

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

# State of the GB Market for Commercial Crime Insurance

H1 2021







# GB Commercial Crime Insurance Market Overview H1 2021

- This update provides an analysis of the current conditions in the GB market for Crime insurance and the impact this has on companies and insurance buyers.
- The GB market for Commercial Crime insurance remains relatively fragile, with fewer insurers willing to underwrite this line of business compared with commercial Directors & Officers liability insurance.
- Following the rate and retention increases which we saw in 2020, H1 2021 has seen some stabilisation in limits and retentions. Premiums continue to increase, but at a significantly lower rate than during 2020.
- Notifications from our clients in 2020 were significantly down on the previous highs of 2017-2019 and below the average since 2008.



# Current FINEX GB Commercial Crime Insurance Market Conditions H1 2021

 <p><b>Capacity</b></p>	 <p><b>Coverage</b></p>	 <p><b>Claims and Losses</b></p>	 <p><b>Premiums &amp; Retentions</b></p>
<p><b>Reduced</b></p>	<p><b>More Restrictive Conditions</b></p>	<p><b>Significant</b></p>	<p><b>Increasing</b></p>
<ul style="list-style-type: none"> <li>▪ After reductions in capacity in 2020, we have seen insurers generally maintaining their line sizes in H1 2021</li> <li>▪ There continues to be pressure on primary capacity</li> <li>▪ Primary insurers frequently require co-insurance on primary layers to share the financial and operational burden of claims</li> <li>▪ Some insurers will only write the Crime cover if they are also writing the D&amp;O</li> </ul>	<ul style="list-style-type: none"> <li>▪ Broad coverage still available from some insurers</li> <li>▪ Insurers are more likely to offer terms on their own policy forms: growing reluctance to use other insurer forms or broker forms</li> <li>▪ There is pressure on sub-limits and bolt-on coverages</li> <li>▪ Restrictions have been placed on social engineering cover due to large level of losses</li> <li>▪ There are increased contractual subjectivities and inflexibility around timeframes for complying with these</li> <li>▪ Significant emphasis on insured's capability to enforce the controls and procedures which they disclose to the Insurers</li> <li>▪ Exclusions for ransomware and cryptocurrency</li> <li>▪ More restrictive notification clauses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Crime losses reported for insurance policies placed in the UK for clients of Willis Towers Watson:               <ul style="list-style-type: none"> <li>▪ compared to the highs of 2017-2019, 2020 saw a significantly lower volume of notifications</li> <li>▪ social engineering notifications remain high but were slightly down in 2020 compared with 2018 and 2019</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Based on data from Willis Towers Watson FINEX FINMAR client placements for insurance renewals between July 2020 and June 2021 the average client saw:               <ul style="list-style-type: none"> <li>▪ an increase in their primary layer premium of 47% compared to the prior year</li> <li>▪ retentions increased by 13% compared to the prior year</li> </ul> </li> <li>▪ However, placements in H1 2021 have generally been more stable than in H2 2020, with lower increases in premium and retentions</li> <li>▪ Increased premiums and retentions experienced during this period (between July 2020 and June 2021) were often the result of insurers "correcting" premiums and terms.</li> </ul>

# Rate on Line (“ROL”) Analysis

## Primary layers only

The monthly average ROL for primary layers has steadily increased since the middle of 2019, peaking in October 2020 and again in May 2021. In more extreme cases, the primary layer ROL was in the region of 2.3% or more.

