Global FINEX - Directors' & Officers' (D&O)

GB D&O Market Update

March 2022

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

GB D&O overview

- In Q4 2021 we continued to see improvements in the GB D&O market from a client perspective.
- Many clients are continuing to see increases in their premium, but the mean increase in Q4 2021 was only 13% with a median increase of only 5%.
- In comparison, competition amongst insurers on excess layers and some increased interest in primary layers from incumbent insurers have led to 29% of our clients seeing flat or decreased premiums on renewal in Q4 2021.

FINEX GB D&O market conditions Q4 2021

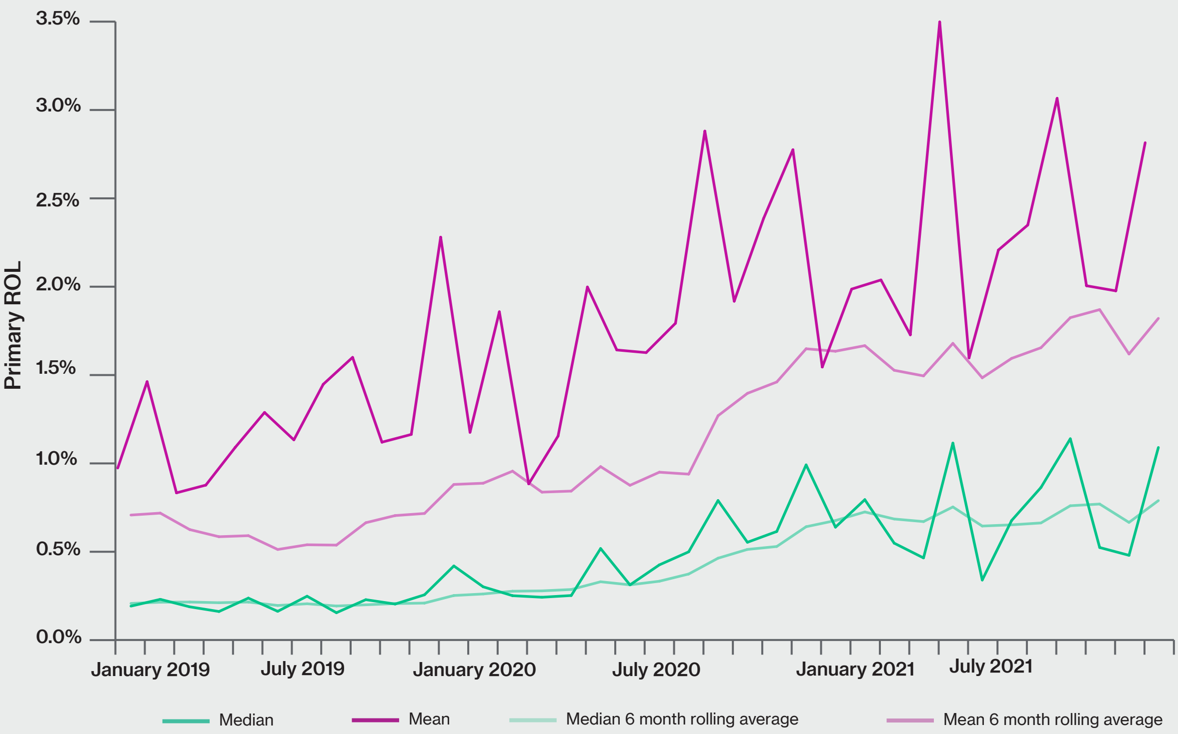
Capacity	Coverage	Claims and Losses	Premiums & Retentions
Increasing	**More Restrictive Conditions**	**Fluctuating**	**Increases Slowing**
▪ Many London market insurers continue to operate with smaller insurance lines compared with 2018-19. ▪ Several insurers are offering increased line sizes of $15m on excess layers, while $10m remains usual for the primary layer. ▪ At the time of writing, some insurers are increasing participation across an insurance tower for risks within their risk appetite – up to $25m can be made available split across multiple layers.	▪ Increased willingness to write on broker forms. ▪ Some softening of wordings in some areas, although insurers continue to withdraw some of the bolt-on coverages and reduce sub-limits where coverage remains. ▪ Increased contractual subjectivities and inflexibility around timeframes for complying with these. ▪ Reduced focus on COVID-19 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 above the average number since 2007. ▪ According to The Stanford Law School/Cornerstone's Securities Class Action Clearinghouse (http://securities.stanford.edu/charts.html), Securities Class Actions for 2021 were down from the historic highs of 2017-2020, approximately at the level of 2015.	▪ The increase in primary layer premium for the average client purchasing an ABC D&O programme in H2 2021 was 20%, with Q4 2021 improving that to 10% (see page [8]). ▪ 29% of our clients saw flat or reduced primary layer premiums in Q4 2021 (see page [12]). ▪ 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 of line (“ROL) analysis (ABC policies)
Primary layers only

