MARSH JLT SPECIALTY

Directors and Officers Liability: UK FTSE 100 Market Update, Q3 2020

Commercial directors and officers liability (D&O) insurance has seen severe pricing increases over the first three quarters of 2020. This has been primarily driven by the increasing uncertainty over COVID-19's long-term impact, and several London market insurers closing their management liability books.

Increasing D&O Pricing

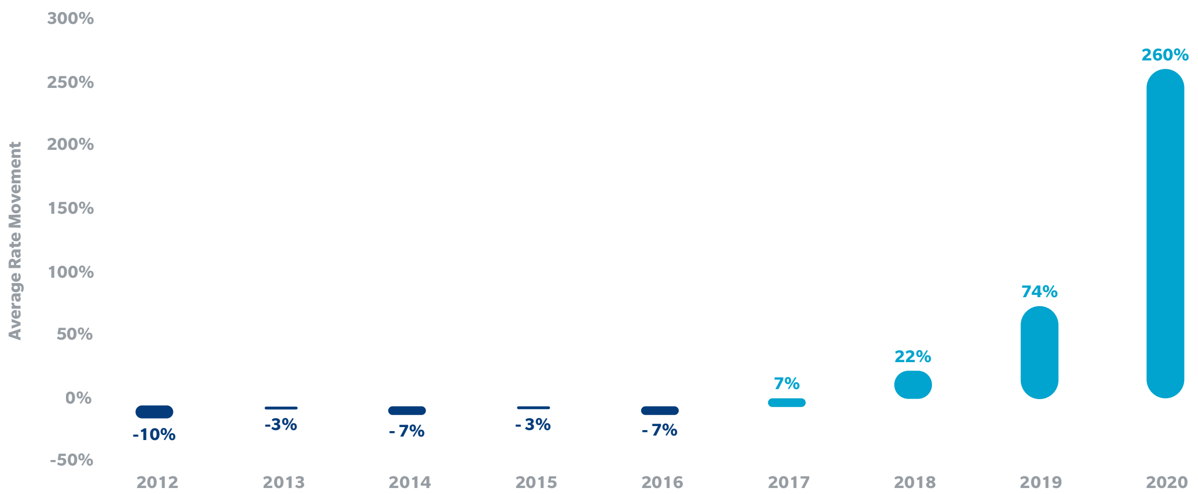
In the first three quarters of 2020, FTSE 100 companies experienced D&O insurance premium increases of 260%, on average (see Figure 1). This dramatic increase is the result of a combination of factors.

D&O insurers continue to re-price their portfolios after numerous years of making losses. In many cases, insurers are completely re-pricing risks on renewal, using new rating models, making year-over-year comparisons extremely high.

FIGURE 1

The average pricing increase across an entire D&O insurance tower for FTSE 100 companies was 260%.

SOURCE: MARSH JLT SPECIALTY DATA AND ANALYTICS



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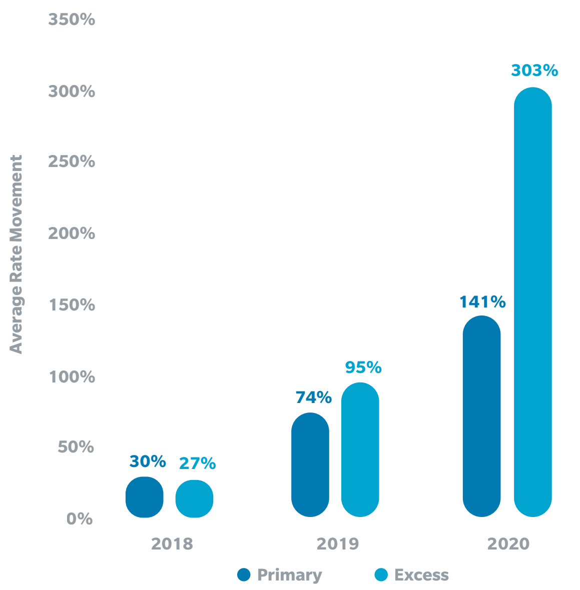
In addition to the general market correction based on increased claims costs, COVID-19 has led to insurers further rationing capacity, with many reducing line sizes on their renewals. Other insurers have closed their UK management liability books.

