GB FINEX - DIRECTORS' & OFFICERS'

GB Directors' & Officers' Market Update

Q1 2023

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Overview

This update analyses our observations of the current market conditions for Directors' & Officers insurance and the impact this has on board directors, non-executive directors and insurance buyers and is based on our observations of the market with our WTW clients and not a whole of market review. For ease of understanding, the percentages have been presented as rounded figures.

Competition between insurers has been strong in the latter part of 2022 and early 2023. Perhaps also influenced by lower claims notifications and US Securities Class actions, this had led to significant softening in rates in Q1 2023.

In Q1 2023, 83% of clients saw their primary layer renew flat or with a decrease on last year's premium whilst 87% saw their excess layers renew flat or with a decrease (further detail can be found in figure 5 in Appendix I).

Insurers have also continued to soften policy terms and are increasingly willing to underwrite business using WTW's proprietary wording (DARCstar), a new version of which has just been launched this year to incorporate the latest improvements.

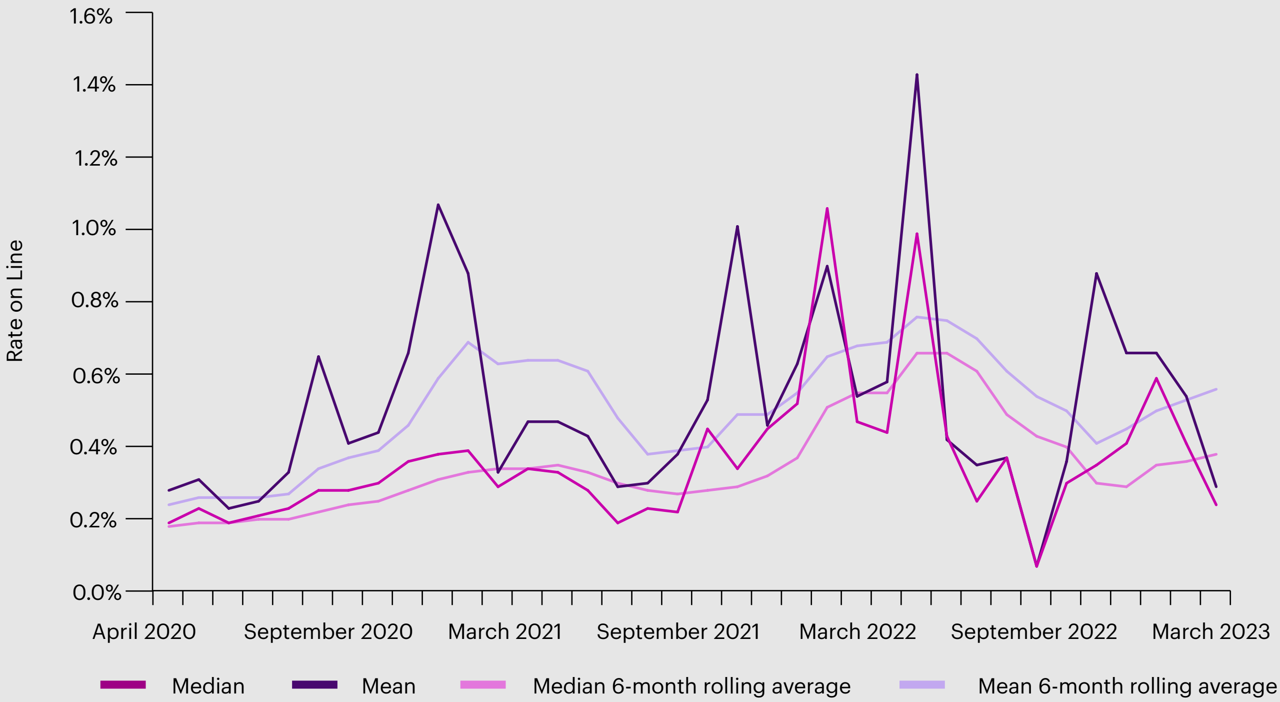
Notifications in Q4 2022 continued the downward trend and were at the lowest levels since 2014 (see figure 2). However, indications from our claims team are that notifications in Q1 2023 are up compared with 2022.

