

2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey

July 2018



Executive summary

Cybersecurity and claims by employees were identified as top D&O risk concerns while investor claims failed to rank in the top 5.



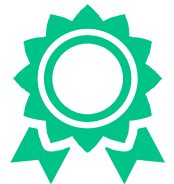
Adopting **more favorable policy language**, and thus achieving **broader coverage**, is the most common change made to respondents' D&O insurance programs.



In contrast with identified “concerns,” **coverage for investigations** (both of individuals and organizations) and **claims by shareholders/investors** will be an important part of insurance programs over the next three years.



Organizations will continue to place a high priority on the **quality of carriers** in their D&O insurance program, **but price still matters.**

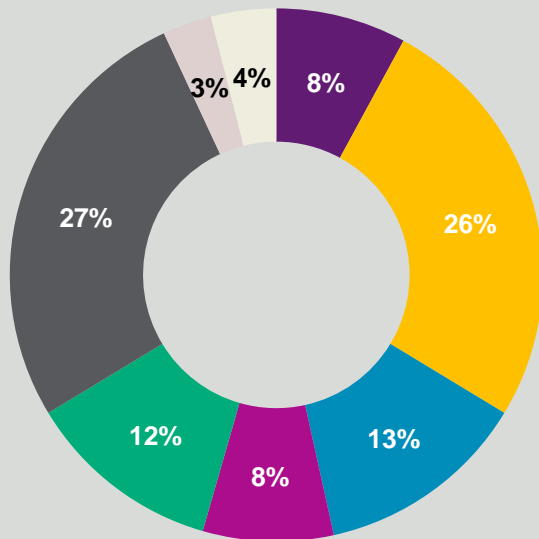


About the survey

77 respondents including directors and officers, risk management professionals, treasurers, and legal and compliance professionals

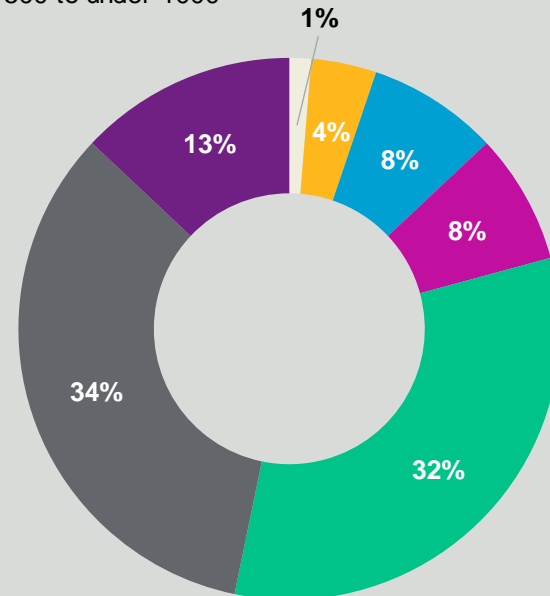
Industry

- Energy and Utilities
- Financial Services
- General Services
- Health Care
- IT & Telecom
- Manufacturing
- Public Sector & Education
- Wholesale & Retail



Company size (Total employees)

- Less than 25
- 1000 to under 10K
- 25 to under 100
- 10K to under 50K
- 100 to under 500
- 50K or greater
- 500 to under 1000



Risk perceptions

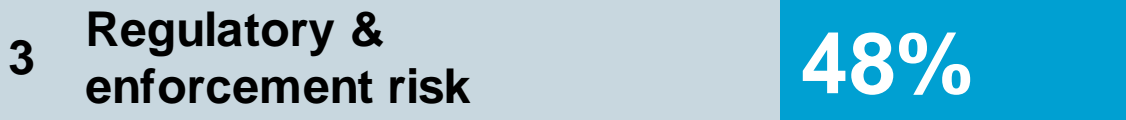
What are the leading risk concerns for D&Os and their organizations in 2018?

Cyber risks are companies' top concern in the coming year...

Though over half also worry about claims by employees

To what extent are the following risks a concern for your organization in the coming year?

Rank



Surprisingly, nearly 70% of respondents were “not concerned” or “slightly concerned” about claims by investors.