The mean primary ROL paid in 2021 was 34% higher than seen the previous year (1.57% v 1.17%). However, placements in the fourth quarter started to show rate decreases, with the median primary ROL 19% lower than Q4 2020 and the mean 9% lower. Not shown on the graph - the rolling 6-month ROL average for more challenging placements now stands at 4.5%.



Source: *Data from WTW FINEX FINMAR client placements, sourced as at 18 January 2022, see Appendix I for further information.*

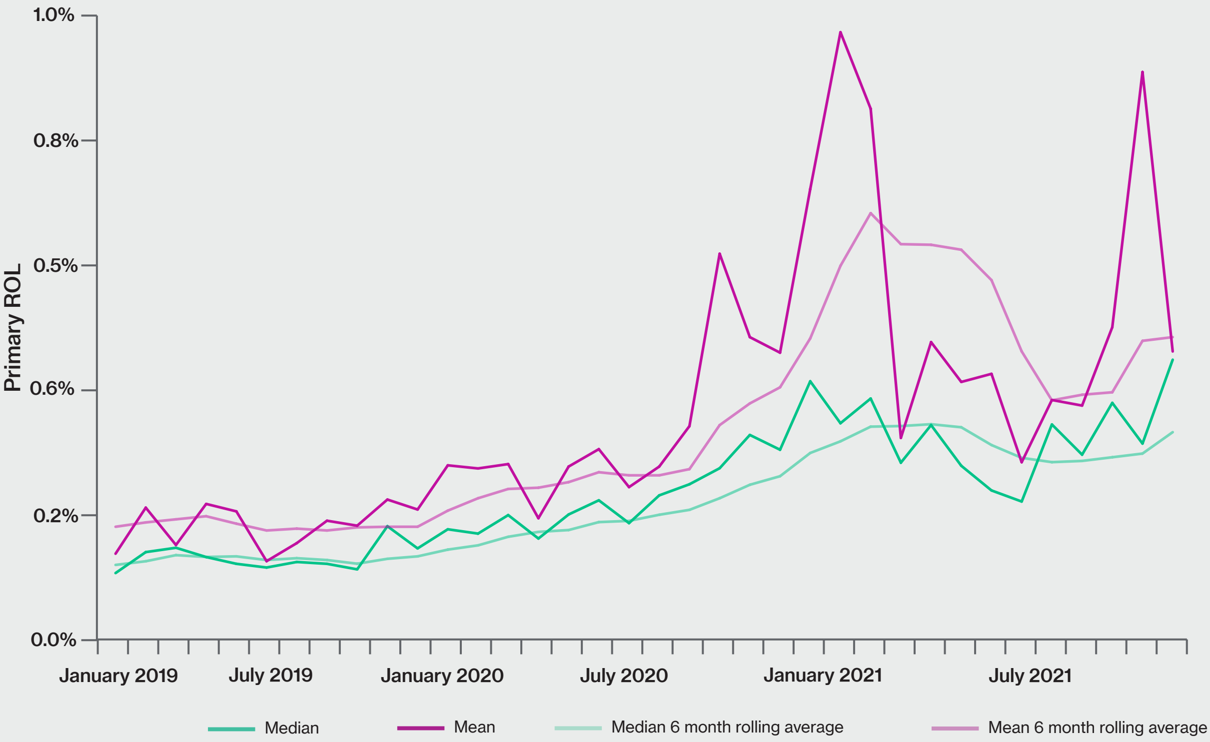
ROL is calculated by dividing the premium by the limit of liability that is being purchased and expressing that as a percentage. This shows the proportional cost of the limit of liability being purchased by each client.

