



# **Seminar on Reinsurance**

**Online Event  
June 1-2, 2020**



# D&O BC/AC Before COVID/After COVID

June 2, 2020  
3:30 EDT



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# Meet the Speakers

## Brian Finlay, ARe

SVP, TransRe

Brian heads North American Management and Professional treaty liability at Trans Re. He has been with TransRe since 2005 and in his current management role since 2013.

Brian has more than 29 years of insurance experience including underwriting, broking, and claims at Aon Re, JLT Re, and Guy Carpenter.

Brian holds a BBA – Finance from St. Bonaventure University and has completed the ARe designation.

## Rick Ramotar, FCAS

VP, Swiss Re

Rick is a VP and Senior Actuary at Swiss Re with expertise in Professional Lines insurance pricing. He has been with Swiss Re for 5 years.

Rick has more than 20 years of actuarial experience dealing with a variety of lines of businesses. Rick has had with prior roles at Hiscox, the PMI Group, Aon, Trans Re, and Farmers.

Rick holds a BS in Statistics from UC Santa Barbara.

## Brian Sabia, ARe, ASLI, CPCU

EVP, PartnerRe

Brian leads the Professional Lines team at PartnerRe. He has been with PartnerRe for 16 years.

Brian has over 20 years of experience in Professional lines underwriting, from positions within PartnerRe, Berkshire Hathaway, and Executive Risk.

Brian holds a MBA from Sacred Heart University and has completed the ARe designation.

## Lon Chang, FCAS

VP, Ascot Group

Lon is the head of US Pricing at Ascot Group. He has 10 years of actuarial experience and has been with Ascot since Dec2018.

Lon holds a BS in Finance from New York University.

Lon will be your Moderator for this session.



# Agenda

- Types of D&O products
- Market since the Great Financial Crisis
- 2019 market inflection pre-COVID
- 2020 COVID



# Question #1

On a scale of 1-5, what is your experience level with D&O?

1 – none

2

3

4

5 – very experienced



## Question #2

Do you currently work on D&O?

No

Yes



# What is Directors & Officers Liability

- Not just one type of product
- Public D&O
  - Financial Institutions (FI) D&O
  - Non-FI D&O aka Commercial D&O
  - Side A
    - Covers D&O's for non-indemnifiable claims ie Bankruptcy or Derivative claims
- Private/Not-for-Profit D&O

Over time these segments tend to move directionally in similar ways but magnitude and timing can differ





# Historical Rate Change (Pre-2019)

- Since the Financial Crisis ('07-'09), rates have generally been falling
- Double digit decreases for non-FI D&O
- FI D&O rates have fallen but annual decrease tended to be single digits
  - Had started to flatten out
- Side A rates have fallen but product has remained profitable due to healthy stock market and lack of bankruptcies
  - but uptick in large derivative claims
- Private/PNP – mixed bag but generally down



# Rate Inflection (2019)

- Initial estimates were flat to single digit increases
- Actual Rate Movements
  - Non-FI: 20-30%
    - Much higher for Excess Layers vs Primary Layers
  - FI: 5-15%
    - FI Rates > Non-FI Rates
    - Historical decreases not as great
  - Side A: 5-10%
  - Private/PNP: 2.5%-10%
- Rates during 2019 trended upward during the year
  - Q4 >>> Q1

