XIV CONGRESO ESPAÑOL DE GERENCIA DE RIESGOS Y SEGUROS

II AÑO EN LA NUEVA ERA: LOS CAMINOS DE LA INCERTIDUMBRE

El Buen Gobierno de las Empresas y la
Responsabilidad Civil de Consejeros y Directivos

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José Carlos Marcos Jiménez

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INSURANCE CORPORATE SCANDALS CAUSE BILL FOR PROTECTION AGAINST DIRECTOR LAWSUITS TO NEARLY QUADRUPLE TO $22M

GE hit by huge rise in D&O cover

By Andrew Hill in New York

General Electric is having to pay nearly four times as much to insure its directors and top officers against lawsuits than it did a year ago.

The US industrial and investment company revealed in its proxy filing yesterday that it was now spending annually $22.1m on directors and officers (D&O) insurance, compared with $5.8m a year before.

All US companies have been hit with higher insurance premiums following the spate of corporate scandals last year, which in turn triggered a wave of shareholder litigation. Xerox, the copier and printer group that was hit by an accounting scandal, was obliged to pay 10 times more to insure its directors and officers.

The GE proxy also showed that Jeffrey Immelt, chief executive, had received a 9 per cent increase in his total annual compensation in 2002, to $6.95m, in spite of the difficult year the group suffered. That included a bonus of $3.9m, up from $3.5m in 2001, when he took over from Jack Welch.

The group's compensation committee said that it "considered this level of pay and bonus appropriate" because of Mr Immelt's role in leading the company to "solid financial results in an extremely challenging global economic environment". The directors on the committee also cited Mr Immelt's commitment to making GE a leader in "integrity, transparency and corporate governance at a time of convulsive change in business regulation and investor expectations", among other qualities.

Mr Immelt has committed himself to buying stock in GE with his bonus and with the extra $6.7m in long-term incentive payouts that he received last year.

Mr Immelt also received 1m stock options, valued at $8.5m, compared with 1.2m options granted in 2001, which were valued at $19m, because of the higher strike price of those incentives.

All told, Mr Immelt's compensation last year – including option grants and long-term compensation – was worth $22.9m.

The company said Mr Welch, although now retired, also received $14m from the 2000-2002 long-term incentive programme, covering the period until September 2001 when he was still chairman and chief executive.

The increase in D&O insurance follows a switch in insurers by GE. The group now buys that insurance from ACE, XL and Berkshire Hathaway. In 2001, the principal underwriters of GE's D&O policy were Zurich Insurance and Executive Risk Speciality Insurance.

FASB looks at stock options, www.ft.com/financialservices

AIG hit by rising liability cost

By Adrian Michaels in New York

AIG, the world's largest insurer, has suffered a sharp rise in the cost of directors' liability insurance, reporting an almost 66 per cent jump in the price of the premium it pays to protect its own board and executive officers.

Directors' and officers' insurance – known as D&O – has become far more expensive following the wave of corporate scandals, the huge increase in shareholder litigation against companies, and the rising cost of individual pay-outs.

Ironically, AIG has pushed through steep increases in the prices it charges others for D&O but is itself feeling the effects of them. In a filing with US regulators, it said its premium cost $2.85m (€2.66m) for the year to the end of next month, up 58 per cent from last year's $1.8m. AIG did not say where it purchased the insurance.

Many insurers are also suffering because they underpriced the policies in previous years.

AIG warned more than a year ago, before the extent of the corporate scandals became clear, that the insurance industry was facing a bad run of D&O claims. This February the company surprised investors with a $2.8bn pre-tax charge, mostly to boost reserves for casualty claims and to account for directors' pay-outs.

Meanwhile, the insurer continued its quiet corporate governance revolution. Speculation still surrounds succession at the company, which has been run by Maurice "Hank" Greenberg for more than 30 years. Mr Greenberg has shown no inclination to retire but has said that a successor has been chosen.

AIG watchers have observed that once favoured staff have been sidelined while others rise up the ladder. Martin Sullivan and Edmund Tse were named co-chief operating officers a few months ago. At the weekend, AIG said three board members were not standing for re-election at the annual meeting in May. Eli Broad, Ed Matthews and Tom Tizzio have all been tipped by analysts as possible contenders.

Mr Greenberg went without his bonus in 2001 after the September 11 terrorist attacks harmed pe formance, although his bonu was reinstated in 2002.

He was paid $1m in salary, $5m bonus, and was awarde 375,000 stock options and $86,0C from a separate savings plar There was also an $11m pay-ou from a long-term incentive pla set up some time ago.

AIG does not pay for the plar however, which has been covere by AIG shares held in a privat holding company in Bermuda se up in 1975. The shares were pu there to provide lucrativ rewards for long-term service t the company. Executives becom eligible for the payments as the rise through the company bu they typically collect only o their retirement.

AIG has already made si nificant changes in its commun cations strategy in response t changing governance expect tions, holding its first earning conference calls, making full-yea profit forecasts for the first tim and increasing the detail of i financial statements.

www.ft.com/insurance