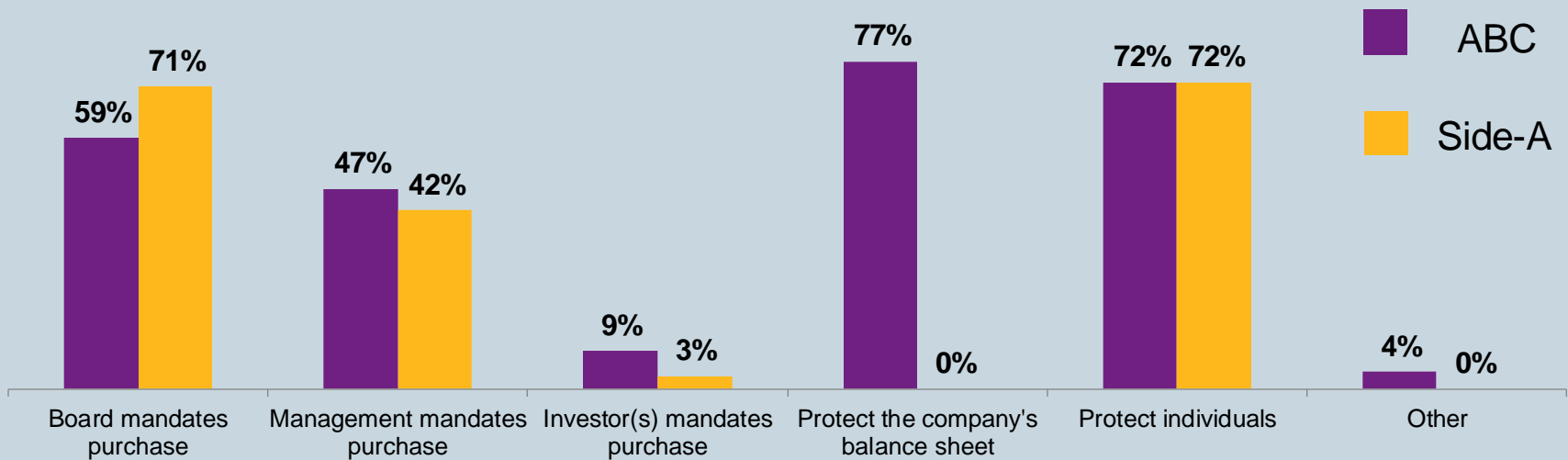
Note: Percentages indicate ‘to a moderate extent’ or ‘to a great extent’ or ‘to a very great extent’.

Source: 2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey

Balance sheet protection is the main reason to purchase ABC D&O insurance

What are the main reasons your company buys traditional “ABC” D&O insurance or Side-A (Non-indemnified loss) insurance?

Traditional “ABC” D&O insurance vs Side A (Non-indemnified loss) insurance



“ABC” D&O insurance commonly refers to D&O insurance products that cover certain: (A) non-indemnified loss of directors, officers and other insured persons, (B) loss of an entity from indemnifying its directors, officers and other insured persons, and (C) loss from an entity’s own liability (for public companies, this coverage is typically limited to Securities Claims). In contrast, Separate “Side-A” (a/k/a “Side-A only,” “dedicated Side-A” “Side-A excess” or “Side-A D-I-C”) insurance commonly refers to specialized D&O coverage only for non-indemnified loss of directors, officers and other insured persons.

Note: Responses ‘Don’t buy D&O insurance’ and ‘Don’t buy Side-A insurance’ are not reflected.

Source: 2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey

A photograph of three business professionals in a meeting. A man in a suit and glasses is looking at a tablet, while a woman next to him also looks on. A third person is partially visible in the foreground, out of focus. The scene is set in a modern office environment with a dark table and water glasses.

Purchasing decisions

What types of D&O insurance do companies buy?

D&O purchases differ noticeably between public and private companies

What type of D&O coverage do you buy?

