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UK directors and officers liability insurance H1 2022 market update

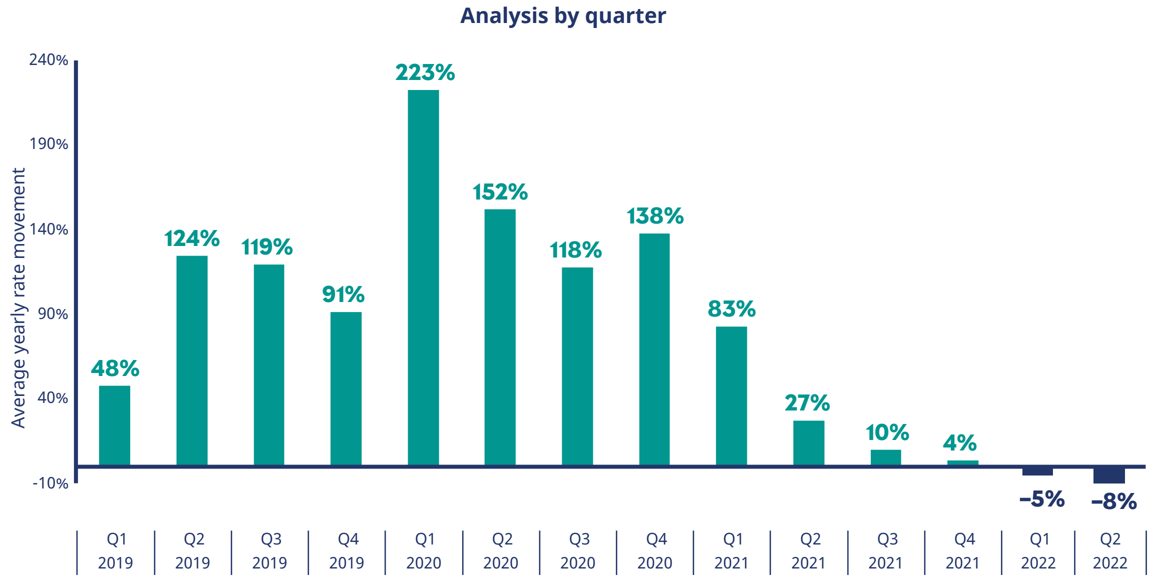
In the first half of 2022, there was a significant shift in London commercial directors and officers (D&O) liability insurance market conditions.

With most insurers having completed the remediation of their books over the past three years, many are now looking to grow and take advantage of rates that remain high by historical standards. This, coupled with several new entrants to the market, has led to a notable increase in available capacity and tipped the supply versus demand balance in the buyer's favour.

Furthermore, clients with US securities exposure, which saw price changes peak at +223% in the first quarter of 2020, have benefitted from two quarters of premium reductions so far this year.

> **The supply versus demand balance has been tipped in the buyer's favour.**

01| Companies exposed to US securities are seeing stable premium decreases in 2022



Source| Marsh

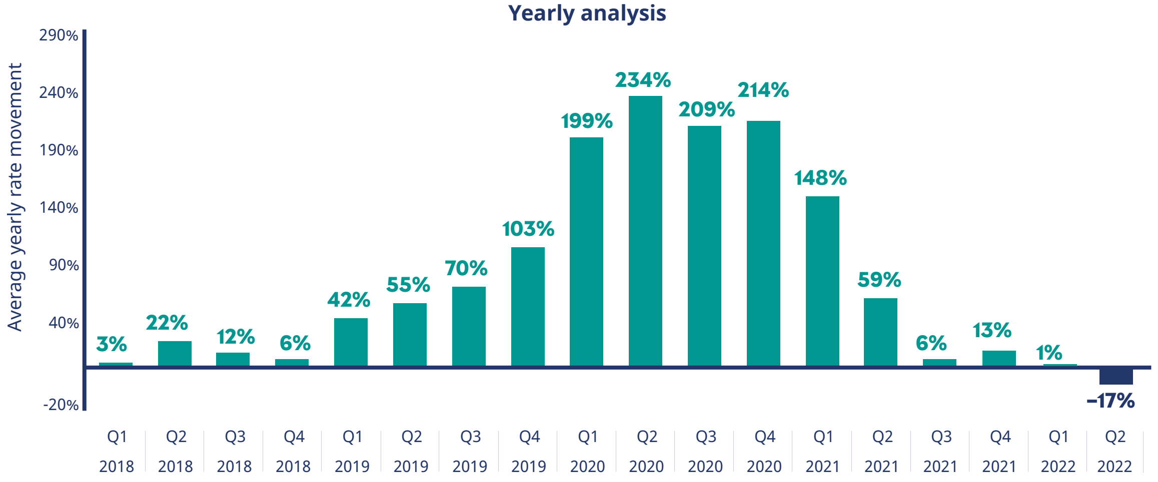
> **The D&O market lacks viable primary competition from insurers with tested multinational capabilities.**

