

GLOBAL FINEX - DIRECTORS' & OFFICERS'

Europe Directors' & Officers' Market Update

Q3 2022



This update analyses our observations of the current market conditions for Directors' and Officers' insurance and the impact this has on board directors, non-executive directors and insurance buyers and is based on our observations of the market with our WTW clients and not a whole of market review. For ease of understanding, the percentages have been presented as rounded figures.

Europe D&O Overview

Q3 2022

- Q3 2022 has continued the improving trends in the Continental European D&O markets
- In Q3 this year 43% of clients saw their primary layer renew flat or with a decrease on last years premium whilst 59% saw their excess layers renew flat or with a decrease ([see page 9](#))
- More insurers are offering better policy terms
- There is enough capacity in the Continental European markets for us to place the business locally. The capacity inflow is a mix of established insurers increasing their capacity and new insurers opening offices across Continental Europe



FINEX Europe D&O Market Conditions

Q3 2022



Capacity

Increasing

- We see new entries of new insurers into the Continental European D&O market.
- The new entrants combined with the increasing appetite from incumbent insurers generate competition and increased capacity, both for renewal and new business.



Coverage

More Restrictive Conditions

- More softening of wordings in some areas with some insurers showing willingness to consider ancillary lines to strengthen their relationship and/or cement their position in the D&O market.
- More insurers are now open to write business on DARCstar (WTW's proprietary D&O wording).



Claims and Losses

Fluctuating

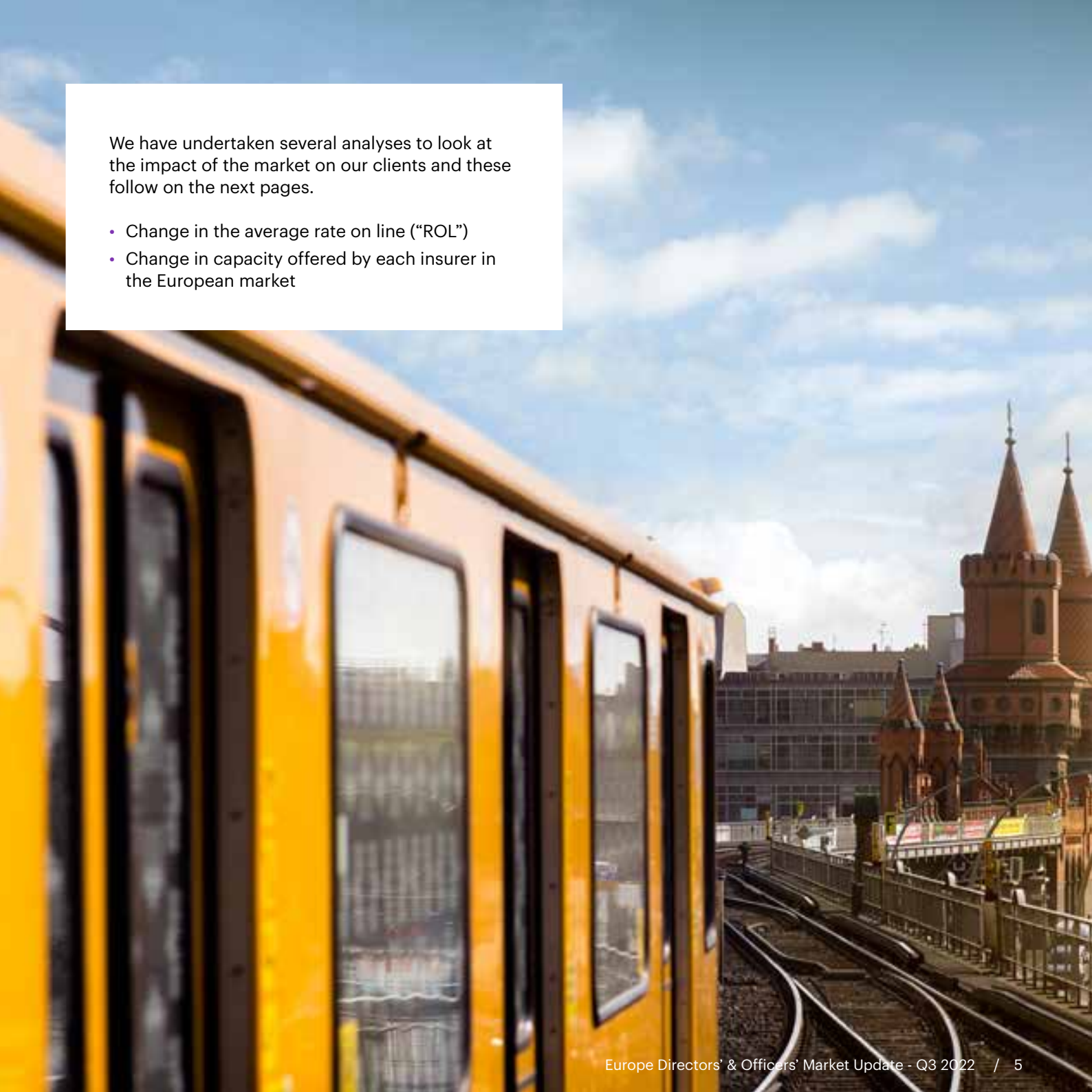
- WTW claims database indicates that the number of notifications has decreased in recent years, following the high levels of 2018 and 2019.
- According to The Stanford Law School/ Cornerstone's Securities Class Action Clearinghouse (<http://securities.stanford.edu/charts.html>), Securities Class Actions for 2021 and 2022 were down from the historic highs of 2017-2020, with 2022 tracking to be even lower than 2021 (and the lowest level since 2014).



