



# Quarterly D&O Pricing Index

Third Quarter 2020

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## **AON REPORTS THIRD QUARTER 2020 PUBLIC D&O PRICING**

**AVERAGE PRICE PER MILLION, ADJUSTED FOR CERTAIN ITEMS, INCREASED 49.1 PERCENT IN THE THIRD QUARTER**

**AVERAGE CHANGE FOR PRIMARY POLICIES WITH SAME LIMIT AND SAME DEDUCTIBLE INCREASED 22.2 PERCENT**

### **Third Quarter Key Metrics and Highlights**

- Average price per million increased 67.9 percent compared to the prior year quarter; price per million, adjusted for certain items, increased 49.1 percent
- Price per million for clients that renewed in both Q3 2020 and Q3 2019 increased 40.0 percent
- 2 percent of primary policies renewing with the same limit and deductible experienced a price decrease – 98 percent had a price increase
- Overall price change for primary policies renewing with same limit and deductible was up 22.2 percent
- 87.0 percent of primary policies renewed with the same limit
- 49.6 percent of primary policies renewed with the same deductible
- 45.2 percent of primary policies renewed with the same limit and deductible
- 93.0 percent of primary policies renewed with the same carrier

**New York – November 2, 2020** – Aon Commercial Risk Solutions (U.S.) today reported public Directors' & Officers' ("D&O") liability pricing for the three months ended September 30, 2020.

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 1.88 from 1.12 in the prior year quarter. The average cost of \$1 million in limits increased 67.9 percent compared to the prior year quarter.

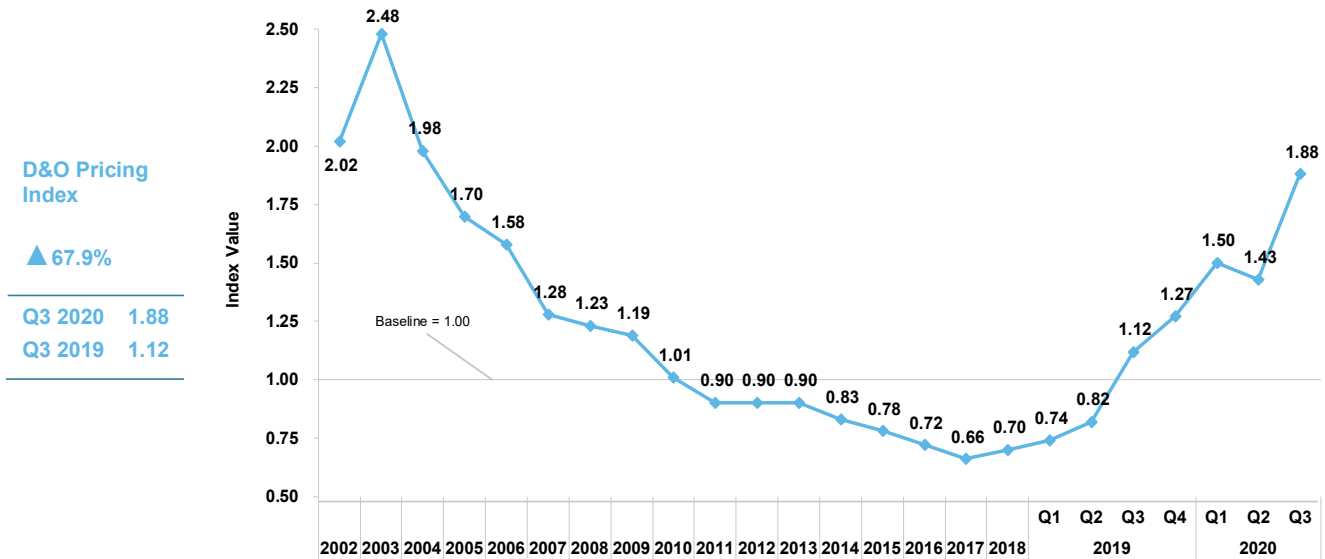
1.88 is the highest Quarterly Index value since Q4 2004 (1.89).

However, in Q3 2020, eight of the twenty largest programs by premium were Initial Public Offering programs that were not in the Q3 2019 sample.

Excluding these eight IPOs, the Q3 2020 Pricing Index increased 49.1 percent.