**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.



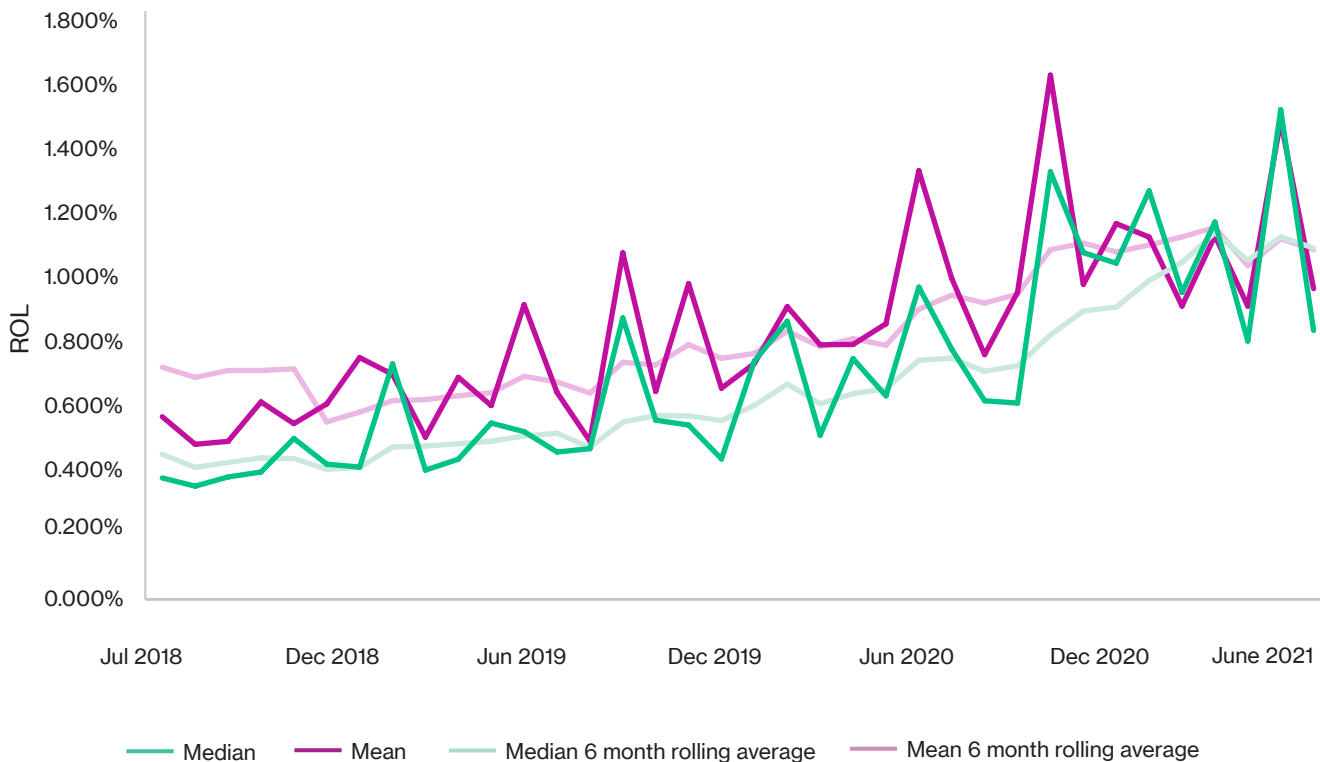
Source: Data from WTW FINEX FINMAR client placements, sourced as at 3 August 2021.

# Rate on Line (“ROL”) Analysis

## Whole tower

The increases seen in ROL for primary layers, continued in the excess layers.

**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.



Source: Data from WTW FINEX FINMAR client placements, sourced as at 3 August 2021.



# Retention Analysis

## Changes seen at renewal

After the significant increases seen in H1 2020 and Q3 2020, on average, retentions increased by 63% in the past year. The median change was a 13% increase, with more stability in H1 2021.



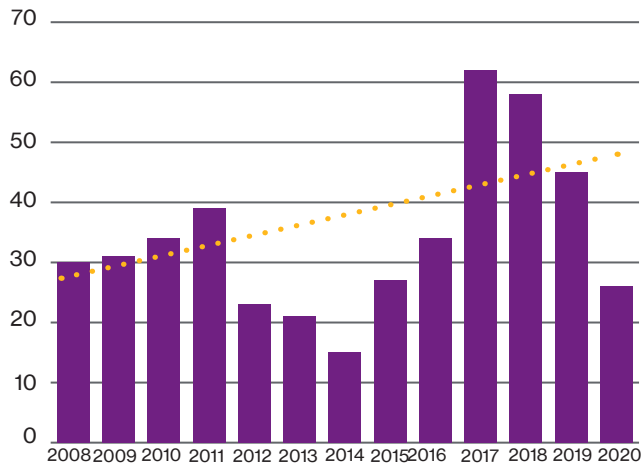
Source: Data from WTW FINEX FINMAR client placements, sourced as at 3 August 2021.