Premiums and Retentions

Increases Slowing

- 43% of our clients saw flat or reduced primary layer premiums in Q3 2022 and 59% on excess layers ([see page 9](#)).
- Clients in challenged sectors or with recent claims may continue to see price increases.
- Side B & C retentions: higher retentions remain common for side C. For side B, there is more flexibility to negotiate retentions downwards, specially for non-US claims.
- Where there are increases on the primary premium, these can often be softened by decreases on excess layers.

A yellow train is moving from left to right across the frame. In the background, a large, ornate cathedral with multiple spires is visible under a blue sky with scattered white clouds. The train's windows reflect the surrounding urban environment.

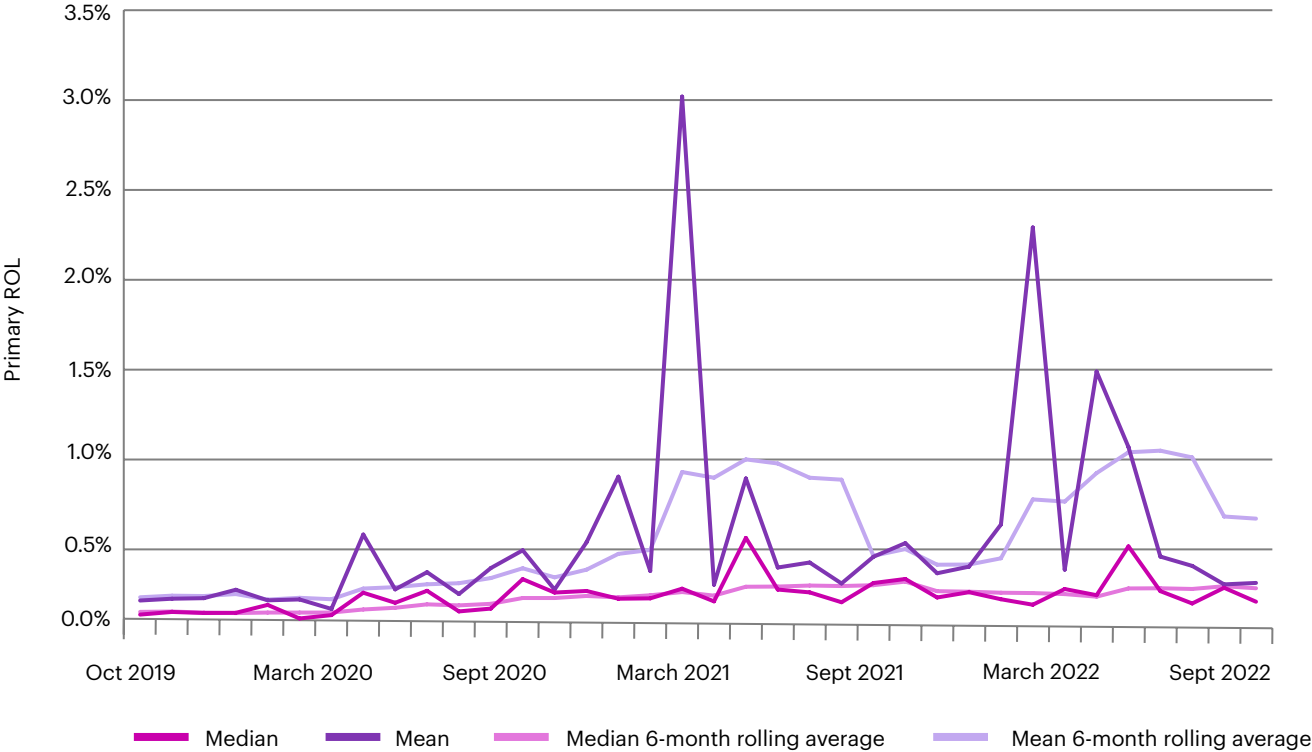
We have undertaken several analyses to look at the impact of the market on our clients and these follow on the next pages.