Market competition has been more aggressive than most industry experts were anticipating, resulting in downward pressure on pricing and the most favourable market conditions since 2018.

Insurers are now willing to write larger line sizes, particularly on the excess and Side A layers of a programme, where more competitive rates often can be achieved. Conversely, primary rates are generally holding firm, with Marsh clients seeing, on average, a 2% increase on the primary layer in the second quarter, compared to a total programme change of -2%. The market lacks viable primary competition from insurers that are able to offer tested multinational capabilities.

Overall, clients with a stable or improving risk profile are often able to secure a total programme reduction, with FTSE100 clients seeing an average premium decrease of 17% in the second quarter, compared to increases of 1% and 13% in the previous two quarters, respectively.

02| Average pricing drops significantly for FTSE100 companies in the second quarter



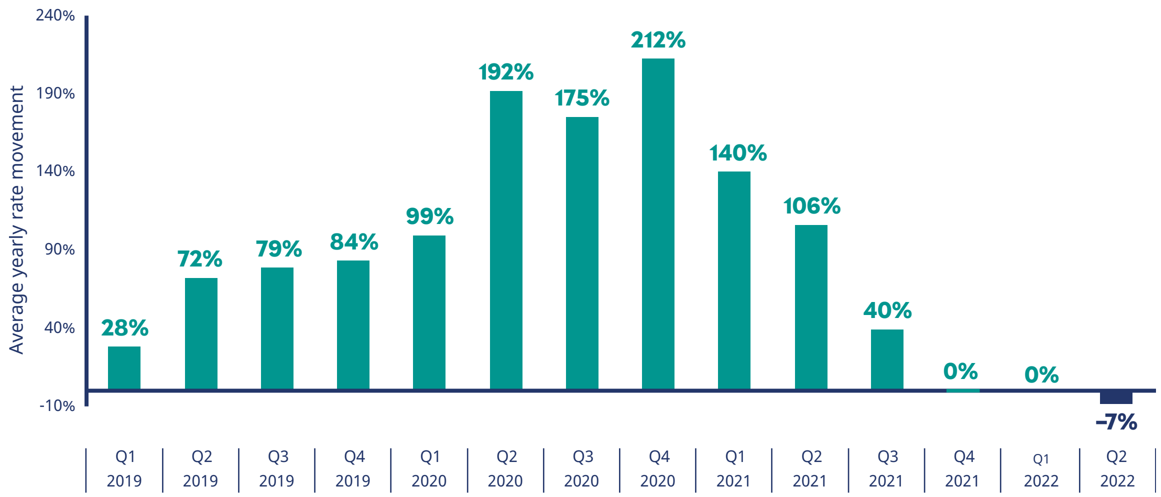
Source| Marsh

In particular, sizeable discounts have been granted for "COVID-19 inflated" risks, such as those organisations operating in the aviation and hospitality sectors. With commodity prices high, energy companies have also come back into favour with D&O insurers, with some significant double-digit reductions being seen.

FTSE250 clients have now seen three consecutive quarters of flat or downward trending premium changes, whereas privately owned clients that did not see the same level of compound pricing increases as publically traded companies are still experiencing low double-digit premium increases in 2022.

