GLOBAL FINEX - DIRECTORS' & OFFICERS'

GB Directors' & Officers' Market Update

H1 2022

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This update analyses our observations of the current market conditions for Directors' and Officers' (D&O) insurance and the impact this has on board directors, non-executive directors and insurance buyers.

GB D&O Overview

H1 2022

- H1 2022 has continued the improvements in the GB D&O market.
- 37% of clients saw their primary layer renew flat or with a discount in Q2 2022 and 69% saw their excess layers renew with a discount (see page 12).
- By contrast, average rate on line for SME businesses has seen increases in H1 2022, erasing the decreases seen in Q3 2021 (see page 10). In practice our brokers' experience has been that underwriters are now finding it harder to obtain increases on SME business save for clients in specific industries or with adverse underwriting factors.
- More insurers are offering better policy terms including increasing numbers once again writing on WTW's proprietary (DARCstar wording).

FINEX GB D&O Market Conditions

H1 2022

Capacity	Coverage	Claims and Losses	Premiums and Retentions
Increasing	**More Restrictive Conditions**	**Fluctuating**	**Increase Slowing**
• Many London market insurers continue to operate with smaller lines compared with 2018-19. • Several insurers are offering increased line sizes of $15m on excess layers, while $10m remains usual for the primary layer. • At the time of writing some insurers are increasing participation across a tower for risks within their risk appetite – up to $25m can be made available split across multiple layers.	• Continued increased willingness from insurers to write on DARCstar. • Some softening of wordings in some areas with some insurers showing willingness to increase sub-limits and re-introduce some extensions that were removed in the hard market. • Reduced focus on COVID-19 questions • Increased focus on ESG questions	• Increasingly regulated global environment creating greater exposures and potential for regulatory and follow-on civil claims. • WTW GB claims database indicates that while notifications in 2020 and 2021 were down compared to the highs of 2018 and 2019, they remain high compared with the average since 2007. • According to The Stanford Law School/Cornerstone's Securities Class Action Clearinghouse (http://securities.stanford.edu/charts.html), Securities Class Actions for 2022 are down from the historic highs of 2017-2020, continuing to be approximately at the same level as 2021 (with both 2021 and the estimated annualised figure for 2022 being similar to the level in 2015).	• The increase in primary layer premium for the average client purchasing an ABC D&O programme in H1 2022 was 8%, with Q2 2022 improving that to 4% (see page 8). • 37% of our clients saw flat or reduced primary layer premiums in Q2 2022 and 69% on excess layers (see page 11). • Clients in challenged sectors or with recent claims continue to see price increases. • Side B & C retentions: higher retentions remain common. • USA Side C retentions: we are seeing insurers targeting minimum $2.5m; however, may be as high as $5m or $10m depending upon market cap.

