



# Quarterly D&O Pricing Index

Fourth Quarter and Full Year 2018

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# AON REPORTS FOURTH QUARTER AND FULL YEAR 2018 PUBLIC D&O PRICING

**AVERAGE CHANGE FOR PRIMARY POLICIES WITH SAME LIMIT AND SAME DEDUCTIBLE INCREASED 3.6 PERCENT IN THE FOURTH QUARTER.**

## Fourth Quarter Key Metrics and Highlights

- D&O price per million was up 11.6 percent compared to the prior year quarter
- Price per million for clients that renewed in both Q4 2018 and Q4 2017 increased 8.6 percent
- 12 percent of primary policies renewing with the same limit and deductible experienced a price decrease – 61 percent had a price increase
- Overall price change for primary policies renewing with same limit and deductible was up 3.6 percent
- 93.8 percent of primary policies renewed with the same limit
- 80.2 percent of primary policies renewed with the same deductible
- 96.9 percent of primary policies renewed with the same carrier

## Full Year Key Metrics and Highlights

- D&O price per million was up 6.1 percent compared to the prior year
- First annual increase in the Pricing Index since 2003
- Price per million for clients that renewed in both 2018 and 2017 increased 3.0 percent
- 11 percent of primary policies renewing with the same limit and deductible experienced a price decrease – 50 percent had a price increase
- Overall price change for primary policies renewing with same limit and deductible was up 2.9 percent
- 93.0 percent of primary policies renewed with the same limit
- 84.3 percent of primary policies renewed with the same deductible
- 95.7 percent of primary policies renewed with the same carrier

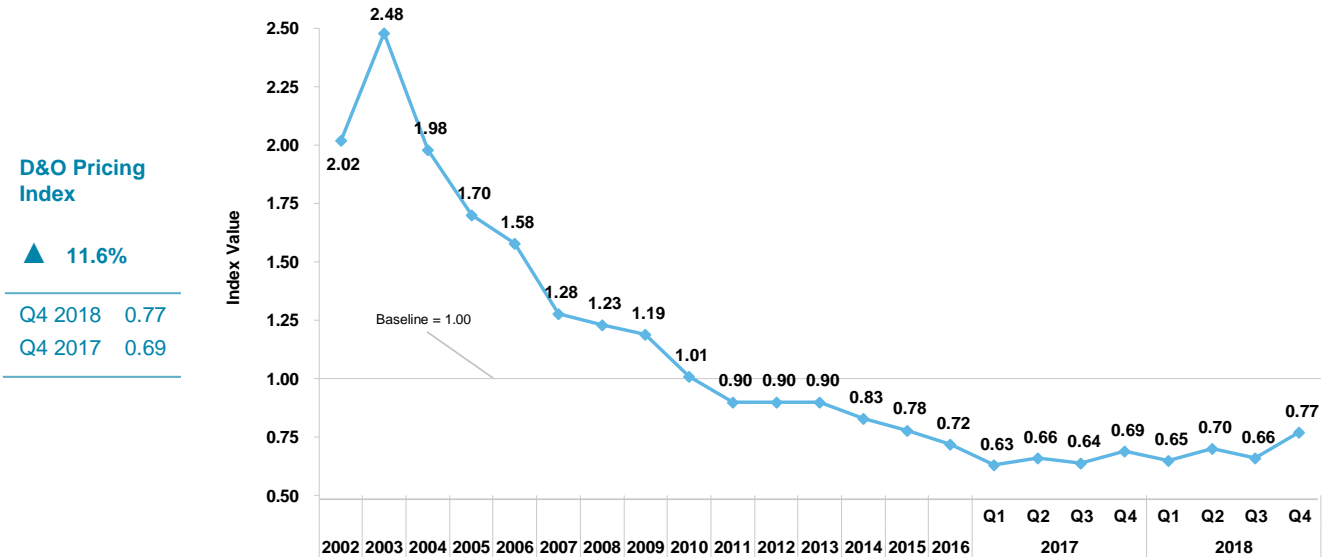
**New York – March 14, 2019** – Aon Commercial Risk Solutions (U.S.) today reported public Directors' & Officers' ("D&O") liability pricing for the three and twelve months ended December 31, 2018.