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 of Line (“ROL) analysis

Primary layers only

The monthly average ROL for SME primary layers steadily increased since mid 2020, peaking in Jan 2021 and again in November. The mean ROL for SMEs paid in 2021 was 55% higher than seen the previous year (0.55% v 0.35%). Although not shown graphically it should be noted the rolling 12 month ROL average for more challenging SME placements now stands at 1.5%, lower than its peak of 1.99% in February 2021.



Source: Data from WTW FINEX FINMAR client placements, sourced as at 18 January 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.

We have defined SMEs to be UK registered private companies with revenue up to £350m.

Primary ROL change – ABC only
Changes seen at renewal

In the second half of 2021 primary layers began to see far smaller changes to their ROL at renewal.

Over H2 2021

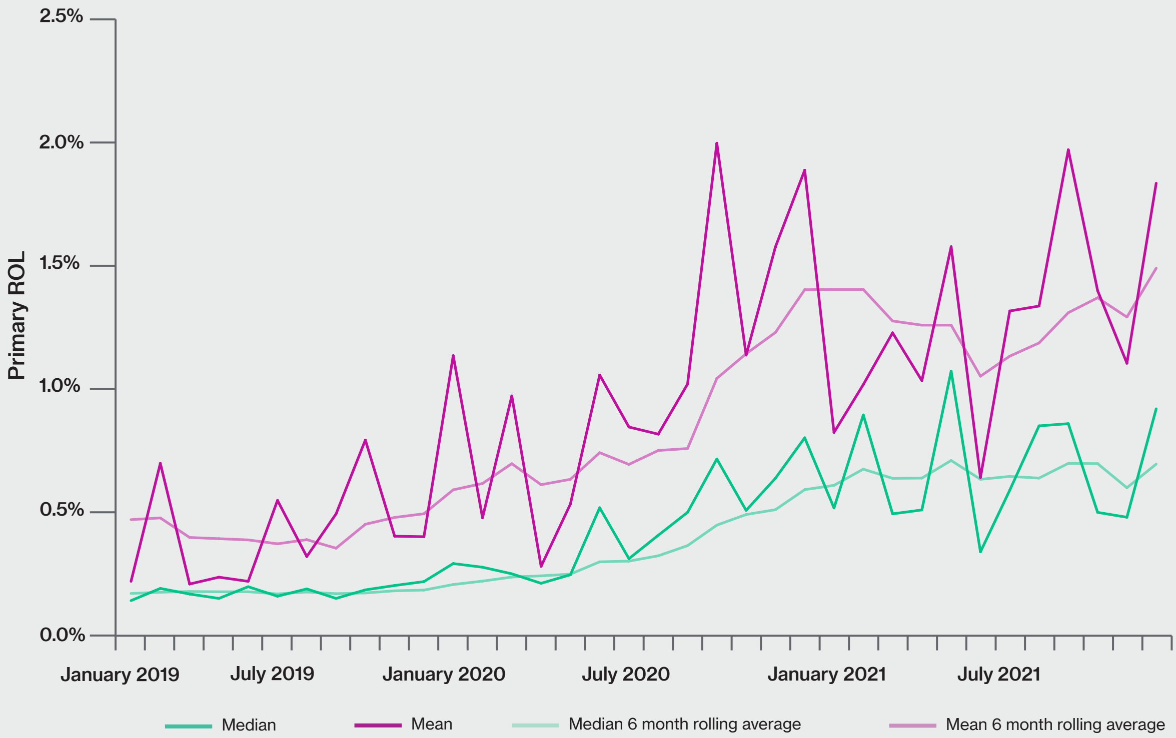
	Median change	Mean change
All companies	20%	36%
Public companies	11%	45%
US exposed companies	10%	17%
US exposed public companies	10%	7%

