survey shows many are vulnerable to risks that could put them out of business. Many of these risks can be easily addressed with prudent action.

Companies make financial decisions every day and are increasingly looking for ways to conserve costs. In a tough economic climate, however, that can be especially perilous if it means cutting back or doing without insurance coverage. Managing a business can be like walking a high wire – extremely challenging with a safety net, and potentially suicidal without one. Yet, according to findings from the 2007 Chubb Private Company Survey, many private companies are operating with no safety net when it comes to important management liability, professional liability, and other types of exposures.

In short, private companies in Canada are exposed to risks that are real but few have covered themselves against these ever increasing problems. This is despite the fact that the types of situations covered by these policies are increasingly common – nearly two-thirds of the companies reported experiencing at least one of these loss events in the past five years – and they can be costly. The three most common types of loss uncovered in the survey:

- Employee crime (also known as fidelity)
- Directors and Officers (D&O) liability (average reported loss: more than $338,699)
- Employment practices liability (EPL)

The gap between risk and coverage is widening.

A total of 66% of Canadian and 62% of U.S. private companies experienced some type of management/professional liability event in the past five years. Not surprisingly, those companies that experienced such an event in the past five years were much more likely to believe that their company was going to experience one in the coming year as well.

Regardless of awareness, management liability risks are very real. They can be uniquely dangerous for private companies, especially smaller firms. Beyond the pure financial costs involved, some events can take years and significant personal resources to resolve. They can be crippling to small and even medium sized businesses.

Why These Risks Are Even Greater *Right Now*. When economic conditions are tight, employees may be more inclined to steal from their company, a company may be more likely to lay off employees (possibly leading to EPL lawsuits), and investors may be more likely to sue a company and its senior management team for allegedly poor financial performance.

In addition, in an uncertain economy, such losses can spell double jeopardy. A thinning profit margin can be threatened further by a costly, non-insured loss event. Also, companies experiencing a D&O liability or EPL lawsuit may find that tight credit makes it difficult to obtain funds to pay for such a loss or even to continue business operations. Consider that when the survey was fielded in late 2007, when the economy was only beginning to show signs of trouble, one-third of the executives surveyed said they expected tighter access to capital in the coming 12 months. Today, one could reasonably expect that number to be higher.

This report offers some of the major findings from the Chubb survey.

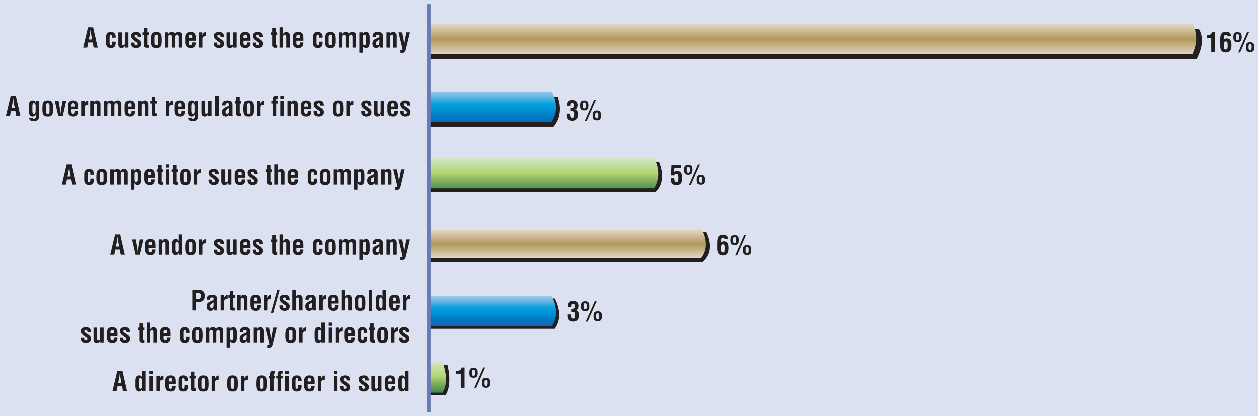
Topic: directors and officers liability

When private company directors find themselves sued with their personal assets at risk, it is often too late. More and more legal decisions hold unsuspecting directors liable and the study shows fewer are prepared with coverage. Are private company executives underestimating their Directors and Officers (D&O) liability risk?

Key Findings Tell the Story

Not unlike public companies, private companies and their directors and officers are vulnerable to lawsuits. Some private company executives may believe that only public companies need to worry about lawsuits against their directors and officers. This simply isn't true. According to the Chubb 2007 Private Company Risk Survey, 1 in 4 private companies (25%) were hit by a D&O liability lawsuit during the past five years. Tellingly, 63% of the executives of the companies that experienced a D&O lawsuit in the past five years are concerned about the possibility of another D&O suit in the year ahead, according to the Chubb survey.

Who is suing? The most common D&O liability event experienced by both Canadian and U.S companies in the past five years was a lawsuit by a customer. In fact, 30% of company executives surveyed believe it is "likely" their company will experience some type of D&O-related loss event in the coming year.