# QUARTERLY INDEX OF D&O PRICING

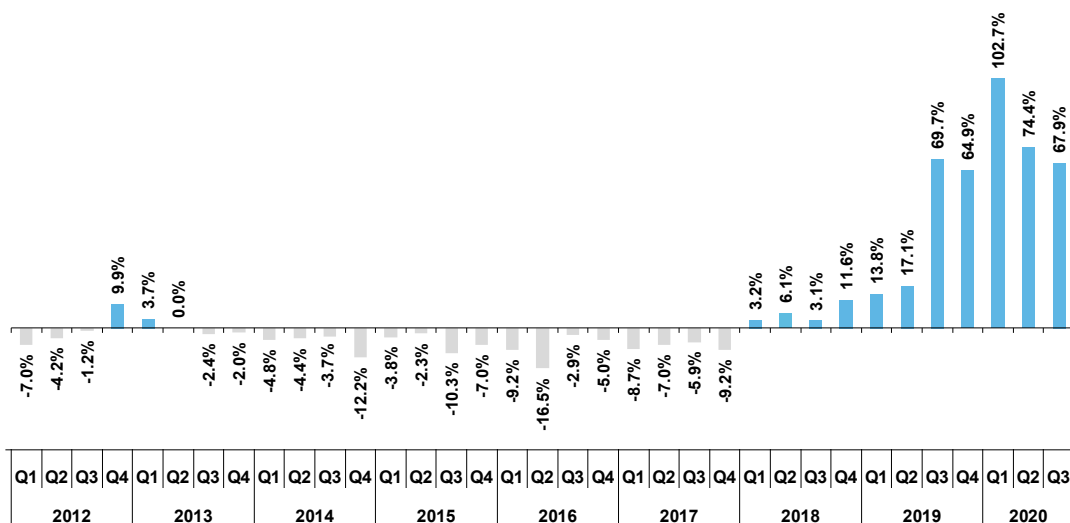
2002 through Q3-2020 | Base Year: 2001 = 1.00



The increase in Q3 2020 represents the eleventh consecutive quarter of year-over-year price increases, following a period of eighteen quarterly pricing decreases over the prior four years.

## QUARTERLY “YEAR-OVER-YEAR” PRICE CHANGES

Q1-2012 through Q3-2020



A better comparison, however, is to look at only those programs that renewed in both Q3 2020 and Q3 2019. On that basis, pricing increased 40.0 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.

