



# Insuring the unprecedented risks facing directors and officers

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

We conducted this survey to better understand the perceptions of risk that directors and officers (D&O) have in the U.S., to help us better identify the D&O insurance priorities for U.S.-based policyholders, and to better assess the value of D&O and other management liability insurance.

By examining stakeholder views on directors and officers liability (and related risks) and drivers of insurance purchases, we validated some long-held insurance market beliefs, but we uncovered a few surprises as well. At a high level, our survey results confirm, as one might expect, that respondents are sensitive to potential financial loss and reputational damage. What concerns them the most? Cyber risks and employee-related risks.

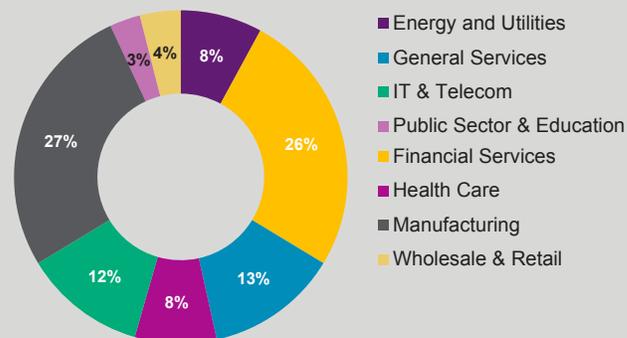
We also verified that D&O insurance remains an important tool for protecting organizations and leaders. And while D&O insurance program costs have always been a high priority, our results reflect that enhancing coverage remains a top priority.

## Risk perceptions

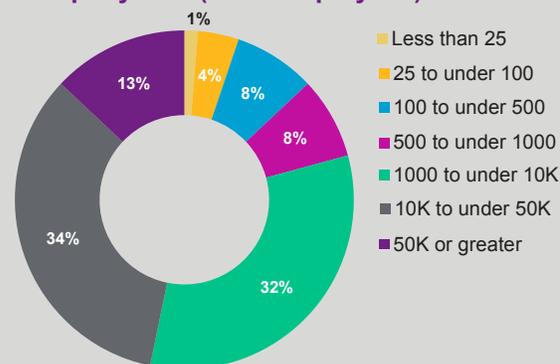
With D&O carriers worried about profitability due to record securities class action filings and other adverse loss trends, surprisingly, nearly 70% of respondents were “not concerned” or only “slightly concerned” about claims by investors. Cyber risks, on the other hand, stood out from the pack as the principal concern, followed by employee claims.

## About the survey

### Industry



### Company size (Total employees)



When looking at perspectives from specific respondent roles (risk managers, CFOs, CLOs), cyber ranked as a top concern for all, while CFOs and legal compliance respondents largely had moderate to great concern over employee claims. Regulatory and enforcement risks also weighed on the minds of nearly half of the respondents. And multinational/cross-border risks hit a chord with most CFOs in our survey.



## Purchases

Largely, our results confirmed common expectations.

*Public companies* overwhelmingly (91%) purchase D&O insurance as a stand-alone line of insurance coverage. 83% of public respondents' D&O programs typically contain both traditional "A-B-C D&O" insurance (protects the insured persons and the organization) and excess "Side-A only" above the A-B-C coverage. "Side-A only" coverage exclusively protects the personal assets of insured persons against non-indemnified loss and typically contains differences in conditions (DIC) provisions and therefore may pay first-dollar in the event of non-indemnified loss.

*Private or not-for-profit organizations*, on the other hand, are more comfortable purchasing D&O insurance as part of a multi-coverage package, linking D&O coverage with employment practices liability, fiduciary liability and/or other related coverages like crime or cyberinsurance. About one-third of private company respondents, however, require that D&O coverage be purchased separately, meaning not as part of a larger package.

## Price

While respondents saw their overall D&O program pricing remain relatively stable over the last year, 24% did see increases, with 10% of respondents seeing increases of 5% or more. With only 1% of respondents considering premium costs "not too important," we know that quality coverage still needs to be delivered with competitive premiums.