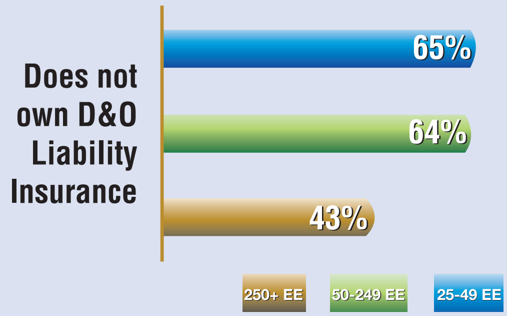
A D&O incident can be costly. Among the companies in the Chubb survey that experienced a D&O incident in the past five years, the average loss (settlement, judgment and legal cost) was:

$338,699

The average reported loss for those smaller companies surveyed (25-49 employees) was:

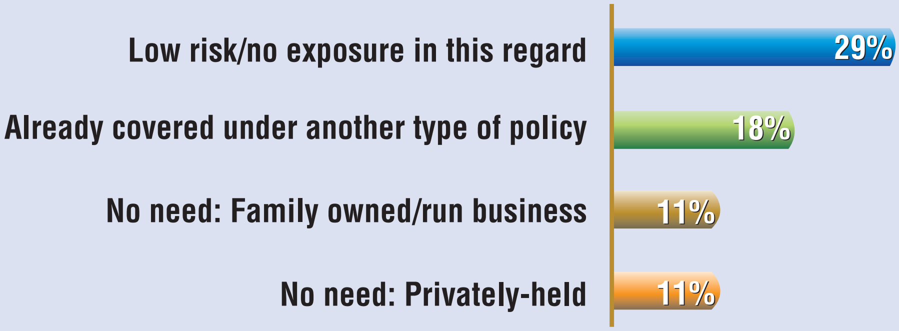
$725,280

Private company executives may be more at risk than they realize, especially when you consider that most do not purchase the protection offered by D&O liability insurance. In fact, most private companies (60%) do not purchase any D&O liability insurance.



However, larger companies (250+ employees) are more likely than smaller companies to purchase D&O liability insurance.

What are the assumptions that leave private companies exposed to a D&O risk? A closer look shows that the top three reasons given by the executives in the Chubb survey for not buying this coverage were:



These assumptions have left many private companies underinsured:

1. **Exposure:** As the Chubb 2007 Private Company Risk Survey has illustrated, 1 in 4 private companies (25%) were hit by a D&O liability lawsuit during the past five years. Directors and officers of Canadian companies face unprecedented exposures. Regulatory authorities, courts, shareholders, employees, creditors and other members of the public have increased expectations as to the conduct and integrity of company management.

2. **Gaps in Traditional Coverage:** A typical GL policy insures directors and officers against liability for bodily injury, property damage, personal injury, and advertising injury, but not against liability for all other types of injury or damage. For example, everyday decisions affecting shareholders, employees, unions, customers, consumer groups, competitors, suppliers and other contractors may result in lawsuits alleging misrepresentation, misleading statements, neglect, breach of duty, or violation of statute, which would not be covered under the GL policy.

3. **Privately held/family owned:** Although exposure to shareholders' claims is less in the privately held context than for publicly held companies, the risk of shareholders' claims can still be significant for several reasons. A single shareholder can bring a claim on behalf of the company and can recover from the defendants the company's full loss. Even if management believes current shareholders are sufficiently loyal so as not to file suit (a dangerous assumption in today's litigious society), new shareholders with different loyalties and expectations can suddenly appear as a result of death, divorce, financial difficulties, or another extraordinary occurrence.

Loss Scenario

Scenario #1

Bob's Hotel Management Company Ltd. ("Bob's Hotel") was retained by Dave's Property Development Ltd. ("DPD") to provide hotel management services for a hotel project that was being developed by DPD. As part of the service agreement, Bob's Hotel was also responsible for preparing disclosure documents which included budget, expense and return information to entice the investment community to invest in this new development project. Based on this document, shareholders invested in DPD's project.

Unfortunately, as development progressed, unforeseen costs were incurred and expected returns were not met, leading investors to commence a class-action suit against DPD. The investors alleged that they were enticed to invest in the project by disclosure statements provided to them by DPD.

When promised investment returns were not met, the plaintiffs alleged that DPD had made misrepresentations and had breached the terms and conditions of the investment purchase agreements. DPD then turned around and commenced a third-party claim against Bob's Hotel and its officers alleging that the information contained in the disclosure statement was prepared by Bob's Hotel and that as the hotel management company it was responsible for setting budgets and controlling expenses.

Thus, DPD's allegations were that Bob's Hotel and its officers were negligent in the preparation of parts of the disclosure statement, misrepresented financial information and mismanaged the hotel project.

Solution

The Directors and Officers Liability insuring clause of the Chubb ForeFront policy provides coverage for defence costs, settlements and judgments on account of claims by shareholders, creditors, customers, competitors, regulators and other third parties for a broad range of allegations, such as negligent misrepresentation of disclosure documents and financial information as well as mismanagement that could result in a lawsuit against directors or officers, (as it did against the officers of Bob's Hotel Management Company Ltd.).

Topic: employment practices liability

Most private company executives recognize employment risks. So why do they go without insurance? Expecting employee legal actions is not the solution. That only recognizes the problem, it doesn't solve it. Not solving the problem can be much more costly than addressing the risk.

Many companies are planning "reduction in force" (RIF) or ways to outsource jobs. About 1 in 4 executives say it is likely their company will reduce its work force (25%) or outsource functions or operations (24%) in the year ahead. Because both of these activities can have a negative impact on employees, they can result in EPL lawsuits alleging wrongful termination or discrimination.

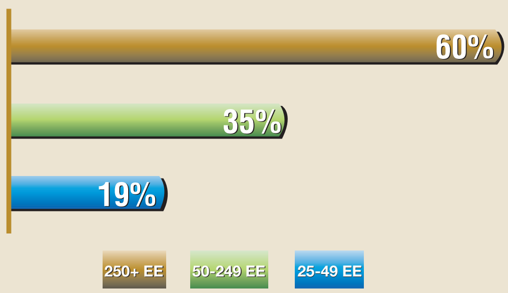
Within the survey group tested, the frequency of employment practices liability related incidents was higher in Canada (34%) than in the U.S. (24%).

