Aims

- This session aims to summarise the findings of the D&O Insurance working party’s research and surveys carried out during 2014. It is aimed at actuaries working in the D&O line of business or actuaries wanting to learn more about D&O.

- Actuaries work in Non US D&O insurance feels still at infancy.

- The aims of the working party have been:
  - to understand the pricing risks around this class of business;
  - collating any claims data we do have – forming a database of losses;
  - exploring ideas for proxies and indicators of D&O risk.
So far

- Library of D&O terms and articles of interest
- Timeline of D&O events
- Commonly used Rating factors
- UW survey
- Claims Survey

- IT’S NOT TOO LATE TO PARTICIPATE!

Brief Intro to D&O Insurance

- Claims made – many notifications – does a claim relate back to a notification
- Cover for Insured directors and Officers
- Personal protection to a D&O if breached duty, negligent, error, misstatement
- Cover for attending investigations into company’s affairs
- Defence costs big part of claim
- Companies may indemnify the D&Os for eg defence costs, can then claim these costs back from D&O policy
- E.g. Breach of regulations
  - Disqualification of Directors
  - Environmental
  - Serious Fraud
Brief Intro to D&O Insurance

- Side A – individual protection where company cannot or does not indemnify them
- Side B – company reimburses individual D&O and then company must claim from Insurer
- Side A and Side B – dispute where claim falls, differing deductibles (side A smaller/nil deductible).
- Main common exclusions – Trustee liability, Fraud, Prior claims, Pollution claims
- Main common extensions – Pension Fund Trustees, Outside Board, ERP, Spousal Liability
- Legal Framework different in regions
- US D&O market is very different:
  - Very litigious, more data available.

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Glossary & Library

<table>
<thead>
<tr>
<th>Title</th>
<th>Topic</th>
<th>Region</th>
<th>Author</th>
<th>Published Yr</th>
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<tbody>
<tr>
<td>Financial Lines Europe, Claims Intelligence Report</td>
<td>Claims Intelligence</td>
<td>Europe</td>
<td>Chartis / AIG</td>
<td>2012</td>
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<tr>
<td>D&amp;O pricing, not as easy as ABC (handouts)</td>
<td>Pricing</td>
<td>Global</td>
<td>GIRO</td>
<td>2006</td>
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<tr>
<td>Directors &amp; Officers: Current Headlines</td>
<td>Sub-Prime</td>
<td>Global</td>
<td>GIRO</td>
<td>2009</td>
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<tr>
<td>Increase in M&amp;A suits: Game changer for D&amp;O Underwriters?</td>
<td>M&amp;A Suits Development</td>
<td>USA</td>
<td>Wills</td>
<td>2013</td>
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<td>PI and D&amp;O</td>
<td>Pricing / Reserving</td>
<td>Global</td>
<td>GIRO</td>
<td>2011</td>
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<tr>
<td>US D&amp;O and PI</td>
<td>Market Overview</td>
<td>USA</td>
<td>GIRO</td>
<td>2003</td>
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<tr>
<td>The Use of Quantitative Modeling in the Directors &amp; Officers (D&amp;O) Liability Insurance Market</td>
<td>Pricing</td>
<td>USA</td>
<td>Adriana M. Rojas Mora, Georgia State University</td>
<td>2009</td>
</tr>
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</table>
Glossary

1) What is the SOX act?
   A) A short position taken in American Football
   B) A word used in Scrabble to get rid of a pesky “X”
   C) Legislation enacted in response to the corporate governance and financial scandals of 2002. Its goal was to heighten corporate responsibility and transparency.

2) What is a “Swing Plan”?
   A) A type of ballroom dancing
   B) Instructions on how to construct a playground swing
   C) A provision in a reinsurance contracts that mean as the losses covered by the insurance contract increases, so does the premium charged.
Glossary

3) Which of the following is not a D&O insurance term?
- A) Dodd Frank Clause
- B) Hammer Clause
- C) Clawback Provision
- D) X-side Cover?
Timeline of events

2001-03
Hard Market

2007
Financial Crisis and Recession Begin

2013
Widespread Acceptance of D&O Insurance, More Disciplined D&O Market

2001
Terrorist Attacks

2002
Sarbanes Oxley (SOX) Act

2010
Put in place to prevent corporations from being “too big to fail.” Creates a myriad of regulations for which D&O policies evolve to respond.