Nearly 40% of respondents attributed premium results to their company's financial performance and outlook. Just under one-third of respondents attributed pricing outcomes to competition (among insurers). Clients may be finding that competition is not driving down insurance costs as they have in the past.

## Coverage and carriers

Over half of respondents conveyed getting better language as a "most important" priority for this year. Seemingly in contrast to our "risk perceptions" results, 72% of respondents do consider insurance for shareholders/investors claims to be "moderately to very important."

Investigation coverage for individuals and the organization also topped coverage priorities. **Surprisingly, 77% of respondents see entity investigation coverage as moderately to very important.** While more clients are purchasing broader entity investigation coverage than ever before, actual purchasing trends seem to fall short of the demand suggested by our results. Anecdotally, this gap between reported perception and actual purchasing may not be a new thing, but in today's market, with the value of entity investigation coverage improving, this may reflect an opportunity for buyers.



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

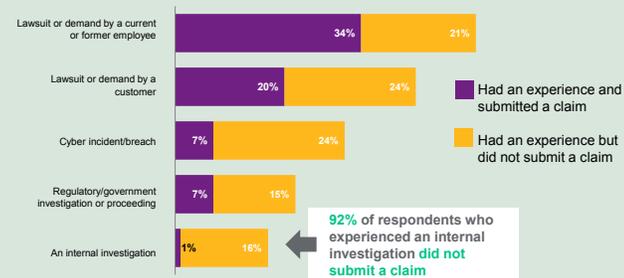
**Claims**

Carrier claim-paying reputation, relationships and financial strength outpace other respondent priorities (except for cost). Breadth of coverage and insurance contract clarity/readability also topped respondents' priorities.

While we were not surprised that employee claims topped our respondents' claim experience, **we were surprised by the extent of unreported incidents in general.** Responses reflect that a good portion of incidents are not being reported. With notice to the carrier of such events often a prerequisite to coverage, our results leave us wondering what may be driving that gap. Is it actual gaps in coverage? Or is it perceptions of whether coverage would respond?

**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?



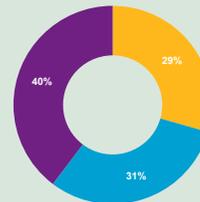
Carrier claim handling is where the rubber meets the road for insurance coverage. Remarkably, **only 40% of buyers would recommend their primary insurer to others.** Furthermore, after experiencing a negative claim handling scenario, the vast majority of respondents would likely consider making a change of insurer.

**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.

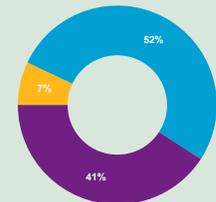
How likely would you be to recommend your primary D&O carrier's claims service to a colleague? (10 = most likely, 0 = least likely)

Unlikely (0-6)  
Somewhat likely (7-8)  
Very likely (9-10)



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

Not at all  
Somewhat likely  
Very likely



This year's survey reflects that D&O risk stakeholders care about much more than just their insurance program's price. While insurance program costs do matter, carrier selection, relationships, breadth, clarity of coverage and claim-handling proficiency are all important priorities.

Respondents cited cyber risks as the most concerning risk and, given the severe impact that an incident can have on an organization, the stakes are high. Today's cybersecurity and privacy threats are dynamic and more complex than ever, with millions of dollars (if not tens of millions), customer loyalty and reputation potentially in jeopardy with every incident. According to a recent global study conducted by the Economist Intelligence Unit and sponsored by Willis Towers Watson, *How boards can lead the cyber-resilient organisation*, only 13% of board members feel that their organisations learn from past cyber mistakes. Taken together, our survey results confirm what few can fairly dispute – cyber risk mitigation and transfer have never been more critical.

Regarding claims, with a mere 40% of respondents likely to recommend their carrier's claim service, it seems carriers have some room for improvement, and since carrier choice-related items took three of the top six priorities of respondents, this may make the case for carriers to invest more in claim-handling capabilities and service.

**About the survey**

The Willis Towers Watson 2018 Management Liability (Directors and Officers) U.S. Survey fielded January – April 2018 and includes responses from 77 executives from various companies. The participants represent a wide range of industries and geographic regions.

## Source

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

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