For-profit, publicly traded

Both ABC D&O and separate Side A coverage **83%**

For-profit, private, not-for-profit

D&O insurance blended with other coverage(s) **68%**



Source: 2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey

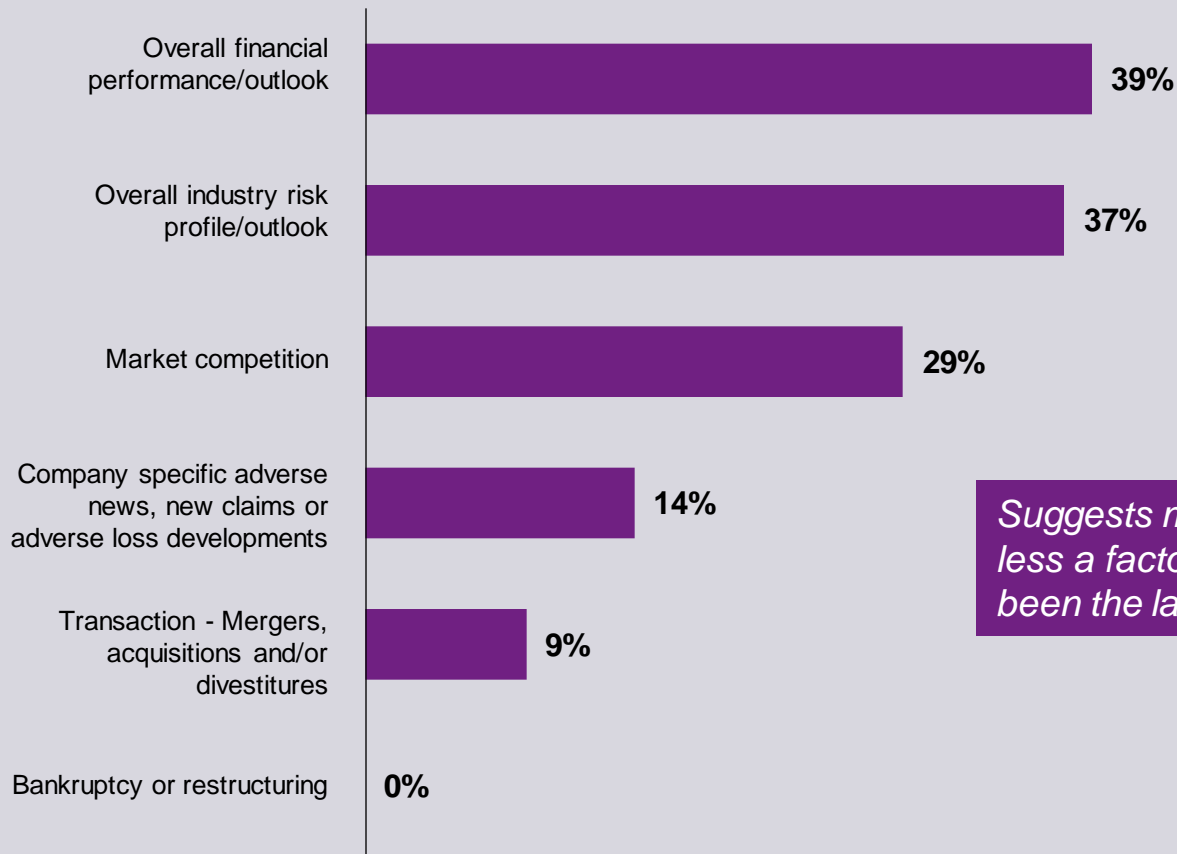


Cost of coverage

Are companies seeing changes in the cost of D&O coverage? What are the drivers?

Cost is mainly driven by financial performance and industry risk profile.

What were the primary drivers of your program cost changes over the last year?



Suggests market competition is less a factor in pricing than it has been the last couple of years



Source: 2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey

A woman with dark hair, wearing a blue and white patterned blouse, is pointing at a whiteboard in a meeting room. Other people are visible in the background, some sitting at desks with laptops. The room has a brick wall and large windows.

D&O program changes and priorities

What will companies focus on in the next one to three years?

Nearly 60% of companies rank more favorable policy language as important.

What are the most important changes your organization made to your D&O program for this year?