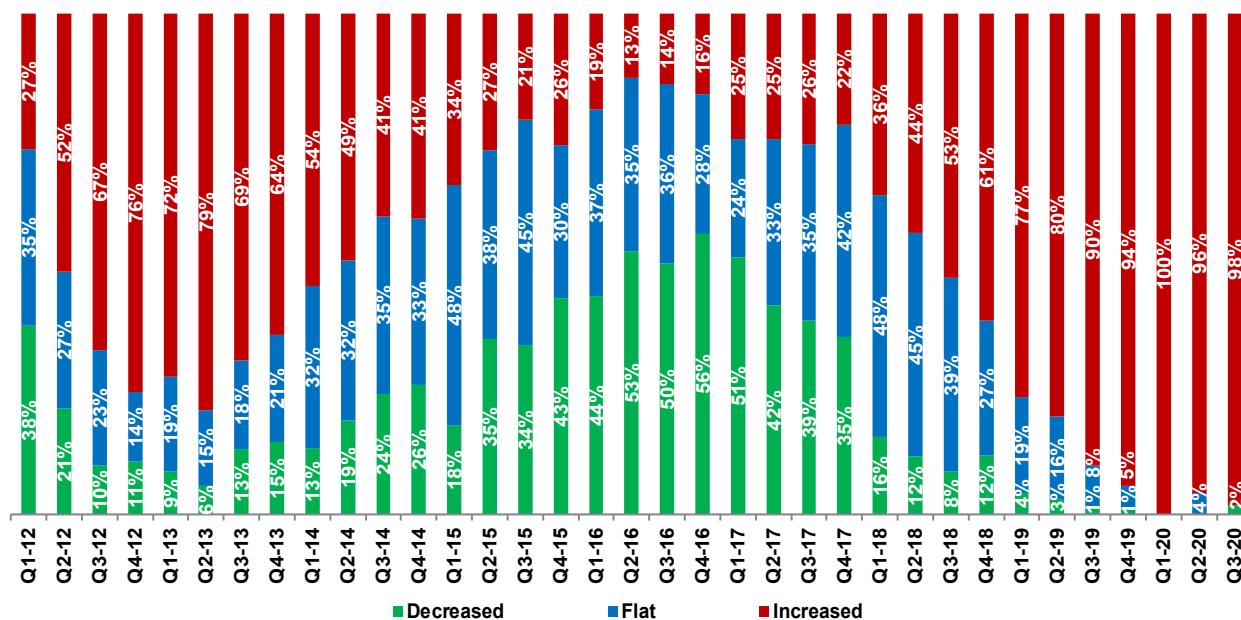
### THIRD QUARTER PRIMARY POLICIES

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 third quarter, 2 percent of policies received a price decrease, no policies renewed “flat”, while 98 percent of companies received a price increase. (Note: percentages may not sum to 100 percent due to rounding.)

### PRIMARY PRICE CHANGE DISTRIBUTION (SAME LIMIT AND DEDUCTIBLE)

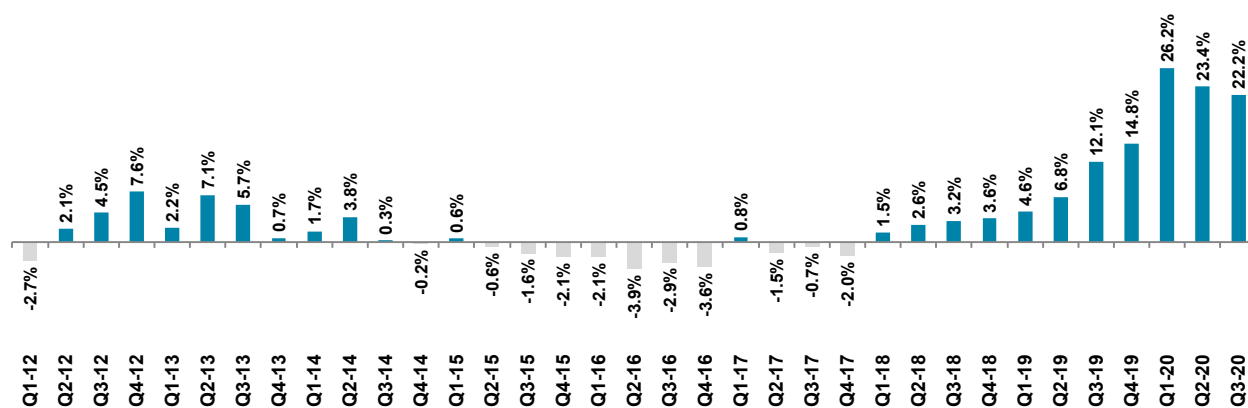
Q1-2012 through Q3-2020



For primary policies renewing with the same limit and deductible, the average primary price decrease was 25.0 percent, while the average price increase was 23.8 percent. The overall price change for primary policies in the third quarter was up 22.2 percent.

## PRIMARY PRICE CHANGES (SAME LIMIT AND DEDUCTIBLE)

Q1-2012 through Q3-2020



## THE QUARTER DECONSTRUCTED (SAME LIMIT AND DEDUCTIBLE)

### July 2020

In July, no primary policies received a price decrease or renewed “flat”, while 100 percent of companies received a price increase.

The average primary price increase in July was 20.0 percent. The overall price change for primary policies in July was up 20.0 percent.

### August 2020

In August, no primary policies received a price decrease or renewed “flat”, while 100 percent of companies received a price increase.

The average primary price increase in August was 27.6 percent. The overall price change for primary policies in August was up 27.6 percent.

