Global FINEX Financial Institutions

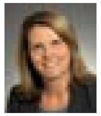
Financial Institutions Global Market Update

Autumn 2021

Foreword

"In this edition of our FI Observer we find that the global financial institutions ("FI") insurance market continues to operate in a hard market but that conditions appear to be beginning to stabilize after a difficult couple of years. While insurers remain guarded towards certain types of FI businesses, new insurer entrants in key geographies and the decreased volatility that global markets are experiencing following the height of the Covid-19 pandemic, are helping to lift the worst of the market conditions which we have seen.

Our FI colleagues from around the globe have provided their insights into the changes seen in the global insurance market."



Susan Finbow
Global Head of
FINEX Financial Institutions

+1 416 646 8294
Susan.Finbow@WillisTowersWatson.com

Canada

Rate

Coverage Line	Rate Change
Crime	+5 – +10%
Professional Indemnity	+10 – +25%
Directors & Officers	+10 – +40%
Fiduciary	+5 – +10%

Coverage

- Although hard market conditions persist, increases in retentions and excess / increased limit factors (ILF) pricing appear to be stabilizing.
- Private and Not-For-Profit Directors & Officers (D&O) risks should expect continued limitation or pullback of coverage extensions previously provided.
- Transactions remain an area of concern for insurers and negotiating coverage for newly acquired entities is proving to be challenging.
- Insurers continue to introduce new language intended to clarify how policies will respond to cyber events.

Capacity

- Overall capacity remains stable and, for the most part, insurers' appetites appear to be reverting back to pre-pandemic positions.
- Certain pockets continue to experience challenges due to the historically limited appetite: Insurance Company Professional Liability, Bankers Professional Liability and Security Broker / Dealers Professional Liability.
- Average line size remains $10M for most classes; however, insurers are looking to keep Employment Practices Liability (EPL) and Fiduciary limits to $5M or less.

Other Observations

- Although the Canadian market, for the most part, has stabilized, the lack of new capacity means that the current hard market conditions are unlikely to ease in the near term.
- Clients buying from an insurer for the first time should expect delays and adjust their timelines accordingly. Catching and keeping an underwriter's attention in a market flooded with submissions remains difficult, particularly as insurer appetite remains cautious.
- Buyers must be prepared to discuss cyber risk culture and overall cyber hygiene, as well as their "return to normal" or their "new normal" transition plans.

Canada

Contact

Medina El-Farra
Team Leader, FINEX Financial Institutions
Medina.El-Farra@WillisTowersWatson.com
+1 416 646 3183

Great Britain

Rate

Coverage Line	Rate Change
Crime	+10 – +15%
Professional Indemnity	+10 – +30%
Directors & Officers	+10 – +40%
Middle market sector*	+10 – +40%
Fund D&O	Upwards of +20%

**includes asset managers, private equity, corporate service providers, REITs*

Coverage

- There is a general reluctance to broaden / expand cover with some instances of coverage being removed by insurers.
- Insurers have a continued focus on silent cyber / affirmative cyber requirements.
- The extent of Ransomware cover under crime policies is also under review.

Capacity

- Generally, most insurers have already reviewed their portfolios and are not currently looking to restrict levels any further. However, it still remains a focus for poor performing risks and/or particular sectors or geographies, where downward trend continues.
- There is a significantly reduced insurer appetite to support smaller private equity organizations and real estate investment firms.
- New market entrants have provided needed market capacity and they have also generated some competition.
- The lack of capacity / insurers for Employment Practices Liability and Pension Trustees Liability continues.

Other Observations

- There has been a significant number of underwriters moving jobs, which has triggered some insurers to undertake portfolio management reviews again, resulting in changing appetites / business focus. This has undermined some of the stability which was returning.
- There are still challenges with some insurers, most prominent when the client has limited alternatives and on large limit placements.

Great Britain

Contact

Marcus Porter-Wright
GB Head FINEX Financial Institutions
+44 20 3124 7563
Marcus.Porter-Wright@WillisTowersWatson.com

United States

Rate

Coverage Line	Rate Change
Directors and Officers Liability (D&O) – Public	+10% to 20%
D&O - Private	+10% to 20%
D&O/E&O - Asset managers (excluding private equity)	+5% to +15%
Bankers Professional Liability (BPL)	Large: +10% to 25%; Mid-market: +5% to 30%
Insurance Company Professional Liability (ICPL)	Life: +5% to 20%; P&C: +10% to 30%
Fidelity/Crime	+5% to 10%
Employment Practices Liability (EPL)	+10% to 15%
Fiduciary Liability	+15% to 50%