# What Happened in 2019

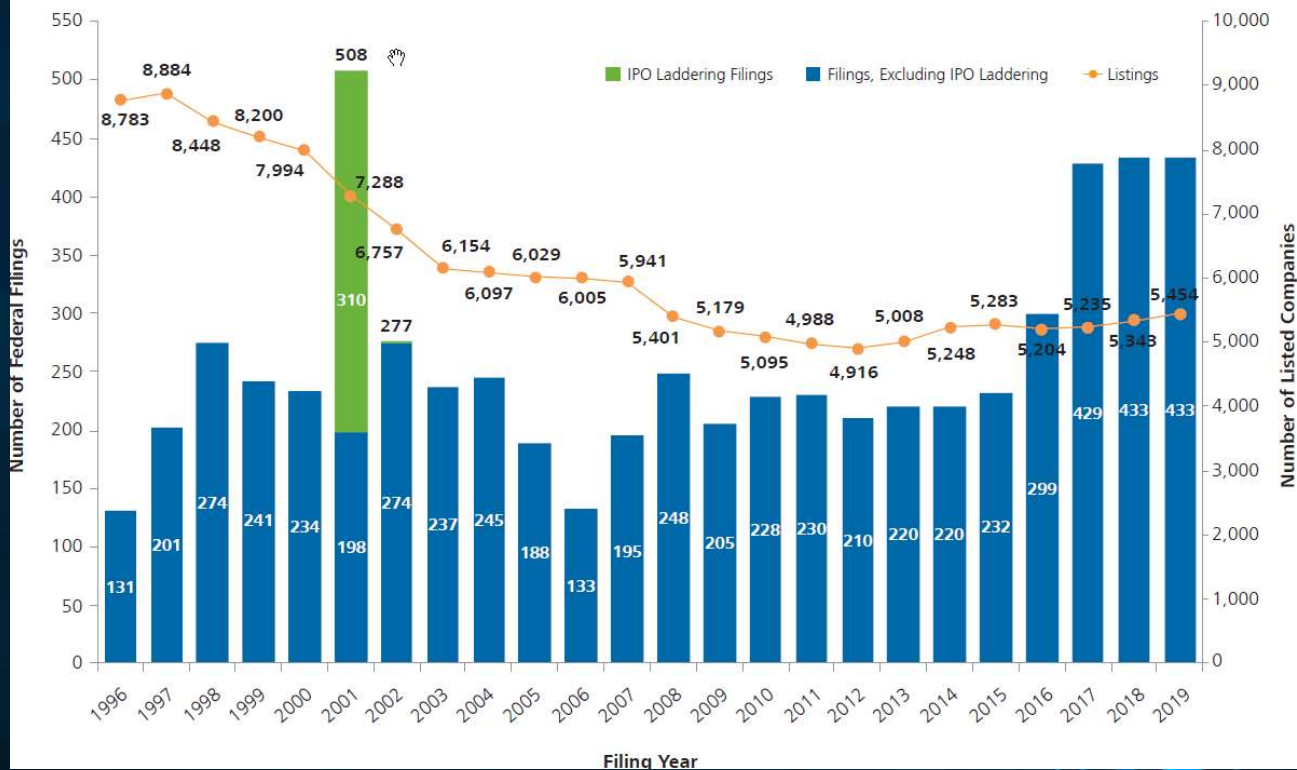
- Concerns about Profitability
- Concerns about trend and emerging risk
  - Increase in Security Class Actions
  - D&O is claims-made business with expenses within the limit so can react to concerns before seeing emerging losses
- Limit retraction
  - Large towers are placed in D&O
  - Insurers pulled back from offering layers of 15m and above on excess layers
    - Typical excess Layers max Limits offered in 2019 in 5-10m range
- Increasing Retentions

# Limit Retraction

- D&O has large with many insurers taking different tranches throughout the tower
  - Some of these tranches can be 20m or even 50m
- As insurers pulled back on the limit they were putting out, layers had to be broken in smaller tranches and  $1 + 1 \neq 2$ 
  - In other words, the cost of a 20m layer tranche broken into four 5m limit pieces can be much greater than the original single layer
  - In other to place towers with layers cut into smaller piece, ILF curves flattened and increased on some segments
- For now, there is still ample capacity in the market