According to The Stanford Law School/Cornerstone's Securities Class Action Clearinghouse (http://securities.stanford.edu/charts.html), US Securities Class Actions for 2021 and 2022 were down from the historic highs of 2017-2020, with 2022 being even lower than 2021 (and the lowest level since 2014) (see figure 3).

Looking forwards, 2023 has started extremely well with most of our clients continuing to see significant decreases in their premiums. The London insurance market is responding strongly, with good competition and better terms and we expect this trend to continue for the rest of 2023. In addition to the launch of the 2023 version of DARCstar, we will also be releasing DARCstar Private Equity 2023, CRIMEstar 2023 and a new Side A DIC facility.

Rate on Line Movement

Figure 1: **ROL Analysis – ABC Only Whole Tower**



Source: Data from WTW FINEX FINMAR client placements, sourced as 2 May 2023, see Appendix II for further information

Primary Layer rate on line figures resisted the softening of the market for much of 2022, but were overall on a downward trend in the last six months of the year. In Q2 2022 – Q1 2023 median rates showed a decrease of 13%. After a peak in May 2022 mean and median rates have been relatively stable, albeit decreasing.

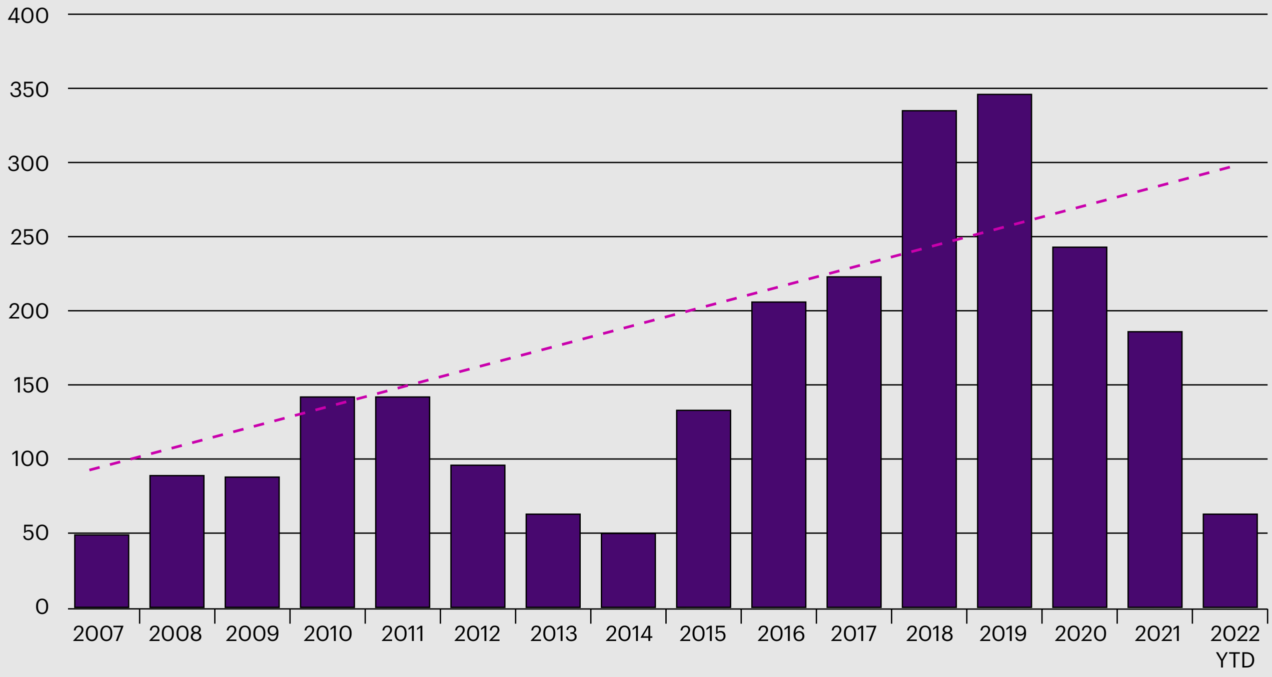
Excess Layer rate on line figures by contrast have seen significant and continued decreases over the last six months of 2022.