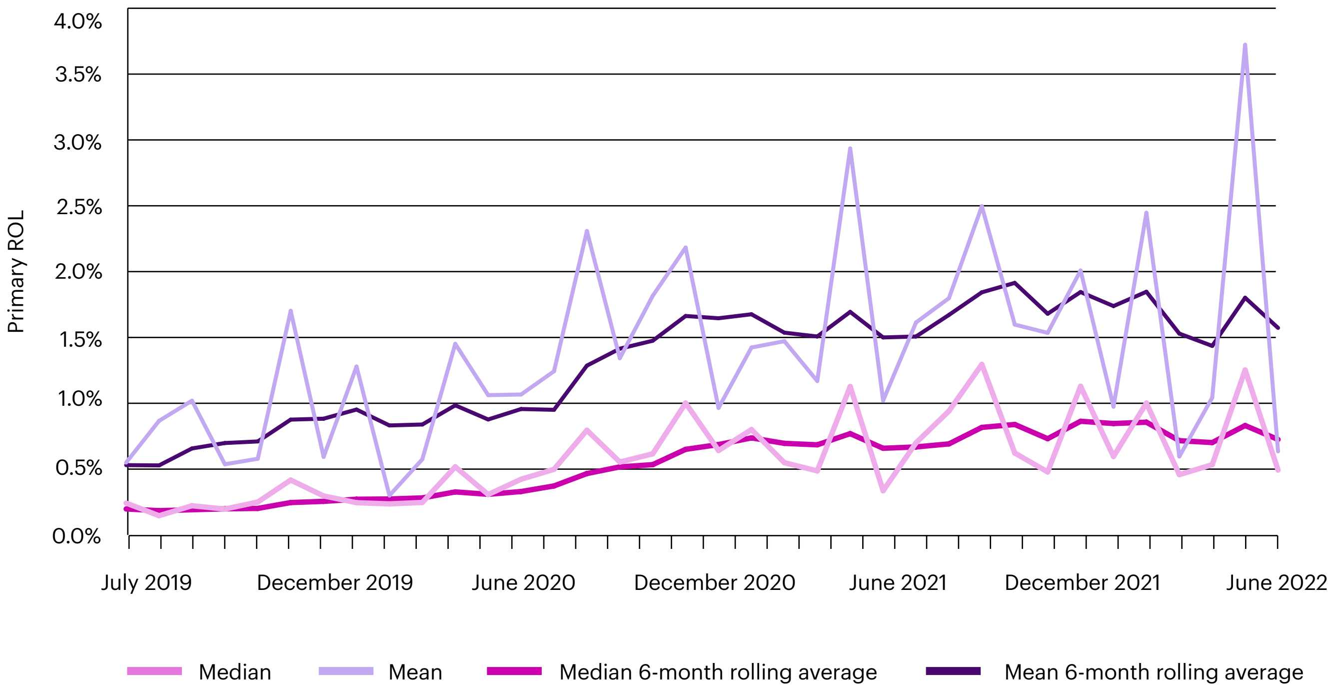
We have undertaken several analyses to look at the impact of the hard market on our clients and these follow on the next pages.

- Change in the average rate on line ("ROL")
- Change in capacity offered by each insurer in the GB market

Rate on Line ("ROL") Analysis (ABC policies)

Primary layers only

In H1 2022 the mean primary ROLs had decreased to 1.45% showing a 20% decrease from the half year (H2 2021). The rolling 6-month ROL average for more challenged (90th percentile) placements now stands at 4.3%, relatively consistent with 4.5% in Q4 2021.



Source: Data from WTW FINEX FINMAR client placements, sourced as at 13 July 2022, see Appendix I for further information.

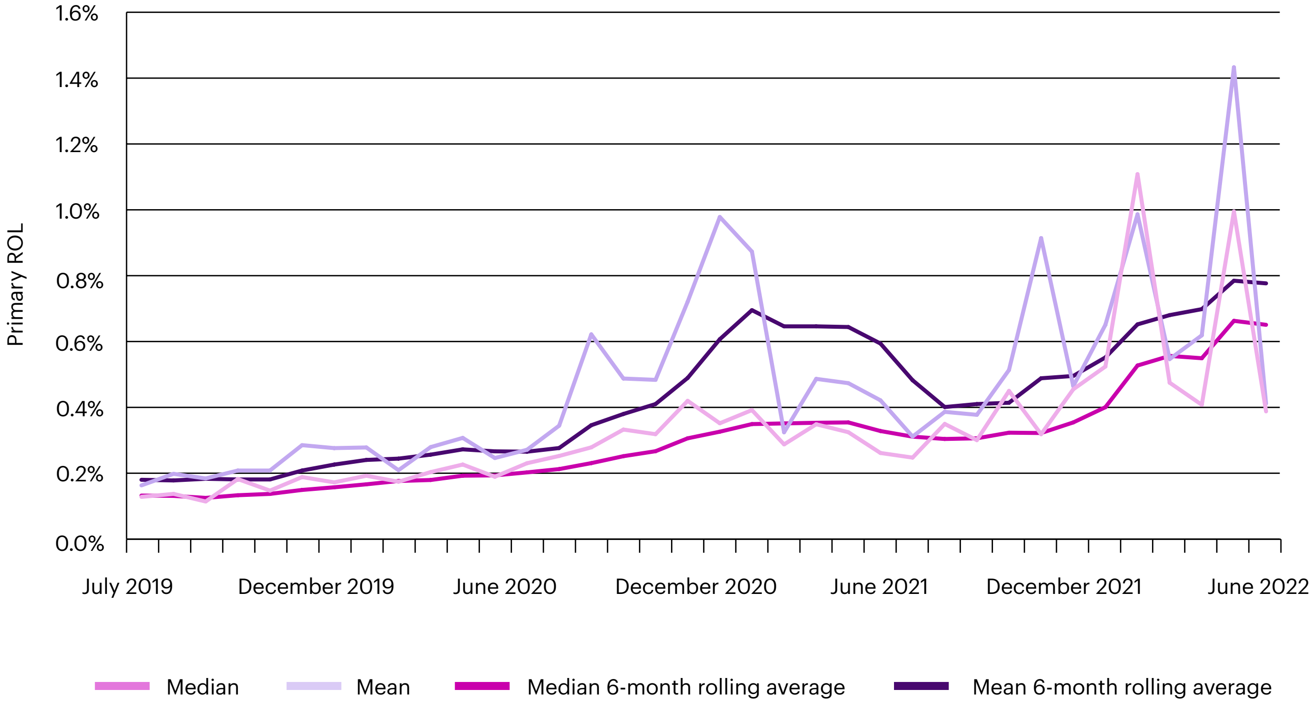
ROL is calculated by dividing the premium by the limit of liability that is being purchased and expressing that as a percentage. This shows the proportional cost of the limit of liability being purchased by each client.