# Commercial Crime

## Loss trends

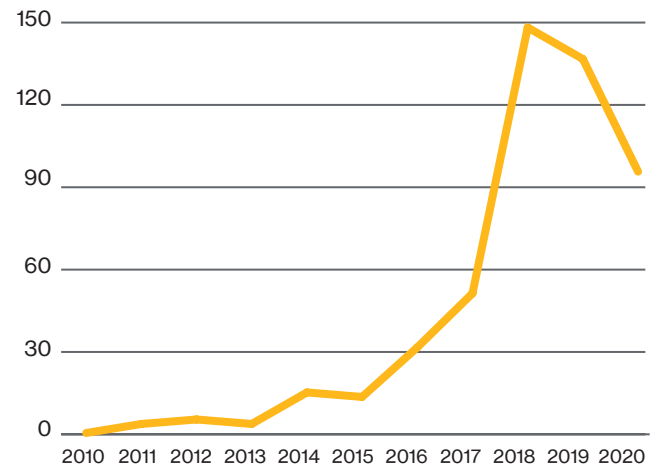
- During recessionary periods, there is historically an uptick in the level of fraud although it is questionable whether that is because the reduction in liquidity reveals pre-existing frauds or whether the increased financial pressure on individuals and companies increases their propensity to commit fraud.
- 2020 saw a significant recession as a result of lockdown measures and COVID-19. With many economies in strong recovery, it remains to be seen whether the traditional recessionary impact will be felt.
- WTW's internal data indicates that notifications to Crime policies by our clients were significantly down in 2020 compared to the highs of 2017-2019.
- After several years of extreme growth, Social Engineering claims are starting to level off.

### Number of notifications to Crime policies



Source: Data based on Crime losses reported for insurance policies placed in the UK for clients of Willis Towers Watson between 1 January 2007 and 1 July 2021.

### Social engineering notifications to Crime and Cyber policies



Source: Data based on Crime and Cyber losses reported for insurance policies placed in the UK for clients of Willis Towers Watson between 1 January 2007 and 1 July 2021.

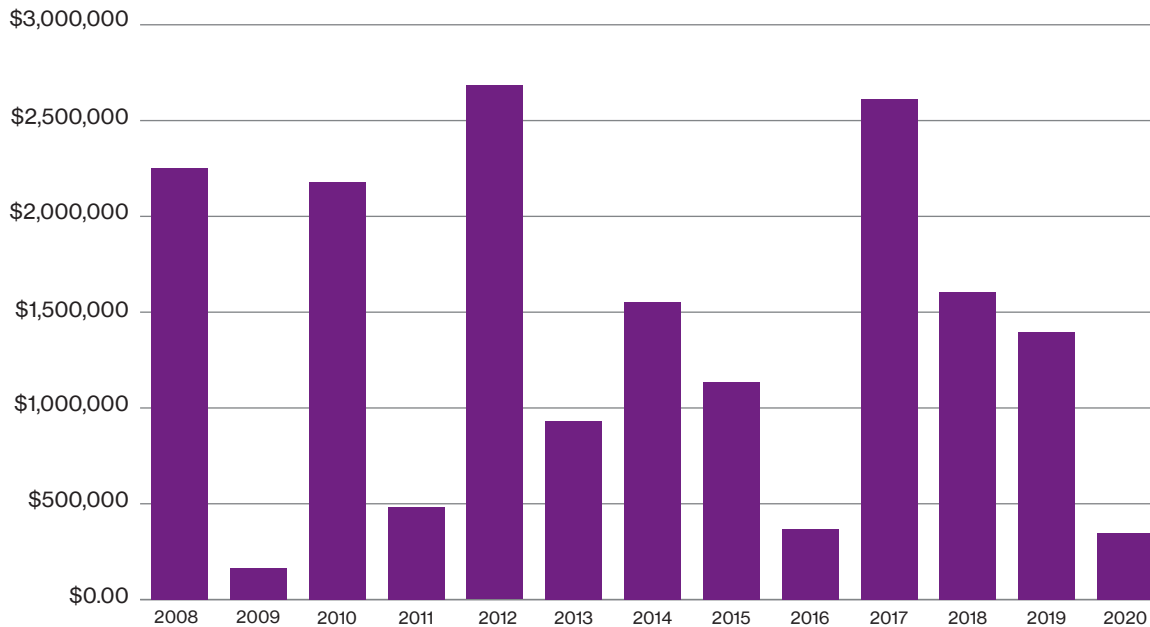


# Commercial Crime

## Loss trends

- While the sums for 2018 and 2019 are relatively high, given the development time for claims it is currently unclear whether there is a trend of increased losses.
- The chart below shows the average size of loss paid by insurers on WTW's clients risks.

**Average size of loss**



*Source: Data based on Crime losses reported for insurance policies placed in the UK for clients of Willis Towers Watson between 1 January 2007 and 1 July 2021.*

# Commercial Crime

## Factors driving loss trends

- Some insurers are imposing higher premiums and/or retentions where companies are operating in territories that are perceived as higher risk – for example, parts of Asia and Africa.
- Analysing WTW's claim data:
  - Internal theft and fraud losses tend to be significantly larger in size
  - Where the internal theft or fraud takes place in an overseas office, the average loss size nearly doubles
  - Where the internal theft or fraud takes place overseas and local management colluded in the fraud, the loss size nearly triples



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