Over Q4 2021

	Median change	Mean change
All companies	10%	24%
Public companies	10%	21%
US exposed companies	10%	4%
US exposed public companies	9%	14%

SME Rate of Line ("ROL) analysis
Whole tower

The mean ROL paid for ABC placements was volatile throughout 2021 with peaks in September and December. The mean ROL paid in the past year was 27% higher than seen in the previous year (1.22% v 0.97%). Similarly to primary layers, placements in Q4 2021 had lower median and mean rates to Q4 2020, with the median showing a 13% decrease on prior year and mean a 7% decrease.



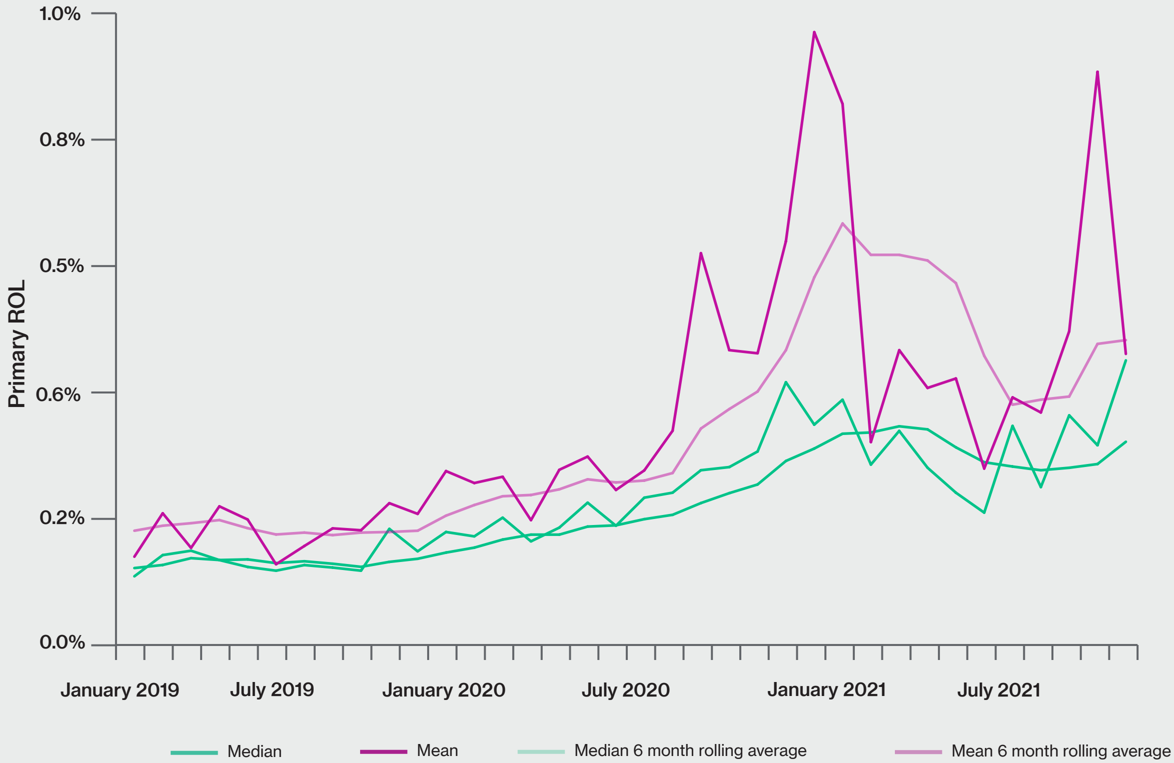
Source: Data from WTW FINEX FINMAR client placements, sourced as at 18 January 2022, see Appendix I for further information.