An ABC placement is one which includes cover for Side A (D&O non-indemnified loss), Side B (D&O indemnified loss) and Side C (Company Securities Claims).

SME Rate on Line ("ROL") Analysis

Primary layers only

Following a period of mean rates for SME primary lawyers declining in Q3 2021, there has been a fairly steady recovery in those rates with the mean rate peaking in May 2022 at 0.78%.



Source: Data from WTW FINEX FINMAR client placements, sourced as at 14 July 2022, see Appendix I for further information.

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Primary ROL change – ABC only

Changes seen at renewal

In the first half of 2022 the average primary layer continued to see small increases, with this trend decreasing in Q2 2022. US exposed public companies (for whom the rates are generally already high) are on average now seeing decreases.

Over H1 2022

	Median Change	Mean Change
All companies	5%	8%
Public companies	1%	-1%
US exposed companies	6%	14%
US exposed public companies	-2%	4%

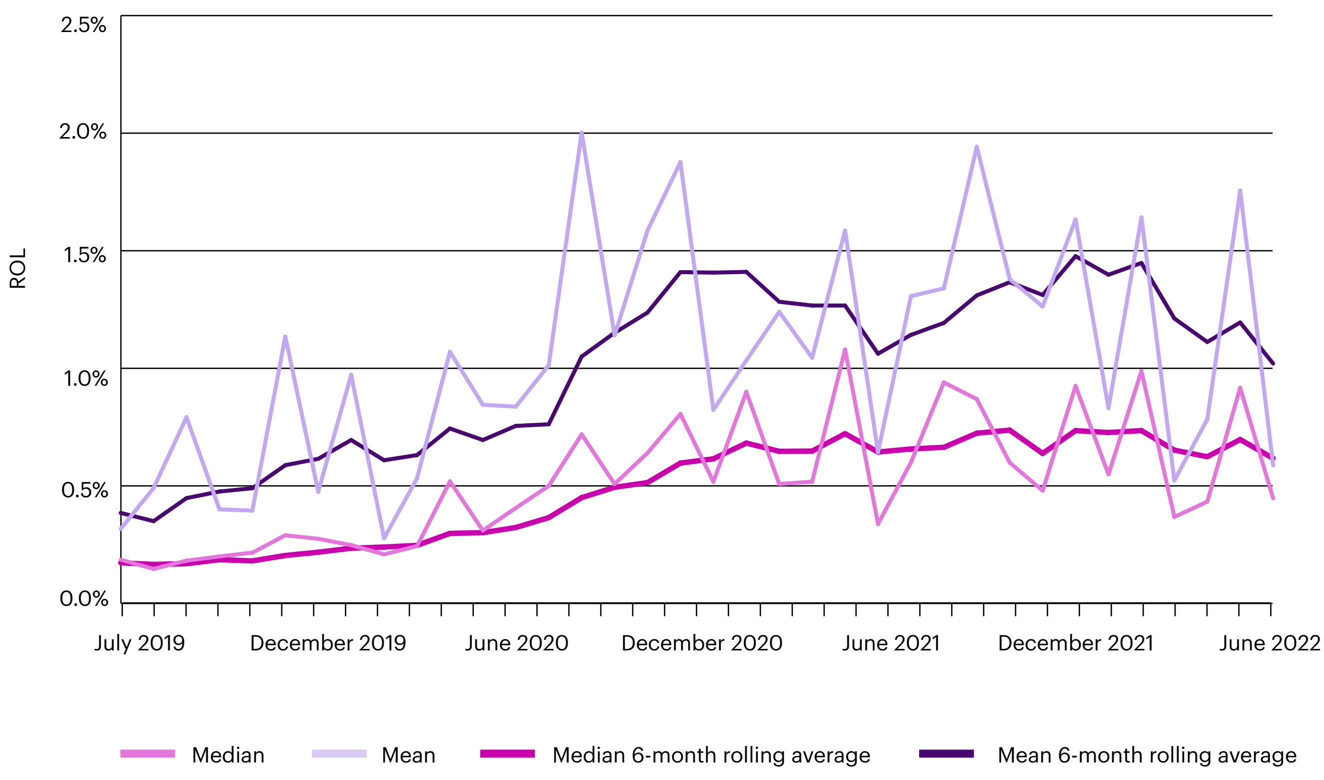
Over Q2 2022

	Median Change	Mean Change
All companies	5%	4%
Public companies	0%	-8%
US exposed companies	3%	7%
US exposed public companies	-8%	-8%

Rate on Line ("ROL") Analysis – ABC only

Whole tower

The average ROL paid for ABC placements across the whole tower has decreased in H1 2022, with median change of -15% and a mean of -33% compared to H2 2021.



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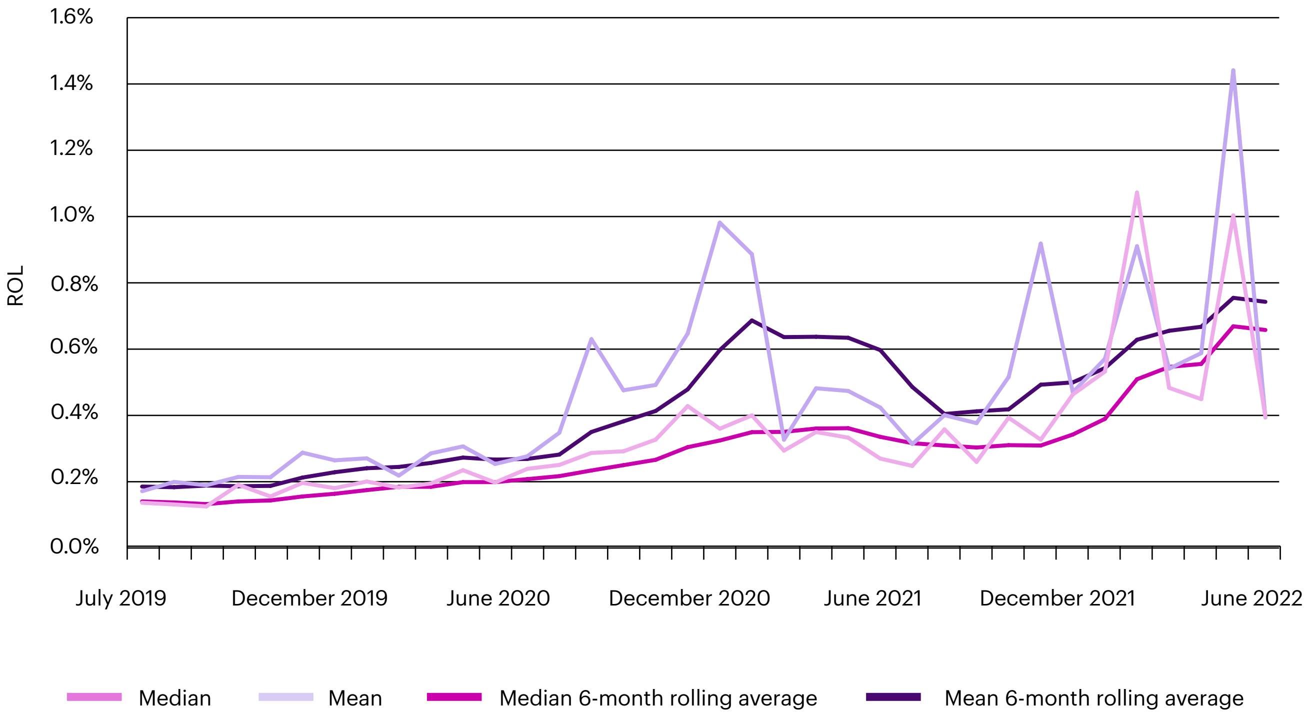
SME Rate on Line (“ROL”) Analysis

