Underwriting Directors & Officers Insurance: what’s the right price?

- Until very recently, global D&O pricing showed a consistent and prolonged decline and a compound rate reduction, particularly in the international marketplace (except for Australia, which has experienced a notable increase in rate in recent years).

- Analysis of data from AXA XL and Advisen reveals there has been a global D&O claims deterioration across all profiles of client, driven by social inflation and a prolonged price decline. Contributing factors to this social inflation include:
  - an increase in regulatory and investigative actions taken against companies;
  - a growing appetite for class/collective redress actions across the European Union;
  - an increase in litigation funding;
  - a fragile global economy; and
  - new and emerging risks transitioning into D&O claims.

- US exposures remain a key contributor to large and frequent D&O settlements, primarily due to:
  - US Federal and State securities class actions (SCAs) being at a near-all-time-high and likely to remain there in the short term;
  - an increase in the number of US SCAs being filed against foreign issuers compared to domestic ones;
  - the emergence of a second and third tier of US plaintiff firms, which has led to an increase in SCAs; and
  - a rise in US defence attorney rates, which has further increased the burden on insurers’ margins.

- The rise in the number of SCAs in Australia continues – the average consolidated frequency of SCAs for 2016-18 was 29% higher than for 2013-15 and more than five times the pre-2011 average. Current and future market dynamics appear set to continue to drive up rates in the Australian D&O market and the premium pool needs to quadruple on 2016 levels to ensure reasonable profitability for insurers.

- There has been a recent increase in claims made against the global and large institutions client segment, particularly over the past 10 to 20 years. It is notable that the premium charged for these risks is well below the “adequate” pricing required for a sustainable return. Indeed, the gap is greater than that for US-listed entities.

- The intermittent volatility trend is country and industry agnostic; however, there is a strong correlation between company size and the frequency and severity of loss cases – the larger companies are more exposed than the smaller ones.

- We believe that a considerable pricing correction is required to maintain a realistic long-term and sustainable partnership in this global and large institutions client segment.

- The market has been underpriced for a prolonged period, which has exposed the inadequacies of the pricing of D&O insurance for global and large institutions. At AXA XL, we have recognised the need to apply an underwriting philosophy based on a simple fundamental of ‘right price’ underwriting: to manage our capacity (proportionate to risk volatility and severity) and drive pricing adequacy to ensure our sustainable participation in this line of business.
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