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Executive Risk Services reviews corporate governance before setting D&O coverage
JANET MCFARLAND

INSURANCE

**Fledgling firm
breaks free
of the 'matrix'**Executive Risk Services reviews corporate
governance before setting D&O coverage

When Elan Pratzter began working for a venture capital firm last year, he went out shopping for liability insurance for the boards of directors he was helping set up at small companies. The veteran board consultant -- who was previously Canadian managing director of executive search firm Korn/Ferry International -- says he was dismayed to see the high costs being charged for policies that seemed to exclude as many risks as they covered. "A year ago, it was just on the heels of Enron, and the market was a hard market," he said. "Prices were very high and terms were quite restrictive. That's what was troubling me: I perceived I was getting very little for a lot."

So six weeks ago, Mr. Pratzter opened Canada's newest specialized insurance company, offering directors and officers (D&O) insurance for boards of directors and senior executives. He says Toronto-based Executive Risk Services Ltd. is taking a new approach to selling the traditional product, setting its D&O coverage based on a thorough review of each company's individual risks -- most notably an extensive review of its corporate governance practices.

The idea, he says, is that the insurer will assess each company individually without relying on a "matrix" to set prices. That means companies aren't simply slotted into fixed categories based on size or industry sector, which has become a standard industry practice. "What happened when I went to the market . . . was they had all these answers that their matrix delivered, but I felt they had very little understanding of our real risk," said Mr. Pratzter, who is the company's chief executive officer. "So I went out there to build a facility in Canada that underwrites the risk here." Because most other D&O insurers in Canada are subsidiaries of foreign companies, Mr. Pratzter says many insurers offer coverage on the basis of U.S. formats for U.S.-style risks. "Our strategy is to say, 'We should have very senior domestic underwriting capability on the ground in Canada to assess risk on a Canadian basis,'" he says.

To do this risk assessment, the insurer is asking companies to complete a detailed survey about their governance practices. The survey includes standard questions about issues such as board and committee independence, but it also goes beyond basic regulatory matters to delve more deeply, asking about topics such as the company's compensation policies, board recruitment practices and decision-making practices at the board level.

The company's goal is to provide more extensive D&O coverage for companies with good governance, while managing the liability for the underwriter by attracting firms that do a better job of addressing their risks.

Mr. Pratzter says he and his colleagues are also doing their own research to assess companies, such as reviewing the quality of directors and senior managers. He says his extensive background in director search in Canada has left him well-connected. "I can gather interesting, insightful information on almost any board member anywhere in the country, and that is part of our process," he said. Executive Risk Services has been authorized as a "coverholder" to write policies for Lloyds of London, ensuring its D&O insurance policies are supplied by one of the world's largest underwriters. Lloyds extensively reviewed the business model when it agreed to let Executive Risk Services write insurance, but all the work is done by the Canadian company.

The coverage is sold through brokers in Canada. Mr. Pratzter says his firm pays no contingency fees or profitsharing to brokers -- controversial issues currently under review in the United States -- and tells each customer how much commission was paid to the broker for the sale. The company is also offering more coverage as standard features in its policies than have traditionally been available in Canada.

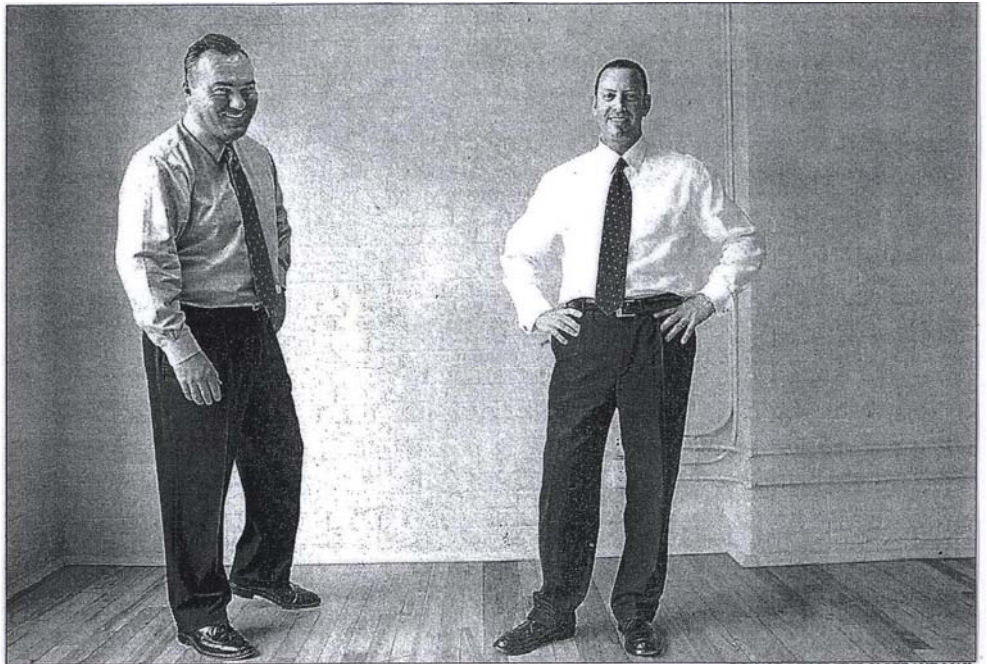
Scott Saddington, chief underwriting officer at Executive Risk Services and a former senior executive at companies such as American International Group (AIG) and Liberty Mutual Insurance, says he has found that some D&O insurers in Canada don't provide all the same features in Canada as they offer internationally, even when they are subsidiaries of international parent companies. He said Executive Risk Services will bring these extra features to the Canadian market.

"You can get terms and conditions in most areas of financial risk management in Asia-Pacific, the U.S. and Europe on a broader basis than you can get in Canada -- from the same companies that are in Canada," Mr. Saddington says.

Executive Risk Insurance provides coverage for Directors, Officers and Trustee's Liability and Fiduciary Liability on behalf of certain Lloyds of London underwriting syndicates.

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The company is offering D&O coverage to any size of company, both public or private. In its first weeks of operation, Mr. Saddington says large companies have already signed up for new D&O coverage. But small companies are also a welcome customer for the firm. Mr. Saddington said some competing insurers won't offer D&O coverage to a new startup business at all, saying it is too difficult to assess the risks when there is no track record of profitability.



DONALD WEBER/THE GLOBE AND MAIL

Chief underwriting officer Scott Saddington, left, and Elan Pratzler, CEO, of Executive Risk Services. The company offers directors and officers (D&O) insurance for boards of directors and senior executives.

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