In Q2 2022 – Q1 2023 median whole tower rates showed a decrease of 10%. However, the significant competition on excess layers is leading in some cases to discounts of over 50%.

Notifications

Notifications in 2022 continued the downward trend and were at the lowest levels since 2014.

Figure 2: **Commercial D&O - Number of notifications**

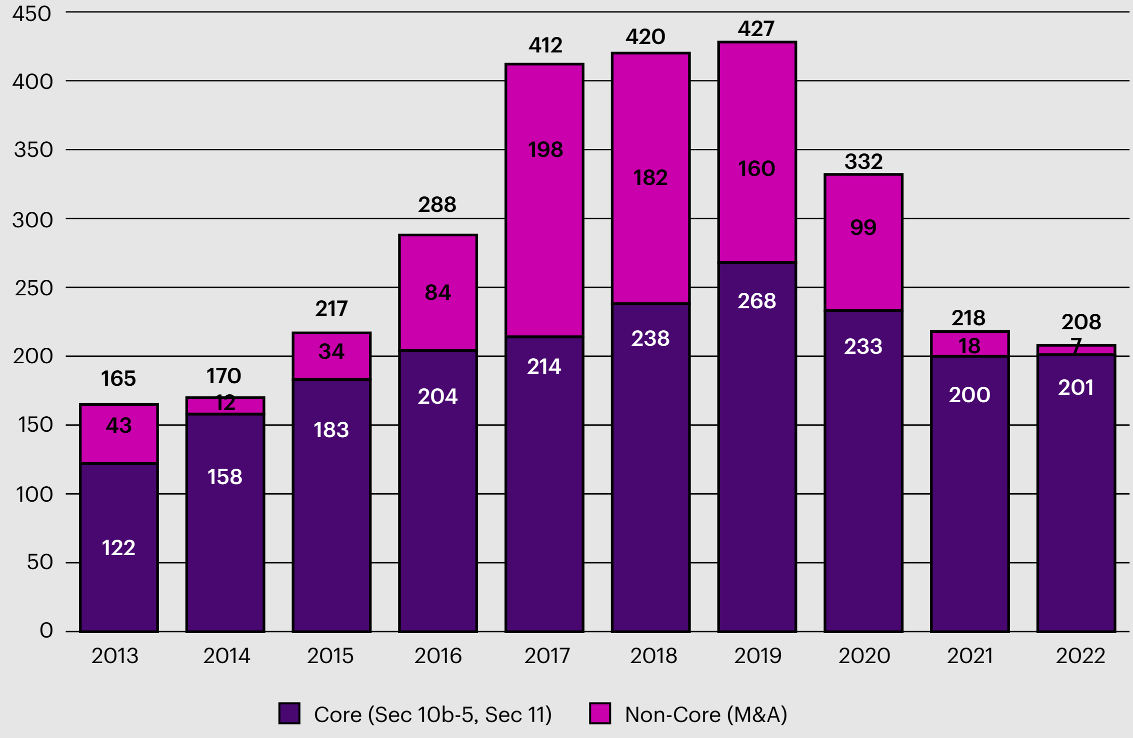


Source: WTW client notifications from GB placements only, between 1 January 2007 to 31 December 2022