Key Findings Tell the Story

EPL lawsuits are more common than managers expect. Almost a third of Canadian executives indicated that their company experienced some type of employment practices related incident in the past five years.

25% of Canadian executives believe it is likely their company will experience an incident related to employment practices liability in the year ahead.

The frequency of EPL lawsuits increased significantly as company size increased



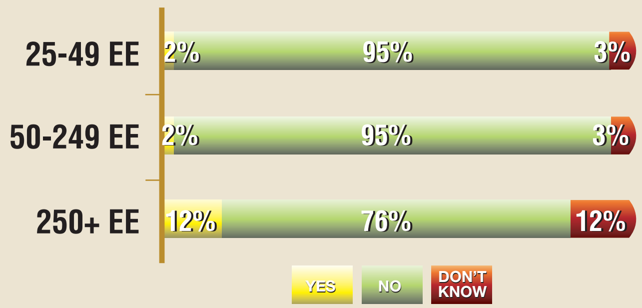
Even a mere charge of employment practices misconduct can seriously damage the bottom line. Among those companies in the Chubb study that experienced an EPL charge or lawsuit in the past five years, the average cost was:

$63,724

The employee/employer relationship is constantly being redefined.

Private companies are more at risk of an EPL loss than they realize, especially when you consider that most do not purchase the protection offered by employment practices liability insurance. Although most companies employ good EPL risk mitigation practices, such as having written policies banning discrimination and harassment (75%) and having HR policies and procedures and training programs to help prevent losses (67%), in fact, most private companies (73%) don't purchase any EPL insurance. Of the companies that do not purchase EPL insurance, the majority (92%) do not plan to purchase it in the year ahead.

Larger companies (250+ employees) that currently do not buy EPL insurance are somewhat more likely to indicate a plan to purchase in the year ahead than are smaller companies



What are the assumptions that leave private companies exposed to an EPL loss? A closer look shows that the top three reasons given by the executives in the Chubb survey for not buying this coverage were:

Fills Gaps in Traditional Coverage. Employment liability coverage can help fill the following gaps in coverage that exist with general liability, umbrella, or D&O policies:

- Breach of employment contract not covered under the traditional liability policy;
- Exclusions in GL and umbrella policies for intentional acts and employment-related matters.

Courts in Canada have held that damages flowing from the breach of an employment contract are not covered under a liability policy of insurance unless the policy, like the ForeFront employment clause, expressly states that it responds to such damages. As well, GL policies, which cover an "accident" or "occurrence," may not respond to various claims of employment discrimination, breach of contract, and wrongful discharge.

Loss Scenarios

Scenario #1

A former executive of a private company commenced an action against the company for wrongful termination. The executive was earning a base salary of $300,000 per annum, which was received in addition to bonuses in the form of phantom unit shares in the company.

Upon termination, the executive sought to enforce his employment contract which provided for 24 months of notice, and demanded the phantom units which would have accrued during the contractual notice period. At the time of termination, the phantom units were significantly inflated, which led to a demand from the executive in excess of $4,000,000.

Defence costs, including the cost of experts to refute the phantom unit valuations asserted by the executive, totaled $700,000. Ultimately, the matter settled for $1,000,000.

Scenario #2

A mid-level supervisor with a long history of documented performance issues was terminated for smoking in a restricted area of the company's building where flammable chemicals were stored. The terminated employee, who was 54 years old, responded by suing the company for wrongful termination. He alleged age discrimination on the basis of comments made by his supervisor (such as "You're too old") and disability discrimination because the company refused to make accommodations for his high blood pressure. He also alleged he could only be terminated for good cause. The plaintiff sought back pay, front pay, special damages, and legal fees totaling over $250,000, in addition to punitive damages.

The company settled with the former employee, paying approximately $350,000, but not before it had paid more than $125,000 in defence costs.

Solution

Chubb's ForeFront Employment Practices Liability section provides coverage for claims brought by employees for wrongful termination of employment as well as breach of employment contract. This part of the ForeFront policy covers your company and its directors, officers and employees if a claim is brought by an employee or group of employees (current, prospective or former) for a broad range of allegations with respect to the management and administration of human resources such as:

- Wrongful dismissal, discharge or termination of employment;
- Employment-related defamation;
- Violation of employment discrimination laws;
- Wrongful failure to employ or promote.

Topic: fiduciary liability

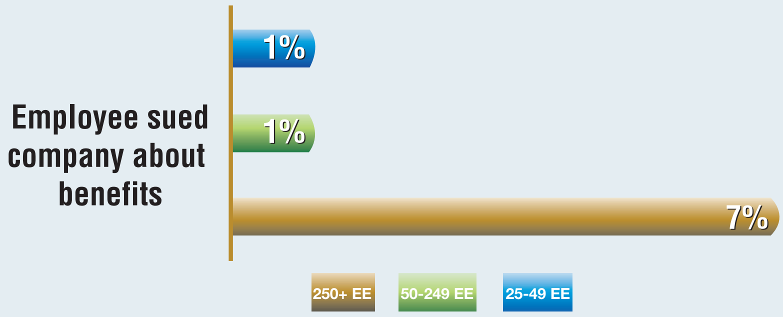
Every year as employees age, the company's fiduciary responsibilities change. Most companies do not track these changes, which increases their fiduciary liability risk. Private companies with employee benefit plans are left gambling with that risk. Each year the odds become greater against the company with changes in employee rights and more employees participating in programs.