Common Rating Factors

<table>
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<tr>
<th>Subclass</th>
<th>Exposure Measure</th>
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<tbody>
<tr>
<td>Commercial</td>
<td>Market Cap</td>
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<tr>
<td>Pension Transfer Liability</td>
<td>Turnover / Fees</td>
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<tr>
<td>Financial Institutions</td>
<td>Fund Size</td>
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<tr>
<td>Fund</td>
<td>No. of Shares</td>
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<td>Non-Profit</td>
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<tr>
<td>Venture Capital &amp; Private Equity</td>
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<td>SME – Small &amp; Medium-Sized Enterprises</td>
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<td>Non-US Large (&gt; £500m assets)</td>
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<td>Public Offering of Securities Insurance</td>
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### Common Rating Factors

#### General Factors

<table>
<thead>
<tr>
<th>Limit / Attachment</th>
<th>Financial Ratios</th>
<th>Audit Information</th>
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<tbody>
<tr>
<td>Claims Experience</td>
<td>Historical Share Price</td>
<td>Corporate Governance</td>
</tr>
<tr>
<td>General Operations</td>
<td>Current Share Price</td>
<td>Wordings</td>
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<tr>
<td>Domicile</td>
<td>No. of &amp;/or Types of Shares</td>
<td>Composite PI/D&amp;O/Crime</td>
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<tr>
<td>Industry Splits</td>
<td>Investment Strategy</td>
<td>Change in Control</td>
</tr>
<tr>
<td>Board Composition &amp; Experience</td>
<td>Marketing / Fund Launch Info</td>
<td>IPO Date</td>
</tr>
<tr>
<td>Number of Board Members</td>
<td>Composition of Investors</td>
<td>Side Cover Type A/B/C</td>
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<tr>
<td>Run-Off Period</td>
<td>ADR Listing</td>
<td>Cyber as Add-On</td>
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<tr>
<td>US Exposure</td>
<td>Board Member Exit</td>
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<tr>
<td>Binder / Direct</td>
<td>Credit Rating</td>
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<tr>
<td>Listings – US / Private / Other</td>
<td>Retroactive Date</td>
<td></td>
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<tr>
<td>Composite PI/D&amp;O/Crime</td>
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UW Survey

- Survey of Underwriters to gain insight into how they view the world of D&O
- Always interesting to hear the opinions of Underwriters (different views from Actuaries)
- Especially so for D&O

- It’s not too late for Underwriters to participate (more surveys at the front or ask us after for an electronic copy)

UW Survey

- Now for some audience participation…

- To help, the survey has so far been filled in by Underwriters:
  - Working in companies & syndicates of all sizes
  - With experience of writing D&O insurance for between 5 and 35 years
  - Who write both primary and excess business
  - Insuring small, medium and large companies

- … So quite a range
UW Survey

1. What scenarios can you foresee giving rise to catastrophic D&O losses?

• N__e!
• US sh___holder class actions
• C__er insu__nce exposure
• Systemic br__ery
• Pr___ fixing
• Acc___ting fraud
• Stock m____t crash
• CoI____se of single large entity
• Reg___ory investigations
UW Survey

2. What are the most significant factors you consider in assessing the riskiness of D&O business?

- Degree of US exposure
- Countries of operation
- Sector
- Financial strength of company
- Historic share price
- Recent changes in ownership
- Management experience
- Corporate governance
- Past claims experience
- Terms & conditions

UW Survey

3. What features are desirable in your D&O pricing models?

- Flexibility (make allowance for aspects of risk that don’t fit the model)
- Ability to populate submissions
- Ease of use
- Utilisation of UW’s expertise to benchmark individual risks in a consistent fashion
- Speed of use
- Data capture for portfolio analysis
- Transparent methodology
- Ability to update model quickly (no long-term “release dates”)
**UW Survey**

4. How can actuaries add value to the pricing process?

- BLANK
- Using wider market statistics not available to UWs to assess main areas of exposure
- Bespoke analysis for small portfolios
- Taking time to understand the limitations of pricing models, especially for this class
- Not trying to control pricing

**Claims survey**

- As well as a survey of Underwriters, we are aiming to capture claims data.
- Main problem facing Pricing actuaries (& Reserving ones): NOT ENOUGH CREDIBLE DATA
- The key objectives are:

  1. Sub class analysis
  2. Loss distributions – size and frequency of losses
  3. Incorporation of claims information into the Pricing process
  4. Claims inflation assumptions
Claims Survey

- Here comes the science bit…
- Fill out an NDA
- Complete the spreadsheet template as fully as possible

<table>
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<tr>
<th>YOA</th>
<th>No. policies</th>
<th>GWP</th>
<th>Industry split</th>
<th>Primary %</th>
<th>Excess %</th>
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• Some broad policy information

15 April 2015

#JustDOIt

#NotAssociatedwithNike
#Questions?