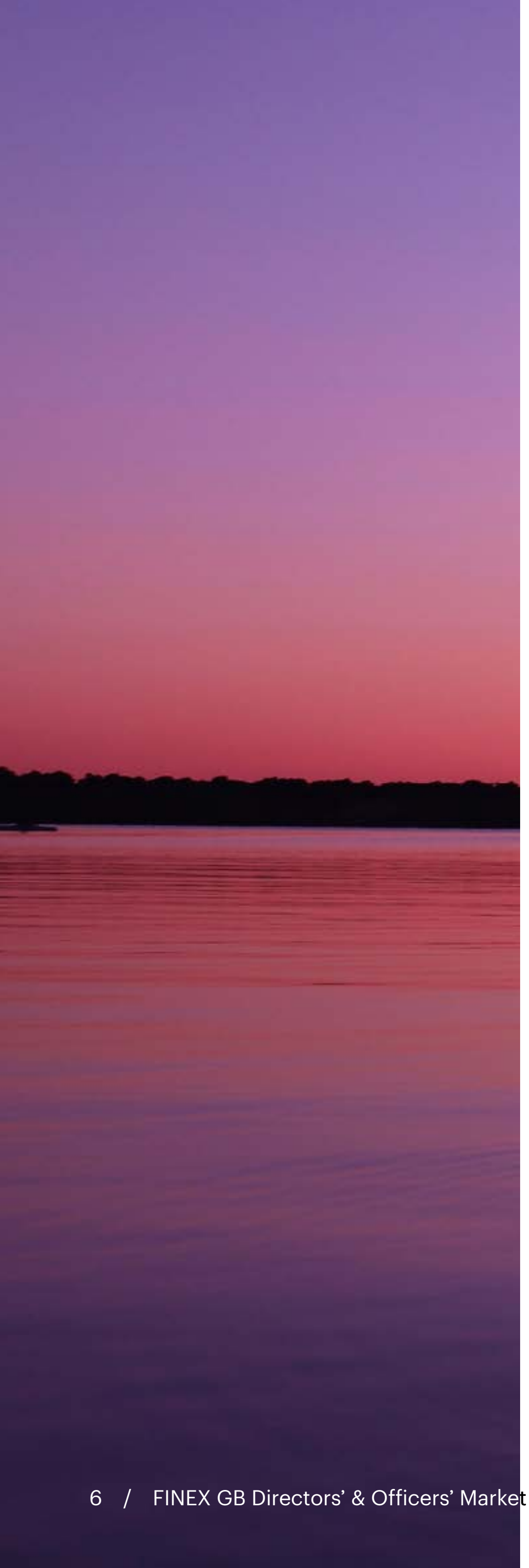
US Securities Class

Despite many underwriters expectations of a boom in US Securities Class actions filings following the lifting of COVID-related restrictions, in 2022, they were at their lowest level since 2015 (see figure 3 below).

Figure 3: **Federal Securities Class Action Filings 2013 2022**[1]



Source: Cornerstone 2022 Year In Review - https://www.cornerstone.com/wp-content/uploads/2023/02/Securities-Class-Action-Filings-2022-Year-in-Review.pdf



Directors' and Officers' Liability Survey Report 2023

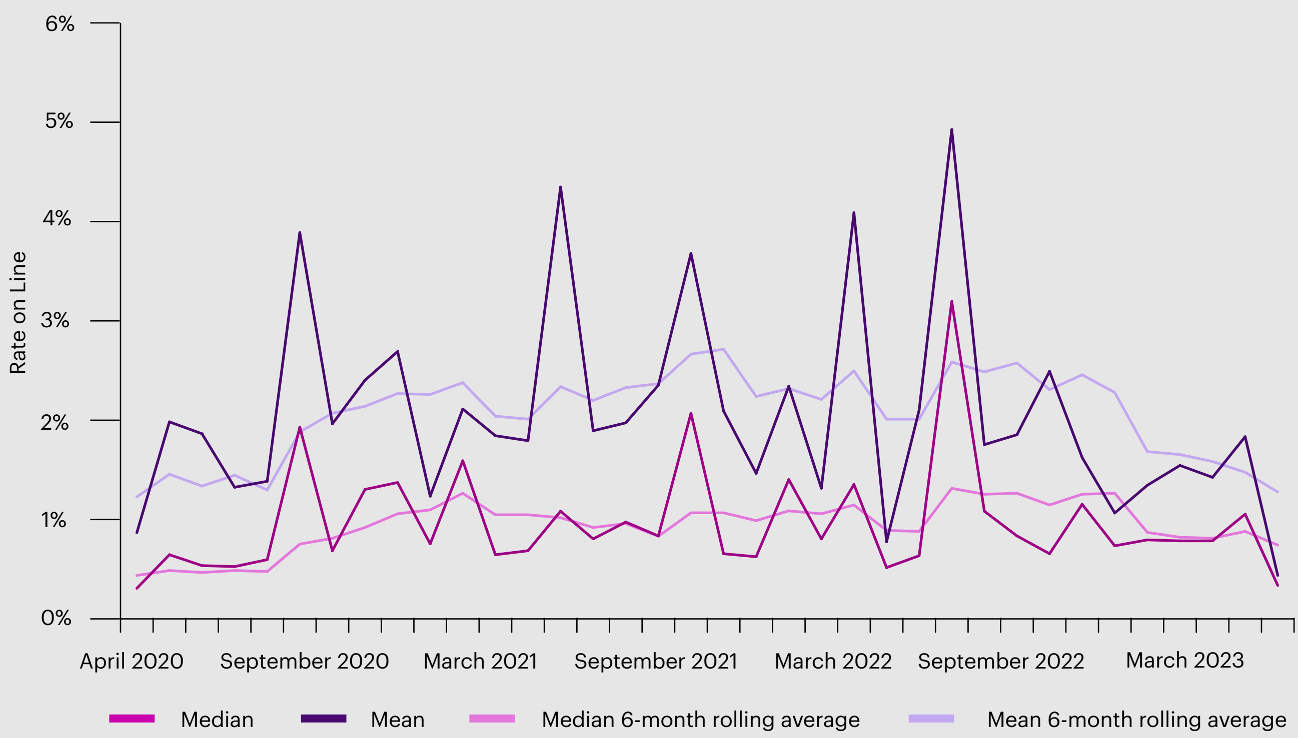
We have recently launched our report on our latest Directors' and Officers' Liability Survey in collaboration with international law firm, Clyde & Co LLP. With results from 40 countries in the world, this report provides invaluable insight into differing attitudes to risk across different regions, industries and company sizes.