Federal government changes in managing the funding of pensions has increased fiduciary risk. The recent plunging of stock and bond markets means that the funded status of pension plans has dropped by between 15% and 30% this year. Companies hurt by the economic downturn may be vulnerable to actions forcing them to source funding from faltering operations. This could in turn put more pressure on corporate liquidity.

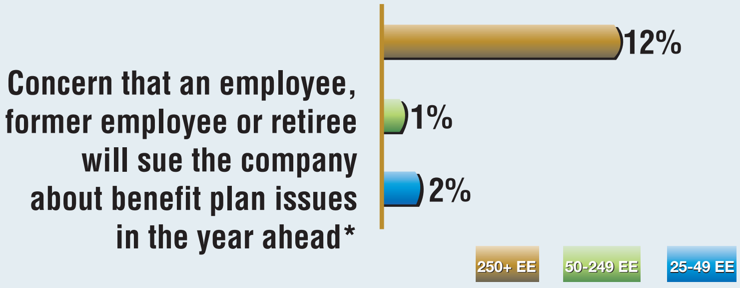
About 1 in 10 executives (11%) say it's likely their company will reduce or eliminate some employee benefits in the year ahead – a possible source of fiduciary liability lawsuits by employees and/or retirees.

Key Findings Tell the Story

The risk is perceived to be small. A very small minority of executives indicate that their company has been sued about benefits in the past five years. However, larger companies (250+ employees) are somewhat more likely to have been sued by an employee about benefits than smaller companies.



A number of executives are concerned about lawsuits. Executives at larger Canadian companies (250+ employees) are more likely to believe an employee might sue the company for issues related to the benefit plan.



*Percent "Somewhat likely"

Yet most private companies overlook their need for fiduciary liability insurance. In fact, 82% of private companies do not buy any fiduciary liability insurance.

What are the assumptions that leave private companies exposed to fiduciary liability?
A closer look shows that the top three reasons given by the executives in the Chubb survey for not buying this coverage were:

Fills Gaps in Traditional Coverage. Fiduciary liability insurance can help fill the following gaps in coverage:

- Many GL policies provide Employee Benefits Liability (EBL) coverage, which protects against claims of errors in welfare plan administration but not against the most expensive and complex pension claims. The Fiduciary Liability insuring clause of the Chubb ForeFront policy provides protection against both EBL and breach of fiduciary duty exposures.
- D&O and Employment Practices Liability policies typically exclude claims for both EBL and breach of fiduciary duty.

Loss Scenarios

The large majority of fiduciary liability claims are brought by past or present employees or their families. However, claims may also be brought by another fiduciary or by a regulator. When the regulator brings an action, fiduciaries can face civil penalties as well.

The most frequently alleged claims against fiduciaries include: denial or change of benefits, administrative error, incorrect benefit calculation, improper advice or counsel, misleading representation, wrongful termination of plan, discrimination, conflict of interest, imprudent investment, lack of investment diversity and inappropriate selection of advisors or service providers.

Scenario #1

A management-level employee of the ABC Hotel, earning a $50,000 annual salary, died in an automobile accident. The employee's widow, who was the primary beneficiary of the employee's group life insurance, wrote a letter to hotel management claiming that the life insurance benefit paid to her under the benefit plan should have been five times her deceased husband's salary, not two times his salary.

The hotel denied the widow's benefit claim. She sued, alleging that, although the benefit amount had been twice his salary at one time, her husband had requested that the amount be changed to five times just weeks prior to his death. The hotel denied that any change had been requested. After the hotel investigated the widow's claim, they learned that indeed her spouse had requested an increase in the amount of his group life insurance coverage, but that the hotel's human resource representative had not properly processed the request.

As a result of this revelation, the hotel settled the widow's case for more than $250,000. The hotel's defence costs exceeded $25,000.

Scenario #2

The executive of a biotech firm asked the human resources department to roll over the funds in his retirement plan into specific mutual funds. Almost a year later, noticing the poor performance of the retirement fund, he discovered the firm had mistakenly rolled his retirement funds into money market funds rather than the better performing mutual funds that he selected. Alleging negligence in administration of the plan, the executive demanded that his employer deposit $80,000 into his retirement plan – the amount that the investments would have earned had they been invested as the executive directed.

After investigation, it was determined that the investments were not made as directed by the executive. As a result, $80,000 was deposited into the executive's retirement plan. Additionally, $5,000 was incurred in defence expenses.

Solution

ForeFront by Chubb covers your company and its directors, officers and employees, as well as the benefit plans themselves, against losses arising out of a breach of your fiduciary duty and for wrongful administration of any of your benefit plans.

Coverage is provided for a broad range of allegations including improper disclosure to plan participants, selection of inappropriate advisors or service providers, giving improper advice or counsel as well as lack of investment diversity.

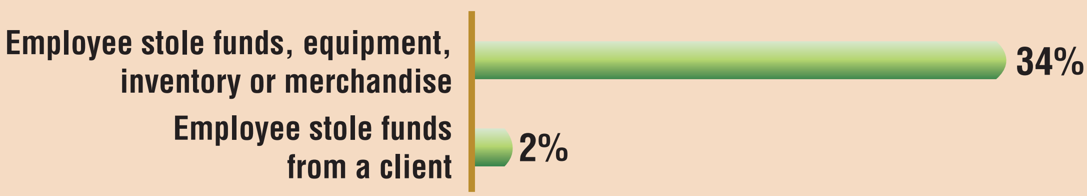
Topic: workplace crime

It's a crime that many private companies don't take workplace fraud more seriously.
Even trusted employees can be tempted and the new digital universe makes it easier. In tough economic times that temptation is multiplied.