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
Whole tower

The mean ROL paid in 2021 was 60% higher than seen in the previous year (0.54% v 0.34%). The median ROL has also increased, up 40% on 2020.



Source: Data from WTW FINEX FINMAR client placements, sourced as at 18 January 2022, see Appendix I for further information.

Excess layer ROL change – ABC only

Changes seen at renewal

In the second half of 2021 excess layers began to see far smaller changes to their ROL at renewal. Considering firms with different exposures the following can be seen.

Over H2 2021

	Median change	Mean change
All companies	9%	23%
Public companies	6%	13%
US exposed companies	5%	25%
US exposed public companies	5%	14%

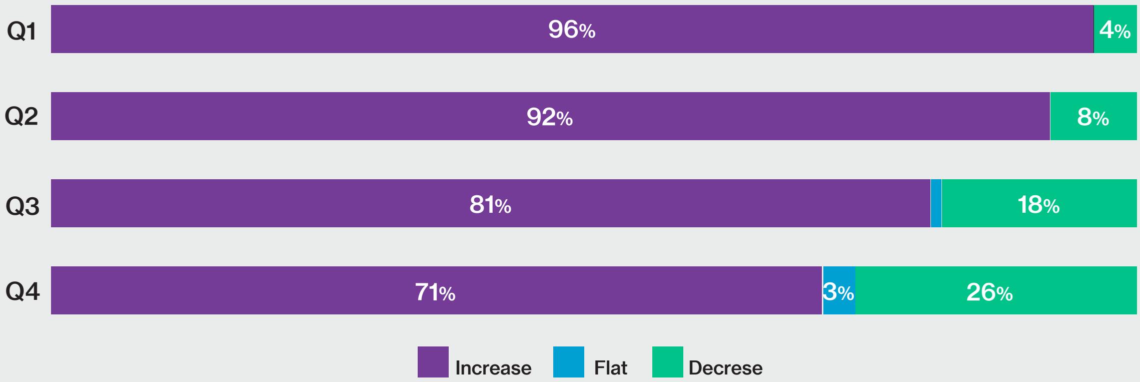
Over the past three months

	Median change	Mean change
All companies	5%	13%
Public companies	5%	3%
US exposed companies	5%	1%
US exposed public companies	-2%	-1%

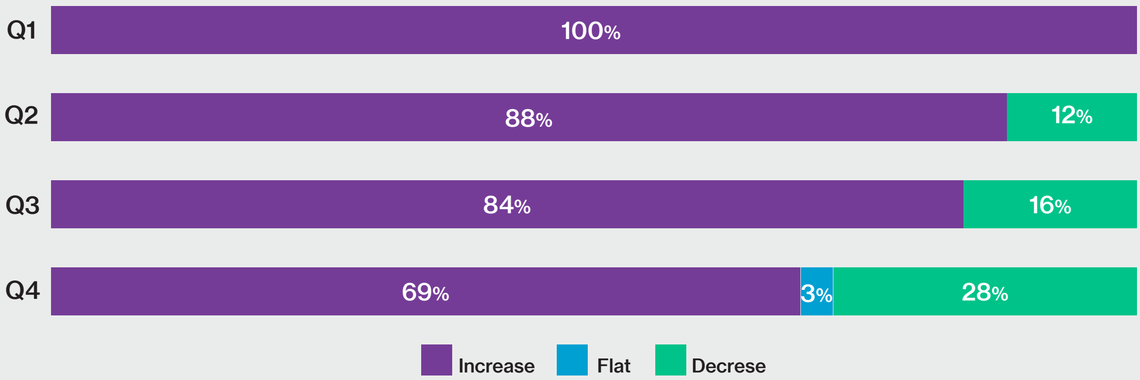
Tower ROL Analysis – ABC only
Changes seen at renewal

2021 saw increasing proportions of our clients obtaining decreases, both on the primary layer and on excess layers. By Q4, 26% of primary layers were renewing with a discount and 28% of excess layers.