- Change in the average rate on line (“ROL”)
- Change in capacity offered by each insurer in the European market

Rate on Line (“ROL”) Analysis (ABC policies)

Primary layers only

The mean primary ROL paid in Q4 2021 – Q3 2022 was 2% lower than seen the previous year (0.72% v 0.74%). Median rates showed a decrease of 7% (0.26% v 0.28%). In Q3 2022, the mean primary ROLs had decreased to 0.38% showing a 63% decrease from the last quarter (Q2 2022). There are visible peaks in the mean ROL in March 2021 (3%) and February 2022 (2.2%).



Source: Data from WTW FINEX FINMAR client placements, sourced as at 1 November 2022, see Appendix I for further information.

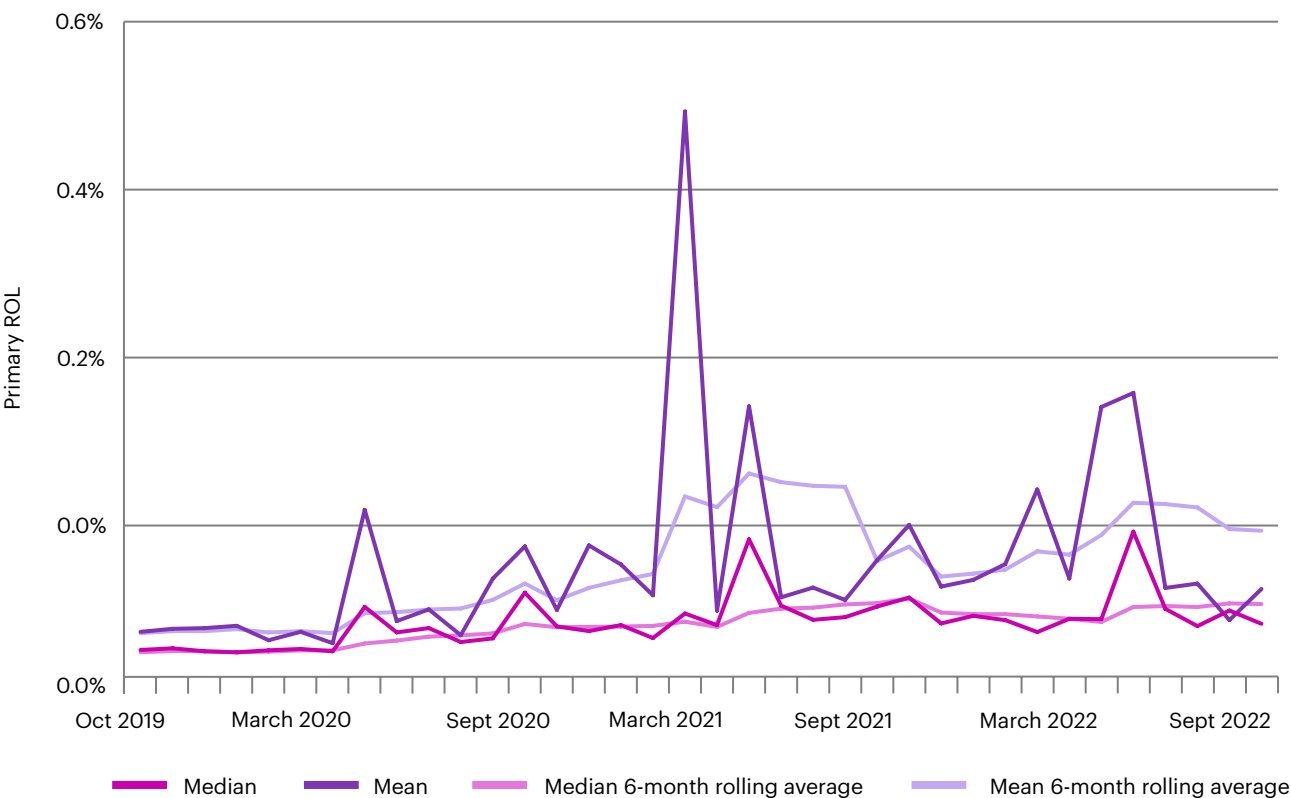
ROL is calculated by dividing the premium by the limit of liability that is being purchased and expressing that as a percentage. This shows the proportional cost of the limit of liability being purchased by each client.