Relative to professional/management liability coverage, crime related incidents are the most common among Canadian companies (35%). As such, more executives expect to experience such an incident in the year ahead than any other type of professional/liability related event (34%).

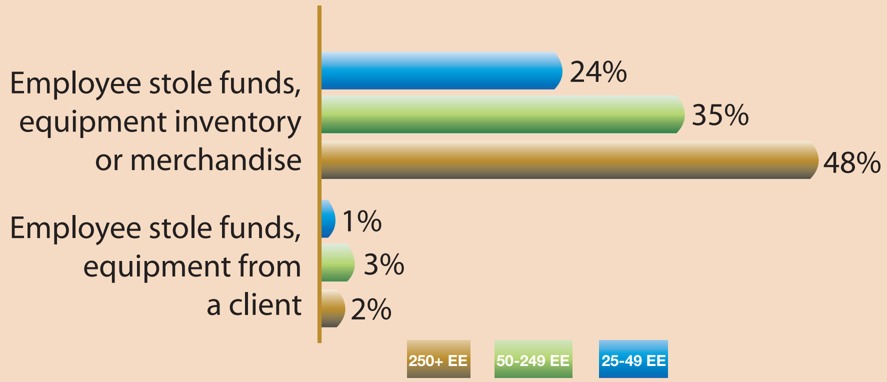
Key Findings Tell the Story

Employee crime is common. About a third of Canadian companies have experienced some type of employee-related crime – such as stolen funds, equipment, inventory or merchandise – during the past five years.



Tough economic times make employees feel entitled and tempted in ways not experienced before and not anticipated.

The frequency of some type of employee-related crime increased significantly as company size increased. Larger companies (250+ employees) were more likely than smaller companies to have experienced such an event.



Workplace crime can be costly. For companies in the Chubb study that experienced some kind of employee theft in the past five years, the average reported loss was:

$42,108

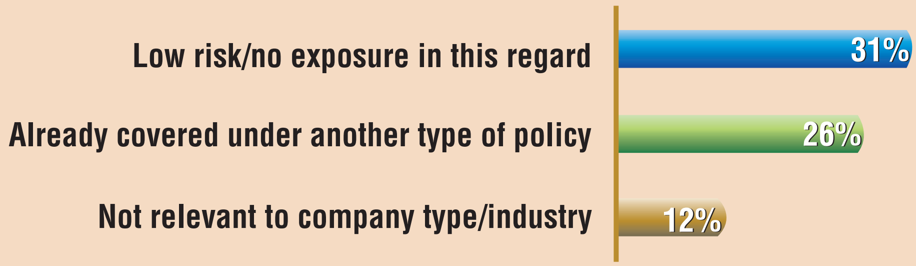
The risk is real. Approximately a third of executives (34%) believe it is likely that an employee will steal from their company in the year ahead.

A higher percent of executives at larger companies (250+ employees) believe it is "very likely" that an employee will steal funds, equipment, inventory or merchandise from their company in the coming year.

*Percent "Very likely"

Despite the widespread nature of employee theft, many private companies go unprotected. Approximately 2-in-5 (39%) of Canadian companies purchase crime insurance. The majority (95%) of respondents who do not purchase crime insurance do not plan to do so in the year ahead.

What are the assumptions that leave private companies exposed to crime? A closer look shows that the top three reasons given by the executives in the Chubb survey for not buying this coverage were:



Loss Scenarios

Scenario #1

A computer cord manufacturer's plant manager went on a two-week vacation, during which the company discovered that its inventory records did not match with shipping and receiving.

After a review of inventory, the company found that over 200 pieces of inventory were missing. An investigation concluded that the plant manager and a truck driver had been conspiring for 18 months to place extra pieces of inventory on the driver's truck. The truck driver then delivered the extra pieces to a buyer who paid the driver cash. The driver and plant manager split the cash payment. The stolen inventory had a value of more than $150,000.

Scenario #2

A trusted high-ranking member of an architectural design firm's management team was charged with harassment by a number of subordinate employees and was suspended. In the ensuing investigation, it was also discovered that, over a three-year period, the manager had been obtaining reimbursement from the firm for personal expenses, such as expensive restaurant tabs and air tickets for female companions who accompanied him on various trips.

The employee submitted documentation for the expenses but lied on his expense forms about the business purpose. The manager's schemes resulted in losses to the firm of more than $100,000.

Solution

Chubb's Crime Insurance Policy allows insureds to select their level of protection from a wide range of optional insuring clauses which include: employee theft coverage; premises coverage; transit coverage; forgery coverage; computer fraud coverage; and funds transfer fraud coverage. Insurance coverage can also be purchased for clients, which can be invaluable if services are provided to clients and employees have access to the client's money, securities or property.

The policy responds in the event that an employee steals from a client and to theft from an employee benefit plan. A sublimit of protection is available to cover the expenses associated with the investigation and establishment of a covered loss.

Topic: professional errors & omissions liability

When a small mistake can put you out of business, it is time to take notice. In a service-oriented economy, a small mistake or misunderstanding can cripple a private company through legal actions and disruption of work flow.