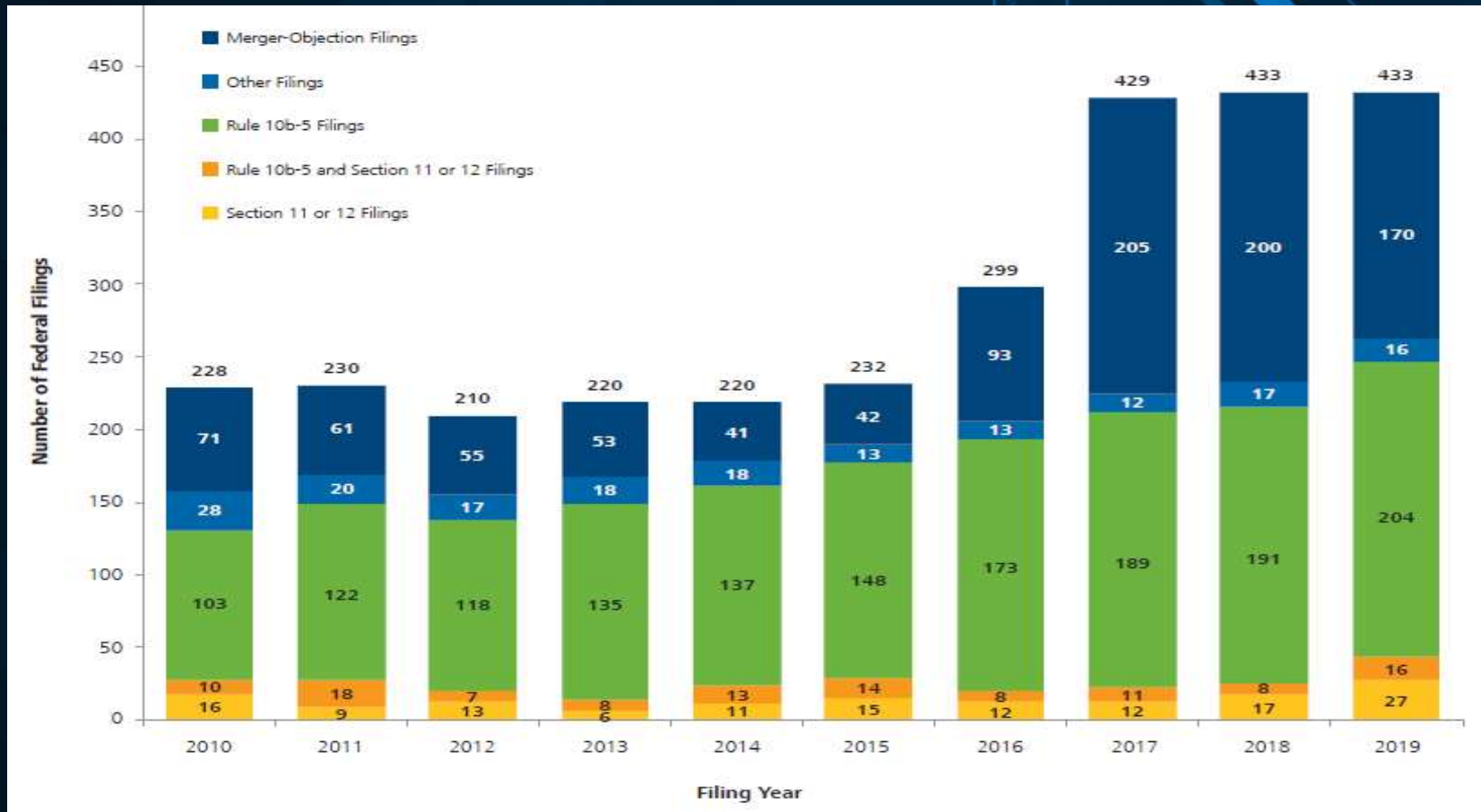
# Security Class Actions Claims

Figure 1. Federal Filings and Number of Companies Listed in the United States  
January 1996–December 2019



\*NERA Recent Trends in Securities Class Action Litigation: 2019  
Full-Year Review

# Federal Filings By Type – January 2010 – December 2019\*



# Concerns

- Frequency of class action claims is up
  - Fewer listed companies today and higher level of claims
  - Some of recent increase driven by shift of merger objection claims from state to Federal Court (Trulia)
    - Excluding merger objection claims, frequency is still up
- Expense cost are increasing significantly
  - Legal fees are going up
- Cyan decision allows for parallel filing in state and federal
  - At the very least, there will be higher ALAE cost
- New law firms entering class action arena
- #MeToo claims / Event claims

# Concerns (cont)

- Cyber related D&O claims
- Litigation funding
  - Big driver in Australia... has it come to America
- Derivative claims
  - Bought by shareholders on behalf of company against D&O
  - More activist shareholders
  - Impacts Side A – 3 of top 5 derivative claims are within the last 2 years
- Social Inflation – do we see it in D&O?

Seeing impact on overall Frequency and Severity for Primary layers. Not seeing big claims yet so muted impact on higher layers but may be coming



# TransRe | U.S. Specialty Casualty Premium Guesstimate

Line of Business	Guesstimate ('000s)
Commercial Directors & Officers (D&O) and Financial Institutions D&O	\$ 4,800
Private/Not-for-profit and Related Lines	\$ 3,600
Related Lines	\$ 2,100
Miscellaneous Errors & Omissions (E&O) / Media / Real Estate / Insurance Agents	\$ 3,800
Professional E&O: Am Law 200 & Large Law - \$1,850	\$ 3,300
Tech/Cyber	\$ 3,500
Transactional	\$ 1,800
<b>Sub Total</b>	<b>\$ 22,900</b>
Environmental	\$ 1,100
Product Liability /Miscellaneous	\$ 1,600
<b>Total</b>	<b>\$ 25,600</b>

“Cyber & Transactional had been driving growth”

*Estimates based on conclusions drawn from conversations with cedents and available market data.*

# TransRe | U.S. Specialty Casualty Capacity is plentiful

## MARKET SHARE REPORT

Geography: Grand Totals

Line of Business: Oth Liab (Claims)

Values in (\$000)