This has created a lack of capacity, with gaps opening up in programmes, which only a limited number of insurers are willing to fill. Attracting new capacity can be costly. The average pricing increase for the excess layers of a programme now exceeds the average pricing increase for primary layers. This was also true in 2019, but the gap in the percentage rate change between primary and excess has accelerated, with primary pricing increasing by 141%, on average, and excess rates increasing 303%, on average (see Figure 2).

FIGURE 2 **The average percentage increase for excess capacity exceeded 300% in the first three quarters of 2020.**

SOURCE: MARSH JLT SPECIALTY DATA AND ANALYTICS



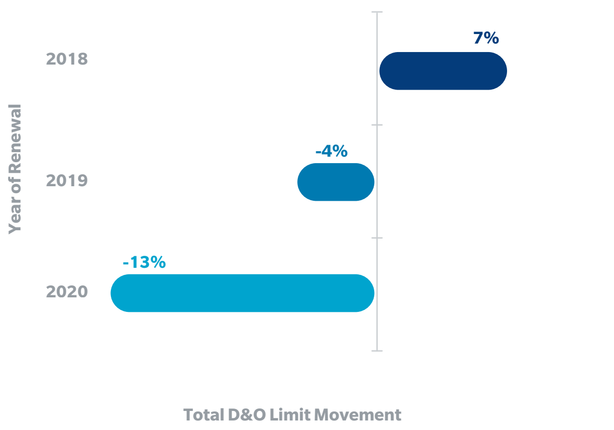
Decreasing Limits Purchased

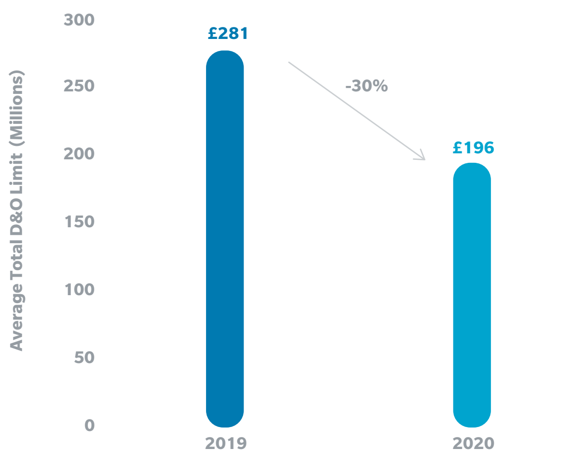
As a result of diminishing market capacity and the increasing cost of capacity that is available, many FTSE 100 companies are purchasing lower limits, restructuring their programmes, and, in some cases, considering alternatives such as using captive insurers.

In the first three quarters of 2020, on average, FTSE 100 companies reduced their limits by 13% compared with the limits purchased in 2019 (see Figure 3). When looking at all companies that bought more than £200 million in D&O limits in 2019, the reduction in the average limits purchased was even greater; such companies reduced their limits by 30% in the first three quarters of 2020 (see Figure 4).

FIGURE 3 **As prices have increased, D&O purchasers have reduced their D&O limits.** FIGURE 4

SOURCE: MARSH JLT SPECIALTY





Managing a Volatile Market

Given the state of the market, preparation for renewal is critical. FTSE 100 companies should evaluate limits, programme design, the insurers approached to participate, and their appetite for alternatives well ahead of renewal.

When it's time to approach the market for renewal, expect a more challenging underwriting process, with insurers asking more targeted questions than in previous years and requiring access to senior individuals within your company. Detailed inquiries around the financial and operational challenges posed by COVID-19 are routine.

Although it is important to start the process early and plan ahead, the trends observed in the first three quarters of 2020 are a good reminder that buyers should also enter renewal with back-up plans. Be prepared for significant changes on short notice, given the market's fluidity and volatility. Keeping in close contact with your risk adviser to understand and navigate the evolving market is essential.

For further information, please contact your local Marsh office or visit our website at marsh.com.

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Methodology

The data contained in this report is compiled using placements from the Marsh UK and Ireland team, and subsequently processed by the data and analytics team. Price movement over time is calculated as the variation year-over-year of the rate per million on the total programme for the same client in consecutive years, provided there were no significant changes to the programme structure. The analysis includes methodology for dealing with outliers in order to provide a more precise study.

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