Change to primary ROL seen at renewal



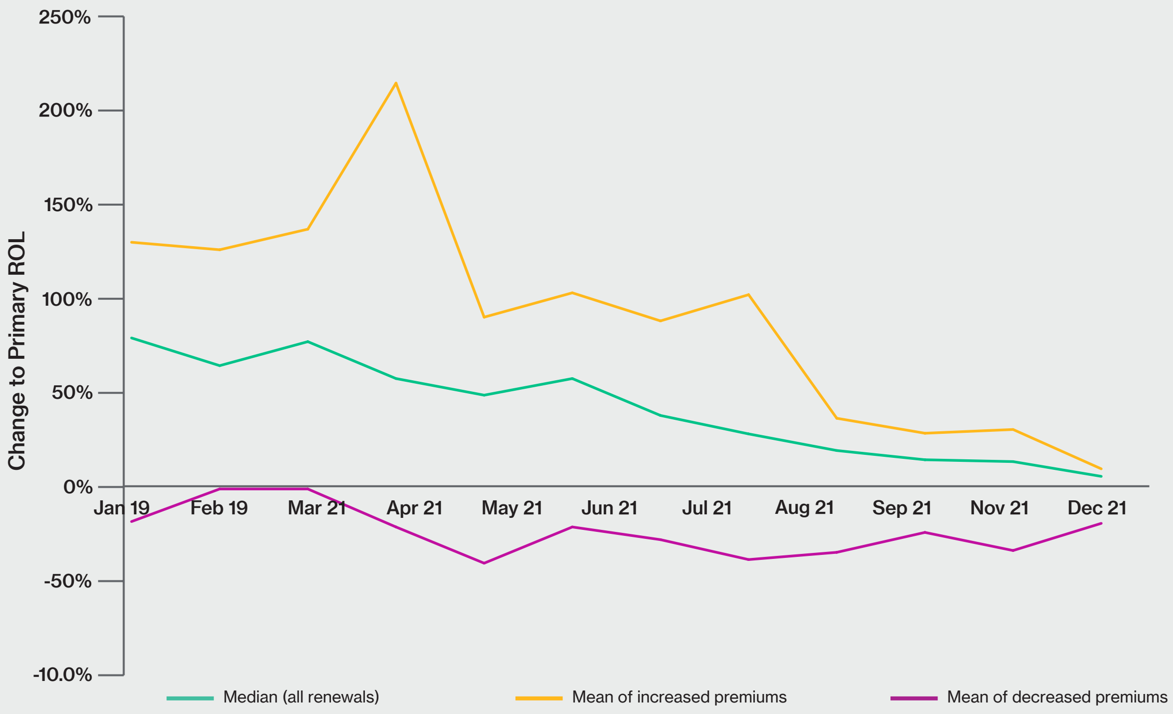
Change to excess layer ROL seen at renewal



Source: *Data from WTW FINEX FINMAR client placements, sourced as at 18 January 2022, see Appendix I for further information.*

Primary ROL Analysis – ABC only
Changes seen at renewal

Not only were the number of renewals facing an increase in premium decreasing as 2021 progressed, so too were the levels of increase seen. In the first quarter of the year, for firms seeing an increase, the mean increase was 132% compared to only 24% in the fourth quarter. Throughout the year the median change in ROL decreased from 74% in the first quarter to 10% in the fourth. For firms seeing decreases in their premiums these remained relatively steady from Q2-Q4.