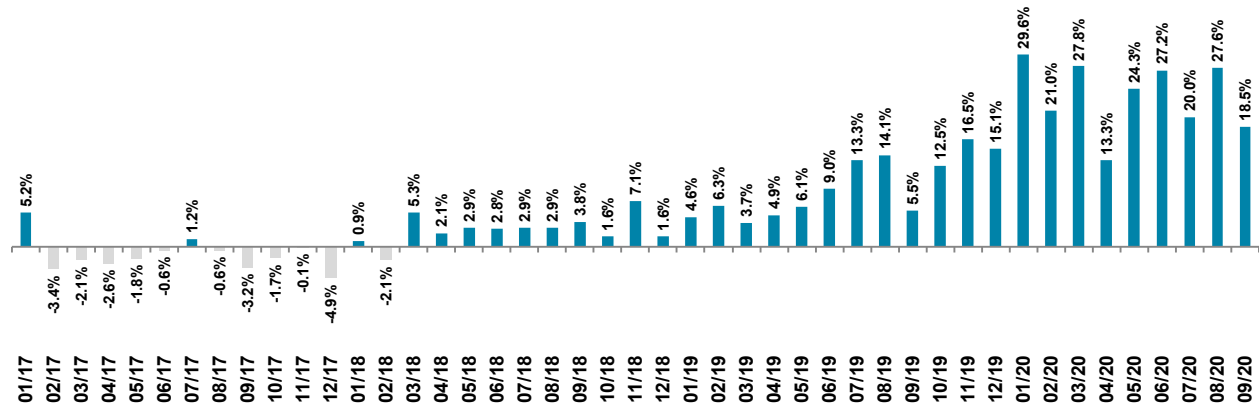
### September 2020

In September, 8 percent of primary policies received a price decrease, no policies renewed “flat”, while 92 percent of companies received a price increase.

The average primary price decrease in September was 25.0 percent, while the average price increase was 25.8 percent. The overall price change for primary policies in September was up 18.5 percent

# MONTHLY PRIMARY PRICE CHANGE (SAME LIMIT AND DEDUCTIBLE)

January 2017 – September 2020

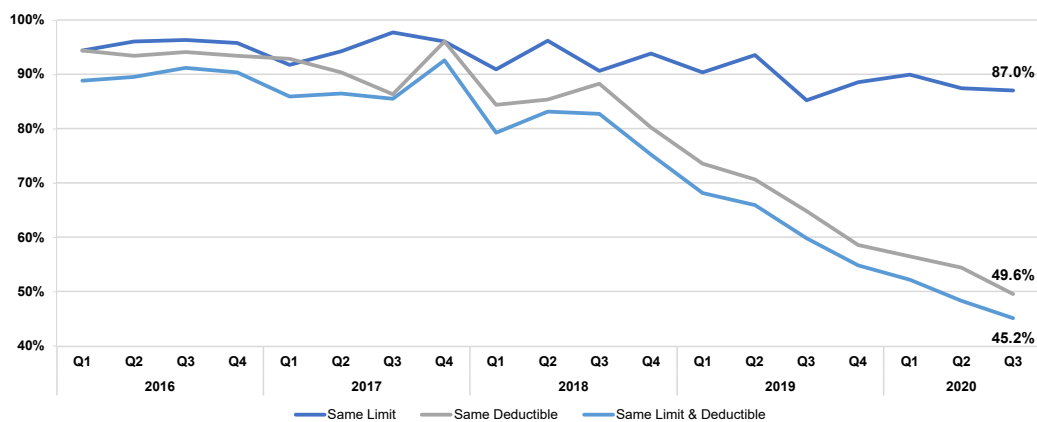


## LIMIT, DEDUCTIBLE, AND CARRIER CHANGES

**Third Quarter** – In Q3 2020, 87.0 percent of primary policies renewed with the same limit, 49.6 percent of policies renewed with the same deductible.

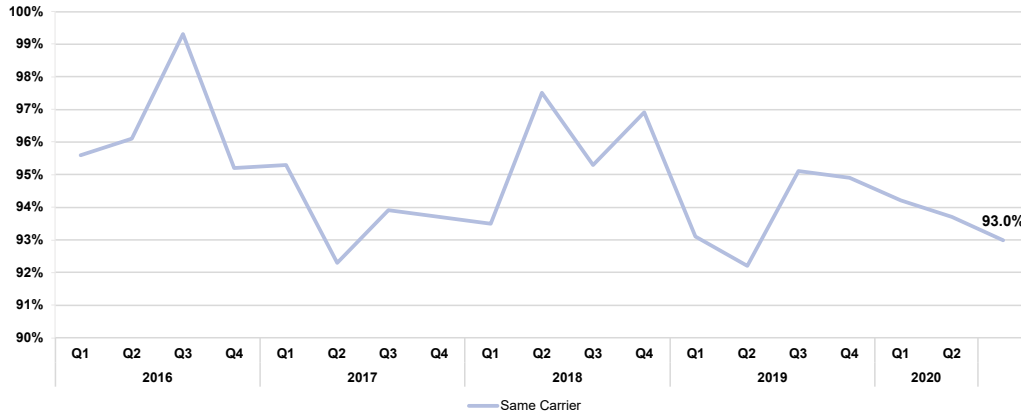
When we first started reporting on changes at the primary layer in January 2012, we focused on the clients that renewed with the same limit and same deductible as the prior year, to eliminate any rate variability due to changing limits and/or deductibles. Historically the percentage of clients renewing with the same limit was in the mid- to high-90s, and the percentage of clients renewing with the same deductible was in the mid- to low-90s.