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).

Rate on Line (“ROL”) Analysis – ABC only

Whole tower

The mean primary ROL paid in Q4 2021 – Q3 2022 was 5% lower than seen the previous year (0.46% v 0.49%). Median rates remained unchanged at 0.23%. In Q3 2022 the mean primary ROLs had decreased to 0.31% showing a 56% decrease from the last quarter (Q2 2022). The rolling 6-month ROL mean for more challenged placements now stands at 0.73%.



Source: Data from WTW FINEX FINMAR client placements, sourced as at 1 November 2022, see Appendix I for further information.

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Excess layer ROL change – ABC Only

Changes seen at renewal

All exposures saw similar decreases in both intervals.

Over the past six months

(Q2 2022- Q3 2022)

	Median Change	Mean Change
All companies	0%	5%
Public companies	3%	5%
US exposed companies	5%	14%
US exposed public companies	3%	5%

Over the past three months

(Q3 2022)

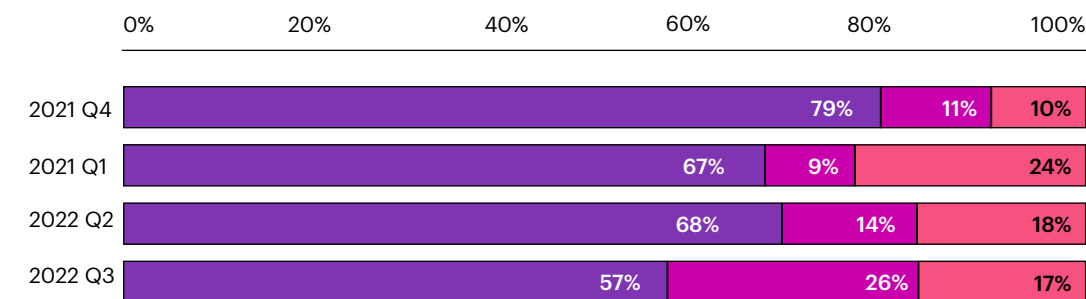
	Median Change	Mean Change
All companies	0%	11%
Public companies	14%	14%
US exposed companies	8%	28%
US exposed public companies	14%	14%

