Client Alert: 2019 Mid-Year D&O Market Update

At the mid-point of 2019, it is timely to consider predictions from the beginning of the year relative to actual trends. Entering 2019, it was believed that directors' & officers' liability ("D&O") pricing would trend upwards, with many insurers referencing increased claims frequency, the long-trending soft market, and overall loss development as necessitating price increases. Thus far the outlook for a firming rate environment has been affirmed by actual results. The reasons for this conclusion are varied, and the strategies to navigate the firming market are unique to each situation. Regardless, this Client Alert examines pricing trends in 2019 year-to-date, some of the underlying causes, as well as key strategies for addressing current conditions.

Public D&O Price Trends

D&O pricing is in a firming environment, with each month (January 2019 to June 2019) demonstrating an increase in average pricing on both the Primary Layer and First Excess Layers. Interestingly, the First Excess Layer has consistently out-paced the rate change of the Primary Layer. This is likely due not only to the increasing severity of recent D&O claims, but also to intense competition among insurers at First Excess Layers in recent years, which led to very aggressive pricing. The historical degradation in excess pricing has led to a point where many insurers are pushing for greater rate increases in the excess layers, which manifests itself in the data within **Exhibit 1**.

While overall D&O pricing is inching upwards, certain categories in particular have seen significant adjustments, including the UK D&O market, as well as D&O for Initial Public Offerings ("IPO's"), among others.

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If you have any questions about your specific coverage or are interested in obtaining coverage, please contact your Aon broker.

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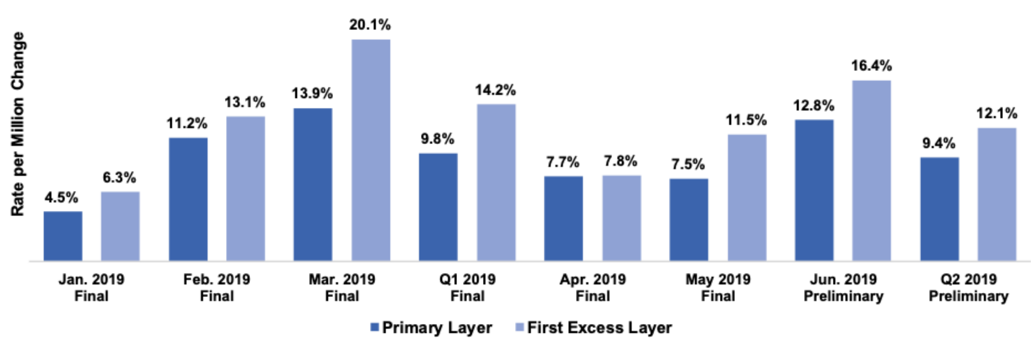
Exhibit 1

Monthly D&O Pricing Changes

Average Year-over-Year Change (Same Clients in both periods)



Data as of July 17, 2019

Source: Aon FSG Quarterly D&O Pricing Index

* November data includes a large client with a significant premium increase due to exposure changes; excluding this client, November primary and first excess rate changes were +7.7% and +12.7%, respectively.

Over 8% of publicly-listed companies were subject to a securities claim in 2018.

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U.K. D&O Pricing

Pricing in the U.K. D&O market for U.S.-brokered clients (predominately wholesale placements and foreign-domiciled insureds) has experienced what can fairly be deemed a challenging market. Not only is pricing for Primary Layers trending upwards by double-digits, but also in many cases capacity is getting reduced at renewal by some U.K.-based insurers. This is leading to significant disruption on D&O renewals in this marketplace, which we project to continue through the second half of the year as the London markets reach approved premium limitations.

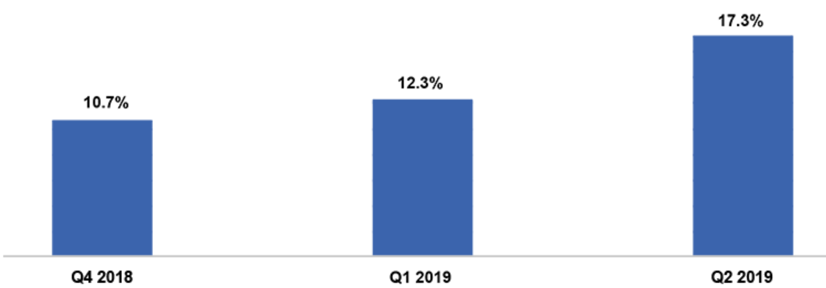
Initial Public Offering D&O Pricing

Finally, D&O pricing for IPO's potentially has experienced the most significant adjustments in capacity, coverage, and pricing. Factors for this include limited options for Primary Layer insurers, increased IPO-related claims activity, and state court securities lawsuit risk (largely arising from the 2018 Cyan decision). In many cases Primary Layer insurers are requiring retentions of at least $5M+ (estimated to be roughly double pre-Cyan retention levels), and Primary Layer pricing of $100K/M+ (estimated at four times pre-Cyan pricing levels).

Exhibit 2

Quarterly UK Primary D&O Pricing Changes

Average Year-over-Year Change (Same Clients in both periods) – US-Brokered / Non-U.S. Domiciled Clients



Data for renewals through June 30, 2019, and as of July 16, 2019
Source: Aon FSG data

Conclusions and Strategies

It is undeniable that current D&O market conditions are more challenging for insureds vs. the 2004 to 2017 soft market. Further, certain pockets such as the U.K. market and IPO placements are particularly challenging. However, strategies exist to address these challenges. At Aon, we encourage clients to:

- Recognize that carriers are more aggressively pushing rate, and to strategize accordingly
- Create a compelling submission that differentiates an insured's exposure. Be prepared to discuss corporate governance, validate management credentials, and demonstrate a strong enterprise risk management plan (including cyber and employment practices liability risk management).
- Consider strategic levers such as various alternatives to program structure, retention, quota share, and co-insurance to help mitigate price impacts
- Focus on prioritizing insurer relationships while utilizing all viable insurer platforms (e.g., Bermuda market, non-traditional D&O insurers) to ensure best possible pricing
- Access senior insurer leadership
- Maintain the leverage of time; the earlier you begin your renewal, the more options you may have available
- Prioritize coverage

All descriptions, summaries or highlights of coverage are for general informational purposes only and do not amend, alter or modify the actual terms or conditions of any insurance policy. Coverage is governed only by the terms and conditions of the relevant policy.

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