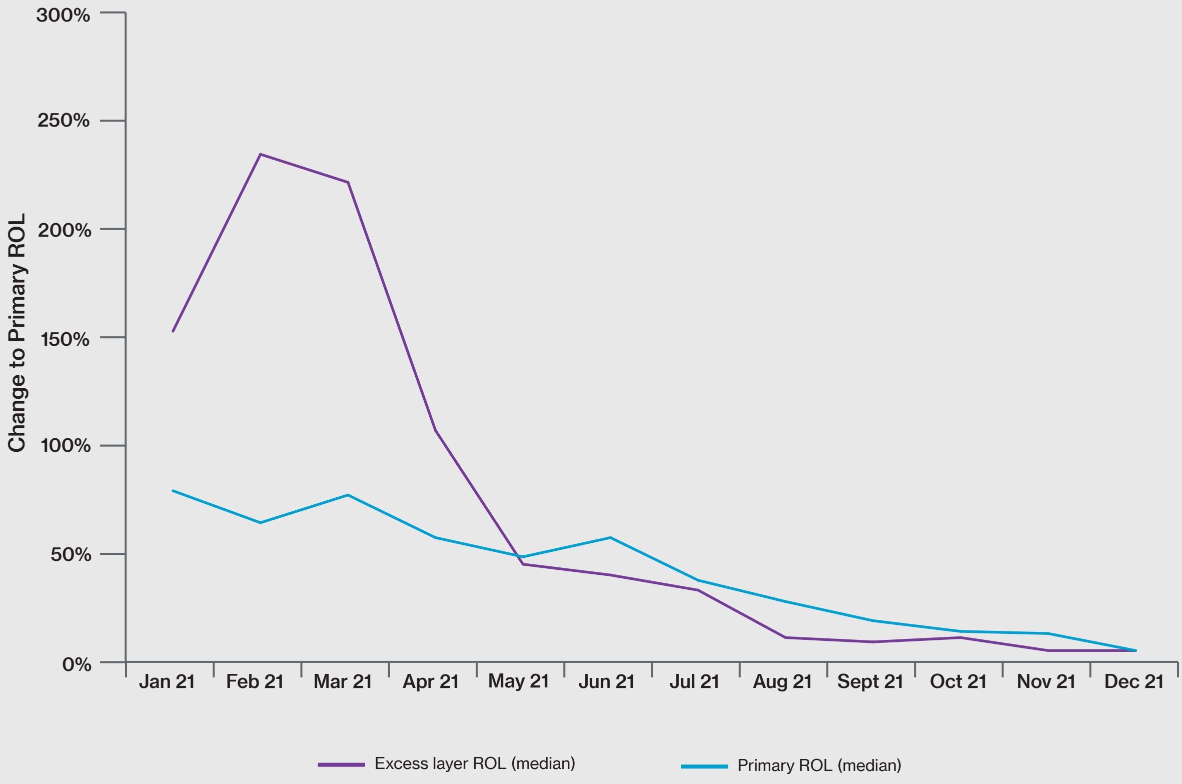


Source: Data from WTW FINEX FINMAR client placements, sourced as at 18 January 2022, see Appendix I for further information.

Comparing primary and excess Layer ROL change – ABC only

Median change

Over the course of 2021 the increases seen to both primary and excess layer ROLs decreased. Whilst at the start of 2021 excess layers were facing substantially larger increases to their ROL than primary layers, from May the increases seen on excess layers fell below those seen on primary layers.