Whole tower

The position for the ROL for SME whole tower tracks the primary, with decreases in the mean rate in Q3 2021 being followed by a recovery of the rates and a peak in May 2022 at 0.75%. Anecdotally, our brokers’ experience in practice has been that underwriters are now finding it harder to obtain increases save for clients in specific industries or with adverse underwriting factors.



Source: Data from WTW FINEX FINMAR client placements, sourced as at 14 July 2022, see Appendix I for further information.

Excess layer ROL change – ABC Only

Changes seen at renewal

Q2 saw the trend of decreases in excess layer ROL continue.

Over H1 2022

	Median Change	Mean Change
All companies	8%	-6%
Public companies	-11%	-11%
US exposed companies	3%	15%
US exposed public companies	-10%	6%

Over Q2 2022

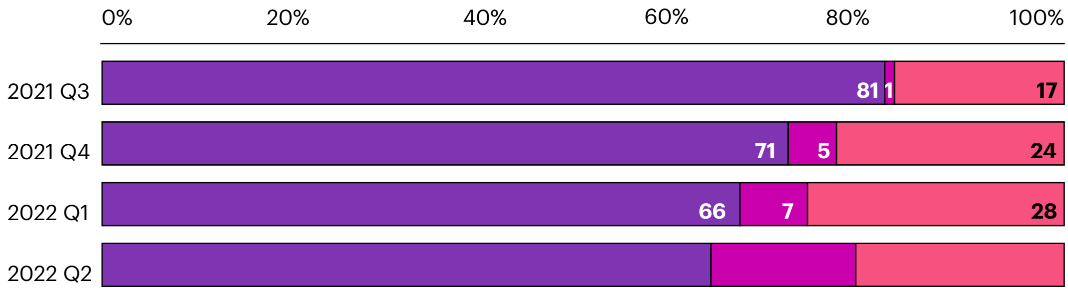
	Median Change	Mean Change
All companies	10%	9%
Public companies	17%	-20%
US exposed companies	-9%	10%
US exposed public companies	-12%	-19%