Each quarter, Aon's Financial Services Group ("FSG") publishes a pricing index of D&O insurance that tracks premium changes relative to the base year of 2001.<sup>1,2</sup>

The Pricing Index increased to 0.77 from 0.69 in the prior year quarter. The average price for \$1 million in limits increased 11.6 percent compared to the prior year quarter.

# QUARTERLY INDEX OF D&O PRICING

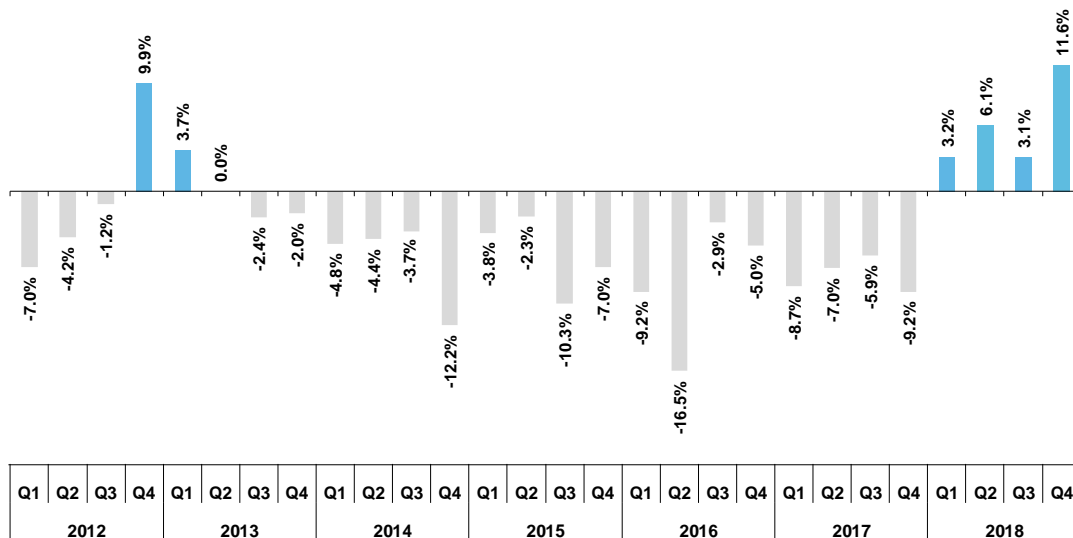
Q1-2002 through Q4-2018 | Base Year: 2001 = 1.00



The increase in Q4 2018 represents the fourth consecutive quarter of year-over-year price increases, following a period of eighteen quarterly pricing decreases within the past six years.

# QUARTERLY “YEAR-OVER-YEAR” PRICE CHANGES

Q1-2012 through Q4-2018



A better comparison, however, is to look at only those programs that renewed in both Q4 2018 and Q4 2017. On that basis, pricing increased 8.6 percent.

Please note that the Q4 2018 results were impacted by a very large Communication Services company that had significant increase in premium due to changes in exposure. Excluding this client, the overall pricing increase was 5.8 percent, and for those clients in both Q4 2018 and Q4 2017, pricing increased 2.9 percent.

It is instructive to note that the Pricing Index includes all limits purchased by publicly traded companies during the quarter. Changes in clients renewing during the quarter, changes in limits purchased, or a shift in the mix of limits between ABC limits and Side-A only limits can affect the overall performance of the Index.