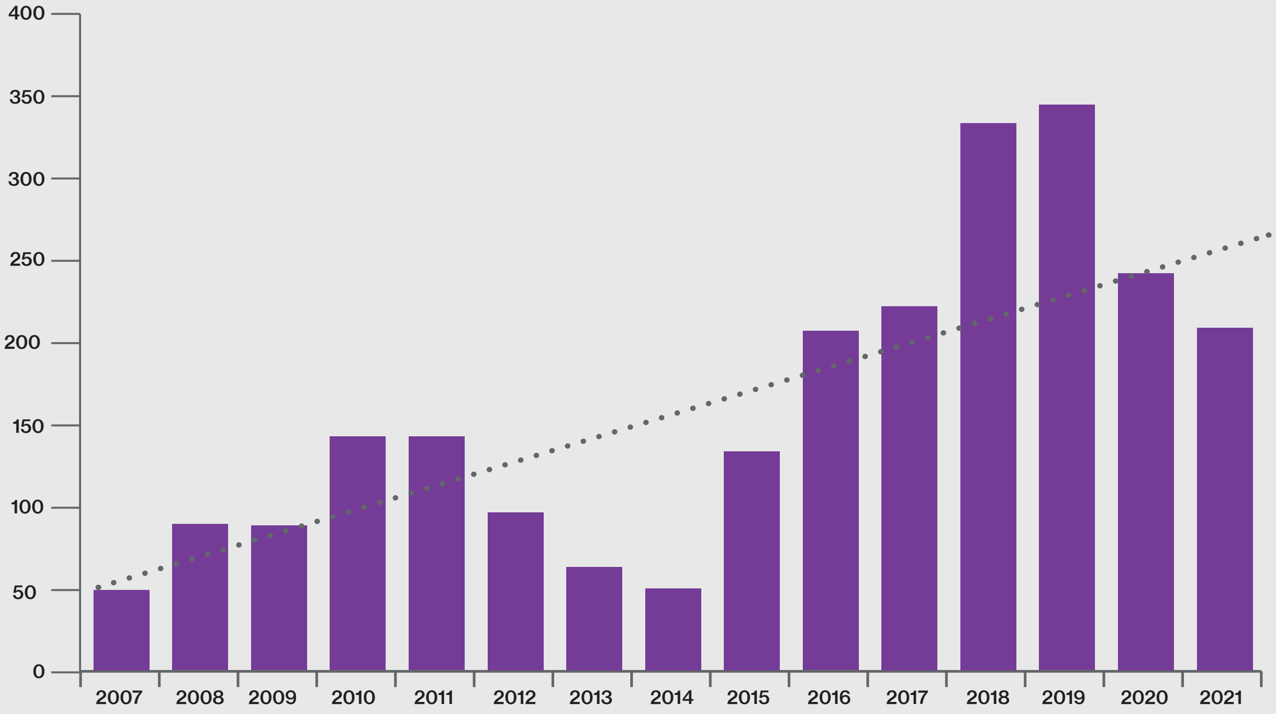


Source: *Data from WTW FINEX FINMAR client placements, sourced as at 18 January 2022, see Appendix I for further information.*

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.

Commercial D&O - Number of notifications



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

D&O Market: Insurers & capacity

As anticipated in our last report, Q4 2021 saw an increased proportion of our clients able to renew with either a flat or decreased premium.

For those clients who saw increased premiums, these were at a much more moderate level.

Competition continues to increase between insurers, particularly on the excess layers, but also on primaries with several insurers expressing increasing interest at that level.

Appendix I
Methodology for statistics

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 an 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 limit 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 at 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.
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 at 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.

Appendix II
Loss event descriptions

- **Share issues/Shareholder complaints** – Claims in relation to the offering of or sale of shares in a business. Often relates to the information provided during the share issues (such as the prospectus etc.)
- **Employee relations** – Claims/potential claims concerned with maintaining employer-employee relations. Includes claims related to compensation/benefits, termination, unfair treatment at work and other employment contract issues/disputes
- **Environment, safe** – Claims/potential claims against the insured claims related to the safety of the working environment
- **Suitability, disclosure & fiduciary** – As well as breaches of fiduciary duty, this category will include claims where suitability requirements have not been met, such as "know your client" failures. The disclosure aspect includes claims based on what the insured should have disclosed and also what it should not have disclosed, such as breach of privacy claims. Sales practices and mis-selling sit within this category alongside conflicts of interest – both disclosing and managing.

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