58%

Obtained more favorable policy language



24%

Increased dedicated Side-A limits



24%

Increased policy sublimit(s)
(e.g., derivative investigation costs)



20%

Added additional coverage(s) to D&O policy
(e.g., activist shareholders, books & records demands)



11%

Increased self-insured retention

Source: 2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey

Premium/purchase costs and carrier claims paying reputation are the main priorities over the next three years.

How important will the following priorities be to your organization's insurance program over the next 3 years?

Top 6 priorities identified

Premium/purchase costs	99%	Carrier consistency/relationships	95%
Carrier claim-paying reputation	97%	Contract (contract certainty, contract readability)	94%
Coverage breadth (Even if it costs more)	96%	Carrier financial ratings	92%

Note: Percentages indicate 'Moderately important' or 'Important' or 'Very Important'.

Source: 2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey

Investigation coverage and claims by shareholders/investors will be top coverages over the next three years.

How important will the following coverages be to your insurance program over the next three years?

Primary coverages

Investigation coverage for the entity **77%**

Claims by shareholders or investors **72%**
(securities class actions, derivative claims, M&A)

Investigation coverage for individuals **74%**

Secondary coverages

Insurable punitive damages **63%**

Book and records coverage **63%**

Coverage for foreign exposures **55%**

Shareholder activist demand coverage **55%**

Surprisingly, **77% consider entity investigation coverage important. Although, current purchasing habits do not appear to be aligned** with that concern. Is this a sign companies will buy more in the coming year?

Note: Percentages indicate 'Moderately important' or 'Important' or 'Very Important'.

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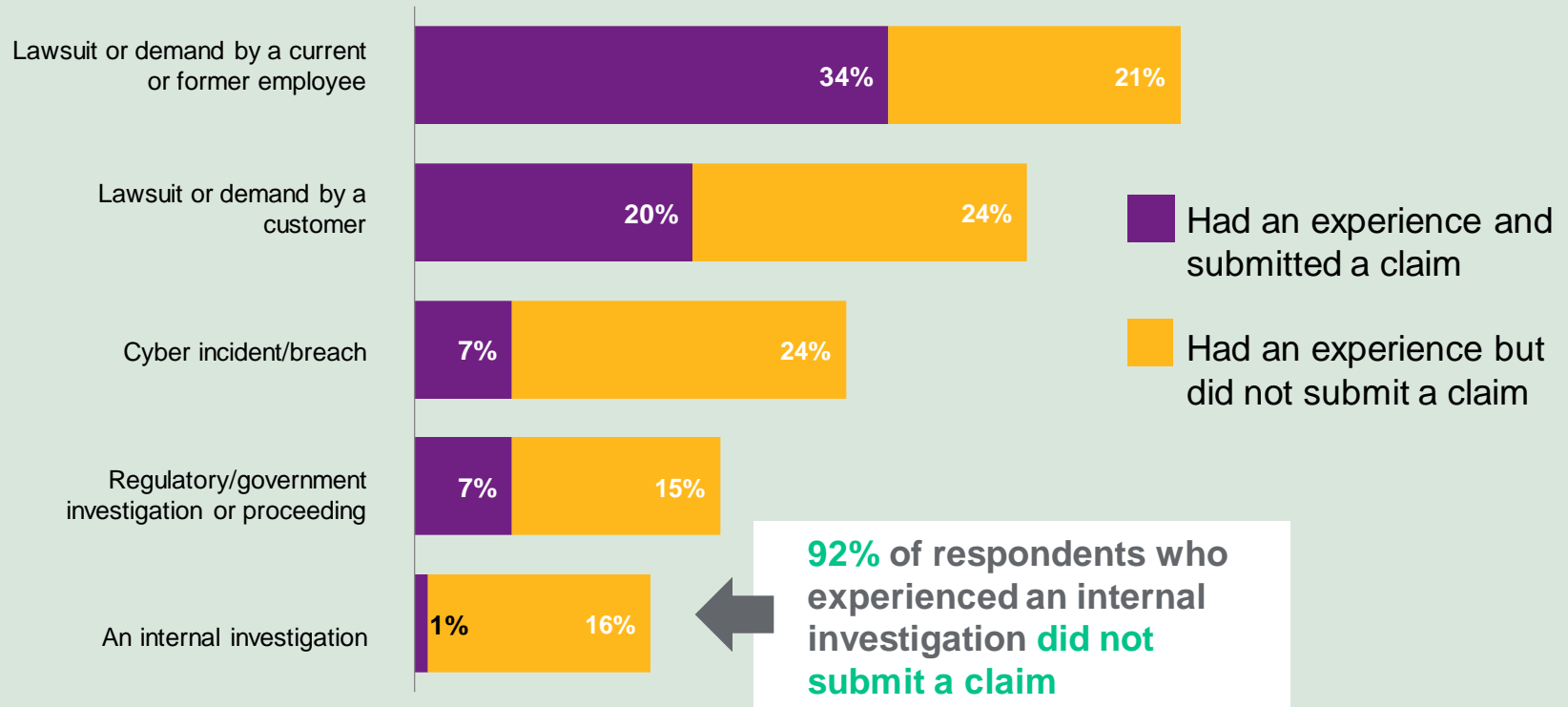
A photograph of two men in business attire (white shirts and ties) standing in an office environment. The man on the left is gesturing with his hand while speaking to the man on the right, who is listening attentively with his hand to his chin. The background shows office chairs and a large window with a view of a city.