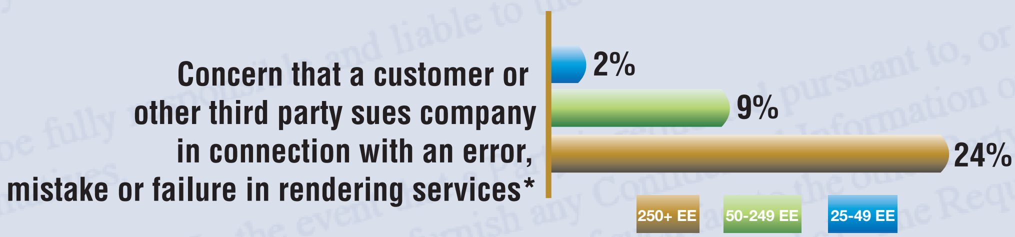
Despite the growing risks, most private companies are not protected against professional errors and omissions, even though almost two-thirds (64%) routinely use contracts when engaging with third parties, clients and customers, and most (61%) plan to broaden their product offerings in the year ahead.

Key Findings Tell the Story

Contrary to beliefs, private companies get their share of errors and omissions lawsuits. Roughly 1-in-10 companies (12%) have been sued in connection with errors and omissions (E&O) within the past five years.

Customer/third party sues company for error, mistake or failure in services 12%

A number of executives are concerned about lawsuits. Executives at larger Canadian companies (250+ employees) are more likely to be concerned that a customer or other third party may sue the company in the year ahead in connection with an error, mistake or failure in rendering services.



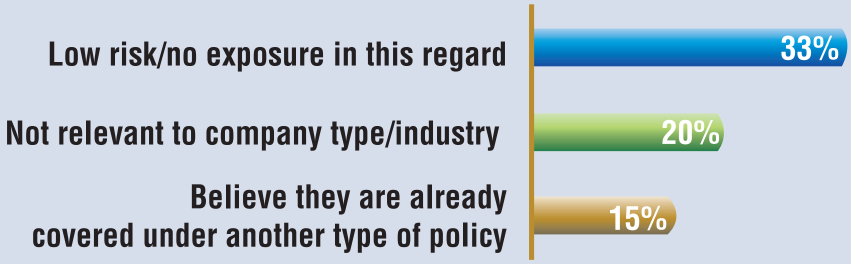
*Percent "Somewhat likely"

An E&O incident can be costly. For the companies in the Chubb study that experienced an E&O lawsuit in the past five years, the average loss was:

$73,649

In spite of the risks, many executives overlook their company's need for professional liability coverage. More than one-quarter (29%) of executives purchase E&O insurance. Canadian companies that have experienced an E&O-related event in the past five years are more likely to purchase coverage for errors and omissions.

What are the assumptions that leave private companies exposed to E&O risk? A closer look shows that the top three reasons given by the executives in the Chubb survey for not buying this coverage were:



Loss Scenarios

Scenario #1

A retail store owner contracted with a local printer to print flyers announcing a sale event. The delivery time dictated within the contract was 10 days prior to the event date. The printer completed the job three days late, causing the retail store owner to miss the deadline for submitting the flyers for insertion and delivery in a weekly journal.

The retail store owner sued the printer for negligent misrepresentation and breach of contract, seeking compensatory damages for lost revenue. The case settled for nearly $50,000. The printer incurred defence costs of almost $15,000.

Scenario #2

A temporary staffing firm assigned two temporary bookkeepers to a company for one year to cover two maternity leaves. During this period, the bookkeepers failed to pay the mortgages on the company’s properties, as well as the property taxes, resulting in a loss to the company of more than $1 million.

The company sued the staffing firm for the amount of the loss, alleging negligence. An investigation revealed that both employees had work histories of poor performance and that one had once been fired for incompetence. The company succeeded in showing that had the temporary staffing firm conducted thorough background checks on its temporary employees, it would have discovered the poor work histories.

The case settled for more than $325,000. The staffing firm incurred defence costs of more than $100,000.

Solution

Chubb's Professional Liability Insurance policy offers protection for negligent acts, errors or omissions in the performance of professional services for a fee as well as failure, or the failure of another party for whom you are legally responsible, to perform professional services.

The policy protects directors, officers, all employees and volunteers worldwide from the potentially disastrous financial consequence of a professional liability claim.

Topic: kidnap/ransom and extortion

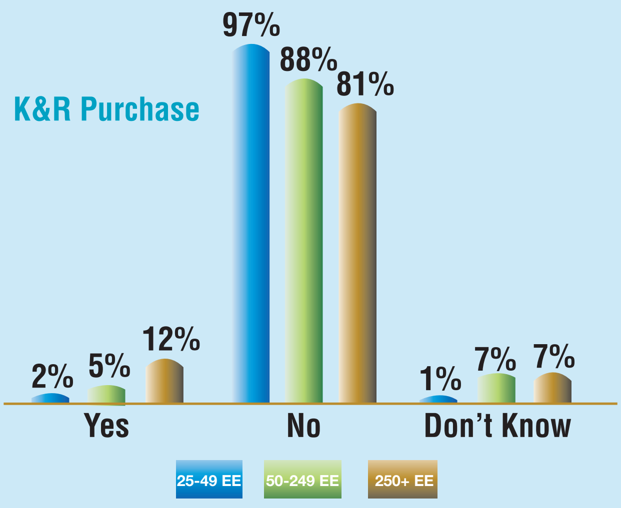
Blind Spot: Private company executives fail to see kidnap or extortion risks in an increasingly dangerous world. Many private companies look to international opportunities for growth, sometimes not realizing that even innocent travellers can invite the risk for kidnap and ransom. Many companies are planning to add international offices. About 1 in 5 executives say it is likely their company will be adding international offices (17%) in the year ahead.

The potential for loss is enormous in talent, money and operational disruption. With changing international economics, politics and attitudes about foreigners, the risks are increasing.