Tower ROL Analysis – ABC only

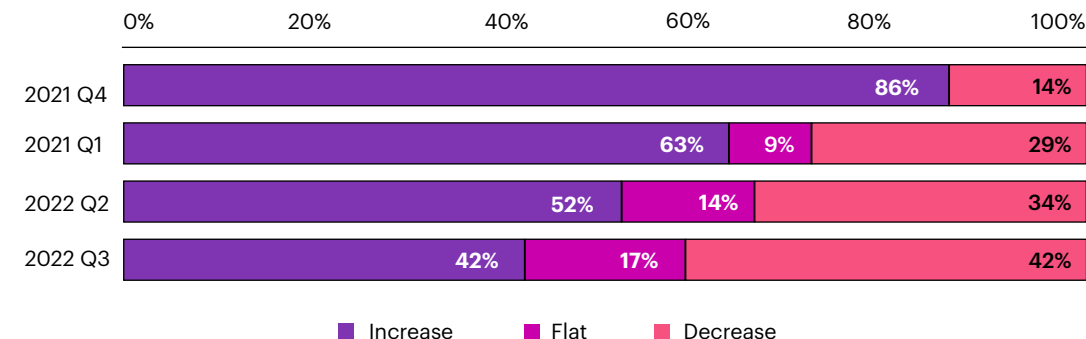
Changes seen at renewal

By Q3 2022, 43% of primary layers were renewing flat or with a decrease and 59% of excess layers.

Change to primary ROL seen at renewal



Change to excess layer ROL seen at renewal

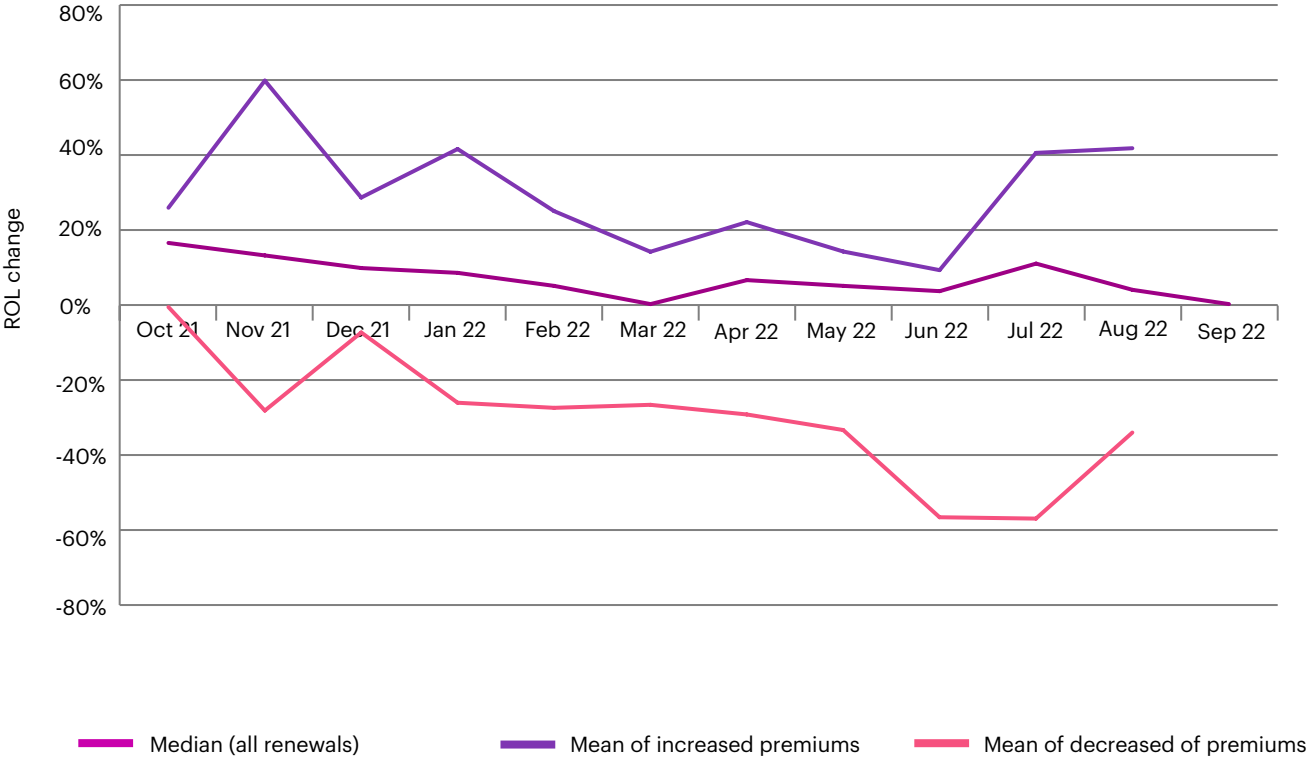


Source: Data from WTW FINEX FINMAR client placements, sourced as at 1 November 2022, see Appendix I for further information. Numbers may not add up to a 100 on account of rounding.