03| FTSE250 companies have seen three consecutive quarters of flat or downward price movement

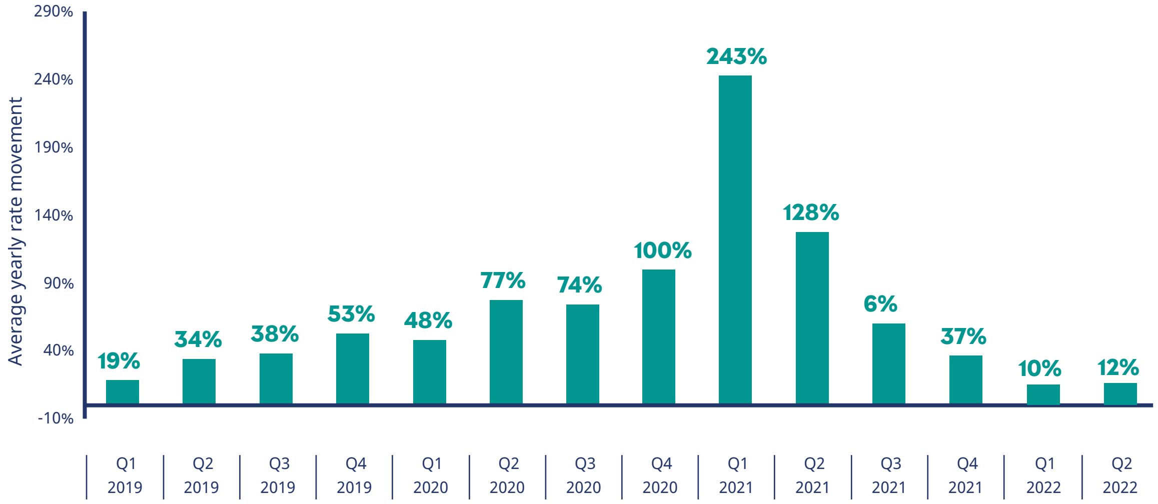
Analysis by quarter



Source| Marsh

04| Private companies are seeing premium increases drop close to single digits in 2022

Analysis by quarter



Source| Marsh

Incumbent insurers are keen to defend their existing client portfolio, and are generally willing to offer attractive renewal rates in a bid to stave off competition from new entrants. However, to avoid competing solely on price, insurers are beginning to differentiate themselves through coverage improvements, including a return of pre-agreed discovery periods. Willingness to lower deductibles is still rare.

Despite the much improved buying conditions, D&O clients should continue to work with their broker to approach their renewal with a clear strategy in mind. For example, many clients are choosing to use premium savings to reinvest in increased limits — especially those clients that were unable to renew their preferred limit in recent years — or to buy down deductibles where possible.

Now is the ideal time to review breadth of coverage, appropriate limits, and the importance of cross-class insurer relationships with a view to achieving the optimum balance between stability, competition, coverage, and price.

With the global economic picture continuing to look challenging alongside a further tightening in global interest rates and financial conditions, it is possible that 2023/2024 could mark a period of greater underwriter caution. Corporate default rates and failures, which have been particularly scarce in recent years, could rise and may result in greater claims and litigation activity. The management liability marketplace has proven to be a trailing indicator of such developments in past economic cycles, so it is likely any resulting market change will involve a degree of latency once again.

> **“Now is the ideal time to review breadth of coverage, appropriate limits, and the importance of cross-class insurer relationships.**

Methodology

The UK directors and officers liability insurance H1 2022 market update was compiled based on placements from the Marsh UK and Ireland team and is subsequently processed by the data and analytics team.

The index tracks D&O insurance price movements over time; this 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.

In the course of the analysis, some obvious outliers may have been adjusted or even excluded to provide a fairer and more uniform analysis. This report is a point-in-time analysis, and some of the rates may still suffer slight adjustments in light of more data being added to the pool of analysis. For the same reason, some of the 2019 and 2020 numbers may differ from those reported in previous years' reports. We are still collating full quarter detail for the second quarter of 2022, therefore please take the second quarter figures as a guide only.

For more information, please contact your usual Marsh representative.

Shaunna Bell
Senior Vice President,
Head of International Management Liability

+44 7392 122 451
shaunna.bell@marsh.com

Serena France-Hayhurst
Senior Vice President,
Management Liability Placement Leader

+44 7392 122 598
Serena.france-hayhurst@marsh.com

Stephanie Pestorich Manson
Managing Director,
Head of Management Liability

+44 7584 336 840
stephanie.manson@marsh.com

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