Claims experience

What are companies' experiences with D&O insurance claims?

Employee claims topped the respondents' experience and the extent of unreported incidents is concerning

In the past year, did your organization experience any of the following, and did you submit a claim?

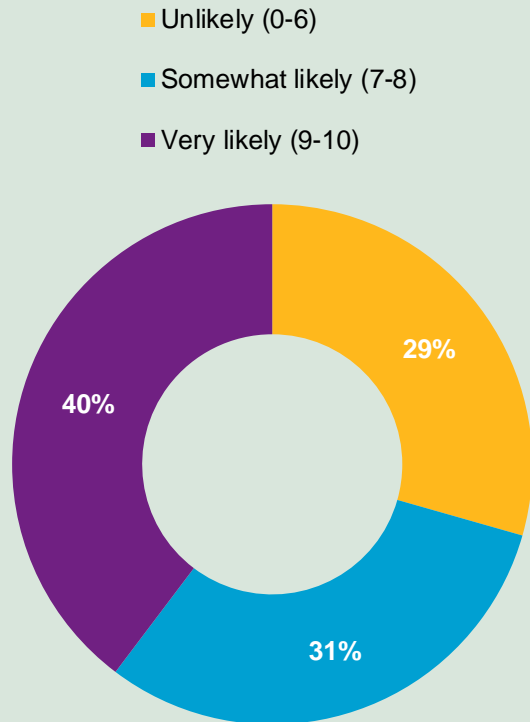


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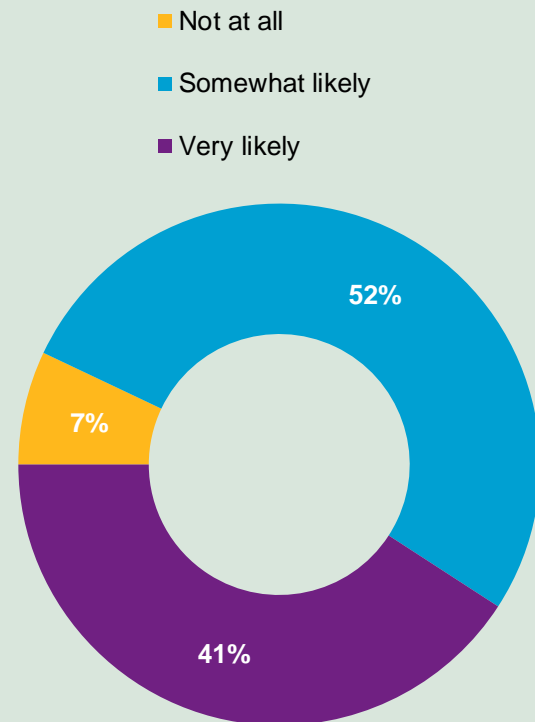
Two-fifths of companies are very likely to recommend their carrier's claims service...

A correlation exists between a negative claim experience and respondents considering whether they should stay with their carrier.