Download Report

For more information, see also our article on the Top 7 risks for directors as identified in our Survey: Top 7 risks for directors

Appendix I: Additional statistics

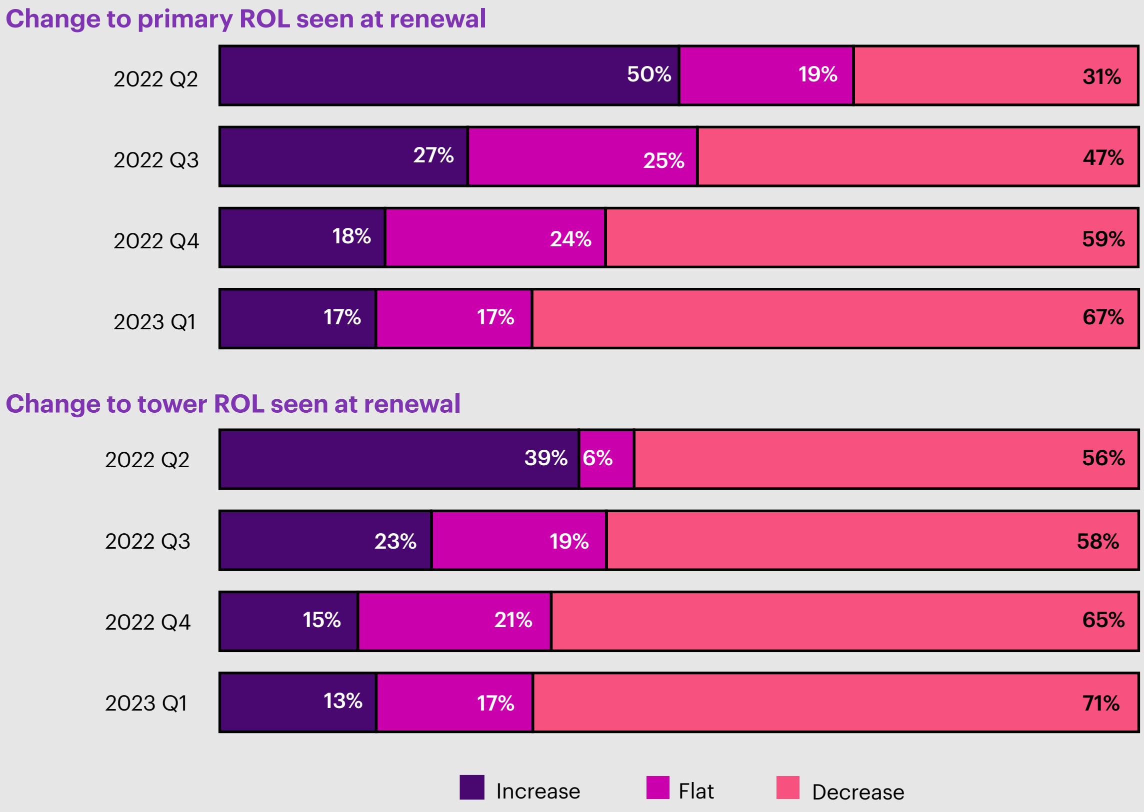
Figure 4: **Rate on Line Analysis (ABC policies) - Primary layers only**