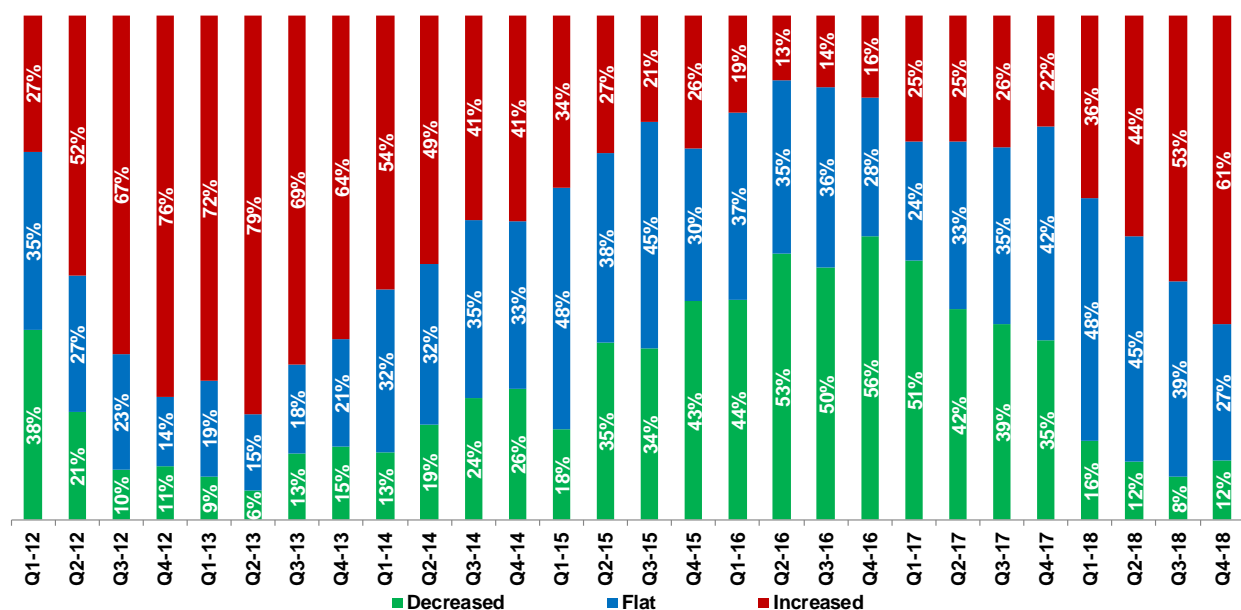
## FOURTH QUARTER PRIMARY POLICIES

By looking at only primary policies in the quarter that renewed with the same limit and deductible as the prior year, we can eliminate some of that “noise” and focus only on those policies that renewed on a “like-for-like” basis.

For the fourth quarter, 12 percent of primary policies received a price decrease, 27 percent renewed “flat”, while 61 percent of companies received a price increase.

## PRIMARY PRICE CHANGE DISTRIBUTION

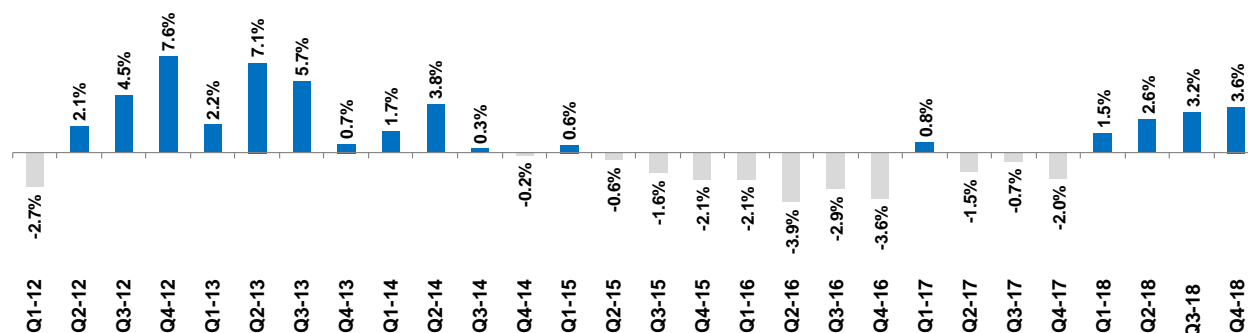
Q1-2012 through Q4-2018



The average primary price decrease was 6.0 percent, while the average price increase was 9.0 percent. The overall price change for primary policies in the fourth quarter was up 3.6 percent.