Tower ROL Analysis – ABC only

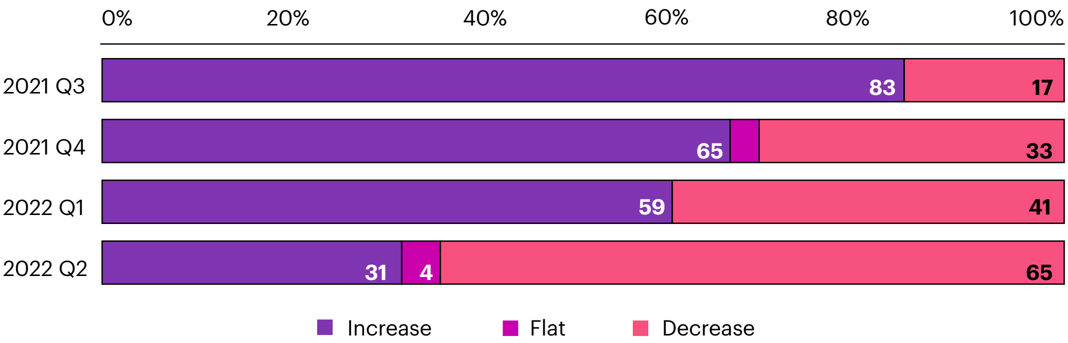
Changes seen at renewal

H1 2022 continued the trend of increasing proportions of our clients obtaining decreases, both on the primary layer and on excess layers. By Q2 2022, 37% of primary layers were renewing flat or with a discount and 69% of excess layers.

Change to primary ROL seen at renewal



Change to excess layer ROL seen at renewal

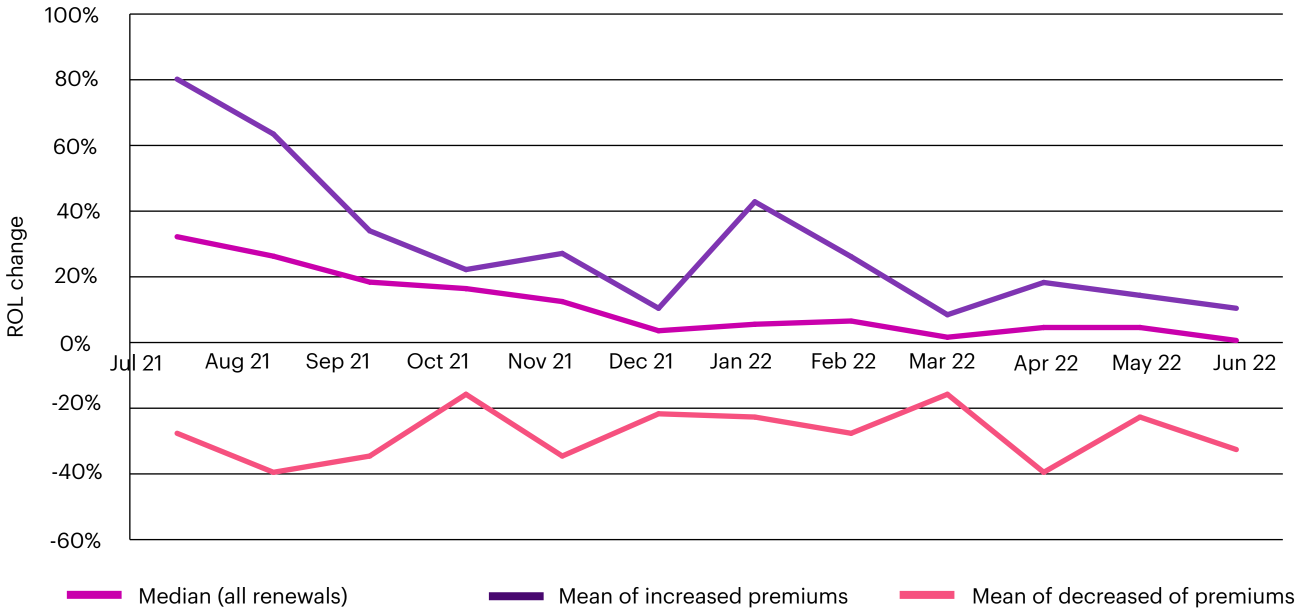


Source: Data from WTW FINEX FINMAR client placements, sourced as at 13 July 2022, see Appendix I for further information.

Primary ROL Analysis - ABC only

Changes seen at renewal

As H2 2021 progressed the increases seen at renewal have slowed down, with the most favorable renewals occurring in December 2021. Despite a jump in January 2022 increases at renewal remain far lower than seen a year ago and continue to be on a downward trajectory. In the second quarter of this year, for firms seeing an increase, the mean increase was 17% compared to 30% in the first quarter. The median ROL is on a steady downward trend – reaching a low of 2% in June. For firms seeing decreases in their premiums these remained relatively steady through the interval.