Source: Data from WTW FINEX FINMAR client placements, sourced as 2 May 2023, see Appendix II for further information

Appendix I: Additional statistics

Figure 5: **Whole Tower Rate on Line Analysis (ABC only) - changes seen at renewal**



Source: Data from WTW FINEX FINMAR client placements, sourced as 2 May 2023, see Appendix II for further information

Appendix II: Methodology for statistics

	Min	Max	Notes
Rate on Line	0.01% Rate on Line	No max	These graphs and stats are looking at the Rates on Line paid each month. Currently we only have a minimum value for Rate on Line, we could consider having a max Rate on Line. Rate on Line is calculated by dividing the premium by the limit of liability that is being purchased and expressing that as a percentage. This shows the proportional cost of the limit of liability being purchased by each client.
Rate on Line change	0.01% Rate on Line	No max	We are comparing the Rate on Line paid last year to the Rate on Line paid this year for a given client at renewal. The outlier rule ensures an erroneously small Rate on Line isn't compared to a normal one resulting in a gigantic value (eg 1% / 0.0001% = 10,000 times increase). We could also add a maximum increase cap, eg no more than a 10 fold increase in Rate on Line
Deductible change	x - 10	X 50	As above, here we are comparing the deductible last year to the deductible this year for a given client at renewal. Given the hugely different sizes of programs placed it is difficult to set a min or max for the actual deductible value so instead we have tied the rules to the change in deductible seen. A max increase of x50 was set as the previous x20 was seen as too small. This may want to be reviewed
Limit	0.01% Rate on Line	No max	Again, it is difficult to set a min for limit value due to the spread of clients we have. Given the Rate on Line value combines premium with limit it can be used to identify an error in one of the two. However, it could result in us excluding placements with correct limit values (and incorrect premiums). We could consider adding minimum and maximum limit values instead
Limit change	x - 10	x 50	Similarly to deductible change, here we are comparing the limit bought last year to the limit bought this year for a given client at renewal. Given the challenge in settling min and max limit criteria the outlier rule looks at the calculated limit change and sets boundaries for that. A max increase of x50 was set as the previous x20 was seen as to small. This may want to be reviewed.

Contacts

For further information please contact:

Angus Duncan
Executive Director – Coverage Specialist, Global FINEX
Direct: +44 20 3124 8386
Mobile: +44 7920 298 714
angus.duncan@wtwco.com

Eve Richards
GB Head of Global FINEX D&O
Direct: +44 20 3124 8122
Mobile: +44 7880 142 610
eve.richards@wtwco.com

For US enquiries:

John M. Orr
D&O Liability Product Leader, FINEX NA
Direct: +1 415 745 2681
john.orr@wtwco.com

For enquiries within Europe:

Louise Dennerståhl
Head of FINEX Europe (excluding GB)
Mobile: +46 73 250 59 64
louise.dennerstahl@wtwco.com

Figures in this report are based on WTW FINEX FINMAR client placements, sourced as 2 May 2023, and WTW client notifications from GB placements only, between 1 January 2007 to 31 December 2022. They will be updated periodically to reflect additional records. Graphs in this report show the moving average between 2020 and Q1 2023.

An ABC placement is one which includes cover for Side A (D&O non-indemnified loss), Side B (D&O indemnified loss) and Side C (Company Securities Claims).

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.

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