## PRIMARY PRICE CHANGES

Q1-2012 through Q4-2018



## THE QUARTER DECONSTRUCTED

### October 2018

In October, 18 percent of primary policies received a price decrease, 20 percent renewed “flat”, while 61 percent of companies received a price increase.

The average primary price decrease in October was 5.5 percent, while the average price increase was 6.0 percent. The overall price change for primary policies in October was up 1.6 percent.

### November 2018

In November, 7 percent of primary policies received a price decrease, 30 percent renewed “flat”, while 64 percent of companies received a price increase.

The average primary price decrease in November was 7.0 percent, while the average price increase was 13.0 percent. The overall price change for primary policies in November was up 7.1 percent.

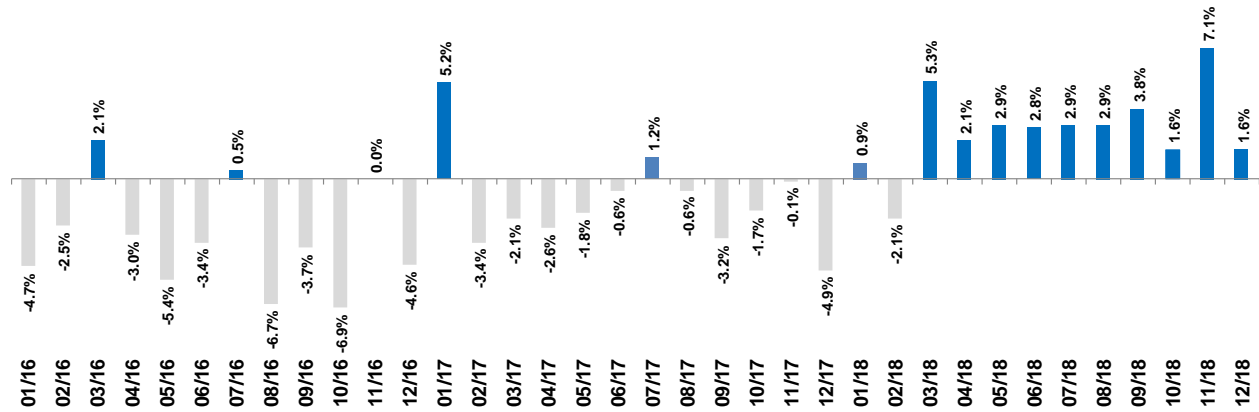
### December 2018

In December, 8 percent of primary policies received a price decrease, 35 percent renewed “flat”, while 58 percent of companies received a price increase.

The average primary price decrease in December was 6.6 percent, while the average price increase was 5.9 percent. The overall price change for primary policies in December was up 1.6 percent.

# MONTHLY PRIMARY PRICE CHANGE

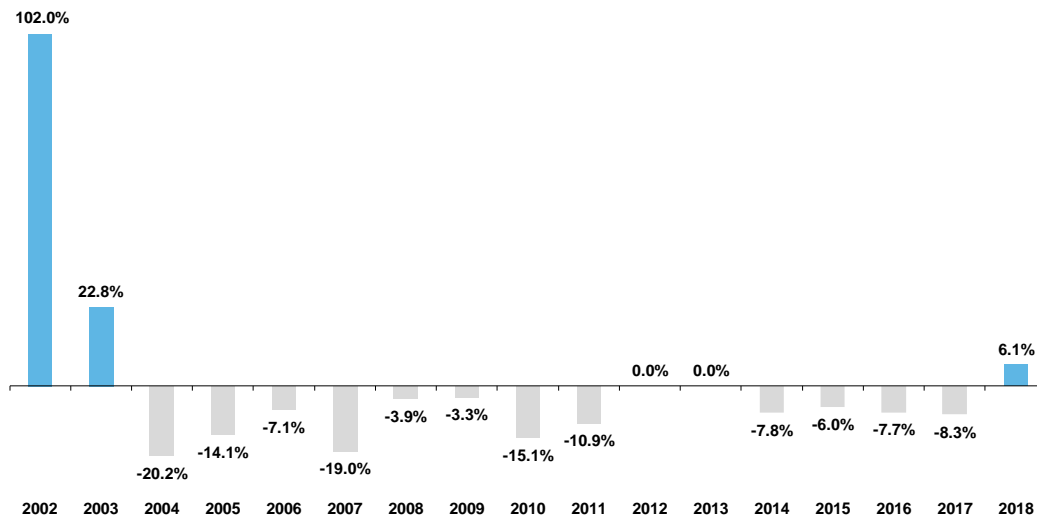
January 2016 – December 2018



On an annual basis, the pricing index increased 6.1 percent, the first such increase since 2003.