How likely would you be to recommend your primary D&O carrier's claims service to a colleague? (10 = most likely, 0 = least likely)



For those who had a negative claims experience, how likely would it be for your organization to change its primary insurance carrier?



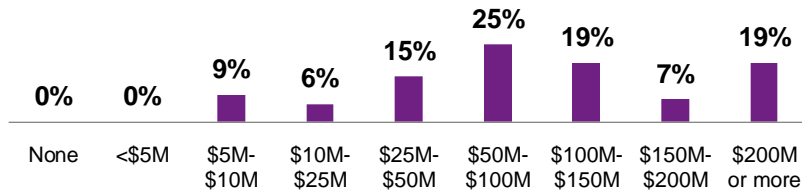
Source: 2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey

Appendix

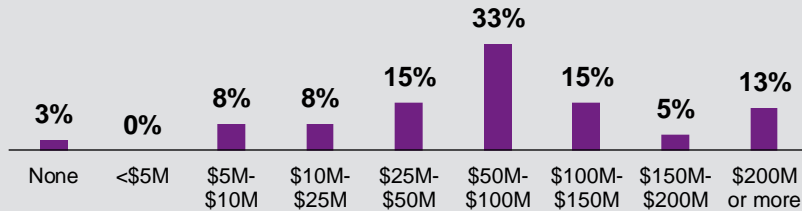
Profile of respondents' purchased limits

D&O coverage

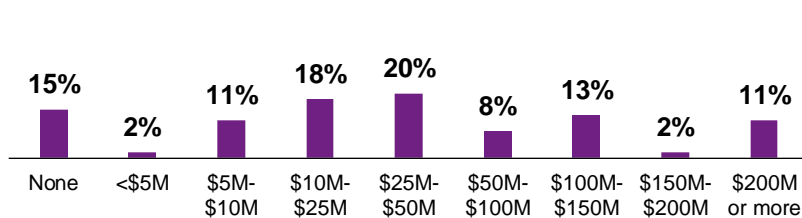
Total program (ABC D&O + Side A)



ABC D&O

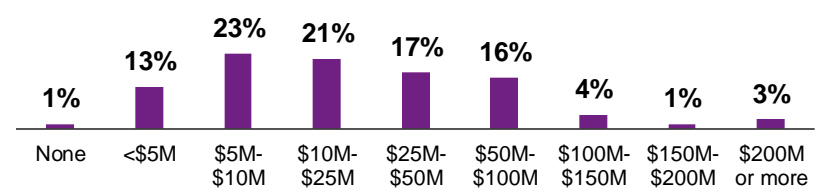


Side A

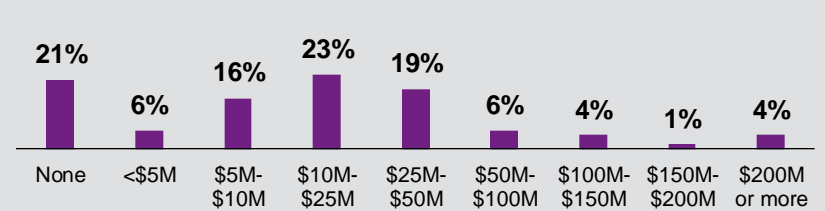


Related coverage

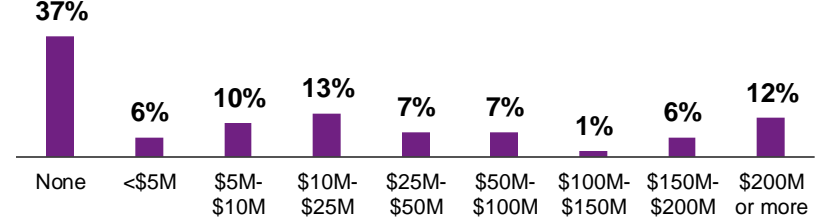
Fiduciary Liability



Employment Practices Liability (EPL)