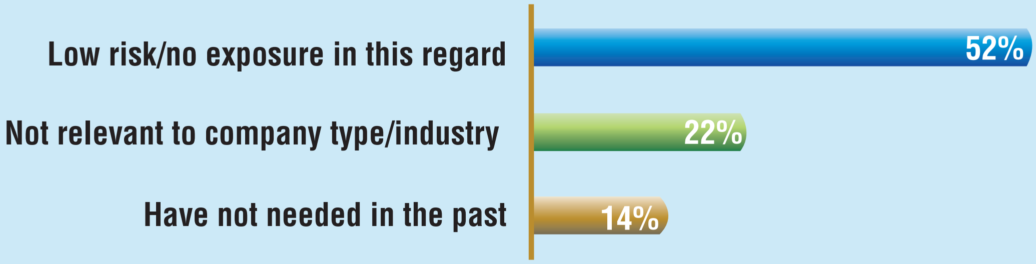
Key Findings Tell the Story

Executives believe that kidnap and extortion are unlikely events. A very small proportion of companies have experienced a kidnapping, ransom or extortion related incident. A majority (90%) of respondents do not purchase coverage for kidnap, ransom and extortion, nor are they planning to purchase it in the year ahead.

Larger companies (250+ employees) are more likely to purchase kidnap, ransom and extortion insurance than smaller companies (12% vs. 4%, respectively). However, among those that do not currently purchase K&R coverage, virtually no one is planning to do so in the near future, regardless of company size.



What are the assumptions that leave private companies exposed to kidnap and extortion risk? A closer look shows that the top three reasons given by the executives in the Chubb survey for not buying this coverage were:



Loss Scenarios

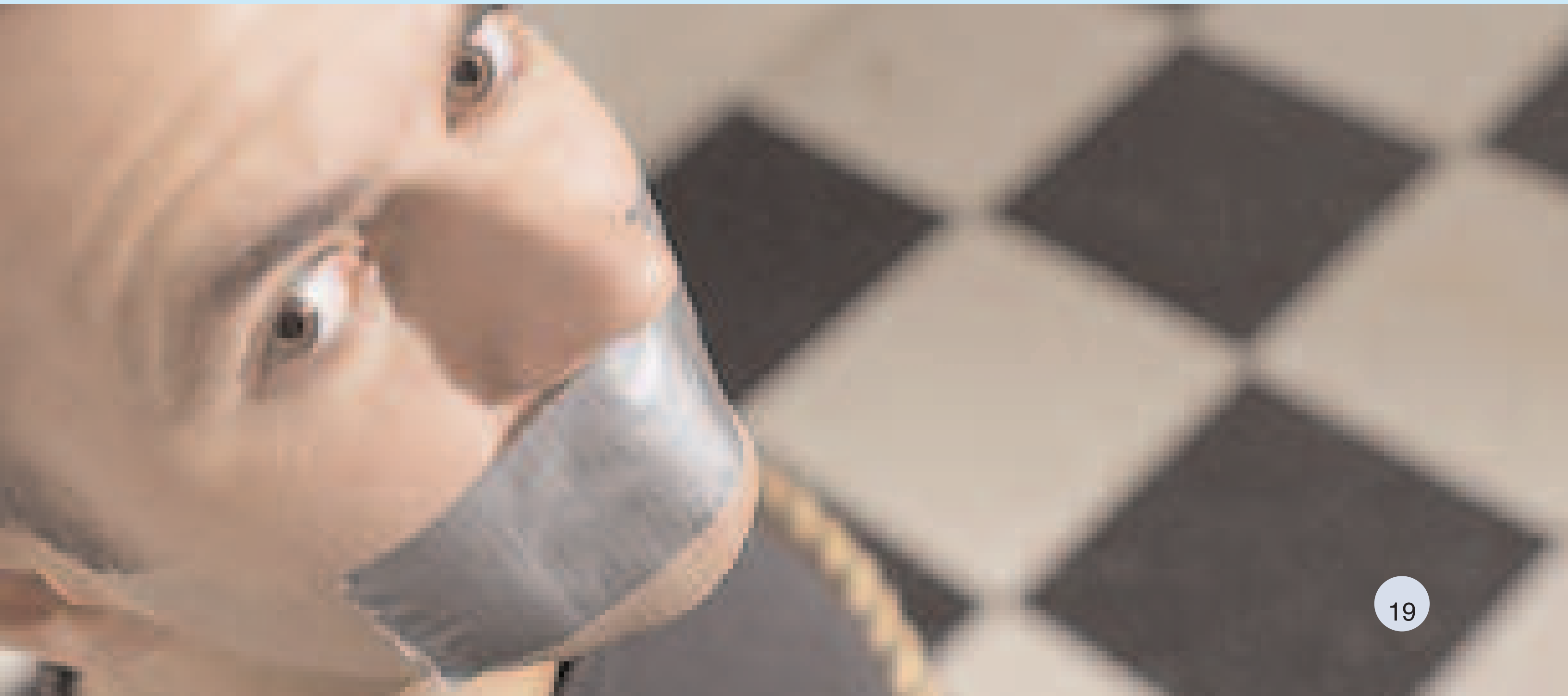
Scenario #1

A Canadian company sent an employee to Mexico to manage a joint venture. The employee began receiving anonymous threats saying that if he did not leave the country he would be killed. The company repatriated the employee to Canada and retained a consultant to investigate the threat and to give advice on how to respond. The company paid more than $15,000 in consulting fees.

Scenario #2

A disgruntled vendor, who had a history of violent behavior, demanded $100,000 and threatened to damage the company's building and delivery vehicles if payment was not made. This verbal threat was followed by a series of threatening letters. The company called in a security consultant to deal with the extortionist.