# ANNUAL “YEAR-OVER-YEAR” PRICE CHANGES

2002 – 2018



For only those programs that renewed in both 2018 and 2017, pricing increased 3.0 percent.

Excluding the large Communication Services client, the annual price increases were 4.5 percent and 1.5 percent, respectively.

The overall price change in 2018 for primary policies with the same limits and deductibles as the prior year was up 2.9 percent.



## **LIMIT, DEDUCTIBLE, AND CARRIER CHANGES**

**Fourth Quarter** – In Q4 2018, 93.8 percent of primary policies renewed with the same limit, 80.2 percent of policies renewed with the same deductible, and 75.3 percent of policies renewed with the same limit AND deductible.

In the fourth quarter, 96.9 percent of primary policies renewed with the same carrier. Only 3.1 percent of policies renewed with a different carrier.

On average, policies that renewed with the same limit, deductible, and carrier experienced a 3.7 percent premium increase.

**Full Year** – During 2018, 93.0 percent of primary policies renewed with the same limit, 84.3 percent of policies renewed with the same deductible, and 79.8 percent of policies renewed with the same limit AND deductible.

In 2018, 95.7 percent of primary policies renewed with the same carrier. Only 4.3 percent of policies renewed with a different carrier.

On average, policies that renewed with the same limit, deductible, and carrier experienced a 2.9 percent premium increase.

Policies that renewed with the same limit and deductible, but a different carrier, experienced a 1.9 percent increase.

## SECURITIES CLASS ACTION LITIGATION

**Fourth Quarter** – According to Stanford Law School’s Securities Class Action Clearinghouse, in Q4 2018, plaintiffs filed 106 new federal securities class action cases (filings) – 18 more than in the fourth quarter of 2017 (88), an increase of 20 percent.

Federal filings of class actions involving merger and acquisition (M&A) transactions in Q4 2018 increased to 47, 4 percent higher than in Q4 2017 (45). M&A litigation represented 44 percent of filings in Q4 2018, compared to 51 percent of filings in Q4 2017.

**Full Year** – For the full year, plaintiffs filed 403 new federal securities class action cases (filings) – 9 fewer than in 2017 (412), a decrease of 2 percent.

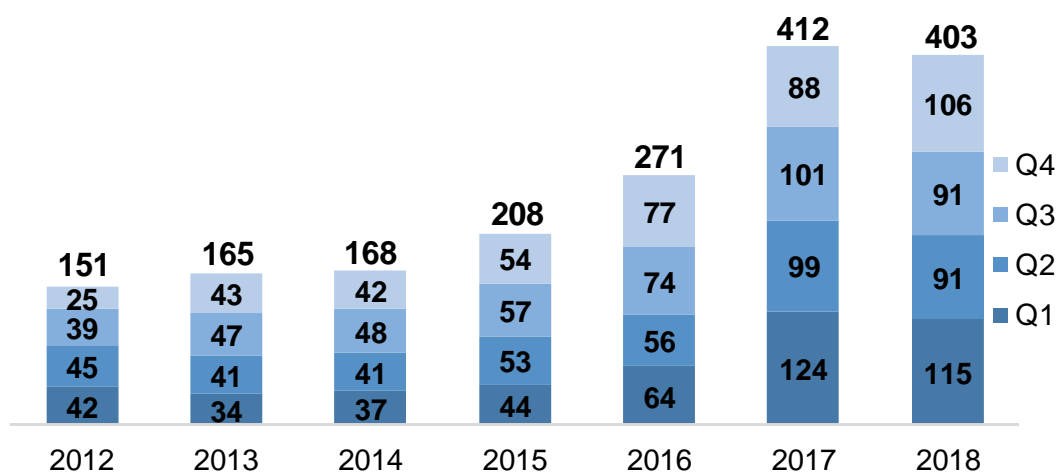
Federal filings of class actions involving merger and acquisition (M&A) transactions in 2018 decreased to 183, 7 percent lower than in 2017 (197). M&A litigation represented 45 percent of filings in 2018, compared to 48 percent of filings in 2017.