Primary ROL Analysis - ABC only

Changes seen at renewal

In Q3 2022, the mean of increased premiums seems to be moving on a slight downward trajectory, barring fluctuations in July 2022. The median of all renewals also seems to be a declining trend with a lower slope. Mean of decreasing premiums also seem to be a declining trend, with an upward peak of -34% in August 2022.

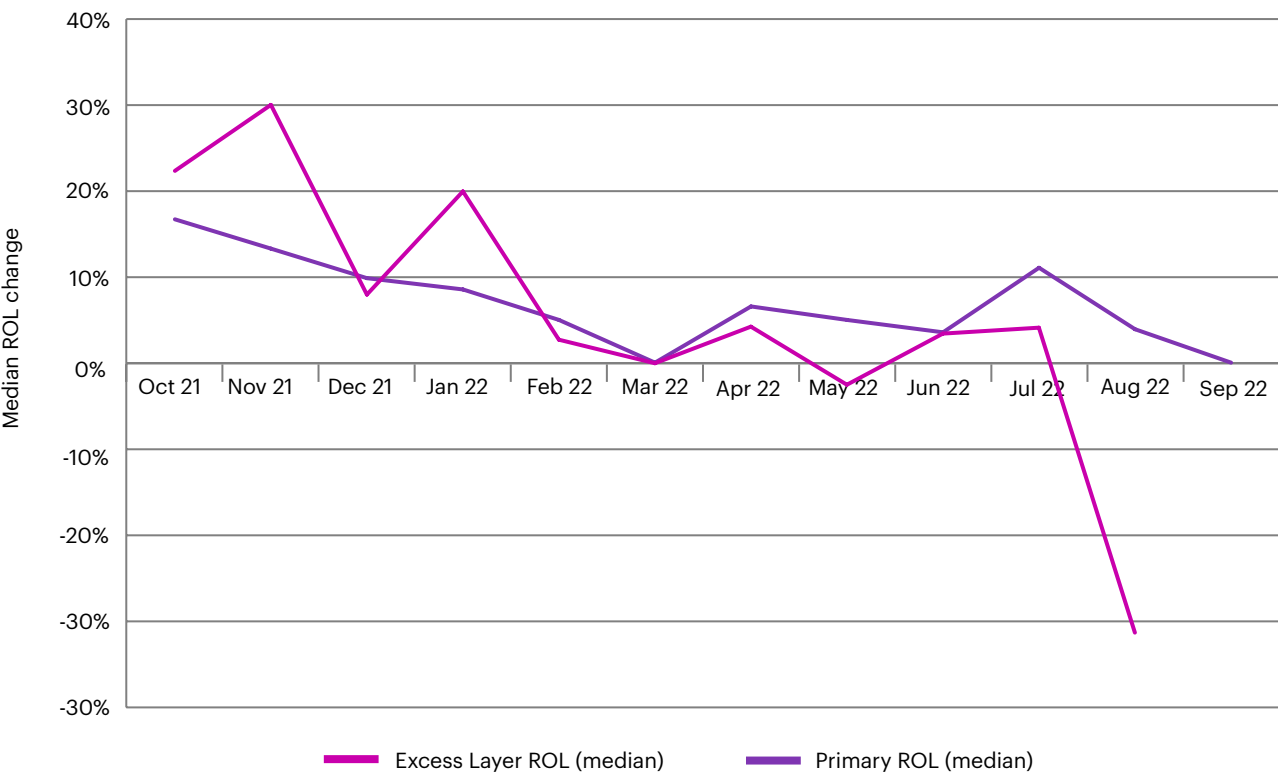


Source: Data from WTW FINEX FINMAR client placements, sourced as at 1 November 2022, see Appendix I for further information

Comparing Primary and Excess Layer ROL change – ABC Only

Median change

Median change to both Excess and Primary ROLs have been on a declining trend since the beginning of the interval with constant overlaps. However, Excess layer ROL median experienced a sharp decrease to -31% in August 2022.