The security consultant arranged a meeting between the vendor and two police officers. The officers informed the man of the seriousness of his threats and their legal ramifications. As a result of the meeting, the vendor agreed to stop his activities. The company paid more than $50,000 in security consultant expenses.



Scenario #3

A CEO received a telephone call demanding a payment of $100,000 or else he and his wife would be killed. The CEO delivered the money to the drop-off point designated by the caller, but the money was not picked up. A few months later, the CEO received another call demanding $125,000 or else he and his wife would be killed. The CEO again delivered the money to the drop-off point, and again it was not picked up. Between the first and second threats, the CEO's company hired an independent consultant to investigate who may have been responsible for the threats.

The consultant determined that a former employee was involved. The police were notified, and the threats stopped. The company paid more than $40,000 in consulting expenses.

Solution

Chubb's Kidnap/Ransom and Extortion Insurance policy includes risk mitigation information and immediate access to security consultants. The insurance policy reimburses ransom or extortion money paid, and provides broad expense coverage. These expenses can include costs for independent security consultants, public relations consultants, legal advice, interest on a loan taken to pay a ransom or extortion demand, reward for information leading to the arrest of the perpetrators, the kidnapped employee's salary, and any reasonable expense incurred.

The Kidnap/Ransom and Extortion Insurance policy also covers the expenses incurred in dealing with a political threat, product recall, or an emergency political repatriation. Your company is covered and all your employees, the relatives of your employees and guests on your premises.

Chubb pays for the services of The Ackerman Group, Inc., or another crisis management expert of your choice. Chubb also provides you with access to state-of-the-art travel information. Chubb clients are guaranteed an immediate response from The Ackerman Group in a tense emergency situation.

Summary

Are Canadian private companies exposed?

Two out of three (66%) Canadian private companies experienced some type of top management/professional liability event in the past five years, including workplace crime (35%), employment practices liability (34%) and directors and officers liability (25%), according to the Chubb 2007 Private Company Risk Survey. Furthermore, in 2008, 34% of the companies expect to experience workplace fraud, 31% a D&O liability lawsuit, and 25% an EPL charge or lawsuit.

However, the private companies may not be purchasing sufficient insurance to help protect their bottom line from a costly event, such as a liability lawsuit or employee fraud.

- The Chubb survey found that 31% of Canadian companies do not purchase any type of management liability/professional liability coverage.
- Few companies purchase crime (39%), D&O liability (35%), errors and omissions liability (29%), EPL (22%), fiduciary liability (13%), cyber liability (10%), workplace violence expense (8%), or kidnap/ransom and extortion (5%) insurance.

Today's global economy and widespread economic downturn creates risks for companies of all sizes. Private company executives indicated their firms are likely to broaden product offerings (61%), make a major acquisition (30%), reduce workforce size (25%), outsource functions or operations (24%), and/or reduce or eliminate employee benefits (11%) in 2008, according to the Chubb survey.

Funds are limited. A 2008 *Inc./Fast Company* survey asked small to midsized businesses what it is that marketers don't understand about them, the most common answer given was "limited funds available." This suggests a critical need for financial protection that many businesses seem to overlook. Certainly budget is an important consideration, but one needs to evaluate the financial effect that an alleged wrong could have on a company's operations and financial health.

In today's litigious society, it is riskier than ever not to insure. Because the costs to defend even a groundless claim can be significant, an informed decision needs to be made as to how much risk to retain versus transfer.

Executives commonly turn to others for advice about various risks to the company.
These sources are largely insurance agents/brokers or outside lawyers.

	Insurance Agent or Broker	Outside Lawyer	Professional Association	Only turn to sources inside company	No need to turn to anyone inside or outside the company
Damage/loss from employee theft	**46%**	32%	1%	4%	0%
Damage/loss from workplace violence	27%	**43%**	2%	4%	0%
Liability for errors or omissions	**43%**	36%	1%	4%	1%
Liability from employment practices	21%	**49%**	2%	5%	1%
Liability from company actions as a fiduciary	27%	**47%**	1%	4%	2%
Liability for an electronic security breach involving customer information	32%	**37%**	3%	5%	1%
Liability from actions of directors and officers	31%	**50%**	0%	5%	1%
Damage/loss kidnap, ransom and extortion	**31%**	27%	3%	3%	2%

Although many Canadian private companies buy management liability and crime insurance coverage, (69% of Canadian companies buy some type of management/professional liability insurance) most do not, suggesting that their executives have a critical need for more information about the risks their companies face, for several reasons:

- Litigation against “deep pockets” is commonly seen as the means to correct perceived wrongs;
- A management liability lawsuit can result in significant financial loss to the company in the form of defence expenses, judgments, and penalties, not to mention *personal* financial loss to company executives;
- A decision to not properly mitigate potentially serious management liability and crime risks through insurance could prove financially disastrous.

About the Survey

The 2007 Chubb Private Company Risk Survey represents a first of its kind in Canada in terms of its focus and depth. It provides an unprecedented 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 469 private companies in the United States and 300 in Canada. 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 practices in place to protect companies against management liability risks;
- Why companies do or do not have 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 (K&R)

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

For additional information about Chubb contact us at one of our regional offices:

Toronto	Montréal	Calgary	Vancouver
Phone: (416) 863-0550	Phone: (514) 938-4000	Phone: (403) 261-3881	Phone: (604) 685-2113
Fax: (416) 863-5010	Fax: (514) 938-2288	Fax: (403) 269-2907	Fax: (604) 685-3811

CHUBB INSURANCE www.chubbinsurance.com

Chubb Insurance Company of Canada

PCSURV2008