According to a recent report by Cornerstone Research, “Filing activity continued unabated in 2018. On several dimensions, the last three years – particularly 2017 and 2018 – have been more active than any previous year. The heightened levels of filings have occurred despite a lack of financial market turbulence that often accompanied substantial filing activity in prior years.

The total number of filings in 2018 was the second highest on record after 2017. Filings against companies with large market capitalizations surged to near record highs. The combination of numerous filings and the frequency of filings involving larger companies led to higher amounts of market capitalization losses in dispute.”<sup>3</sup>

## FEDERAL SECURITIES CLASS ACTIONS

Q1-2012 through Q4-2018



Source: Stanford Law School's Securities Class Action Clearinghouse

## ENDNOTES

<sup>1</sup> The Quarterly D&O Pricing Index is compiled using the proprietary policy data of the Aon Global Risk Insight Platform (“Aon GRIP”). The D&O Pricing Index is currently comprised of policy information on over 12,300 D&O programs for publicly traded companies between January 1, 2001 and December 31, 2018. The Index represents the weighted average cost of \$1,000,000 of D&O insurance (Total Premium / Total Limits). The average “rate per million” of limit includes D&O placements (A/B/C Coverage), Side-A only (non-indemnifiable loss) placements, and Side-A DIC (difference-in-conditions) placements. Programs with blended coverage (e.g., a shared limit for D&O and Fiduciary Liability combined) are excluded from the Index.

While the Index data includes a small number of foreign companies that trade on a U.S. exchange, most of the companies are U.S. issuers traded on U.S. exchanges. As such, the data is representative of the U.S. D&O market and not the global D&O market.

Aon first produced the Quarterly D&O Pricing Index in Q2 2006. The base year (2001) is the average price per million for \$1,000,000 of D&O coverage for the 2001 calendar year.

<sup>2</sup> In the first quarter of 2008, FSG began adding S&P’s Compustat company data to our proprietary policy data. Some companies previously included in our pricing index are not included in this S&P data, primarily foreign issuers not traded on U.S. exchanges and some smaller U.S. companies (e.g., OTC:BB). These companies have been removed from the D&O Pricing Index which resulted in some minor changes to prior results. We do not view these changes as material to the overall results of the Index.

<sup>3</sup> Cornerstone Research: Securities Class Action Filings – 2018 Year in Review

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## ABOUT AON

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

## ABOUT GLOBAL RISK INSIGHT PLATFORM (“GRIP”)

The Global Risk Insight Platform is the world's leading repository of insurance placement activities. By capturing information about key broking activities, GRIP provides timely insight into market trends and client buying behaviours. As a result of the contributions of 6,300 Aon GRIP users spanning 20 countries in North and South America, Europe, Asia and the Pacific, Aon GRIP\* provides insights into:

- US \$30.6B in annual premium flow
- 142,875 distinct opportunities to quote annually
- 164 client countries
- 1,655 global carriers
- 71,884 distinct global clients
- 92 lines of coverage

\*as of September 30, 2018

## ABOUT FINANCIAL SERVICES GROUP (“FSG”)

Aon’s Financial Services Group is the premier team of executive liability brokerage professionals, with extensive experience in representing buyers of complex insurance products including directors’ and officers’ liability, employment practices liability, fiduciary liability, fidelity, and professional liability insurance. FSG’s global platform assists clients in addressing their executive liability exposures across their world-wide operations. Aon’s Financial Services Group manages more than \$2.4 billion in annual premium, assists with claim settlements more than \$3.5 billion, and uses its unmatched data to support the diverse business goals of its clients.



Aon Global Risk Insight Platform

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