Concurrent with the primary layer rate increases that started in Q1 2018, the percentage of clients renewing with the same limit and/or deductible had been dropping steadily, before dropping precipitously since Q3 2018. For the third quarter, only 45.2 percent of clients renewed with the same limit AND deductible as the prior-year quarter.





Despite the movement in limit and deductible levels, in the third quarter, 93.0 percent of primary policies renewed with the same carrier. Just 7.0 percent of policies renewed with a different primary carrier.



On average, policies that renewed with the same limit, deductible, and carrier experienced a 22.4 percent premium increase in the third quarter.

## SECURITIES CLASS ACTION LITIGATION

**Third Quarter** – According to Stanford Law School’s Securities Class Action Clearinghouse, in Q3 2020, plaintiffs filed 98 new federal securities class action cases (filings) – fifteen fewer than in the third quarter of 2019 (113), a decrease of 13 percent.

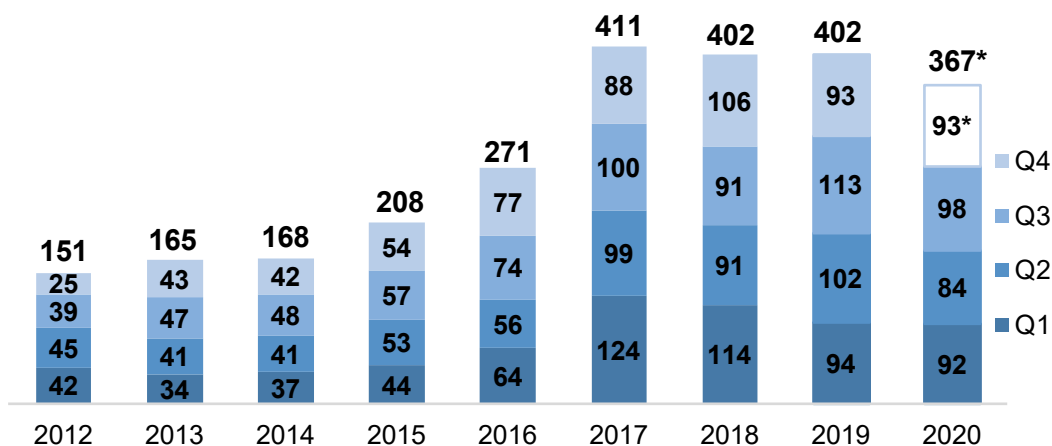
**Full Year** – Using a trailing twelve-month basis, the projected number of filings for the full year (367) would be a 9 percent decrease compared to 2019 (402) and 2018 (402).

According to a recent report by Cornerstone Research, “In the first half of 2020, U.S. financial markets experienced extreme uncertainty and volatility as the economic consequences of the COVID-19 pandemic became apparent. Government stimulus efforts to assist companies negatively affected by shelter-in-place requirements and individuals furloughed from their jobs calmed financial markets to a degree.

Stock valuations rebounded from lows in late March and early April, but many industries still experienced meaningful declines in market capitalization from the beginning of the year through the end of June. Against this backdrop, filing activity increased in March and April, declined in May, but then rebounded in June.”<sup>3</sup>

## FEDERAL SECURITIES CLASS ACTIONS

Q1-2012 through Q3-2020



\*Projected filings based on trailing twelve months actual filings  
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 almost 13,375 D&O programs for publicly traded companies between January 1, 2001 and September 30, 2020. 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 – 2020 Midyear Assessment

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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 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 U.S. Financial Services Group manages more than \$2.9 billion in annual premium, assists with approximately \$1.0 billion in claim recoveries annually, and uses its unmatched data to support the diverse business goals of its clients.

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