State of the Financial Lines Marketplace

March, 2021

Executive Risk Market Dynamics (My Observations & Opinions)

- **Public D&O**: Historically high number of Securities Class Actions from 2017-19, coupled with ~ 15 years of decreasing premium, rates and broadening coverage terms
- **Private D&O**: Evolution of Corporate Liability "entity" coverage has led carriers to unintended consequences
- **Employment Practices**: Fear has driven the market to over-react to Covid exposures
- **Crime**: Stable but significant (continued) uptick in Social Engineering Claims
- **Fiduciary**: Excessive Fee class action activity means dramatic changes in 2021
- **Cyber**: Complete disarray in almost every sector

Firming Market Conditions

High primary, higher excess rates

- 20-30% on average on primary;

- 20-50%, or higher, on excess

Increased retentions

- many carriers seeking a minimum $2.5M securities claim retention in the public D&O space

Reduced capacity

- in many cases, carriers are cutting $10m limits to $5m, or $5m to $2.5m, while also looking at aggregation across other lines

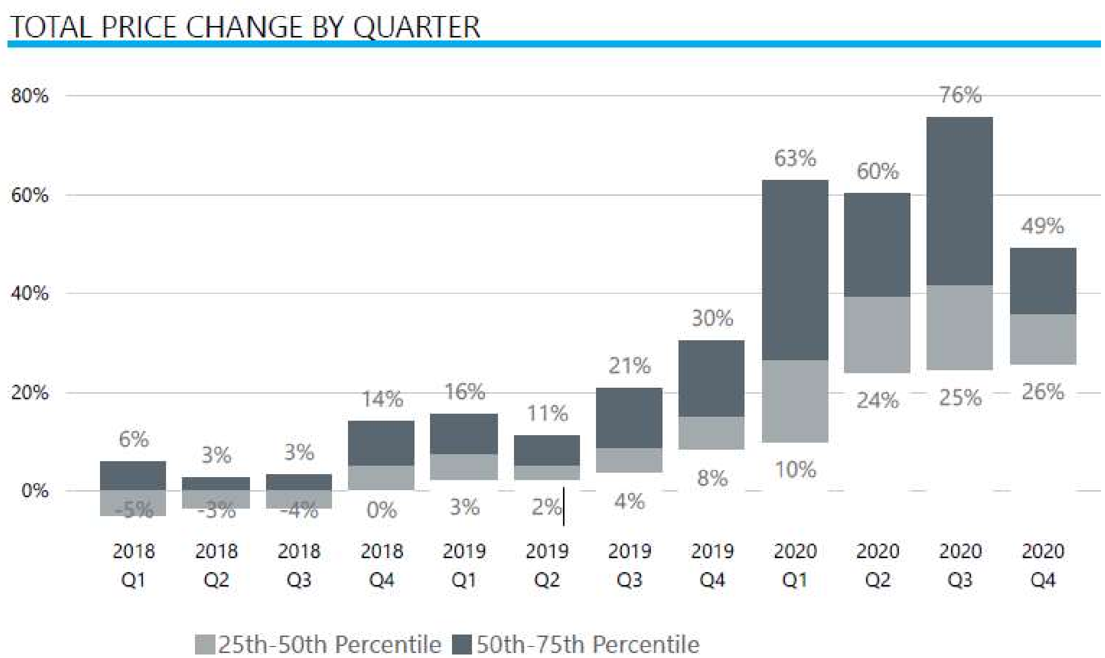
Underwriter fatigue

- carriers are not as aggressive or flexible as previous years/cycles

Emerging risks

- COVID-19, Cyber (ransomware), Pollution, Bankruptcy, Reputation and Brand, International

Total Price Change: Public D&O



Over the last 12 months, the median total price per million increase was 38.1%. The average total price per million increase was 63.3%.

Over the last 12 months, the median primary price per million increase was 27.9%. The average primary price per million increase was 45.1%.

Challenging Claims Environment

Federal & State Securities Claims Filings

Unprecedented claims frequency and event-driven litigation

Higher defense costs

Expansion to state courts

Shareholder Derivative Claims

Massive cash settlements instead of corporate therapeutic undertakings

Investigations and Enforcement Actions

SEC whistleblower awards

Improved data analytics identifying potential violators

COVID-19

Uncertainty

Developing, emerging trends

Dynamics of the 2021 Executive Risk Marketplace

Private D&O:

- Certain sectors more challenged than others (e.g. Oil & Gas, Restaurant/Hospitality, Entertainment
- Markets are incredibly reluctant to aggressively seek new business
- Excess placements requiring higher ROL's (rate on line % of primary) so in many cases, excess increasing more than underlying

EPL:

- Market is very Sector/Vertical driven:
  - Challenged: Healthcare, Retail, Entertainment, Restaurant, Hospitality, Oil/Gas
  - Little Impact/Relatively Static: Manufacturing, Professional Services, Construction, Real Estate, Technology

Fiduciary:

- Relatively static market for any organizations with less than $500M in plan assets, no matter the industry sector
- Large Enterprise space is a difficult market and getting more so every day:
  - Excessive Fee Class Action Litigation leading to retentions in the millions of $$'s and/or exclusions
    - Excessive Fee Litigation: allegations that the plan fiduciaries allowed the plan to overpay for recordkeeping as well as steering participants into expensive, yet underperforming investments

Cyber/E&O Market Update

- **Market Overview**
- The frequency and severity of ransomware, business email compromise and social engineering fraud/phishing claims have increased.
- The average cost of a breach caused by ransomware in 2020 was $4.44 million.[1]
- The average time to identify a breach in 2020 was 207 days. The average life cycle of a breach was 280 days from identification to containment.[2]
- Large-scale systemic issues and breaches, like the recent SolarWinds event and Microsoft Exchange vulnerability, have put carriers on edge as those events have exposed the vulnerability and failure of cyberdefenses on a grand scale
- The technology errors and omissions marketplace has been impacted by cyber claims activity where they are unable to meet their contractual obligations to provide services.

[1]Atlas VPN
[2]IBM

- **Challenges**
- Greater underwriter scrutiny and requirement for minimum security controls – completely new set of underwriting questions via ransomware supplemental applications regarding controls that have never been addressed previously utilized for coverage decisions
- Capacity management – Max $5M limits
- Retention increases – Minimum $1M retention for clients with >$1B revenues
- Premium increases – Minimum 35% rate increase for clients with exceptional controls, 50%+ for clients with good controls
- Coverage restrictions – Ransomware sublimits and coinsurance penalties, increased business interruption waiting periods, SolarWinds exclusions, and less likely to consider coverage enhancements/bespoke wording
- Continually changing market appetites and restrictions, in some cases impacting previously quoted terms

On the positive side & parting thoughts…

- Insurers have pushed for price increases on private D&O risks on a smaller scale.
- Generally speaking, important coverage terms remain intact, however:
  - No MFA = No Ransomware
  - LE Private (>$1B assets/revenue/valuation) = Elimination of Entity Coverage for D&O/Corporate Liability
  - LE Fiduciary = Large increase in retentions
  - IPO's and SPAC/de-SPAC transactions = 10-20% rate on line
- The top D&O insurers remain largely the same over the past 18 to 24 months and have indicated plans to protect niche, profitable segments of their D&O portfolios.
- New entrants have entered the D&O market with balance sheets unencumbered by prior reserve issues.

Independence changes everything.

UNCOMMONLY INDEPENDENT