Coverage

- Insurers had been reluctant to expand the breadth of coverage, but in H2 2021 they seem to be more inclined to consider some expansions. However, there continue to be areas of restrictions such as the removal of pre-determined multiyear Extended Reporting Factors and reducing or removing D&O – Shareholder Derivative Demand Investigation Costs; these changes are being driven by a handful of insurers.
- Concerns over cyber aggregation and social engineering exposures are leading coverage discussions. Fidelity coverages, namely extortion and data restoration, that may overlap with cyber coverages are closely evaluated by insurers and in some cases, excluded from fidelity bonds.
- Cyber risk exclusions continue to be applied to Financial Institutions Errors and Omissions (E&O) policies in an effort to eliminate ambiguity and clarify what is, and what is not, covered.
- Cost of Corrections E&O coverage has come under greater scrutiny and may be narrowed to apply to trading errors only (versus any operational errors).
- P&C insurers with exposure to business interruption claims face uncertainty regarding the outcome of pending cases alleging wrongful denial of claims arising out of the pandemic. Markets continue to implement exclusionary language targeted at capping pandemic business interruptions.
- Life insurers have been subject to greater scrutiny towards their investment portfolios, while issues like Cost of Insurance remain a significant concern.
- Pullback in EPL coverage for privacy and biometrics claims (i.e., Biometric Information Privacy Act (BIPA) and California Consumer Privacy Act (CCPA)).

Capacity

- We are seeing signs of deceleration with more capital flowing into the marketplace and new market entrants. There is also refreshed capacity from insurers coming back into the market with new leadership teams and/or appetites along with more reinsurance capacity being deployed.
- Adequate capacity is keeping rates more competitive for asset managers than other FI sub-industries, though insurers are restricting their deployment of limits, with many offering a maximum of only $10M for any one program.
- Limited appetite for private equity, business development companies (BDCs), mortgage real estate investment trusts (REITs), managers with high exposure to collateralized loan obligations (CLOs), real estate and other stressed investments and primary for insurance company professional liability (ICPL) and large bank professional liability (BPL).
- Excess Fidelity remains attractive and competitive, but there is limited primary Fidelity capacity for large and complex risks.
- With significant portfolio corrective actions taken in 2020, insurers appear to be more interested in opportunities that may have been declined in the past given stronger rates and retentions.

Other Observations

- There has been a significant amount of movement within the underwriting community, with underwriters and underwriting leaders moving jobs. While this can trigger a portfolio review and result in changing appetites and focus, it has also resulted in more interest in new business as these new leaders need to grow and expand their portfolios.
- Since the peak of the hard market in Q3 2020, there has been an overall moderation of rate increases in all lines except for Fiduciary Liability and Cyber. Rate increases through Q3 2021 tapered and trended downwards. We expect that Q4 2021 rate trends will be in line with Q3 2021.
- The FI public D&O marketplace continues to be challenged, but with the inflow of new capacity, it has stabilized the markets and there has been a deceleration in rate increases
- Excess insurers focused on recalibration of increased limit factors (“ILF”) in 2020. This has moderated and been less of a focus in 2021, unless there are lower excess layers that have an ILF of less than 67% - 70%. There is much more alignment between the primary and excess rate increases, and in some cases, insurers are willing to offer lower rate increases on excess layers (e.g. staggered rate increase).
- The Fiduciary marketplace turned abruptly hard in Q4 2020 driven by class action complaints, excessive fees litigation for companies of all sizes. Insurers are applying split, increased retentions, sub-limits and/or more restrictive terms around fee cases and mass/class actions along with additional underwriting questions on evaluation and oversight of service provider fees.
- EPL continues to be in the spotlight now with a focus on return to workplace and mandated vaccinations. The focus seems to be on increased up front underwriting, and not on any exclusionary policy wording.
- Environmental, Social, Governance (“ESG”), Diversity and Inclusion and Network Security and Privacy protocols and initiatives are being more closely scrutinized by D&O, E&O and Fidelity underwriters.

United States

Contact

Heather Kane
US Head of FINEX Financial Institutions
Heather.Kane@WillisTowersWatson.com
+1 212-915-7905

Looking forward

Potential claims trends

- Social engineering scams remain prevalent, as scams become more sophisticated and fraudsters continue to monopolize on the current working from home environment, despite business reopening and people returning to the office.
- Regulators continue to scrutinise companies and how boards continue to manage their companies through the COVID-19 situation.
- Notifications to employment practices liability (EPL) policies may increase as a result of the way employers continue managing the workforce through the pandemic.
- Notifications to cyber policies are likely to continue rising as a result of an increase in ransomware attacks.

Steps you may want to consider to mitigate your exposure to the market volatility

- Engage early as insurers may require more data and information for your renewal.
- Revisit programme structure and consider alternatives (blended programmes, increased side A, higher deductibles etc).
- Be open to looking at other markets if you need to replace insurers or for additional capacity.
- Leverage strategic insurer relationships from other lines of insurance.
- Communicate effectively with your broker about your claims, do not notify matters late in the renewal process unless it is unavoidable.

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media

FPS2266529 WTW-FINEX492604/11/21

willistowerswatson.com

Willis Towers Watson