	Market Share (%)										2019 v 2015
	Market Share (%)					Direct Premiums Written					
	2015Y	2016Y	2017Y	2018Y	2019Y	2015Y	2016Y	2017Y	2018Y	2019Y	
P&C Industry	100.0	100.0	100.0	100.0	100.0	21,308,603	21,276,724	21,686,640	23,361,997	25,674,353	20.5%
Top 10	62.7	60.1	57.8	57.1	56.1	13,359,239	12,793,853	12,535,881	13,335,958	14,406,115	7.8%
#11 - #25	22.9	24.6	26.1	27.7	29.7	4,883,797	5,231,562	5,654,658	6,470,106	7,614,818	55.9%
#26 - #50	8.5	9.3	10.0	10.6	10.2	1,812,546	1,971,273	2,158,564	2,483,398	2,626,052	44.9%
Top 50	94.1	94.0	93.8	95.4	96.0	20,055,582	19,996,687	20,349,103	22,289,462	24,646,985	22.9%

1. D&O = Directors and Officers Insurance

2. Based on as-reported annual NAIC statutory P&C statement filings, U.S. filers only.

3. Rank based on information reported in Director and Officer Supplement of statutory filings.

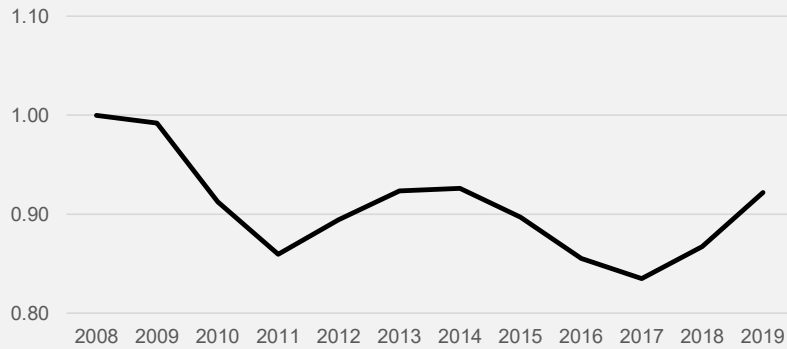
4. Other Liability direct premiums earned includes premiums from the other liability (claims-made) and other liability (occurrence) lines of business.

5. Chart does not include directors and officers policies sold as part of a package commercial multiperil policy.

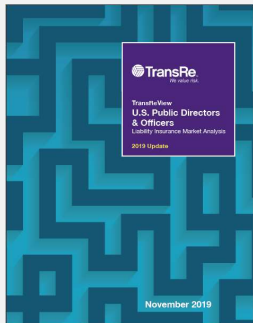


# TransRe | Pricing Index

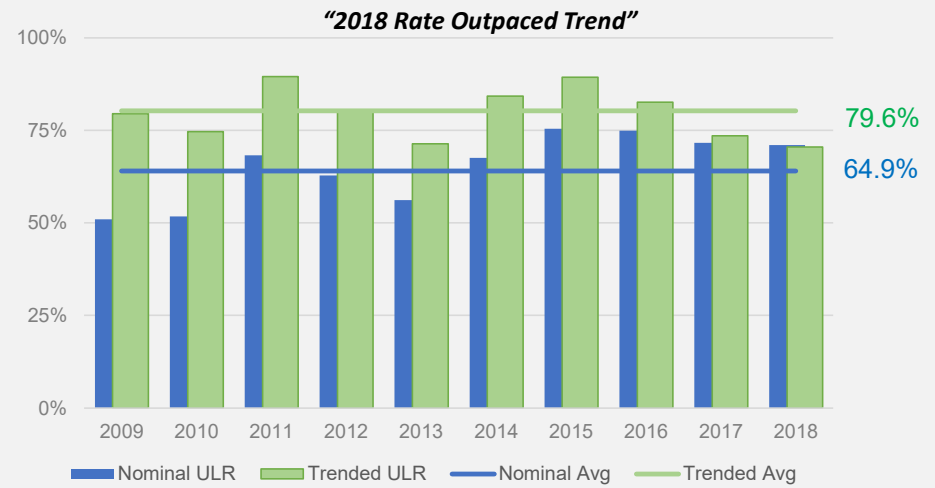
## Public D&O Composite Price Index



Source: Various industry sources, TransRe



## TransRe Public D&O & FI D&O/E&O Loss Ratio Analysis



Source: Various industry sources, TransRe

**79.6% Ultimate Trended Loss Ratio**  
**15.0% Acquisition Costs**  
**12.5% Internal Expenses**  
**107.1% Underwriting Ratio**

# Quick recap pre-Covid

- Rates moving up significantly (~30-40% Q1 '20)
  - But this is just fixing sins of the past
  - Not there yet, still need to continue increasing for the past sins
- Losses
  - Legal expenses are trending upward
  - Increasing SCA claims
  - Parallel actions in State and Federal courts increasing
  - New types of claims (Cyber / Event driven)

# COVID

- Still on-going so no one knows what the final results will be
- Potential Impacts
  - Rates
  - Losses
  - Capacity
  - Terms & Conditions

Biggest issue may not be Covid but what follows: RECESSION