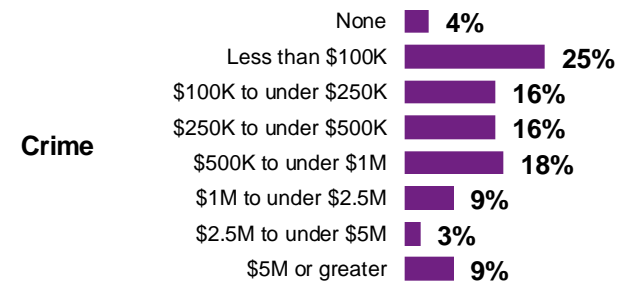
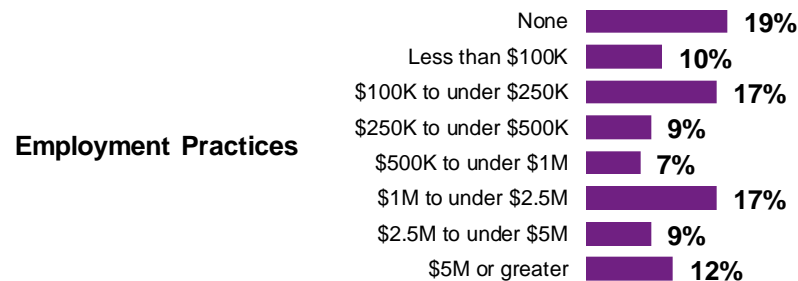
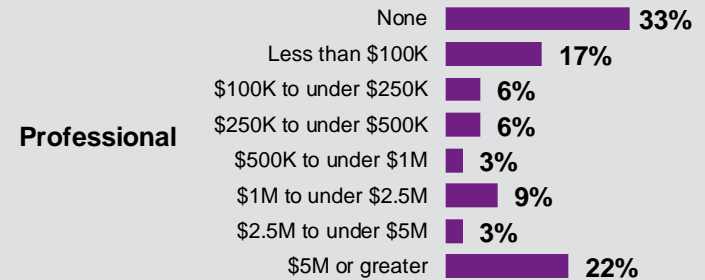
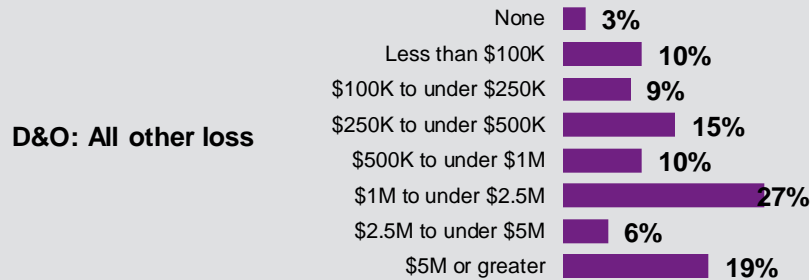
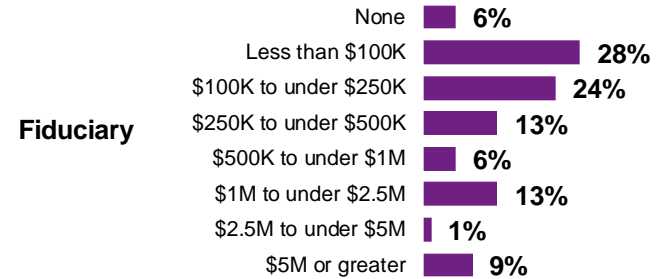
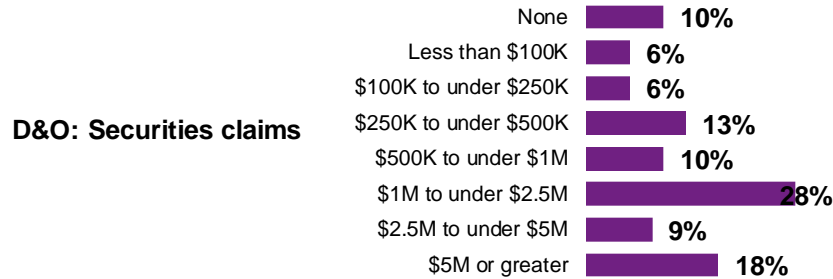


Professional Liability



Sample: Companies that purchased D&O insurance.
 Source: 2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey

Profile of respondents' range of deductible/retention



Sample: Companies that purchased D&O insurance.
 Source: 2018 Willis Towers Watson Management Liability (Directors and Officers) U.S. Survey