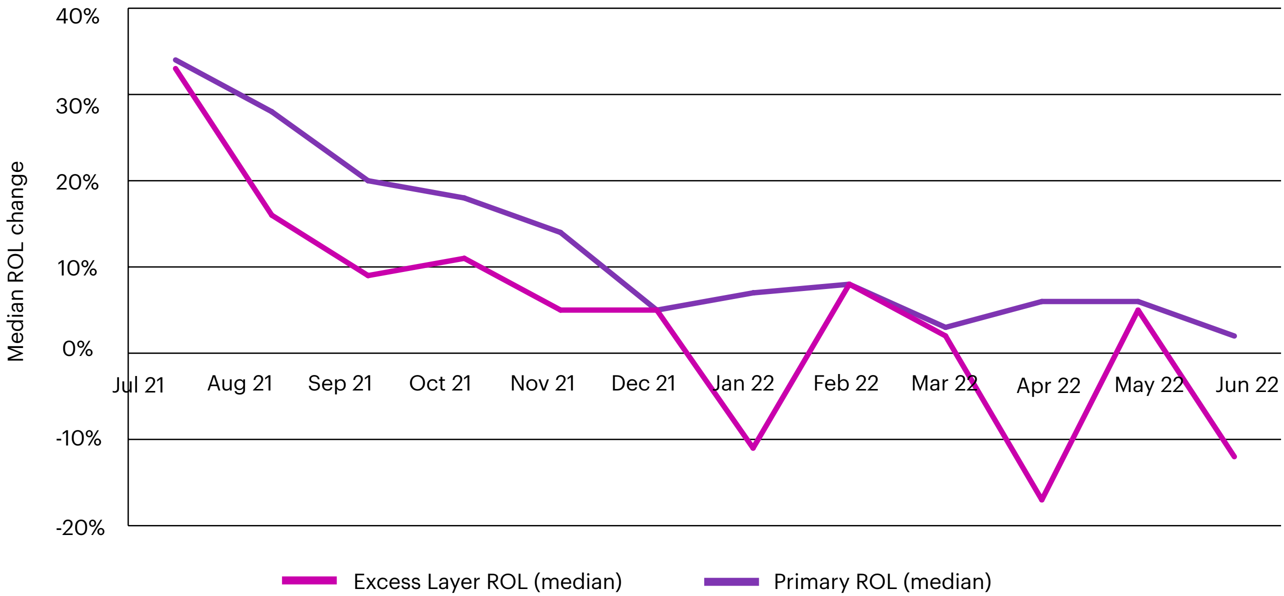


Source: Data from WTW FINEX FINMAR client placements, sourced as at 13 July 2022, see Appendix I for further information.