Source: Data from WTW FINEX FINMAR client placements, sourced as at 1 November 2022, see Appendix I for further information.

D&O Market: Insurers & Capacity

- The trend for decreases in premium pricing has continued in Q3 2022.
- There is enough capacity in the Continental European markets for us to place the business locally. The capacity inflow is a mix of established insurers increasing their capacity and new insurers opening offices across Continental Europe.
- Competition continues between insurers, particularly on the excess layers, but also on primaries, especially for new businesses.
- Q3 2022 has continued the improving trends in the Continental European D&O markets.
- We are seeing some clients valuing continuity with an existing insurer over the lure of lower pricing from a competing insurer.



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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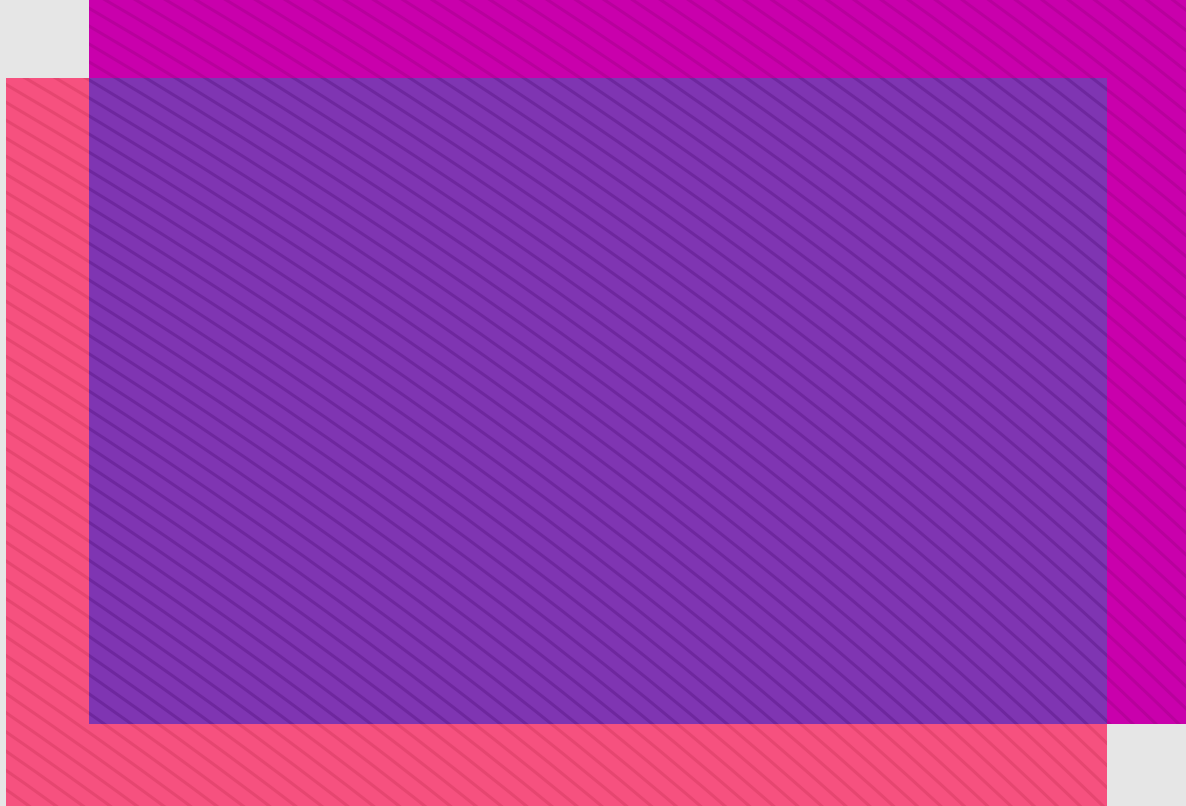
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