MARSH JLT SPECIALTY

Directors and Officers Liability: UK FTSE 350 Market Update, H1 2020

The difficult market conditions for commercial directors and officers liability (D&O) insurance seen at the start of 2020 continued and increased in the second quarter. Insurers became increasingly concerned not just with historic sources of D&O claims, but with new exposures that may result from COVID-19. This caused a dramatic increase in pricing for FTSE 350 purchasers of D&O insurance over the first half of 2020.

Increasing D&O Pricing

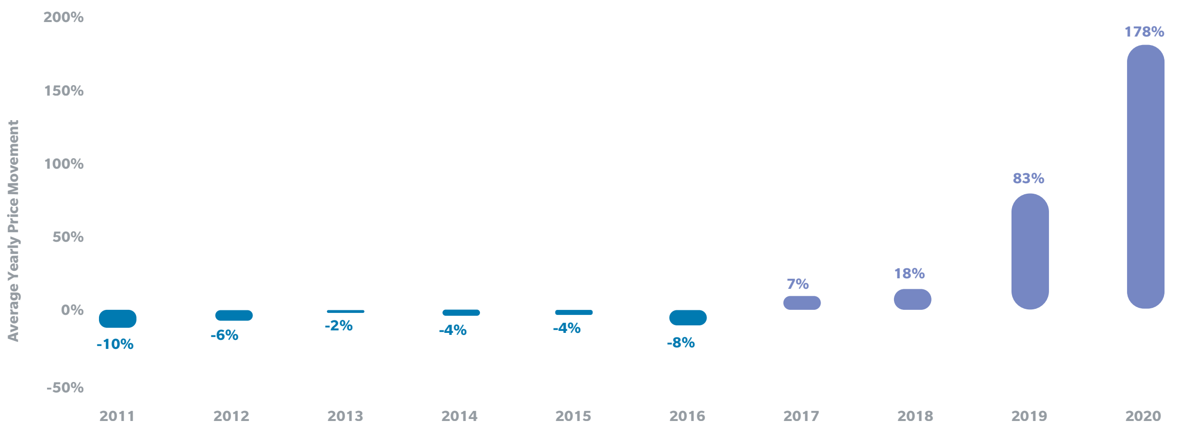
In the first half of 2020, on average, FTSE 350 companies experienced D&O insurance premium increases of 178% (see Figure 1). This dramatic increase was the result of a combination of factors.

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

Despite large increases in 2019, FTSE 350 renewals in the first half of 2020 received more than double the average price increase of 2019.

SOURCE: MARSH JLT SPECIALTY



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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. Others have paused taking on new business while uncertainties around the pandemic remain.

This has created a squeeze on capacity, with holes opening up in programmes and a limited number of insurers willing to fill the resulting gaps. This has exacerbated an already difficult pricing environment. By the second quarter of 2020, the average premium increase for FTSE 350 insureds was nearly 200% (see Figure 2).

Decreasing Limits Purchased

As a result of the increased cost of D&O premiums, frequently combined with extreme pressure to control cost, many FTSE 350 companies are purchasing lower limits, restructuring their programmes, and, in some cases, considering alternatives such as using captive insurers.

In the first half of 2020, on average, FTSE 350 companies reduced their limits by 11% compared with the limits purchased in 2019 (see Figure 3). As part of these programme reviews, FTSE 350 companies require access to robust data and analytics to assist in their internal discussions and ultimate purchasing decisions.

FIGURE 2

The average percentage increase in Q2 2020 was nearly 200%.

SOURCE: MARSH JLT SPECIALTY

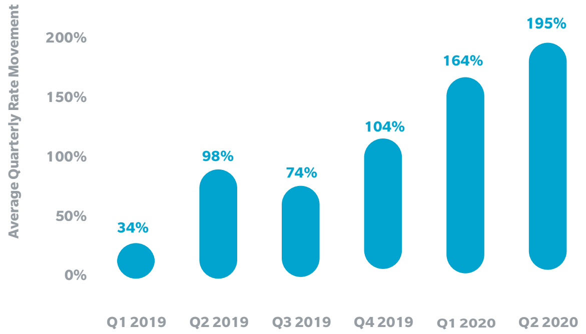
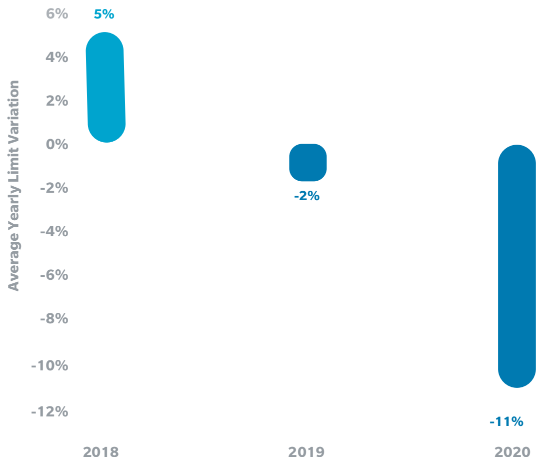


FIGURE 3

As prices increased, insureds reduced their D&O limits.

SOURCE: MARSH JLT SPECIALTY



Managing a Volatile Market

Given the state of the market, preparation for renewal is critical. FTSE 350 companies should evaluate limits, programme design, the insurers approached to participate, and their appetite for alternatives well ahead of renewal.

When it is 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 half 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. It is essential to keep in close contact with your risk adviser to understand and navigate the evolving market.

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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