Comparing Primary and Excess Layer ROL change – ABC Only

Median change

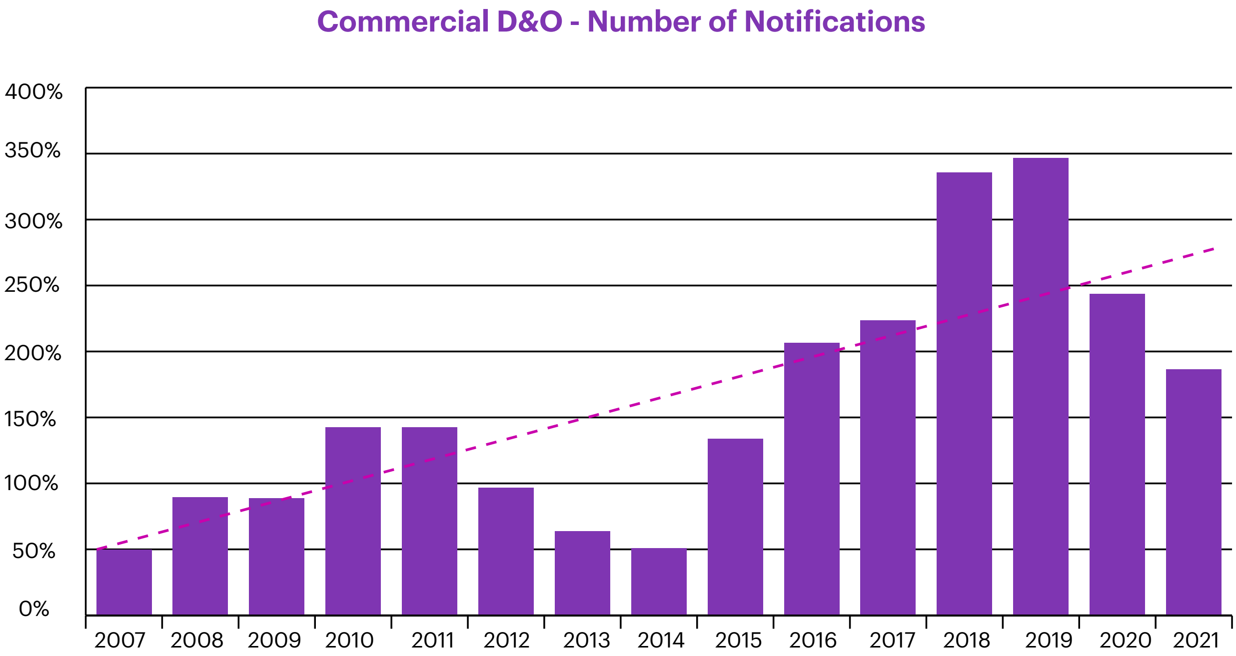
Over the course of H2 2021- H1 2022 the increases seen to both primary and excess layer ROLs decreased. Primary ROL declined more gradually and consistently, reaching a low of 2% in June 22. Excess ROL on the other hand fluctuated through its decline getting progressively steeper with heavier fluctuations in 2022 reaching a low of -12% in June.



Source: Data from WTW FINEX FINMAR client placements, sourced as at 13 July 2022, see Appendix I for further information.

Commercial D&O Notifications

While notifications in 2020 and 2021 were down from the highs of 2018 and 2019, they remain above the average since 2007.



Source: WTW client notifications from GB placements only, between 1 January 2007 to 1 July 2022

D&O Market: Insurers & Capacity

- The trend for decreases in tower premium pricing has continued in H1 2022, particularly on excess layers.
- For those clients who saw increased premiums, these were generally at a much more moderate level.
- Competition continues between insurers, particularly on the excess layers, but also on primaries.
- We anticipate the downward trend in rates (although to a lesser extent for SME business) to continue in H2 2022, although current inflationary pressure and geo-political risks could lead to some headwinds for the softening of the market.

Appendix 1 - Methodology for statistics

	Min	Max	Notes
ROL	0.01% ROL	No max	These graphs and stats are looking at the ROLs paid each month. Currently we only have a minimum value for ROL, we could consider having a max ROL.
ROL change	0.01% ROL	No max	We are comparing the ROL paid last year to the ROL paid this year for a given client at renewal. The outlier rule ensures and erroneously small ROL isn't compared to a normal one resulting in a gigantic value (eg 1% / 0.0001% = 10,000 times increase). We could also add a maximum increase cap, eg no more than a 10 fold increase in ROL.
Deductible change	x - 10	X 50	As above, here we are comparing the deductible last year to the deductible this year for a given client at renewal. Given the hugely different sizes of programmes placed it is difficult to set a min or max for the actual deductible value so instead we have tied the rules to the change in deductible seen. A max increase of x50 was set as the previous x20 was seen as too small. This may want to be reviewed.
Limit	0.01% ROL	No max	Again, it is difficult to set a min for value due to the spread of clients we have. Given the ROL value combines premium with limit it can be used to identify an error in one of the two. However, it could result in us excluding placements with correct limit values (and incorrect premiums). We could consider adding minimum and maximum limit values instead.
Limit change	x - 10	x 50	Similarly to deductible change, here we are comparing the limit bought last year to the limit bought this year for a given client renewal. Given the challenge in setting min and max limit criteria the outlier rule looks at the calculated limit change and sets boundaries for that. A max increase of x50 was set as the previous x20 was seen as too small. This may want to be reviewed.

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